

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

Before Commissioners:

Dan G. Blair, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Tony L. Hammond

Competitive Products Price Changes
Rates of General Applicability

Docket No. CP2009-8

REVIEW OF NOTICE CONCERNING
CHANGES IN RATES OF GENERAL APPLICABILITY
FOR COMPETITIVE PRODUCTS

(Issued December 11, 2008)

I. SUMMARY

This is the second review of Postal Service price adjustments for competitive products, but unlike the first review, the Commission does not have the benefit of a recent Postal Service Annual Compliance Report upon which to base its findings.¹ On November 13, 2008, the Postal Service filed a notice of the Governors' Decision

¹ See Docket No. ACR2007, United States Postal Service FY 2007 Annual Compliance Report, December 28, 2007.

No. 08-19 which announced planned changes in rates of general applicability for competitive products.² The planned adjustments are scheduled to take effect on January 18, 2009.

Based on the Notice and supporting material, public comments, and supplemental information submitted by the Postal Service, the Commission finds no reason to conclude that the planned price adjustments for competitive products are not in compliance with applicable statutory provisions.

The Commission issued two information requests to obtain cost coverages by product and other data necessary to complete its task under 39 U.S.C. 3633.³ Additionally, the Postal Service's financial analysis makes changes to the model with respect to transportation costs for destination delivery unit (DDU) entry Parcel Select pieces and Parcel Return Service pieces picked up at the return delivery unit (RDU).

As a rationale, the Postal Service initially cited its proposal in Docket No. MC2009-1. The Commission's acceptance of a rationale from a negotiated service agreement docket for use with respect to a particular mailer does not necessarily extend to a proceeding to change rates of general applicability. Negotiated service agreement dockets hold little precedential value with respect to proposals to change rates of general applicability. Due to confidentiality concerns, negotiated service agreement dockets do not allow for the same level of public input as do cases of general applicability. Second, and more importantly, the Commission did not accept the Postal

² See Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 08-19, November 13, 2008 (Notice).

³ Earlier this year, the Commission reviewed the Postal Service's first price adjustments for competitive products regarding rates of general applicability. There, the Commission had concerns with the explanation and justification provided by the Postal Service. See Order No. 70 at 1-2. The Commission expects that the next Postal Service filing with respect to competitive price adjustments for rates of general applicability will provide the necessary information and data so that the Commission promptly can fulfill its statutory mandate. Specifically, such information and data should include the calculation of cost coverages and the percentage change in prices by product. If that expectation is not met, it may be necessary to revise Commission rules to specify needed supporting detail.

Service's rationale in that docket in its analysis approving that agreement. Commission acceptance of a rationale, methodology, or assumption is key for precedential value.

II. PROCEDURAL HISTORY

On November 13, 2008, the Postal Service filed a notice of Governors' Decision No. 08-19 establishing changes in rates of general applicability for competitive products. Notice at 1. In the Notice, the Postal Service announced its intention to adjust prices for certain competitive products, as well as its intention to make certain related mail classification changes.⁴ The Governors supported their November 12, 2008 Decision with two attachments. Attachment A provides an analysis of the competitive products' price and classification changes intended to demonstrate that the price adjustments and classification changes comply with the statutory requirements.⁵ Attachment B sets forth the proposed price and classification changes.

The Postal Service expects that the planned price changes are appropriate and consistent with 39 U.S.C. 3632-33 and applicable regulatory criteria. *Id.* Competitive products affected by the changes in the domestic arena are: (1) Express Mail with an average price increase of approximately 5.7 percent; (2) Priority Mail with an average price increase of 3.9 percent; (3) Parcel Select with an average price increase of 5.9 percent; and (4) Parcel Return Service (PRS) with an average price increase of 5.3 percent. Products affected in the international arena are: (1) Outbound International Expedited Services consisting of (a) Global Express Guaranteed with an average price increase of 11.2 percent, and (b) Express Mail International with an average price increase of 8.6 percent; (2) Priority Mail International with an average price increase of

⁴ Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products (Governors' Decision No. 08-19), November 12, 2008, at 1 (Decision).

⁵ Attachment A also included a nonpublic annex (page 4) discussing competitive products contribution and cost coverage analysis. A redacted version of page 4 was included as part of the Notice.

