

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 Product Prices
Direct Entry Parcels Contracts (MC2009-26)
Negotiated Service Agreement

Docket No. CP2009-36

ORDER CONCERNING CHANGE
IN PRICES FOR DIRECT ENTRY PARCELS 1

(Issued January 11, 2010)

I. INTRODUCTION

The Postal Service proposes to change prices for a Direct Entry Parcels 1 (DEP 1) contract as contemplated by the terms of the agreement. For the reasons discussed below, the Commission approves the Postal Service's request.

II. BACKGROUND

On December 21, 2009, the Postal Service filed a notice of a change in prices under its DEP1 contract.¹ The Notice includes three attachments: (1) a redacted

¹ Notice of United States Postal Service of Change in Prices, December 21, 2009 (Notice). The DEP 1 contract was added to the Competitive Products List by PRC Order No. 264, Order Concerning Direct Entry Parcels, International Return Service and Harmonization Service Negotiated Service Agreements, July 31, 2009 (Order No. 264).

version of the letter to the mailer with the amended prices (Attachment 1); (2) a certified statement of compliance with 39 U.S.C. 3633(a) (Attachment 2); and (3) an application for non-public treatment for the material filed under seal (Attachment 3).

In its Notice, the Postal Service states that the price changes being proposed are “not the sort of automatic change[s] based on external, objective factors for which the Commission has permitted a relatively streamlined, notice-type filing procedure.” Notice at 1, n.1.² Changes that are not entirely “objective and external” require review pursuant to 39 U.S.C. 3633, 39 CFR 3015.5 and 39 CFR 3015.7. See Order No. 216 at 7. Rather, the Postal Service is proposing new prices in accordance with Article 9, paragraphs 1 and 2 of its agreement with the mailer which permit changes in prices in the event of increases in the domestic prices of the foreign postal administration or in the event the Postal Service’s costs increase beyond a specified threshold. Notice at 1.

On December 24, 2009, the Commission issued Order No. 369, which noticed the proposed changes, appointed a Public Representative, and provided the public with an opportunity to comment on the proposed price changes.³

III. COMMENTS

Comments were filed by the Public Representative on January 5, 2010.⁴ No comments were submitted by any other interested party.

The Public Representative observes that the proposed price changes are the result of cost changes that exceed a threshold specified in the Postal Service’s existing

² Footnote 1 of the Notice refers to PRC Order No. 216, Docket No. CP2009-29, Order Concerning Filing of Additional Global Direct Contracts Negotiated Service Agreement, May 15, 2009 (Order No. 216). Order No. 216 permitted the Postal Service to make notice-type filings for non-discretionary price changes under Global Direct Contracts due to exchange rate fluctuations and Canada Post Corporation price changes. *Id.* at 7.

³ PRC Order No. 369, Notice and Order Concerning Change in Prices Under Direct Entry Parcels Contracts, December 24, 2009.

⁴ Comments of Public Representative in Response to Order No. 369, January 5, 2010 (Public Representative Comments).

contract with the mailer. Public Representative Comments at 1. First, the Public Representative concludes that the “unit costs reported by the Postal Service for International Return Service changed by an amount in excess of the contract threshold.”⁵ *Id.* This conclusion is based upon a comparison of the Postal Service’s original financial model initially filed in conjunction with the existing contract and the new financial model supporting the proposed price changes presented in the instant proceeding. *Id.* at 1 and 2, n.3 and 4, respectively. Second, the Public Representative concludes that the reported cost coverages for Harmonization Service and International Return Service fall within parameters set forth in attachments to the June 10, 2009 Governors’ Decision No. 09-7.⁶ Public Representative Comments at 1.

Finally, the Public Representative observes a significant reallocation of International Return Service volume across weight cells between the original and new financial models, which is unexplained by the Postal Service. According to the Public Representative, the reallocation is a contributing factor to the “significant change in total costs and total revenues for International Return Service,” although he was unable to isolate the effect of the reallocated volume from changes in prices and costs. *Id.* at 2.

