

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

TRANSFERRING SELECTED POST OFFICE BOX
SERVICE LOCATIONS TO THE COMPETITIVE
PRODUCT LIST

Docket No. MC2011-25

**REQUEST OF THE UNITED STATES POSTAL SERVICE
TO TRANSFER POST OFFICE BOX SERVICE IN SELECTED
LOCATIONS TO THE COMPETITIVE PRODUCT LIST**

In Docket No. MC2010-20, the United States Postal Service requested that the Postal Regulatory Commission transfer Post Office Box service at a small number of locations from the market dominant product list to the competitive product list.¹ The Commission approved this initial transfer in Order No. 473.² At the time of the Postal Service's request in Docket No. MC2010-20, the Postal Service noted that it was conducting further evaluations of all Post Office Box locations and would propose additional transfers if warranted.³

Having conducted an additional evaluation of all Post Office Box locations, the Postal Service hereby requests that Post Office Box service at the approximately 6,800 locations described herein be transferred from the market dominant product list to the competitive product list.⁴ The locations covered by this Request constitute approximately one-fifth of all Post Office Box service locations, and about 44 percent of

¹ Request of the United States Postal Service, Docket No. MC2010-20 (Mar. 12, 2010).

² Order No. 473, Docket No. MC2010-20 (Jun. 17, 2010).

³ Request, *supra* note 1, at 2.

⁴ A list of the affected locations is contained in CompetitiveLocations.xls, which is being filed with this Request.

all boxes in use by customers.⁵ As detailed in the Statement of Supporting Justification, the locations have been selected based on whether their customers have sufficient access to private mailbox service providers. While the Postal Service may in the future seek the transfer of additional locations as it develops its understanding of the mailbox service market, the Postal Service believes that the transfer of the approximately 6,800 locations represented by this Request clearly satisfies the applicable statutory criteria.

Pursuant to 39 U.S.C. § 404(b) and 39 C.F.R. § 3.4(f), the Governors authorized this Request on May 10, 2011; a copy of the Governors' resolution is included at Attachment A. Attachment B contains a Statement of Supporting Justification, which demonstrates that the Request fulfills the criteria set forth in Section 3642 for making changes to the market dominant and competitive product lists. The proposed Mail Classification Schedule language appears at Attachment C. As required by 39 U.S.C. § 3642(d)(1), a notice describing the Request is being published in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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⁵ See POBoxServiceCostCoverage.xls, filed with this Request (tab FY2011Q1BD). Excluding Group E boxes, 48.6 percent of all boxes would be competitive.

**RESOLUTION OF THE GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE**

Resolution No. 11-8

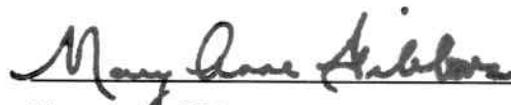
**Transferring Selected Post Office Box Service
Locations to the Competitive Product List**

RESOLVED:

Pursuant to section 3642 of title 39, United States Code, the Postal Service shall file a request with the Postal Regulatory Commission to transfer from the market dominant product list to the competitive product list Post Office Box service at approximately 6800 locations. These locations were selected based on whether their customers have sufficient access to private mailbox service providers.

Postal management is directed to provide the required public notice and to file with the Postal Regulatory Commission the transfer request and supporting documents, in accordance with Part 3020 of Title 39, Code of Federal Regulations.

The foregoing Resolution was adopted by the Governors on May 10, 2011.



Mary Anne Gibbons
General Counsel & Executive Vice President

Statement of Supporting Justification

I, Nan K. McKenzie, Manager of Retail Services, sponsor the Postal Service's Request that the Postal Regulatory Commission transfer Post Office Box service at the approximately 6,800 locations described herein from the market dominant product list to the competitive product list. This Statement supports the Request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32, as indicated below. I attest to the accuracy of the information contained herein.

(a) *Demonstrate why the change is in accordance with the policies and the applicable criteria of chapter 36 of title 39 of the United States Code.*

As demonstrated below in subsections (b) through (i), the change complies with the applicable statutory provisions.

(b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

Section 3622 establishes the system for regulating rates and classes for market dominant products. Subsection (b) sets forth the regulatory system's objectives. Subsection (c) describes the factors the Commission shall take into account in establishing or revising the system. Subsection (d) delineates the process for raising rates.