8.5 percent; and (3) International Direct Sacks—M-Bags with an average price increase of about 8.0 percent.

Initial Commission action. In Order No. 132, the Commission provided public notice of the Postal Service's planned competitive price changes. PRC Order No. 132, November 14, 2008. The Commission also established Docket No. CP2009-8 to consider the planned price adjustments and classification changes, appointed a Public Representative, and established a 17-day period for public comment, which ended December 1, 2008. *Id.*

Supplemental filing. On November 18, 2008, the Postal Service supplemented its initial filing with supporting spreadsheets filed under seal.⁶ See Notice of the United States Postal Service of Filing of USPS-CP2009-8/NP1, November 18, 2008.

Chairman's Information Requests. Two information requests were issued in this case. The Chairman issued an information request on November 26, 2008, seeking clarification and additional information.⁷ The Postal Service filed its response on December 3, 2008.⁸ In its response, the Postal Service asserts that the changes made to transportation costs are in anticipation of FY 2008 data. The Postal Service also provides corrected formulas to distribute other costs for Parcel Select and Parcel Return Service.⁹ It references statements made in its FY 2007 Annual Compliance Report (ACR) to justify the filing of certain information in this case under seal.

The Chairman issued another information request on December 3, 2008.¹⁰ The Postal Service filed its response on December 8, 2008. Notice of the United States

⁶ Virtually all of the supporting data and cost coverages were filed under seal in this case with only minimal justification. The blanket approach taken by the Postal Service may be over-inclusive. This proceeding shall have no precedential value on the appropriateness of data or other information filed under seal. Future filings must include a detailed justification for items seeking confidential treatment.

⁷ Chairman's Information Request No. 1 and Notice of Filing of Questions Under Seal, November 26, 2008 (CIR No. 1).

⁸ Notice of the United States Postal Service of Filing of Responses to Chairman's Information Request No. 1, December 3, 2008 (Response to CIR No. 1).

⁹ See PRC-CP2009-8-NP-LR-1 for updated formulas.

¹⁰ Chairman Information Request No. 2, December 3, 2008 (CIR No. 2).

Postal Service of Filing of Responses to Chairman's Information Request No. 2, December 8, 2008 (Response to CIR No. 2). In its response, the Postal Service provides the requested information on cost coverages by product. It also explains the weights used to calculate the percentage increases by product.¹¹

Comments. The Commission received comments from David B. Popkin (Popkin) and the Public Representative.¹² The Commission appreciates commenters' contributions.

III. COMPLIANCE WITH STATUTORY PROVISIONS APPLICABLE TO RATE AND CLASSIFICATION CHANGES FOR COMPETITIVE PRODUCTS

The Postal Accountability and Enhancement Act, Pub. L. 109-435 120 Stat. 3218 (2006) (PAEA), as codified at 39 U.S.C. 3633, sets forth the provisions governing the lawfulness of rates for competitive products. The Commission promulgated rule 3015.7 to determine compliance with section 3633. PRC Order No. 43, October 29, 2007. The following provisions apply:

1. Each competitive product must cover its attributable cost. 39 U.S.C. 3633(a)(2); 39 CFR 3015.7(b).
2. Competitive products must collectively cover their appropriate share of the Postal Service's institutional costs, which the Commission has determined to be, at a minimum, 5.5 percent of the Postal Service's total institutional costs. 39 U.S.C. 3633(a)(3); 39 CFR 3015.7(c).
3. Competitive products may not be cross-subsidized by market dominant products. The Commission will use incremental costs to test for such cross-subsidies. 39 U.S.C. 3633(a)(1); 39 CFR 3015.7(a).

¹¹ The Postal Service calculates price increases by product using historical weights for some products and forecasted weights for others. Unless otherwise authorized by the Commission, in future competitive product filings, the Postal Service should use the same methodology to calculate each competitive product's price increase where possible.

¹² Initial Comments of David B. Popkin (Popkin Comments); and Public Representative Comments, both filed December 1, 2008.

IV. PRELIMINARY CONCERNS

The Public Representative and Popkin both raise preliminary concerns that affect the entire proceeding. The Commission addresses these issues first.

