Postal Regulatory Commission
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

NOTICE OF THE UNITED STATES POSTAL SERVICE OF GOVERNORS' DECISION NO. 08-2

Pursuant to 39 C.F.R. § 3015.2, the United States Postal Service hereby gives notice of a change in rates of general applicability for a competitive product. The change is the establishment of a premium, in addition to current rates, for guaranteed delivery of Express Mail pieces on Sundays and holidays.

In accordance with § 3015.2(b), the following are attached:

- The Governors' Decision establishing the change, which includes a statement of explanation and justification, and which orders the change into effect on March 3, 2008.
- A schedule showing the premium and conforming language in the relevant pages in the most recent draft of the Mail Classification Schedule.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
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DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON A PREMIUM FOR EXPRESS MAIL PIECES GUARANTEED FOR DELIVERY ON A SUNDAY OR HOLIDAY (GOVERNORS' DECISION NO. 08-2)

January 17, 2008

STATEMENT OF EXPLANATION AND JUSTIFICATION

Pursuant to our authority under section 3632 of title 39, as amended by the Postal Accountability and Enhancement Act of 2006, we establish a premium of $12.50 above the current price for delivery of non-manifest Express Mail pieces that are guaranteed for delivery on a Sunday or holiday. We have reviewed the attached analysis provided by management and have evaluated this change in accordance with 39 U.S.C. §§ 3632-3633 and 39 C.F.R. § 3015.2, which address changes in rates of general applicability for competitive services.

As indicated in the attached analysis, Express Mail pieces guaranteed for delivery on a Sunday or holiday pay the same price as pieces guaranteed for Monday through Saturday delivery, even though the Postal Service incurs additional costs of $5.50 for such pieces. The Postal Service is the only carrier in the highly competitive express delivery market that offers delivery on Sundays, as well as many holidays. The Postal Service's competitors charge at least $12.50 for items that are guaranteed for delivery on Saturday, a day on which they do not ordinarily provide delivery. The analysis of demand and contribution in the attachment indicates that it is likely a $12.50 premium on non-manifest Express Mail pieces presented for Sunday or holiday delivery will result in a net gain in contribution for both Express Mail service and for competitive products as a whole.

Based on this analysis, we find that this proposal complies with 39 U.S.C. § 3633(a): The fee does not raise an issue of subsidization of competitive products by market dominant products (39 U.S.C. § 3633(a)(1)); approving it would have no negative effects on the ability of Express Mail to cover its attributable costs (39 U.S.C. § 3633(a)(2)); and it would not negatively affect the ability of competitive products as a whole to comply with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7 (c), requires

competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs. Indeed, the analysis indicates that this change should result in increased contribution for the Express Mail product, and for competitive products as a whole.

ORDER

Effective March 3, 2008, a premium of $12.50 shall be added to the price of each non-manifest Express Mail piece that is guaranteed for delivery on a Sunday or holiday. We direct the Secretary to have this decision published in the Federal Register in accordance with 39 U.S.C. § 3632(b)(2). We also direct management to file with the Postal Regulatory Commission appropriate notice of this change.

By the Governors:

James C. Miller III, Chairman

Analysis of the Express Mail Sunday/Holiday Premium

The U.S. Postal Service currently accepts approximately 433,000 Express Mail pieces per year for Sunday or holiday delivery. A Sunday delivery costs the Postal Service $5.50 more than a Monday-Saturday delivery. A premium for Express Mail pieces committed for delivery on Sunday or a holiday is sustainable in the marketplace, and would allow the Postal Service to capture additional value provided by a unique, premium service. A $12.50 premium will be accepted by customers, generate additional contribution for the Postal Service, and provide protection from risk.

Price and service advantages in the marketplace

The Postal Service is the only carrier to offer Sunday delivery, as well as delivery on many holidays. Other carriers impose a surcharge for Saturday delivery. UPS and FedEx currently charge an additional $12.50 for Saturday delivery; DHL charges $15.00. The Express Mail Sunday/Holiday premium would be equal to or less than what competitors charge for Saturday delivery.

