

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Global Expedited Package Services 2 (CP2009-50)
Negotiated Service Agreements

Docket Nos. CP2010-33
CP2010-34
CP2010-35

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO
UNITED STATES POSTAL SERVICE FILING OF THREE ADDITIONAL
GLOBAL EXPEDITED PACKAGE SERVICES 2
NEGOTIATED SERVICE AGREEMENTS

(April 6, 2010)

I. INTRODUCTION

On March 26, 2010, the Postal Service ("USPS") filed Notice of United States Postal Service Filing of Three Functionally Equivalent Global Expedited Package Services 2 Negotiated Service Agreements and Application for Non-Public Treatment of Materials Filed Under Seal. A Commission Public Notice¹ set the Postal Service Notice for public comment by April 6, 2010.

The Postal Service purports that the three instant contracts are functionally equivalent to the existing Global Expedited Package Services 2 (GEP2) contract² except for minor variations and should be incorporated as a GEP2 product in the Mail Classification List.

II. Discussion

The GEPS-2 NSA model offers a simple pricing strategy for increasing sales through

¹ Commission Order 433, Order Concerning Filing of Three Additional Global Expedited Package Services 2 Negotiated Service Agreements, March 31, 2010

² Docket No. CP2009-50, Order Granting Clarification and Adding Global Expedited Package Services 2 to the Competitive Product List, August 28, 2009

volume discounting incentives for individual mailers of Express Mail International (EMI) and/or Priority Mail International (PMI) to foreign locations. This incentive allows the Postal Service to maximize volume at an acceptable profit margin. Volume pricing is also useful for building customer loyalty.

However, it is imperative to balance the cost savings and other efficiencies associated with higher volume sales with pricing to ensure recovery of average variable costs.

Congress, by the enactment of the Postal Accountability and Enhancement Act (PAEA), foresaw this probability by stipulating in 39 U.S.C. 3633 that competitive products cover their attributable costs and their portion of institutional costs to prevent their subsidization by market dominant products.

Upon examination of the unredacted versions of the financial analysis worksheets filed under seal for the three contracts, it appears that all three contracts would cover their attributable costs and would not be cross subsidized by market dominant products.

The cost and market attributes of the three instant contracts conform to the framework detailed in Governors' Decision 08-7 (May 6, 2008) which created the GEPS product.

In comparison to prior GEP2 contracts, the terms of the current instant agreements include incidental changes necessitated by customizing individual mailer agreements, as well as, changes to the individual mailer's obligation under the agreement such as provisions for penalties and an expanded definition for "Non-Qualifying Mail". The Commission should consider whether these new provisions to the agreement are significant enough to take these agreements out of functional equivalency with prior GEP 2 contracts.

The new provisions raise implementation issues as well. In order to monitor compliance with the new provisions, it would be beneficial if the Postal Service expands on its existing methods of recordkeeping for ensuring that the minimum revenue commitment qualifying the contracts for the lower prices are satisfied and its existing audit structure for triggering of penalties. Is the volume and “Non-Qualifying Mail” sent certified by the mailer and/or independently verified by the Postal Service?

III. Conclusion

It appears that the GEPS 2 contracts (CP2010-33, CP2010-34 and CP2010-35) are consistent with the policies of 39 U.S.C. 3632, 3622, 3642 and 3633. The structure of the contracts appear to enable the generation of a positive net contribution precluding the cross subsidization of competitive products by market dominant products.³

The Public Representative respectfully submits the preceding Comments for the Commission’s consideration.

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³ 39 C.F.R. § 3015.7(c).