A. Purpose of this Proceeding

Popkin is concerned that it appears from various Postal Service releases and website links that the rate changes subject to this proceeding are already a “done deal.” Popkin Comments at 1. He cites two Postal Service *Federal Register* announcements publishing the Governors’ Decision and a Final Rule implementing changes to the Domestic Mail Manual (DMM) with respect to the rates and classification changes subject to this proceeding. Popkin questions the purpose of the instant proceeding if the rate changes are *faits accomplis*.

Section 3632(b)(2) requires the Postal Service to publish, in the *Federal Register*, the record and decision of the Governors’ proceedings in connection with certain changes in rates of general applicability at least 30 days prior to the effective date of those changes. The Commission’s rules require such decision to be filed with the Commission no later than the date of publication in the *Federal Register*. 39 CFR 3015.2(a). The Commission further requires, among other things, an explanation and justification of such changes to be filed concurrently with such decision. *Id.* 3015.2(b).

This information allows the Commission to fulfill its statutory responsibilities under 39 U.S.C. 3633(a). Accordingly, when the Postal Service proposes to change its competitive rates of general applicability, the Commission opens a docket to consider that change. To further the statutory goals of openness and transparency, the Commission allows interested parties to submit comments on any issues that may arise with respect to meeting 3633(a) and other applicable statutory and regulatory criteria. If the Commission finds that the Postal Service’s proposed changes will not meet the requirements of 3633(a) or other applicable requirements, then the Commission will

take appropriate action.¹³ Interested parties' comments help the Commission determine if those requirements have been met. The Commission carefully considers all comments received.

B. Cost, Revenue, and Volume Estimate Concerns

The Public Representative's Comments focus on what he perceives as a lack of sufficient information to make a determination of whether the 3633(a) requirements are met and suggests revision of the Commission's rules for rate changes of general applicability for competitive products.

With respect to determining whether the Postal Service's rate changes satisfy the requirements of 3633(a), the Public Representative raises two issues. First, he states that he is unable to verify that the new rates will comply with the requirements of 3633(a) because there is not a recent Annual Compliance Report upon which the Commission can base its decision. For this reason, the Public Representative believes that it would be prudent for the Commission to consider changing its rules for competitive product rate changes of general applicability.

Second, he expresses a concern that the models underlying the volume and revenue projections are not provided. He notes that attributable cost calculations are based on FY 2007 actual costs that are rolled forward using 2 years of inflation projections. He believes that the Postal Service's choice of inflation factors and its failure to use any actual FY 2008 cost data raise questions. In light of these perceived shortcomings, the Public Representative suggests that the Commission ask the Postal Service nine specific questions designed to obtain information that would allow it to calculate volumes, revenues, and costs on a more precise basis similar to what used to be called a "roll-forward."

¹³ The Commission may take appropriate action regardless of the fact that the Postal Service has published changes to the DMM in the *Federal Register* as a "final rule."

The Commission finds the Public Representative's comments helpful. Indeed, several of the Public Representative's questions assisted in focusing the Commission's attention on an area of concern. *Compare* Public Representative Comments at 3 *with* CIR No. 2.

The remainder of the Public Representative's questions and concerns appear to ask the Postal Service to justify the costs using a more complex, and presumably more accurate, model as well as ask the Postal Service to provide its model underlying the calculation of revenue and volume projections for competitive products.

The Commission finds that the Postal Service's more simplified approach for developing cost estimates (using reasonable inflation factors) is appropriate at this time. It is consistent with the overall statutory scheme which envisions more flexibility for the Postal Service in setting competitive rates. However, as also contemplated by the statute, the Commission will be engaging in a comprehensive review of the Postal Service's competitive rates, costs, and other estimates in its yearly Annual Compliance Determination (ACD) proceeding. If the ACD shows that this more simplified approach is not providing reasonably reliable cost estimates, the Commission may take corrective action. This may include revisiting the appropriateness of this more simplified approach in the future.

V. DOMESTIC COMPETITIVE PRODUCTS

A. Express Mail

Express Mail, the Postal Service's fastest mail service, provides guaranteed delivery of letters, documents, and merchandise overnight to most addresses in the United States, including post office boxes and military addresses. Express Mail may be mailed from a post office or picked up on demand, and may be delivered to a specified address or sent to a designated post office to be held for pick-up. Express Mail is available every day of the year; however, an extra charge applies for Sunday and holiday delivery. Express Mail must be mailed by a specified acceptance time to have guaranteed on-time delivery. The Postal Service will give customers a full refund if

Express Mail is not delivered (or attempted to be delivered) by the guaranteed time. Express Mail includes, at no additional cost, insurance up to \$100 against loss or damage, proof of delivery, and tracking. Retail prices are zoned, except for the Retail Flat Rate Envelope, which is not subject to zone pricing.