The $12.50 charge also represents less of a premium over Monday-Saturday average prices than the surcharge other carriers charge for Saturday delivery. A charge of $12.50 represents a 72 percent premium over the current average Express Mail price, while the same amount adds 81 percent to the average price of an overnight FedEx or UPS parcel.

Rationale for the premium amount

$12.50 is a price point at which we can capture substantial contribution without diverting customers away from postal services. Because the premium represents the value of delivering on a non-business day and is equal to or lower than what competitors charge for a similar service, customers will likely accept a charge at this level.

There may be different demand for Sunday delivery than for other days of the week. Although overall Express Mail volume has decreased approximately 12 percent since the May 2007 rate change, volume for Sunday has actually risen more than 10 percent. Given the small volume delivered on Sunday, firm conclusions about elasticity cannot be drawn, yet the increase does suggest that Sunday Express Mail pieces are less price sensitive than the rest of Express Mail.

A $12.50 premium also provides protection in the event that Sunday delivery costs do not decrease quickly in response to a change in volume. Although there is currently a $5.50 cost difference between a Sunday delivery and a Monday-Saturday delivery, a reduction in Sunday deliveries may not result in short-term cost reductions, as staffing plans cannot be changed immediately, and because minimum staffing will need to be maintained. A premium of $12.50 provides additional margin to cover those costs.

Using data from the *FY 2007 Cost and Revenue Analysis*, and elasticities from the Docket No. R2006-1 omnibus rate case, a premium of $12.50 on non-manifest Express Mail pieces guaranteed for Sunday or holiday delivery will likely yield a pro-forma contribution increase between $3.1 million and $3.8 million. This increase results from additional revenue generated by the premium plus net cost savings from pieces that move out of Sunday delivery. Manifest pieces are exempt from the premium because the small number of these pieces does not justify changing the manifest system at this time.

Analysis of Sunday delivery demand and contribution

Applying the system-wide Express Mail own-price elasticity implies a volume loss of slightly less than 250,000 Express Mail pieces; rather than disappear, however, the vast majority of these pieces will move into Express Mail guaranteed for Monday (or day after holiday) delivery or into Priority Mail. Express Mail pieces that move to Monday still increase contribution despite the lack of a premium, because of the extra cost of Sunday delivery. Contribution from pieces that migrate into Priority Mail will decrease only about 78 cents per piece, on average.

There is some risk to these projections. Assuming that 90 percent of the volume lost from Express Mail on Sunday will migrate to Monday delivery (about two-thirds) or Priority Mail (about 23 percent), and therefore stay within the Postal system. It will provide at least some contribution. It is possible, however, that these pieces might either switch to another carrier or disappear altogether (for instance, through electronic diversion of bill payments). To the extent that this possibility is underestimated, the net contribution increase resulting from the premium would be overestimated. If no lost volume migrates to Monday delivery, contribution gain will nonetheless be about half of the estimate, assuming that this Express Mail volume has an own-price elasticity of demand equal to or lower than that of Express Mail as a whole. If that assumption is not valid, contribution gain from the premium will be lower, though the price response would have to be more than twice that of the product as a whole before we would be at risk of a net loss of contribution.

These factors support the conclusion that a $12.50 premium on non-manifest Express Mail presented for Sunday or holiday delivery will result in a net gain in contribution for both Express Mail and for competitive products as a whole.

Compliance with relevant law

Because the premium will likely increase contribution for both Express Mail and for competitive products as a whole, this new premium will not raise an issue of subsidization of competitive products by market dominant products, (39 U.S.C. § 3633(a)(1)), or have a negative effect on the ability of Express Mail to cover its attributable costs (39 U.S.C. § 3633(a)(2)), or for competitive products as a whole to comply with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7 (c), requires competitive products to cover a minimum of 5.5 percent to the Postal Service's total institutional costs.

DOMESTIC

Express Mail

Any matter eligible for mailing may, at the option of the mailer, be mailed by Express Mail service. Express Mail pieces are sealed against postal inspection and shall not be opened except as authorized by law. Insurance, up to an amount specified in the Domestic Mail Manual, is included in Express Mail postage. Additional insurance (Express Mail Insurance) is available for an additional charge, depending on the value and nature of the item sent by Express Mail service. Express Mail service provides a high speed, high reliability service. Claims for refunds of postage must be filed within the period of time and under terms and conditions specified in the Domestic Mail Manual.

