

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

Before Commissioners:

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

Competitive Product Prices  
International Priority Airmail, International Surface  
Air Lift, Commercial ePacket, Priority Mail Express  
International, Priority Mail International & First-Class  
Package International Service with Reseller Contract 1  
(MC2020-172)  
Negotiated Service Agreements

Docket No. CP2020-195

Competitive Product Prices  
International Priority Airmail, International Surface  
Air Lift, Commercial ePacket, Priority Mail Express  
International, Priority Mail International & First-Class  
Package International Service with Reseller Contract 2  
(MC2020-175)  
Negotiated Service Agreements

Docket No. CP2020-199

ORDER APPROVING MODIFICATION ONE TO INTERNATIONAL PRIORITY  
AIRMAIL, INTERNATIONAL SURFACE AIR LIFT, COMMERCIAL EPACKET,  
PRIORITY MAIL EXPRESS INTERNATIONAL, PRIORITY MAIL INTERNATIONAL &  
FIRST-CLASS PACKAGE INTERNATIONAL SERVICE WITH RESELLER  
NEGOTIATED SERVICE AGREEMENTS

(Issued January 21, 2021)

## I. INTRODUCTION

In these dockets, the Postal Service seeks to modify two International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller negotiated service agreements (Existing Agreements). For the reasons discussed below, the Commission approves the modifications.

The Postal Service filed notices that it has agreed to the modifications to these Existing Agreements (Notices). The modifications to each of the Existing Agreements are attached to the Notices (Modifications). The Commission issued notices reopening these dockets to consider the Modifications, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>1</sup> On December 16, 2020, Chairman's Information Request No. 1 was issued in Docket No. CP2020-198.<sup>2</sup> CHIR No. 1 asked the Postal Service questions relating to the financial workpapers filed in support of the modification in Docket No. CP2020-198, but the questions and the responses are also pertinent to the Commission's review of these Modifications. The Postal Service filed its response on December 23, 2020.<sup>3</sup>

The Postal Service will determine the effective date of the Modifications. See Notices, Attachment 1 at 1. The Postal Service filed supporting financial documentations and certified statements for the Modifications, as required by 39 C.F.R. § 3035.105.

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<sup>1</sup> See Docket No. CP2020-177, *et al.*, Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, December 28, 2020.

<sup>2</sup> Docket No. CP2020-198, Chairman's Information Request No. 1 and Notice of Filing Under Seal, December 16, 2020 (Docket No. CP2020-198 CHIR No. 1).

<sup>3</sup> Docket No. CP2020-198, Response of the United States Postal Service to Chairman's Information Request No. 1, December 23, 2020 (Docket No. CP2020-198 Response to CHIR No. 1).

## II. COMMISSION ANALYSIS

The Commission has reviewed the Notices and the accompanying materials filed under seal, along with the Docket No. CP2020-198 Response to CHIR No. 1, and the Public Representative's comments.

*Cost considerations.* The Commission reviews competitive product prices to ensure that each product covers its attributable costs, does not cause market dominant products to subsidize competitive products, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3035.105 and 3035.107. As long as the revenue generated by the 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, if a product covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

The Modifications revise the structure of the financial workpapers in the Existing Agreements to correspond to an increase in the number of country price groups and to revised country group assignments for outbound international mail.<sup>4</sup> The Modifications also revise the expiration dates of the Existing Agreements. Notices, Attachment 1 at 1.

Although the change in the number of country price groups and country group assignments necessitated corresponding changes in the financial workpapers filed in support of these Modifications, the Commission notes that the Postal Service simultaneously undertook a complete reorganization of the financial workpapers, filing the new version contemporaneously in more than two dozen dockets. Simultaneously reviewing a novel presentation of a modified cost model in multiple dockets greatly impeded Commission review, which could have impacted Postal Service operations had

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<sup>4</sup> See Modifications; Docket No. CP2021-15, Order Approving Price Adjustments for Competitive International Products, November 24, 2020, at 3 (Order No. 5760) (describing changes to the number of country groups); Docket No. CP2021-15, United States Postal Service Notice of Changes in Rates of General Applicability for Competitive International Products, October 9, 2020, Attachment to Governors' Decision No. 20-4, Part D.

the Commission not been able to complete its review prior to the intended effective date.