1. Price Adjustments

For Express Mail service, the Postal Service plans an average price increase of 5.7 percent. The zoned retail prices have an average increase of 5.9 percent. The price for the Retail Flat Rate Envelope, which accounted for nearly half of all Express Mail volume in FY 2007, increases by 6 percent. The Commercial Base prices discount off retail prices increases from 3 to 5 percent, resulting in an average increase for the Commercial Base category of 3.7 percent. The new Commercial Plus price category, discussed below, effectively has no price increase since all customers who qualify would have received the maximum rebate previously under the Volume Incentives category. These customers receive a 14.5 percent discount off the zoned retail prices.

These price adjustments, according to the Postal Service, balance the need to increase profitability while positioning the product for growth. Decision, Attachment A, at 1. In addition to increasing rates, the Postal Service also plans substantive classification changes to its Express Mail service. *Id.*

2. Classification Changes

The existing Commercial Base price category created in Docket No. CP2008-3 is maintained for customers who use online and other authorized postage payment methods. This case extends this price category to customers who use qualifying metered postage payment methods.

The proposal creates a new Commercial Plus price category to replace the current Volume Incentives category, under which customers mailing specified volumes were eligible for quarterly rebates. Commercial Plus pricing is to be offered to customers who ship 6,000 Express Mail pieces annually. The Postal Service believes

that these classification changes will make it easier for merchants to pass on their savings in shipping costs to their customers since they will not have to wait until the end of the quarter to receive the incentives. This faster incentive should help increase Express Mail revenue, according to the Postal Service. *Id.*

3. Comments

Popkin raises a concern with respect to the various mailing containers that the Postal Service provides to users of Express Mail. These are divided into two categories: Flat Rate Envelopes and the non-Flat Rate Envelopes. He believes it is important that the Postal Service ensure that both types of containers be available at the various postal facilities and for the Postal Service to provide the mailing public with sufficient information for them to understand the financial and other differences between using the Flat Rate Envelope instead of a zoned, non-Flat Rate Envelope. See Popkin Comments.

4. Coverage of Attributable Costs

Based on the information currently before it in this proceeding, including the spreadsheets filed in Library Reference USPS-CP2009-8/NP1, the Commission finds that the price increases for Express Mail appear to satisfy the statutory and regulatory requirements under 39 U.S.C. 3633 and 39 CFR 3015.7. It also appears that the accompanying planned classification changes comply with the statutory and regulatory criteria.

Under the proposed rates, the Express Mail Flat Rate Envelope may not always be the least expensive mailing choice for a customer. A lightweight item sent only a short distance may, in certain instances, be purchased at a lower price using the zone rate option instead of the Flat Rate Envelope. Comments raise a valid concern about the need for the Postal Service to make the public aware of Express Mail mailing options, *e.g.*, that the Flat Rate Envelope might not be the least cost option for shorter

hauls. The Commission encourages the Postal Service to educate the public in this regard.

B. Priority Mail

Any mailable matter may be sent as Priority Mail. Priority Mail provides an expedited delivery option (on average 2 to 3 days) to customers.

1. Price Adjustments

Overall, Priority Mail prices are to increase by an average of 3.9 percent. Retail prices will increase by 4.7 percent. The Commercial Base pricing will offer, on average, a 4.8 percent discount off retail prices. The new Commercial Plus price category, discussed below, will offer an average 7 percent discount off retail prices which represents an average price increase of only 1 percent from current Commercial Base prices. In addition to increasing rates, the Postal Service also plans substantive classification changes to its Priority Mail service. Decision, Attachment A, at 1.

