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

COMPETITIVE PRODUCT PRICES
PARCEL SELECT
PARCEL SELECT CONTRACT 1

Docket No. MC2011-16

COMPETITIVE PRODUCT PRICES
PARCEL SELECT CONTRACT 1 (MC2011-16)
NEGOTIATED SERVICE AGREEMENT

Docket No. CP2011-53

Comments of the Public Representative in Response to Order No. 690

(March 11, 2011)

I. Procedural History

On March 1, 2011, the Commission approved Parcel Select Contract 1 in Order No. 686. On March 3, 2011, the Postal Service provided notice[1] that the prices in the Negotiated Service Agreement have changed "as contemplated by the [original] contract's terms." Notice at 1. The Commission appointed the undersigned as Public Representative in Order No. 690, and set a deadline for comments of March 11, 2011.

II. Contract Analysis

The StartSampling Negotiated Service Agreement allows the customer to mail its products at published parcel rates of general applicability. See Addendum part D. This Negotiated Service Agreement is not designed to provide the customer with discounts intended to incentivize additional volume; rather this agreement is intended to form the foundation of a cooperative business between a customer and the Postal Service to fill a market space. The addendum offers the customer more flexibility when choosing what parcels to mail. The section of the contract analysis titled "Risk" highlights the purpose of this addendum, stating this "addendum helps to give Start Sampling the flexibility needed to get momentum in the market place for this new product offering."[2]

[1] Notice of United States Postal Service of Change in Prices Pursuant to Amendment to Parcel Select Contract 1, March 3, 2011. (Notice).
[2] Analysis of Amendment to the Parcel Select Service Contract and Licensing Agreement with StartSampling at 1. (Analysis)

There is an inherent risk that some parcels mailed under the contract will not cover costs, not due to discounts provided to the customer, but because many parcel rates of general applicability do not cover costs. The contract appears to provide the customer with the freedom to choose which generally available product to use. The contract leverages the Postal Service's Brand to generate extra revenue through a revenue sharing program. See Addendum part E. As such, while the specific rate categories the customer chooses when entering its mail may or may not cover costs, any revenue shortfall will not be caused by the contract, but by the general schedule of rates for parcels. The contract will provide extra revenue, and indeed contribution, to the Postal Service as compared to the alternative of the general rate schedule. As such, the financial risks associated with this program are not due to the specific rates provided to one specific customer, but rather the failure of many market dominant parcel rate categories to cover costs (such as the Standard Mail Parcels Product and the Package Services Class in FY 2010).

The Public Representative has reviewed the contract-specific costing methodology. In order to determine the accuracy of certain assumptions made by the Postal Service, additional information would be required. The file "StdParSmlvsLg_FY10_Public.xls" may contain an analysis of delivery costs for Standard Mail Parcels. It is unclear why CRA level data for a Market Dominant product needs confidentiality protection in this docket. Said protection prevents a public discussion of the methodology used by the Postal Service to develop delivery costs for parcels in this docket. The Postal Service has not provided a rationale for the methodology used to develop delivery costs in this docket, and many of the assumptions appear questionable.

While costing methodology is important, the eventual profitability of the agreement depends on the costs incurred by the Postal Service. Since the costing methodology is not used to justify special discounted pricing for the customer in this agreement, it is not a fatal flaw to this contract.

Furthermore, the Postal Service has stated that should "cost coverage [fall] below an acceptable percentage, the Postal Service can terminate the contract without cause or could re-negotiate the terms of the agreement."[3] It appears the Postal Service is aware of the potential benefits and risks of this agreement. The Commission should ensure that that Postal Service is steadfastly reviewing the profitability of this Product by requiring additional data regarding the profitability of the mail sent under this addendum.[4] Quarterly reporting of volume sent under this addendum, compared to the product at large, would ensure additional transparency and ongoing attention to compliance with 39 USC 3633(a).

III. Conclusion

The Public Representative recommends that the Commission approve the amendment to the Parcel Select Contract 1 Negotiated Service Agreement. The agreement represents a positive effort of the Postal Service to drive additional parcel volume. The agreement is not without financial risks, but these risks are borne out of the general rate schedule for parcels, not the pricing offered to the customer. The Postal Service estimates that 39 USC 3633(a) will be met by this Parcel Select Contract.

Respectfully submitted,

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[3] Analysis at 1.
[4] The Postal Service has highlighted this addendum as necessary "particularly in the first year of launching this new product." Analysis at 1