The Postal Service's Request seeks the transfer of Post Office Box service at approximately 6,800 locations, out of a total of approximately 31,000 locations offering Post Office Box service. In other words, the Postal Service's analysis shows that

roughly one fifth of its Post Office Box service locations face competition from private mailbox service providers (PMBs) and should be transferred to the competitive product list. With nearly four fifths of the locations remaining on the market dominant product list, the Request would retain a market dominant Post Office Box service product that continues to satisfy the objectives and factors set forth in subsections (b) and (c) of section 3622. In particular, if the Request is approved, the portion of Post Office Box service remaining on the market dominant product list will have an estimated cost coverage above 100 percent (factor 2). If the Commission approves the Postal Service's Proposal One in Docket No. RM2011-9 to treat the costs of Group E Post Office Box service as institutional, then the estimated cost coverage will be 113 percent.¹ If the Commission does not approve Proposal One, then the estimated cost coverage will be 101 percent.²

Further, the Request does not implicate subsection (d), because the Request does not include any price increases for Post Office box service, including the portion of Post Office Box service remaining on the market dominant product list.

(c) Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633.

Section 3633 sets forth three standards for competitive products. Subsection (a)(1) prohibits the subsidization of competitive products by market dominant products. Subsection (a)(2) requires that each competitive product cover its attributable costs. And subsection (a)(3) requires that all competitive products collectively cover an

¹ See the cost analysis contained in POBoxServiceCostCoverage.xls, filed with this Request (tab Cost Coverages).

² *Id.*

appropriate share of Postal Service institutional costs, which the Commission has determined to be 5.5 percent. If the Request is approved, then the competitive Post Office Box service product will have an estimated cost coverage of 143 percent,³ ensuring that section 3633 will continue to be satisfied.

(d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs; (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Post Office Box service offers a paid receptacle for the receipt of correspondence and packages. Numerous private mailbox providers – whether franchisees operating under the names of The UPS Store, Associated Mail & Parcel Center, PostNet, AIM Mail Center and PakMail, or unaffiliated businesses – offer the same basic service, a paid receptacle for the receipt of correspondence and packages. They often include other services at no additional charge. These services include e-mail notifications that there is mail or a package in a customer’s mailbox, the ability for the customer to receive mail addressed to the PMB’s street address rather than just a specific box number, the ability to receive packages from carriers other than the Postal Service, shipping services, and facsimile services. As the Commission recognized in Order No. 473, despite the more extensive ancillary services offered by PMBs, Post Office Box service and the services provided by PMBs “are close substitutes for one another.”⁴

³ *Id.*

⁴ Order No. 473, Docket No. MC2010-20 (Jun. 17, 2010), at 10.

In that Order, the Commission found that the availability of a PMB within one-half mile of a Post Office Box service location “constrains the Postal Service’s ability to raise prices significantly, decrease quality, or decrease output without risk of losing a significant level of business to firms offering similar products.”⁵ The Postal Service would also be constrained by its own offerings available to customers at competitive locations. First, carrier delivery generally is available as an alternative to Post Office Box service.⁶ In addition, for some competitive locations, a market dominant location would be close enough to provide a customer an alternative.

Data from the 49 locations covered by Order No. 473 support the Commission’s conclusions as to the market constraints on the Postal Service. On January 14, 2011, the Postal Service instituted a 25 percent price increase at the 49 locations. During February, March, and April, the 49 locations experienced a customer non-renewal rate of 31 percent, compared to a non-renewal rate for the three months before the increase (October to December) of 11 percent.⁷ This is a substantial increase in non-renewals, indicating that the Postal Service is constrained from raising prices significantly. Under current market conditions, many customers will give up their Post Office Box service in response to a substantial price increase, and use an alternative means to obtain mail delivery.

The Postal Service submits that Post Office Box service locations that serve customers who have access to PMBs within five miles of their residences face direct

⁵ *Id.* at 11.

⁶ *Id.*

⁷ The total number of customers from the 49 locations whose contracts were up for renewal was 13,284. 9,156 customers chose to renew their contracts, while 4,128 did not renew. A limited number of these 4,128 customers can still renew under a grace period in May, so the non-renewal percentage could decrease slightly.

competition from such PMBs, such that the Postal Service's ability to raise prices significantly or degrade service without risk of losing a significant level of business is constrained. Based upon experience, customers in urban and suburban areas will frequently travel about 10 to 20 minutes for retail purchases or services. Translating this standard of 10 to 20 minutes' travel into a measurable distance applicable on a national scale requires some approximation. The Postal Service has selected five miles as a reasonable national proxy for the distance covered by 10 to 20 minutes of travel. In urban areas, the distance may well be shorter than five miles. But in most urban areas, the competitive Post Office Box service locations are much closer than 5 miles from the populations also served by PMBs. In more suburban and rural areas, one typically can travel more than five miles in 10 to 20 minutes.