2. Classification Changes

There is no change to the basic structure of the published Retail prices or Commercial Base prices; however, the proposal extends the Commercial Base price category to customers who use qualifying metered postage payment methods. The Postal Service also adds a new small Flat Rate Box price category, in addition to the current regular and large Flat Rate Box pricing. *Id.*

The proposal creates a new Commercial Plus price category to replace the current Volume Incentives category, under which customers mailing specified volumes were eligible for quarterly rebates. Commercial Plus pricing is to be offered to customers who ship more than 100,000 Priority Mail pieces or more than 600 Priority Mail Open and Distribute containers annually. The Postal Service believes that these classification changes will make it easier for merchants to pass on their savings in shipping costs to their customers since they will not have to wait until the end of the

quarter to receive the incentives. This faster incentive should help increase revenue, according to the Postal Service. *Id.*

3. Comments

Popkin raises a concern with respect to the various mailing containers that the Postal Service provides to users of Priority Mail (boxes and envelopes). These divide into two categories: Flat Rate Envelopes and Boxes, and other envelopes and boxes. He believes it is important that the Postal Service ensure that both types of containers be available at the various postal facilities and for the Postal Service to provide the mailing public with sufficient information for them to understand the financial and other differences between using Flat Rate containers and non-Flat Rate containers. See Popkin Comments.

4. Coverage of Attributable Costs

Based on the information currently before it in this proceeding, the Commission finds that the price increases for Priority Mail appear to satisfy the statutory and regulatory requirements under 39 U.S.C. 3633 and 39 CFR 3015.7. It also appears that the accompanying planned classification changes comply with the statutory and regulatory criteria.

Under the proposed rates, the Priority Mail Flat Rate services may not always be a customer's least expensive mailing method. A lightweight item sent only a short distance may, in certain instances, be purchased at a lower price using the zone rate option instead of one of the Flat Rate options. Popkin's comments raise a valid concern about the need for the Postal Service to make its customers aware of their Priority Mail mailing options, *e.g.*, including the fact that the Flat Rate Priority Mail services might not be the least expensive option for envelopes or packages sent short distances. The Commission encourages the Postal Service to make relevant price information readily available to the public.

C. Parcel Select

Section 3631 of title 39 lists “bulk parcel post” as one of several types of competitive mail matter. However, that term is not defined by the PAEA. In Order No. 26, the Commission held that “bulk parcel post” should consist of Parcel Select, Parcel Return Service, and Parcel Post mail qualifying for dropship and barcode discounts. PRC Order No. 26, August 15, 2008, at ¶ 3012. The Commission subsequently accepted the Postal Service’s suggestion that discounted Parcel Post be consolidated with Parcel Select as one competitive product. *Id.*, ¶¶ 3059-60 and 4004.

Parcel Select may contain any mailable matter, except that required to be mailed by First-Class Mail and publications required to be entered as Periodicals mail.

1. Price Adjustments

On average, Parcel Select prices will increase by 5.9 percent. The average price increase for entry at the DDU is 4.7 percent; destination sectional center facility (DSCF) is 6.8 percent; and destination bulk mail center (DBMC) is 9.1 percent. The Postal Service expects that the higher than average price increase for DBMC parcels will increase DBMC margins and further encourage customers to dropship packages at the DDU, which is closer to the delivery point. Decision, Attachment A, at 2. No classification changes are proposed for Parcel Select.

2. Comments

No comments specifically addressing Parcel Select service were received in response to the Commission’s Order instituting this proceeding.

3. Coverage of Attributable Costs

Based on the information currently before it in this proceeding, the Commission finds that the price increases for Parcel Select appear to satisfy the statutory and regulatory requirements under 39 U.S.C. 3633 and 39 CFR 3015.7. It also appears that

the accompanying planned classification changes comply with the statutory and regulatory criteria.

In Library Reference USPS-CP2009-8/NP1, the Postal Service provided improved cost models over those provided in the FY 2007 ACR. These models demonstrate that Parcel Select covered attributable costs for FY 2007 and should cover attributable costs in FY 2009. In Docket No. RM2008-6 (Proposal 10), the Commission approved a new methodology for the Postal Service to use in the future when calculating Parcel Select costs.

D. Parcel Return Service

Parcel Return Service (PRS) enables recipients to return unwanted items to merchants using a prepaid label. The returned items are picked up by the merchant (or agent) at the RDU and return bulk mail center (RBMC). Any mailable matter may be mailed as Parcel Return Service, except that required to be mailed by First-Class Mail and publications required to be entered as Periodicals mail. No classification changes are proposed for Parcel Return Service.

