

ORDER NO. 5447

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Michael Kubayanda, Vice Chairman;  
Mark Acton;  
Ann C. Fisher; and  
Ashley E. Poling

Competitive Product Prices  
GEPS 7 (MC2016-196)  
Negotiated Service Agreements

Docket No. CP2020-95

ORDER APPROVING ADDITIONAL GEPS 7  
NEGOTIATED SERVICE AGREEMENT

(Issued March 6, 2020)

I. INTRODUCTION

The Postal Service seeks to include an additional Global Expedited Package Services 7 (GEPS 7) agreement (Agreement) within the GEPS 7 product.<sup>1</sup> For the reasons discussed below, the Commission approves the Postal Service's request.

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<sup>1</sup> Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 7 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, February 12, 2020 (Notice).

## II. BACKGROUND

Agreements included within the GEPS 7 product offer price incentives to mailers that use Priority Mail Express International, Priority Mail International, or First-Class Package International Service.

On February 12, 2020, in accordance with 39 C.F.R. § 3015.5, the Postal Service filed its Notice, along with supporting documents. In the Notice, the Postal Service asserts that the Agreement is functionally equivalent to the baseline agreement for the GEPS 7 product and requests that the Agreement be added to the existing GEPS 7 product. Notice at 2. Among the supporting documents, the Postal Service included a copy of the Governors' Decision authorizing the GEPS 7 product, the Agreement proposed to be added to the product, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Agreement, customer-identifying information, and related financial information remain under seal.<sup>2</sup>

The Postal Service will notify the customer of the effective date of the agreement. Notice, Attachment 1 at 3. If the effective date of the Agreement is the first of the month, the Agreement will expire one year after the effective date; otherwise, the Agreement will expire on the last day of the month one year after the effective date. *Id.*

On February 13, 2020, the Commission issued a notice establishing the instant docket, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>3</sup> On February 26, 2020, Chairman's Information Request No. 1 was issued.<sup>4</sup> CHIR No. 1 asked the Postal Service to address the use in the financial

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<sup>2</sup> *Id.* Attachment 4. The application for non-public treatment is styled as "Attachment 1 to Postal Service Notice." Because it is the fourth attachment to the Notice, the attachment will be referred to in this Order as Attachment 4.

<sup>3</sup> Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, February 13, 2020.

<sup>4</sup> Chairman's Information Request No. 1, February 26, 2020 (CHIR No. 1).

workpapers of non-standard unit costs. CHIR No. 1, questions 1-3. The Postal Service filed a response on February 28, 2020, where it indicated that it believes the non-standard unit costs are a better estimate of costs because they account for “an anomalous FY 2019 TRACs test.”<sup>5</sup>

### III. COMMENTS

The Public Representative filed comments on February 19, 2020.<sup>6</sup> No other comments were received.

Based upon a review of the Postal Service’s filing, including the information filed under seal with the Commission, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement and that the Agreement should generate sufficient revenue to cover its costs. PR Comments at 2. He notes differences between the Agreement and the baseline agreement but states that their similar cost and market characteristics support the conclusion that the Agreement and the baseline agreement are functionally equivalent. *Id.* at 3. He further notes that the Commission will have an opportunity to review the financial results for the Agreement in its Annual Compliance Determination (ACD). *Id.* at 4.

### IV. COMMISSION ANALYSIS

The Commission’s responsibilities in this case are to ensure that the Agreement: (1) is functionally equivalent to the baseline agreement established for the GEPS 7 product; and (2) satisfies the requirements of 39 U.S.C. § 3633 and applicable Commission rules (39 C.F.R. §§ 3015.5 and 3015.7).

*Functional equivalence.* In Order No. 3542, the Commission approved the addition of GEPS 7 to the competitive product list and designated an agreement as the

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<sup>5</sup> Response of the United States Postal Service to Chairman’s Information Request No. 1, February 28, 2020 (Response to CHIR No. 1).

<sup>6</sup> Public Representative Comments on Postal Service Notice Concerning an Additional Global Expedited Package Services 7 Negotiated Service Agreement, February 19, 2020 (PR Comments).

baseline agreement for assessing the functional equivalence of agreements proposed for inclusion within the GEPS 7 product.<sup>7</sup>

The Postal Service asserts that its filing demonstrates that the Agreement is functionally equivalent to the baseline agreement, and requests that the Agreement be included within the GEPS 7 product. Notice at 2. It asserts that the Agreement fits within the Mail Classification Schedule language for the GEPS 7 product. *Id.* The Postal Service also asserts that the Agreement and the baseline agreement possess similar cost and market characteristics and the same functional terms but states that prices may differ. *Id.* at 4. The Postal Service identifies numerous differences between the Agreement and the baseline agreement but asserts that these differences do not affect the fundamental service being offered or the fundamental structure of the Agreement.<sup>8</sup>

The Commission has reviewed the Postal Service's reasons for asserting that the Agreement shares similar cost and market characteristics with the baseline agreement; meets the pricing formula and falls within the classification established in the Governors' Decision authorizing this product; and comports with 39 U.S.C. § 3633 and applicable Commission rules. It also has considered the Public Representative's comments. The Commission concludes that the Agreement is substantially similar to the baseline agreement and that the differences between them do not fundamentally alter either the service the Postal Service will provide under the Agreement or the structure of the Agreement. The Commission therefore finds that the Agreement may be included within the GEPS 7 product.

