

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

Before Commissioners:

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

Competitive Products Price Changes
Rates of General Applicability

Docket No. CP2010-8

ORDER CONCERNING
CHANGES IN RATES OF GENERAL APPLICABILITY
FOR COMPETITIVE PRODUCTS

(Issued December 4, 2009)

I. INTRODUCTION

The Postal Service proposes changes in rates of general applicability for certain competitive products and related classification changes. The changes are scheduled to become effective January 4, 2010. For the reasons discussed below, the Commission approves the planned rate changes and will reflect the classification changes in the draft Mail Classification Schedule.

II. BACKGROUND

A. The Postal Service's Filing

On November 4, 2009, the Postal Service filed notice with the Commission concerning changes in rates of general applicability for certain domestic and international competitive products.¹ The Filing also includes several related mail classification changes. The Postal Service represents that, as required by the Commission's rules, 39 CFR 3015.2(b), the Filing includes an explanation and justification for the changes, the effective date, and a schedule of the changed rates. The price changes are scheduled to become effective January 4, 2010.

Attached to the Filing is the Governors' Decision evaluating the new prices and classification changes in accordance with 39 U.S.C. 3632, 3633, and 39 CFR 3015.2. The Governors' Decision provides an analysis of the competitive products' price and classification changes intended to demonstrate that the changes comply with section 3633(a) of title 39 and the Commission's rules. See 39 CFR 3015.7(c).

The Attachment to the Governors' Decision sets forth the price changes and related product description changes to be incorporated into the draft Mail Classification Schedule. Price and classification changes include the following:

1. Domestic Competitive Products

Express Mail. Overall, Express Mail prices increase by 4.5 percent. Price increases for retail and Commercial Base pricing increase, on average, by 4.6 percent. The Commercial Plus prices increase by 2.2 percent. Response to CHIR No. 1, Question 1.² Separate rate tables are created for Commercial Base and Commercial Plus price categories.

¹ See Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 09-13, November 4, 2009 (Filing).

² Notice of the United States Postal Service of Filing Responses to Chairman's Information Request No. 1 Under Seal, November 25, 2009; and Responses of the United States Postal Service to Chairman's Information Request No. 1 (Redacted), November 25, 2009.

Priority Mail. Priority Mail prices increase by 3.3 percent overall, with average retail prices increasing by about 3.9 percent. The average increase for Commercial Base prices is 2.9 percent. Commercial Plus prices increase by 0.9 percent.

Classification changes to the price structure include the following: (1) renaming the regular-size flat rate box from “Regular” to “Medium;” (2) adding a new half-pound price starting at \$4.22, and a flat rate padded envelope priced at \$4.95 to the Commercial Plus category; (3) adding a new Commercial Plus Cubic category for shipments that weigh less than 20 pounds and are no larger than one-half cubic foot in volume for customers who ship more than 250,000 Priority Mail pieces annually.

Parcel Select. Parcel Select service increases, on average, by 4.7 percent. For destination entry parcels, the average price increases 3.9 percent for parcels entered at destination delivery units, 6.9 percent for parcels entered at a destination plant, and 6.9 percent for parcels entered at a destination Bulk Mail Center (BMC). There are no price changes to non-destination-entered parcels.

Classification changes include (1) eliminating the Loyalty and Growth Incentive rebates as of the end of May 2010, and (2) eliminating the 50-piece volume minimum for the Barcoded Nonpresort price category for parcels paid using PC postage. Other non-substantive conforming changes are being made to the draft Mail Classification Schedule.

Parcel Return Service. Parcel Return Service increases, on average, by 3.0 percent. Return BMC prices will increase by 3.3 percent, and the price for parcels picked up at a delivery unit will increase by 2.1 percent.

Premium Forwarding Service. No change is proposed.

2. International Competitive Products

Global Express Guaranteed. Global Express Guaranteed service increases, on average, by 4.1 percent. The existing structure remains the same.

Express Mail International. Express Mail International service increases, on average, by 2.9 percent. The existing structure remains the same.

Priority Mail International. Priority Mail International (PMI) prices increase, on average, by 3.0 percent. The existing structure of PMI remains the same; however, there will be a single maximum dimension for both rectangular and non-rectangular pieces, and Cuba is being assigned to rate group 6. The name of the regular-size flat rate box changes from “Regular” to “Medium.”

Inbound Air Parcel Post. There will be a single maximum dimension for both rectangular and non-rectangular pieces.

Global Expedited Package Services (GEPS) contracts. There will be a single maximum dimension for both rectangular and non-rectangular pieces.

Global Plus contracts. There will be a single maximum dimension for both rectangular and non-rectangular pieces.

Country Group assignments. The country rate group for Kosovo is established. Its country group assignment corresponds to that for Serbia.

Details of these changes may be found in the Attachment to Governors’ Decision No. 09-13.