1. Price Adjustments

The Postal Service states that the overall percentage increase in prices for PRS is 5.3 percent. Decision at 2. RBMC prices are proposed to increase by 7.1 percent while RDU prices are unchanged. This is due to the fact that the Postal Service believes RDU pieces already provide healthy margins.

2. Comments

No comments specifically addressing Parcel Return Service were received in response to the Commission's Order instituting this proceeding.

3. Coverage of Attributable Costs

Based on the information currently before it in this proceeding, the Commission finds that the price increases for Parcel Return Service appear to satisfy the statutory

and regulatory requirements under 39 U.S.C. 3633 and 39 CFR 3015.7. It also appears that the accompanying planned classification changes comply with the statutory and regulatory criteria.

In the FY 2007 Annual Compliance Determination, the Commission found that Parcel Return Service did not appear to cover its attributable costs. In Library Reference USPS-CP2009-8/NP1, the Postal Service provided improved cost models for Parcel Return Service which demonstrate that Parcel Return Service did, in fact, cover attributable costs in FY 2007.¹⁴

The Postal Service's cost models in Library Reference USPS-CP2009-8/NP1 removed all transportation costs for RDU pieces. The Postal Service had previously removed all transportation costs for RDU pieces in Docket MC2009-1. In that docket, dealing with a specific negotiated service agreement partner, the Commission did not accept the Postal Service's rationale for removing all of those transportation costs, and the Commission undertook an analysis of the impact on cost coverage if no transportation costs were saved. The Commission's analysis in this case provides the same assessment. The Postal Service should not use methodological changes that the Commission has rejected unless the Postal Service provides a new or enhanced explanation and justification.

The Postal Service projections contained in Library Reference USPS-CP2009-8/NP1 indicate that Parcel Return Service should cover its attributable costs for FY 2009. *Id.* In Docket No. RM2008-6 (Proposal 10), the Commission approved a new methodology that will be used in the future to determine actual Parcel Return Service cost.

¹⁴ See Notice of the United States Postal Service of Filing of USPS-CP2009-8/NP1, November 18, 2007.

VI. INTERNATIONAL MAIL COMPETITIVE PRODUCTS

The Postal Service plans to increase prices for three international competitive products: (1) Outbound International Expedited Services; (2) Outbound Priority Mail International; and (3) International Direct Sacks—M-Bags. It also proposes to make several classification changes to these products.

A. Outbound International Expedited Services

The Outbound International Expedited Services product provides accelerated delivery of mailpieces from the United States to designated international destinations. It consists of two offerings: (1) Global Express Guaranteed (GXG), and (2) Express Mail International (EMI).

GXG offers a postage refund guarantee for day certain delivery from select post offices to select foreign destinations. Decision, Attachment A, at 2. Documents and general correspondence and non-documents (all dutiable items including merchandise) may be shipped using GXG. Document reconstruction and non-document insurance for loss or damage up to \$100.00 per shipment are included.

The Governors' Decision indicates a planned price increase of 11.2 percent for GXG. Decision, Attachment A, at 2. Price increases vary by country group and weight increment. The proposal retains the published discount of 10 percent for online preparation and payment or for use of an authorized PC postage vendor. *Id.* The Postal Service proposes to extend this discount to qualifying customers paying through information-based indicia postage meters.

EMI provides accelerated delivery that is not as fast as GXG and offers a more limited postage refund guarantee than GXG for day certain delivery. Document reconstruction and non-document insurance for loss or damage up to \$100.00 per shipment are included.

The Postal Service indicates a planned price increase of 8.6 percent on average for EMI. Response to CIR No. 2 at 6. Price increases vary by country group and weight increment. Due to increased costs, the Postal Service proposes to add a separate rate

group for Australia and New Zealand. The proposal retains the discounts for online preparation and payment or for use of an authorized PC postage vendor. Decision, Attachment A, at 2. The Postal Service proposes to extend this discount to qualifying customers paying through information-based indicia postage meters. These customers will pay 8 percent less than retail. Customers who pay postage through an Express Mail corporate account pay prices 8, 10, or 12 percent lower than retail, depending on annual volume or postage.