*Cost considerations.* The Commission reviews each competitive product to ensure that it covers its attributable costs, does not cause market dominant products to

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<sup>7</sup> See Docket Nos. MC2016-196 and CP2016-280, Order Adding Global Expedited Package Services 7 to the Competitive Product List and Designating Baseline Agreement, September 27, 2016, at 7 (Order No. 3542).

<sup>8</sup> Differences are limited to the identity of the contract partner and terms that pertain specifically to contract administration, such as payment methods, the term of the agreement, notice requirements, and record-keeping.

subsidize competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by a product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, a product that covers its attributable costs is likely to comply with 39 U.S.C. § 3633(a).

The Commission has reviewed the Postal Service's filing, including supporting financial analyses provided under seal, and the Public Representative's comments. Based on this review, the Commission finds that the Agreement should cover its attributable costs. The addition of the Agreement to the GEPS 7 product will not cause cost coverage for the product to fall below 100 percent because, as the Commission found in the FY 2018 ACD, the product as a whole covers its attributable costs.<sup>9</sup> Consequently, the Commission finds that the addition of the Agreement to the GEPS 7 product should allow the product to continue to comply with 39 U.S.C. § 3633(a)(2). Because it finds that the addition of the Agreement to the GEPS 7 product should allow the product to cover its attributable costs, the Commission finds that the addition of the Agreement to the product should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the addition of the Agreement to the GEPS 7 product is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). Accordingly, a preliminary review of the Agreement indicates it is consistent with section 3633(a). The Commission will review the Agreement's cost coverage, the cost coverage of the GEPS 7 product, and the contribution of competitive products as a whole to the Postal

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<sup>9</sup> Docket No. ACR2018, Annual Compliance Determination Report, Fiscal Year 2018, April 12, 2019, at 109-111.

Service's institutional costs in the ACD to ensure that they continue to comply with 39 U.S.C. § 3633(a).

*Unit cost data.* When submitting international negotiated service agreements (NSAs) for pre-implementation review by the Commission, the Postal Service has traditionally relied upon unit costs from the International Cost and Revenue Analysis (ICRA) submitted to the Commission with the Postal Service's Annual Compliance Report (ACR). As discussed in this year's ACR docket, international unit costs in the FY 2019 ICRA were affected by a data anomaly: a long-haul trip containing several unusually large inbound international parcels was misclassified as a short-haul trip.<sup>10</sup> The Postal Services states that the combination of above-average per-parcel weight, when combined with the travel distance of more than 1,700 miles, resulted in short-haul costs being disproportionately attributed to international products. See *id.* The Postal Service submitted revised unit cost data for international parcels in the ACR docket but did not revise the ICRA.<sup>11</sup> The Postal Service relies upon that revised unit cost data in the financial workpapers submitted in support of the Notice.

The Commission has closely reviewed the impact of using the revised unit cost in place of the data submitted in the ICRA. The Commission finds that, for outbound international NSAs, the impact on cost coverage is negligible. The Commission will therefore accept financial workpapers submitted using this revised cost data for purposes of pre-implementation review of outbound international NSAs. At this time, the Commission makes no finding regarding the use of the revised data for pre-implementation review of inbound international NSAs.

*Other considerations.* The Postal Service will notify the customer of the effective date of the agreement. Notice, Attachment 1 at 3. The Postal Service shall promptly notify the Commission of the effective date of the Agreement. If the effective date of the

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<sup>10</sup> See Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-41 of Chairman's Information Request No. 4, January 24, 2020, question 6.

<sup>11</sup> See Docket No. ACR2019, Library Reference USPS-FY19-NP36, January 31, 2020.

Agreement is the first of the month, the Agreement will expire one year after the effective date; otherwise, the Agreement will expire on the last day of the month one year after the effective date. *Id.*

If the Agreement is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in this docket.

#### V. ORDERING PARAGRAPHS

*It is ordered:*

1. The Agreement filed in Docket No. CP2020-95 is included within the Global Expedited Package Services 7 (MC2016-196) product. The revision to the Mail Classification Schedule appears below the signature of this Order and is effective immediately.
2. The Postal Service shall promptly notify the Commission of the effective date of the Agreement.
3. The Postal Service shall promptly file notice of the Agreement's termination with the Commission in this docket if the Agreement is terminated prior to the scheduled expiration date.

By the Commission.

Erica A. Barker  
Secretary

## CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

### **Part B—Competitive Products**

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#### **2500 Negotiated Service Agreements**

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#### **2510 Outbound International**

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#### **2510.3 Global Expedited Package Services (GEPS) Contracts**

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#### 2510.3.6 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- GEPS 7  
*Baseline Reference*  
Docket Nos. MC2016-196 and CP2016-280  
PRC Order No. 3542, September 27, 2016  
*Included Agreements*

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CP2020-95, expires TBD

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