The Filing also includes two additional attachments: a redacted table that shows FY 2010 projected volumes, revenues, attributable costs, contribution, and cost coverage for each product, and an application for non-public treatment of the unredacted version of that table.

B. Information Requests

In Order No. 333, the Commission gave notice of the docket, appointed a Public Representative, and provided the public with an opportunity to comment.³ In addition, the Commission requested supplemental information from the Postal Service regarding FY 2010 cost, revenue, and volume data supporting the Filing. In response to the request for supplemental information, the Postal Service provides outputs from a

³ PRC Order No. 333, Notice and Order Concerning Changes in Rates of General Applicability for Competitive Products, November 6, 2009 (Order No. 333).

volume and revenue forecast, outputs from a roll-forward cost model, and supporting data and calculations of the percentage change in rates for each product.⁴

Chairman's Information Request No. 1 (CHIR No. 1), issued November 19, 2009, sought clarification of various elements of the Postal Service's planned rate changes. In response to CHIR No. 1, the Postal Service, among other things, confirms that the percentage increase in prices for Express Mail in the supporting worksheets, which differed from those reported in the Governors' Decision, are correct. The Postal Service indicates that it did not adjust the volumes in the percentage change in rates calculations to accommodate the mail classification changes proposed in the Governors' Decision.

Chairman's Information Request No. 2 (CHIR No. 2), issued November 25, 2009, requested further details concerning certain international rates, specifically regarding a category the Postal Service identified as "All Other Competitive International (Including Services)." The Commission also asked the Postal Service to explain how each of these products complies with section 3633(a).

In its response, the Postal Service provides data for some of the products in "All Other International (Including Services);" however, for many of the entries, it reports that no data are available.⁵ The supplemental data shows that competitive products collectively satisfy 39 U.S.C. 3633(a)(3). For certain international products, however, the data were less conclusive. The Postal Service asserts that those issues need not be examined in this docket, contending "that the forum for consideration of the prices of the products not currently before the Commission is the Annual Compliance

⁴ Supplemental Information Provided by the United States Postal Service in Response to Commission Order No. 333, November 16, 2009. The Postal Service also filed a Motion of the United States Postal Service for Late Acceptance of Supplemental Information in Response to Commission Order No. 333 on November 16 and November 19, 2009. The motion is granted.

⁵ Responses of the United States Postal Service to Chairman's Information Request No. 2, and Notice of Filing Information Under Seal, December 2, 2009 (Response to CHIR No. 2). The Postal Service also filed a Motion of the United States Postal Service for Late Acceptance of Responses to Chairman's Information Request No. 2. The motion is granted.

Determination docket.” *Id.* at 3. It also states that the disaggregated data provided in response to CHIR No. 2 may not be reliable. *Id.*

III. COMMENTS

*Public Representatives.*⁶ The Public Representatives address three issues. First, they conclude that all elements of 39 U.S.C. 3633(a) appear to be met for those competitive products for which the Postal Service proposes a price increase. Public Representatives’ Comments at 4-5. Second, focusing on competitive products for which no price increase is proposed, however, the Public Representatives express concern that certain international competitive products may not cover their attributable costs. *Id.* Finally, referencing the two prior generally applicable competitive product rate change proceedings, the Public Representatives comment that, notwithstanding prior admonitions, the Filing lacked certain data and information needed to properly evaluate the planned increases. They suggest that the Commission amend its rules concerning competitive rate filings. *Id.* at 3.

*United Parcel Service (UPS).*⁷ UPS commends the Postal Service for publicly disclosing projected volumes and revenues before and after the proposed changes by the Postal Service. UPS Comments at 1. UPS states that the disclosure of projected volumes and revenues by product exemplifies good faith by the Postal Service in furthering the goal of transparency of the Postal Accountability and Enhancement Act (PAEA), Public Law 109-435, 120 Stat. 3098, December 20, 2006. It urges the Postal Service to continue to publicly report cost and cost coverage contribution information for each competitive product in the upcoming FY 2009 Annual Compliance Report.

⁶ Comments of the Public Representatives, November 23, 2009 (Public Representatives’ Comments)

⁷ Comments of the United Parcel Service on Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products, November 23, 2009 (UPS Comments).

*Postal Service response.*⁸ The Postal Service response to the Public Representatives' comments addresses two issues: (1) the recommendation that the Commission require more documentation in support of changes in competitive rates of general applicability, and (2) rate levels for certain international mail products. *Id.* at 1-5.

The Postal Service states that the intent of the PAEA requirements is to give the Postal Service more independence and flexibility to manage its competitive products. It asserts that additional rules requiring more documentation would undermine the new flexibility provided it under the Act. *Id.* at 2. It also asserts that the Commission's rules are sufficiently balanced to meet statutory requirements and allow the Postal Service the necessary flexibility to manage its competitive products. *Id.* at 3.