The Postal Service used the five mile metric to identify competitive Post Office Box service locations in the following manner. First, a Postal Service contractor developed a list of PMBs. Next, the population residing within five miles of each PMB was mapped. Then, a list was compiled of Post Office Box service locations that serve those populations.⁸ The Postal Service then removed from the list 74 locations that either are located on a military installation that requires a special badge to gain access, or have restricted access for other reasons, because competition would be constrained

⁸ We note that this methodology differs slightly from the methodology used in the initial case to select the 49 offices. The criterion in that case was whether the postal location was within one-half mile of a competitor. In this case, the criteria focus on the population that has a competitive choice, rather than the distance between a postal location and its private competitor. As a result, a postal location may serve a population within five miles of the PMB but be situated more than five miles away from the PMB. This is the case for about 3.5 percent of the identified competitive locations.

by the restrictions on access. This resulted in a list of over 8000 Post Office Box service locations meeting the criteria for transfer to the competitive product list.

For business reasons, the Postal Service then chose to exclude from the transfer list all locations with 250 or fewer Post Office Box customers, despite their meeting the criteria for being competitive. The Postal Service plans to enhance service at many competitive locations (e.g., make building improvements in order to expand lobby hours) where there would be a good return on investment; this would likely not be cost-effective at locations with 250 or fewer Post Office Box customers. After excluding these locations, the Postal Service was left with a list of about 6,800 locations identified for transfer to the competitive product list; this list is contained in CompetitiveLocations.xls, which is being filed with this Request.

The result is that approximately one fifth of current Post Office Box service locations have been identified for transfer to the competitive product list, while approximately four fifths are being left on the market dominant product list. In subsection (g) below, the Postal Service describes the method it proposes to use to update this list of competitive locations.

(e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696 subject to the exceptions set forth in 39 U.S.C. 601.*

Post Office Box service is not covered by these provisions, as the provisions concern only the carriage of letters.

(f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above.

- (g) *Provide any information available on the views of those who use the product on the appropriateness of the proposed modification.*

We do not expect most customers to understand the regulatory distinction between classifying a location as “market dominant” or “competitive.” However, some customers will appreciate the enhanced service at the competitive locations. For example, customers support the expansion of lobby hours so that they can have more convenient access to their mail. Customers also like the ability to leave a signature on file so that an item requiring a signature can be placed in a box or parcel locker. Also, customers who acquire a box in a competitive location can take advantage of the Baker’s Dozen pricing offer (which gives new customers the thirteenth month free when paying for twelve months) and not have to provide a key deposit for the two keys that come with the box. While not all of the enhancements will necessarily be available at all competitive locations in the future, the competitive price structure provides flexibility to enhance box service. For example, the greater ability to recoup the cost of investments through price increases at competitive locations supports the business decision to invest in the facility improvements typically necessary to expand lobby hours and install parcel lockers. Price increases for such purposes are much more constrained in market dominant locations.

Given the regulatory pricing structure for competitive products, some current customers may oppose the transfer because of the possibility of price increases beyond what would be allowed under the market dominant price cap structure. One would expect this to be true of any customer of a product that is transferred from a market

dominant classification to a competitive one. As indicated by the comments filed in Docket No. MC2010-20, some customers may prefer a Post Office-branded receptacle to private alternatives, and therefore may oppose granting the Postal Service the ability to raise prices under the competitive product framework.⁹ Further, some may believe that the transaction costs associated with switching from Post Office Box service to a PMB make it personally difficult for them to switch to a PMB.¹⁰ Nonetheless, these concerns do not alter the central fact that the locations covered by the Postal Service's Request face direct competition from PMBs and should, therefore, be permitted to operate in a competitive fashion.

(h) Provide a description of the likely impact of the proposed modification on small business concerns.

Most PMB locations are operated as small businesses. As the comments submitted in Docket No. MC2010-20 demonstrate, many of these small businesses would oppose the transfer because the transfer could facilitate the Postal Service's ability to improve the quality of box service so that it competes more effectively with PMB service. This indicates that small businesses believe they may lose some market share to the Postal Service. At the same time, however, the comments show that the PMBs would like the Postal Service to increase its prices, which are generally lower

⁹ Comments of Douglas F. Carlson, Docket No. MC2010-20 (Apr. 1, 2010), at 1-2.