Size and Weight:

	Length	**Height**	**Width**	**Weight**
Minimum	large enough to accommodate postage, address and other required elements on the address side.			none
Maximum	108 inches in combined length and girth			70 pounds

Minimum Volume: None

Price Categories:

Next Day Service – Is available at designated retail postal facilities to designated destination facilities or locations for items tendered by the time or times specified in the Domestic Mail Manual for overnight delivery.

Second Day Service – Is available at designated retail postal facilities to designated destination facilities or locations for items tendered by the time or times specified in the Domestic Mail Manual for delivery on the second day or, in certain circumstances, the second delivery day (the next delivery day following the second day).

Custom Designed Service – Is available between designated postal facilities or other designated locations for Express Mail service tendered under a service agreement between the Postal Service and the mailer.

Same Day Airport Service – Is available between designated airport mail facilities.

Optional Features:

Pickup on Demand
Sunday/holiday delivery

Ancillary Services

- Address Correction Service
- Return Receipts
- COD
- Express Mail Insurance

DOMESTIC

Express Mail

Prices:

Weight Not Over (pounds)	Custom Designed	Next Day & Second Day PO to PO	Next Day & Second Day PO to Addressee
0.5	14.15	13.85	16.25
1	17.40	17.10	19.50
2	19.30	19.00	21.40
3	22.40	22.10	24.50
4	25.50	25.20	27.60
5	28.60	28.30	30.70
6	31.70	31.40	33.80
7	34.80	34.50	36.90
8	37.90	37.60	40.00
9	41.00	40.70	43.10
10	43.15	42.85	45.25
11	45.30	45.00	47.40
12	47.45	47.15	49.55
13	49.60	49.30	51.70
14	51.75	51.45	53.85
15	53.90	53.60	56.00
16	56.05	55.75	58.15
17	58.20	57.90	60.30
18	60.35	60.05	62.45
19	62.50	62.20	64.60
20	64.65	64.35	66.75
21	66.80	66.50	68.90
22	68.95	68.65	71.05
23	71.10	70.80	73.20
24	73.25	72.95	75.35
25	75.40	75.10	77.50
26	77.55	77.25	79.65
27	79.70	79.40	81.80
28	81.85	81.55	83.95
29	84.00	83.70	86.10
30	86.15	85.85	88.25
31	88.30	88.00	90.40
32	90.45	90.15	92.55
33	92.60	92.30	94.70
34	94.75	94.45	96.85
35	96.90	96.60	99.00
36	99.05	98.75	101.15
37	101.20	100.90	103.30
38	103.35	103.05	105.45
39	105.50	105.20	107.60
40	107.65	107.35	109.75
41	109.80	109.50	111.90

DOMESTIC

Express Mail

Prices:

Weight Not Over (pounds)	**Custom Designed**	**Next Day & Second Day PO to PO**	**Next Day & Second Day PO to Addressee**
42	111.95	111.65	114.05
43	114.10	113.80	116.20
44	116.25	115.95	118.35
45	118.40	118.10	120.50
46	120.55	120.25	122.65
47	122.70	122.40	124.80
48	124.85	124.55	126.95
49	127.00	126.70	129.10
50	129.15	128.85	131.25
51	131.30	131.00	133.40
52	133.45	133.15	135.55
53	135.60	135.30	137.70
54	137.75	137.45	139.85
55	139.90	139.60	142.00
56	142.05	141.75	144.15
57	144.20	143.90	146.30
58	146.35	146.05	148.45
59	148.50	148.20	150.60
60	150.65	150.35	152.75
61	152.80	152.50	154.90
62	154.95	154.65	157.05
63	157.10	156.80	159.20
64	159.25	158.95	161.35
65	161.40	161.10	163.50
66	163.55	163.25	165.65
67	165.70	165.40	167.80
68	167.85	167.55	169.95
69	170.00	169.70	172.10
70	172.15	171.85	174.25

For each Pickup On-Demand stop, and each Customized Designed delivery stop, add 14.25.

The applicable ½-pound price is charged for matter sent in a flat-rate envelope provided by the Postal Service.

For Sunday/holiday delivery, add $12.50