In addressing the Public Representatives' comments regarding certain international competitive products, the Postal Service notes that Inbound International Expedited Services 2, Inbound Air Parcel Post (at UPU rates), and Inbound Surface Parcel Post (at Non-UPU Rates) are not subject to this proceeding. *Id.* at 4. Further, the Postal Service states that it has already filed new prices for these three international mail products and documented their cost coverages.⁹ It also states that a proposed price increase for Inbound Air Parcel Post (at UPU rates) is currently pending before the Commission. *Id.* at 5.

Regarding International Priority Airlift (IPA), the Postal Service notes that rates increased by 12.5 percent and 20.8 percent in May 2008 and in May 2009, respectively,

⁸ Response of the United States Postal Service to Public Representatives' Comments, November 25, 2009 (Response to Public Representatives' Comments).

⁹ See Docket Nos. MC2010-11 and CP2010-11, Notice and Order Concerning Adding Inbound Air Parcel Post at UPU Rates to Competitive Product List, November 20, 2009; Docket No. CP2009-57, Order Concerning Filing of Changes in Rates for Inbound International Expedited Services 2, August 19, 2009; Docket Nos. MC2009-10 and CP2009-12, Order Adding Inbound International Expedited Services 2 to the Competitive Product List, December 31, 2008; Docket Nos. MC2009-8 and CP2009-9, Order Concerning Bilateral Agreement with Canada Post for Inbound Competitive Services, December 12, 2008.

and thus appear to demonstrate compliance with the statutory and regulatory requirements of 39 U.S.C. 3633 and 39 CFR 3015.7.

Finally, the Postal Service addresses the cost coverage for International Money Transfer Service (IMTS). *Id.* at 6. It cites the ongoing efforts to more accurately measure IMTS costs and its proposal in Docket No. RM2010-4 regarding the treatment of volume-variable window services costs between domestic and international money orders as reasons for not adjusting prices for IMTS at present. *Id.*

IV. COMMISSION ANALYSIS

The Commission has reviewed the Filing, the supplemental information provided by the Postal Service and the comments filed by the Public Representatives and UPS.

Statutory requirements. Planned price changes for competitive products are reviewed pursuant to 39 U.S.C. 3633(a) and Commission regulations under 39 CFR part 3015. In brief, these statutory and regulatory provisions require each competitive product to cover its attributable costs (39 U.S.C. 3633(a)(2)), prohibit the subsidization of competitive products by market dominant products (39 U.S.C. 3633(a)(1)), and require that competitive products collectively make an appropriate contribution to the recovery of the Postal Service's total institutional costs. 39 U.S.C. 3633(a)(3).

Based on the information before it in this proceeding, the Commission finds that the planned prices in these dockets appear to satisfy the statutory and regulatory requirements of 39 U.S.C. 3633 and 39 CFR 3015.7. The related classification changes will be reflected in the draft Mail Classification Schedule.

The Postal Service's response to CHIR No. 2 and its response to the Public Representatives' comments resolve, in large part, concerns regarding the lawfulness of the rates for certain international competitive products. It clarified the rate treatment of various products identified by the Public Representatives. Postal Service Response at 3-5. In addition, it provided more detail concerning the category "All other Competitive

International.”¹⁰ While this information is helpful, lingering questions persist regarding what the Postal Service refers to as “extraneous competitive products.” *Id.* at 3. The Postal Service cautions against undue reliance on FY 2010 roll-forward data, asserting that low-volume levels for these products render such estimates less reliable. *Id.*

Given the accelerated timetable required for this proceeding¹¹ and the lack of sufficient information on which to fairly evaluate the extraneous competitive products, the Commission will not address this matter in this docket. The issue is before the Commission in existing Docket No. ACR2009, involving the Postal Service’s FY 2009 Annual Compliance Report, where a complete record will be developed on which a reasoned decision can be made.

Similarly, the Commission, for purposes of this proceeding, finds it unnecessary to address the sufficiency of the supporting documentation submitted by the Postal Service in its Filing. That matter will be addressed in an order the Commission anticipates issuing in the near term.

In conclusion, based on the record before it, the Commission finds that the planned price changes appear to satisfy the relevant statutory and regulatory requirements. The proposed classification changes will be incorporated into the draft Mail Classification Schedule.¹²

¹⁰ Response to CHIR No. 2 at 2-5; *see also* All Other Comp Intl Contribution.xlsx (filed under seal).

¹¹ See 39 CFR 3015.2(a), which requires the Postal Service to file its notice changing rates of general applicability with the Commission at least 30 days before the effective date of the change in rates. *See also* 39 U.S.C. 3632(b)2.

¹² As indicated in previous orders, the language suggested by the Postal Service in its filing is illustrative and subject to change in the Mail Classification Schedule the Commission ultimately adopts.

It is Ordered:

The Postal Service's planned price adjustments for competitive products appear to comply with 39 U.S.C. 3633(a) and 39 CFR 3015.7.

By the Commission.

Shoshana M. Grove
Secretary