B. Outbound Priority Mail International

Outbound Priority Mail International (PMI) is the only international delivery option offered by the Postal Service for parcels. PMI prices are set to be lower than EMI and higher than First-Class Mail International. The product currently consists of three services: (1) PMI Flat Rate Envelope; (2) PMI Flat Rate Box; and (3) PMI Parcel. PMI Flat Rate Box and PMI Parcel services may not contain written correspondence. The Postal Service proposes to add a new small Flat Rate Box that will be priced the same and meet the same size and content requirements as the PMI Flat Rate Envelope. Current and personal written correspondence may be sent using the PMI Flat Rate Envelope or the new small PMI Flat Rate Box.

The Decision indicates an average increase of 8.5 percent for PMI. *Id.* at 2-3. Price increases vary by country group and weight increment. Due to increased costs, the Postal Service proposes to add a separate rate group for Australia and New Zealand. The proposal retains the discounts for online preparation and payment or for use of an authorized PC postage vendor. The Postal Service proposes to retain the 5.0 percent discount for mailers who use Click-N-Ship or other authorized online applications as well as those paying through authorized PC postage vendors. Additionally, the Decision states that PMI commercial mailers will remain eligible for the 5.0 percent discount for payment of postage by permit imprint or by using authorized software to prepare their mail. *Id.*

C. International Direct Sacks—M-Bags

The International Direct Sacks product, also known as M-Bags, provides delivery of direct sacks containing printed matter to a single foreign addressee. The sacks may include articles of merchandise related to the enclosed printed matter. The Decision announces an 8.0 percent increase on average for M-Bags. *Id.* at 3.

D. Comments

No comments specifically addressing the international products were received in response to the Commission's Order instituting this proceeding.

E. Coverage of Attributable Costs

Upon review of the record, the Commission finds that the planned increases for the international competitive products have not been shown to be unlawful. Based on the information currently before it in this proceeding, the Commission finds that the price increases for the outbound international competitive products will generate sufficient revenue to cover their attributable costs and contribute to institutional costs. These international products appear to satisfy the statutory and regulatory requirements under 39 U.S.C. 3633 and 39 CFR 3015.7. It also appears that the accompanying planned classification changes for the international products comply with the statutory and regulatory criteria.

The Commission anticipates that notices regarding future international competitive product price adjustments will provide more detail concerning each product, including cost coverage separately for each competitive international product.

VII. CLASSIFICATION CHANGES

In Docket No. CP2008-3, the Commission accepted several new classification changes. Here, the Commission cannot calculate the full financial impact of those classification changes. When the Postal Service submits its FY 2008 ACR, the

Commission will make a determination as to the effects of those classification changes in its FY 2008 ACD.

In this docket, the Commission finds the proposed classification modifications, discussed above, reasonable and will reflect the changes in the draft Mail Classification Schedule.¹⁵ Finding the classification changes reasonable does not bind the Commission to the Postal Service's determinations on products and services.

VIII. CONTRIBUTION TO INSTITUTIONAL COSTS

Under 39 U.S.C. 3633(a)(3) and 39 CFR 3015.7(c), competitive products as a whole must contribute a minimum of 5.5 percent to the Postal Service's total institutional costs. The Postal Service's filings in this case represent that the price adjustments discussed above should allow all of the competitive products to satisfy these statutory and regulatory requirements for FY 2009. Based on the information currently before it in this proceeding, including the spreadsheets filed in Library Reference USPS-CP2009-8/NP1, the Commission finds that this docket's proposed domestic and international competitive product price increases appear to satisfy the statutory and regulatory requirements under 39 U.S.C. 3633 and 39 CFR 3015.7 with respect to the required institutional cost contribution for competitive products.

IX. CONCLUSION

A full review of the record in this proceeding, including the Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products (Governors' Decision 08-19), filed November 13, 2008, has been completed. With regard to the price adjustments contained therein, for the reasons set forth above

¹⁵ As with previous Orders, the language suggested by the Postal Service in its filing is illustrative and subject to change in the MCS the Commission ultimately adopts.

It is Ordered:

The planned price adjustments for competitive products addressed in this Order are not in conflict with the requirements set forth in 39 U.S.C. 3633(a) and 39 CFR 3015.7.

By the Commission.

Steven W. Williams
Secretary