IV. COMMISSION ANALYSIS

The Commission reviewed the Notice, including the letter sent by the Postal Service to the mailer explaining the new rates, the underlying contract, and the supporting financial documentation. For the reasons discussed below, the Commission agrees with the Postal Service that the basis for the proposed rate change goes beyond the “objective, external” factors discussed in Order No. 216, and is subject to review

⁵ The Public Representative also confirms that “the total costs reported by the Postal Service for Harmonization Service have changed by a small amount. *Id.*”

⁶ Request of the United States Postal Service to Add Direct Entry Parcels Contracts, International Return Service, and Harmonization Service to the Competitive Products List, and Notice of Filing (Under Seal) of Contract and Enabling Governors’ Decision, June 11, 2009, Attachment 1 (filed Under Seal).

pursuant to 39 U.S.C. 3633, 39 CFR 3015.5 and 39 CFR 3015.7. See Notice at 1, n.1. Upon consideration of the information submitted by the Postal Service in support of its proposed price increases and the Public Representative Comments, the Commission finds that the proposed rates comply with applicable laws and regulations.

Basis for the rate change. The basis for the Postal Service's proposed price changes is three-fold. First, the changes are based on a rate adjustment by Canada Post Corporation (Canada Post) for Xpresspost effective January 11, 2010. Such a change is based entirely on "objective, external" factors and requires no further review. Order No. 216 at 7. Second, the Postal Service states that it "has incurred an increase in costs ... associated with providing International Return Service." Notice, Attachment 1, at 1. Third, the Postal Service "has incurred a decrease ... [in costs] ... associated with providing Harmonization Service" which it is passing on to the mailer. *Id.*

Because the second and third bases for the proposed price adjustments are based on factors that are neither entirely objective nor entirely external, the Commission must review the proposed price change for compliance with 39 U.S.C. 3633, 39 CFR 3015.5, and 39 CFR 3015.7.

Cost considerations. The Commission reviews competitive products to ensure that they meet the applicable requirements of rules 3015.5 and 3015.7 and 39 U.S.C. 3633. The Commission has reviewed the financial analysis provided under seal.

The Commission concurs with the Public Representative's conclusion that cost changes exceed the contract-specified threshold, based upon a comparison of total unit costs. Public Representative Comments at 1. The change in the total unit cost is a

consequence of several factors, including changes in costs and the use of financial models based on different time periods.⁷ Foreign postal rates constitute inputs when developing costs for International Return Service. The Postal Service cites a change in foreign postal rates as a basis for adjusting International Return Service prices. Notice, Attachment 1.

The Postal Service also estimates higher domestic transportation costs. In addition, the total unit cost increased because of an unfavorable change in exchange rates. Between the development of the revised financial model and the new financial model, a higher exchange rate due to a weaker dollar increased costs denominated in Canadian dollars by more than the contract-specified threshold.

The reallocation of International Return Service volume across weight cells observed by the Public Representative has only a slight effect on unit costs in the new financial model. By comparison with Period II, which comprises six-months of the eight-month period covered by the new financial model, volumes in the lower weight tiers decreased relative to the higher weight tiers. The Postal Service does not explain what prompted this reallocation, even though Period II comprises three-quarters of the time period covered by the new financial model. Using Period II unit costs and volumes, this reallocation has the effect of slightly increasing total unit costs under the new financial model.

Based upon the foregoing, the Commission finds that the proposed prices for International Return Surface will generate sufficient revenues to cover estimated costs as presented by the Postal Service.

Upon consideration of the information submitted by the Postal Service in its filing and the comments by the Public Representative, the Commission finds that the updated

⁷ In response to Chairman's Information Request No. 1, the Postal Service filed a revised financial model that develops prices and volumes for two separate six-month time periods: July 2009—December 2009 (Period I), and January 2010—June 2010 (Period II). See Notice of the United States Postal Service Regarding the Filing of Library Reference USPS-CP2009-36NP3, July 15, 2009, and Excel file International Return Service_~~deleted~~_2009.07.09.xls (herein "revised financial model"). By contrast, the new financial model filed in this proceeding covers an 8 month period, January 2010 to August 2010. See Excel file International Return Service_~~deleted~~_2009.12.17.xls.

prices should cover the contract's attributable costs (39 U.S.C. 3633(a)(2)), should not lead to the subsidization of competitive products by market dominant products (39 U.S.C. 3633(a)(1)), and should have a positive effect on the competitive products' contribution to institutional costs (39 U.S.C. 3633(a)(3)). Thus, a preliminary review of the proposed price changes indicates that they comport with the provisions applicable to rates for competitive products.

V. ORDERING PARAGRAPH

It is Ordered:

1. The price changes filed in Docket No. CP2009-36 appear to comport with the laws and regulations applicable to rates for competitive products.

By the Commission.

Shoshana M. Grove
Secretary