

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MODIFICATION OF MAIL CLASSIFICATION SCHEDULE
PRODUCT LISTS REGARDING PREMIUM FORWARDING SERVICE

Docket No. MC2008-4

REQUEST OF THE UNITED STATES POSTAL SERVICE

In accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 et seq., the United States Postal Service hereby requests modification of the Mail Classification Schedule product lists. The Postal Service proposes to move Premium Forwarding Service (PFS) from the Special Services class in the market-dominant product list to the competitive product list.¹

PFS offers residential customers weekly reshipment to a temporary address of most of their mail. The Postal Service collects, bundles in Priority Mail[®] packaging, and reships the mail to a customer's temporary address for a period of not less than two weeks and up to one year (per application). The reshipment receives Priority Mail service handling and transportation.

Since this request is simply for the transfer of an existing product without any change in classification or price, no Governors' Decision was needed.² Premium Forwarding Service: (1) is not a special classification within the meaning of 39 U.S.C. § 3622(c)(10) for market dominant products; (2) will not be (following transfer) a product not of general applicability within the meaning of 39 USC 3632(b)(3) for competitive

¹ 39 C.F.R. § 3020.31(a), (c).

² 39 C.F.R. § 3020.31(b).

products; and (3) is not a non-postal product.³ Attachment A shows the requested changes in the Mail Classification product lists in legislative format.⁴ Attachment B provides a statement of supporting justification for this request, as specified in 39 C.F.R. § 3020.32.⁵

As explained in the supporting justification, the Postal Service believes that PFS is an appropriate candidate for transfer. The Commission should therefore approve this request as set forth in its rules.

As required by 39 U.S.C. § 3642(d)(1), this Request is being published in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
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³ 39 C.F.R. § 3020.31(d).

⁴ 39 C.F.R. § 3020.31(f).

⁵ 39 C.F.R. § 3020.31(e).

MAIL CLASSIFICATION SCHEDULE

PART A—MARKET DOMINANT PRODUCTS

1000 MARKET DOMINANT PRODUCT LIST

SPECIAL SERVICES

~~Premium Forwarding Service~~

PART B—COMPETITIVE PRODUCTS

2000 COMPETITIVE PRODUCT LIST

EXPRESS MAIL

PARCEL RETURN SERVICE

PREMIUM FORWARDING SERVICE

INTERNATIONAL

Statement of Supporting Justification

I, Maura Robinson, Manager, Pricing Systems and Analysis, am sponsoring this request that the Commission move Premium Forwarding Service (PFS) to the list of competitive products. This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32, as indicated. I attest to the accuracy of the information contained herein.

- (a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

Not applicable. The Postal Service is proposing that PFS be a competitive product.

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Classifying PFS as a competitive product will not impair the ability of the Postal Service to meet the statutory cost coverage requirements. In January 2008, the Commission recommended, and the Governors approved, the establishment of PFS

and associated fees as a permanent service, in part based on a determination that PFS would cover its costs.¹

PFS makes a positive contribution to the Postal Service's institutional costs. Therefore, if it is classified as a competitive product, PFS is expected to meet the requirements of 39 U.S.C. § 3633(a)(2), and will not impair 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. Accordingly, no issue of subsidization of competitive products by market dominant products arises (39 U.S.C. § 3633(a)(1)).

(d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Customers using PFS include: individuals and families with multiple residences; executives and business consultants away from their primary residence for extended times; individuals providing extended care for family members residing at a distance from the caregiver's permanent address; as well as recreational vehicle owners.

¹ Docket No. MC2007-3, Notice of the United States Postal Service Regarding Decision of the Governors (January 25, 2008). Note that the reshipment portion of PFS service uses Priority Mail packaging and receives Priority Mail handling and transportation. Following the implementation of Docket No. MC2007-3, however, all revenue from the weekly PFS reshipment fee (which includes the costs of Priority Mail handling and transportation) is reported as PFS revenue and none is reported as Priority Mail revenue. See, PRC-LR-R2008-1-LR5_Workbook.xls, worksheet PFS Weekly Reship Fee.

PFS has two integrated components – a mail receipt and forwarding service and a shipping service. The availability of private options for both of these services limits the Postal Service’s ability to set prices substantially above costs, raise prices significantly, decrease quality, or decrease output, without losing a significant level of business.

With respect to mail receipt and forwarding service, customers may avail themselves of commercial services,² as well as informal arrangements with friends, neighbors, or family members, to retrieve and prepare their mail for forwarding. Commercial Mail Receiving Agencies (CMRAs) also provide the general public with end-to-end mail receipt, forwarding, and shipping services that compete with PFS. Lastly, private sector firms also offer similar services to specialized groups.³ The existence of these various alternatives constrains the Postal Service from exercising sufficient market power to raise prices, etc., without losing business.

Once the mail has been received, both commercial service providers and private individuals have a choice of competing services to use for the shipping portion. These alternatives include Priority Mail, other postal services, and services provided by private sector shipping companies. Evaluation of which shipping option to use may be influenced by several factors that demonstrate the Postal Service’s limited market power. These factors include commercial arrangements with package service providers,⁴ convenience, price, or service attributes such as guaranteed on-time delivery. Postal Service shipping products are only one option for forwarding agents,

² A Google search using the term “mail forwarding” identified services offered by many private firms, as well as no-charge forwarding and Premium Forwarding Service on the usps.com website.

³ These include Escapees RV Club, Access USA, Voyagers Mail Forwarding Service, and USA2ME.

⁴ For example, a UPS Store owner may be more likely to use UPS shipping services.

and the competitive nature of the package shipping market demonstrates that customers are well aware of their alternatives in the marketplace.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

Premium Forwarding Service is not covered by these provisions. See part (d) above.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above.

- (g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

Customers are aware that they receive their PFS shipments in Priority Mail packaging and that their shipments receive Priority Mail handling. This is important to PFS customers, because they expect expedited delivery of their weekly shipments. However, no specific data on PFS customer views regarding the regulatory classification of PFS as market dominant or competitive are available.

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

There is likely to be a minimal impact, if any, on small business concerns. Many mail forwarding services and CMRAs (including those who operate under franchise agreements with national chains) are small businesses operating in a competitive market place. The Postal Service's provision of PFS had already added one more alternative for customers of forwarding services. The transfer of PFS to the competitive

product list is unlikely to have any further effect on these businesses. In a competitive market, the primary regulatory concern regarding small businesses is not that an offering is over-priced but that it is under-priced. Within the regulatory structure established by the PAEA, the competitive product rules are designed to address this concern. They establish a cost floor for products and services designed to ensure fair Postal Service competition within the market place. Conversely, the regulatory structure for market dominant products is designed to protect customers in markets where the Postal Service has substantial market power by limiting price increases through the price cap; this limitation is more likely to be adverse to the interests of small business competitors of PFS.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

The assignment of PFS to the market dominant product list was based on the statutory classification of all “Special Services” as market dominant. It is unlikely that Congress specifically considered whether PFS – then an experimental service – should be defined as part of the market dominant or the competitive product list. In fact, at the time of the PAEA’s enactment, a portion of PFS revenues would have been classified as market dominant (the application fee and the \$2.85 reshipment fee), and a portion as competitive (Priority Mail postage). Subsequently, as a result of Docket MC2007-3, the revenue from Priority Mail PFS postage was, in some sense, “transferred” to the market dominant side when the reshipment fee was redesigned. Transfer of PFS to the competitive product list will ensure that its revenues are appropriately classified, since, as demonstrated above, PFS is provided within a competitive market.