Specifically, the change in the presentation of the workpapers impeded identification of the substantive methodological changes to the cost model. This problem was made more acute by the submission of cost data that was insufficiently granular for the Commission to be able to verify the accuracy of the costs for the new country price groups from the Commission-reviewed costs for the previous set of country groups. The Commission notes that the Postal Service did not alert the Commission to these substantive changes to the cost model. Finally, the Commission notes that the Postal Service did not follow best practices that would ensure the most-reliable cost coverage projections. For example, the Postal Service used generic volume distribution for its projections, rather than relying on the actual, customer-specific distributions measured so far under the Existing Agreements.

*Additional reporting requirements.* Due to the analytical difficulties described above, the Commission finds it prudent to monitor these contracts for compliance on an on-going basis. To that end, the Postal Service shall file, on a quarterly basis, a single report in these dockets containing the contract-specific volumes, costs, and revenues of each of the Existing Agreements, as modified.

Based on a review of the record, the Commission finds that the Existing Agreements, as modified are projected to cover their attributable costs. For this reason, the Commission finds that the Modifications 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 Modifications are 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 Modifications indicate they are consistent with section 3633(a). The Commission will review the cost coverage of the Existing Agreements, as modified, in the required quarterly reports and in its Annual Compliance Determination to ensure that rates cover costs.

*Other considerations.* The Commission infers that the intended effective date of the Modifications is January 24, 2021, the date on which the changes to the number of country groups takes effect. See Order No. 5760 at 6. The Postal Service shall notify the Commission in the corresponding docket(s) should any of the Modifications take effect on a different date.

The Existing Agreements, as modified, are scheduled to expire on February 28, 2023. See Notices at 2. If any of the Existing Agreements, as modified, are terminated prior to their scheduled expiration date(s), the Postal Service shall promptly notify the Commission in the corresponding docket(s).

Section III contains a list of the docket numbers associated with each Postal Service Notice, the title and date of the Postal Service's filing, and a brief summary of the comments received.

The Commission approves the Existing Agreements, as modified, filed in the docket numbers listed in section III.

### III. MODIFICATIONS APPROVED

1. *Docket No.* CP2020-195; *Filing:* Notice of the United States Postal Service of Filing Modification One to International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 1 Negotiated Service Agreement, December 23, 2020.<sup>5</sup> *Public Comments:* The Public Representative filed comments on January 5, 2021.<sup>6</sup> No other comments

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<sup>5</sup> The Postal Service additionally filed errata, Notice of Errata to Notice of the United States Postal Service of Filing Modification One to International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 1 Negotiated Service Agreement, December 31, 2020.

<sup>6</sup> Docket No. CP2020-195, Public Representative Comments on the United States Postal Service Notice of Modification to International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 1, January 5, 2021 (CP2020-195 PR Comments).

were received. The Public Representative recommends approval of the modification, concluding that it satisfies the applicable statutes and will generate sufficient revenue to cover its attributable costs. CP2020-195 PR Comments at 2-3.

2. *Docket No. CP2020-199; Filing:* Notice of the United States Postal Service of Filing Modification One to International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 2 Negotiated Service Agreement, December 23, 2020. *Public Comments:* The Public Representative filed comments on January 5, 2021.<sup>7</sup> No other comments were received. The Public Representative recommends approval of the modification, concluding that it satisfies the applicable statutes and will generate sufficient revenue to cover its attributable costs. CP2020-199 PR Comments at 2-3.

#### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission approves the two International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller negotiated service agreements, as modified.

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<sup>7</sup> Docket No. CP2020-199, Public Representative Comments on the United States Postal Service Notice of Modification to International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 2 Negotiated Service Agreement, January 5, 2021 (CP2020-199 PR Comments).

2. The Postal Service shall file, on a quarterly basis, a single report in these dockets containing the contract-specific volumes, costs, and revenues of each of the Existing Agreements, as modified. Each quarterly report shall be filed within 30 days of the completion of each quarter of the fiscal year, with the first report due April 30, 2021.
3. The Postal Service shall notify the Commission if any of the Modifications take effect on a date other than January 24, 2021.
4. The Postal Service shall notify the Commission if any of the Existing Agreements, as modified, terminate prior to the revised expiration date, February 28, 2023.

By the Commission.

Erica A. Barker  
Secretary