¹⁰ *Id.* at 3; Initial Comments of David B. Popkin, Docket No. MC2010-20 (Mar. 31, 2010), at 3.

than PMB prices.¹¹ A price increase could cause small businesses to gain market share from the Postal Service, thus benefitting them. Further, as the Commission has recognized, PMBs' desire for higher Postal Service prices demonstrates their "willingness to compete on price, if not other services,"¹² illustrating the competitive nature of the mailbox services market.

(i) *Include such information and data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

In Order No. 473, the Commission requested that the Postal Service "file supporting financial data that include an analysis of the competitive product approved in [that] docket."¹³ As noted earlier, the Postal Service has increased prices and seen, in response, a higher than normal non-renewal rate. At the same time, however, the Postal Service has been able to sign up enough new customers to offset much of the increased rate of non-renewals. Some of these new customers have been drawn in through the enhancements, such as expanded access hours, at many locations. Many new customers also took advantage of the "Baker's Dozen" pricing initiative, which offers new customers thirteen months of service for the price of twelve months. Signature on File service has also been added.

¹¹ See, e.g., Associated Mail & Parcel Centers Comments, Docket No. MC2010-20 (Mar. 23, 2010); Mail & More of Tega Cay Comments, Docket No. MC2010-20 (Mar. 31, 2010); National Alliance of Retail Ship Centers Comments, Docket No. MC2010-20 (Mar. 31, 2010).

¹² Order No. 473, *supra* note 4, at 11.

¹³ *Id.* at 14.

The MCS language that the Postal Service has proposed (Attachment C) to effectuate the transfer sets forth the criteria for a location being competitive, rather than simply listing all competitive locations. The MCS language also would permit some locations that meet the general 5-mile competitive criterion to remain market dominant, based on access constraints or a small customer base.¹⁴

Going forward, a new ZIP Code location will be categorized as competitive or market dominant based on whether it serves a population within five miles of a PMB, as adjusted for access constraints or a small customer base. This categorization will be announced in a Postal Bulletin notice. Merged locations will take on the category of the merged (receiving) location.

The list of current locations meeting the criteria in the MCS for being considered competitive could change in the future. Before a current location is moved from the market dominant product list to the competitive product list, or vice versa, the Postal Service will publish a Federal Register notice, with an opportunity for comment.¹⁵ The

¹⁴ While the Postal Service made the business decision to exclude locations with less than 250 boxes, the MCS language refers to a “small customer base,” without a specific definition. Flexibility in the MCS is needed so the Postal Service can keep locations from switching back and forth between market dominant and competitive. The Postal Service does not intend, for example, to change the characterization of an office to competitive simply because it reaches 251 boxes in use.

¹⁵ It would not be practical for the Postal Service to change the categorization of locations every time a PMB closes or opens. A PMB closure does not immediately make an area market dominant, especially since another PMB may open shortly thereafter. Similarly, a PMB opening in a market dominant area may not make the area competitive, if it closes a few months later. The Postal Service will consider longer term factors before it proposes to change the categorization of particular locations. This is also true for the small customer base consideration. The Postal Service does not intend to change the categorization of a postal location simply because the customer base has expanded or contracted. Again, longer term factors will be considered.

Postal Service will maintain an up-to-date list of competitive locations on the Postal Service's website.

Mail Classification Schedule Changes

Revision to MCS 1550 (Market-Dominant Post Office Box Service)

1550 Post Office Box Service

1550.1 Description

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f. Market Dominant locations serve customers at all locations that do not qualify as, or are not treated as, Competitive locations.

Revision to MCS 2630 (Competitive Post Office Box Service)

2630 Post Office Box Service

2630.1 Description

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f. Competitive locations serve customers who are located within 5 miles of a current or recent competitive mailbox service provider. Some qualifying locations which substantially limit access by customers or have a small customer base will nonetheless be treated as market-dominant locations. ~~Competitive locations are the following ZIP Code locations, which are all within ½ mile of a competitive mailbox service provider, and from fee group 1, with one location selected from each 3-Digit ZIP Code for which more than one ZIP Code meets the criteria:~~

~~01730, 01844, 02081, 02112, 02447, 03835, 07002, 07306, 07410, 07624, 07711, 07922, 08812, 08904, 10021, 10308, 10536, 10920, 11104, 11216, 11361, 11423, 11702, 11937, 19102, 19407, 20001, 20726, 20918, 22101, 22206, 22301, 33427, 60615, 75371, 89009, 89116, 90013, 90266, 90408, 90603, 90609, 90734, 90803, 90853, 91322, 91404, 91407, 91408, 91609, 92514, 94070, 94507, 94701, 98109, 98114, and 99509.~~