

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

Competitive Product Prices
Inbound International Expedited Services 2
(MC2009-10)

Docket No. CP2011-66

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE NOTICE OF FILING CHANGES IN RATES
NOT OF GENERAL APPLICABILITY FOR INBOUND
INTERNATIONAL EXPEDITED SERVICES 2

(August 11, 2011)

The Public Representative hereby provides comments pursuant to Order No. 784.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on the Postal Service's notice of a change in rates not of general applicability for Inbound International Expedited Services 2.²

Pursuant to 39 CFR §3015 the Postal Service is required to file notice of a change in rates not of general applicability for Inbound International Expedited Services 2 at least 15 days prior to the effective date of such rates.³ In accordance with the provisions of the Express Mail Service (EMS) Cooperative of the UPU, "rates for delivery of inbound Express Mail International must be communicated to the UPU by August 31 of the year before which they are to take effect."⁴ As a member of the EMS Cooperative, the Postal Service may not change its inbound EMS rates for the coming year after August 31st. *Id.*, at 2-3.

¹ PRC Order No. 784, Notice and Order Concerning Filing of Changes in Rates for Inbound International Expedited Services 2, July 29, 2011

² Notice of the United States Postal Service of Filing Changes in Rates not of General Applicability and Application for Non-Public Treatment of Materials Filed Under Seal, July 29, 2011 (herein "USPS Notice").

³ Inbound International Expedited Services 2 is the product name on the competitive product list. The inbound international expedited services offered as part of this product are often times referred to as inbound Express Mail Service (EMS). These names will be used interchangeably.

⁴ Notice and Order Concerning Filing of Changes in Rates for Inbound International Expedited Services 2, Docket No. CP2010-90, August 12, 2010, at 2.

COMMENTS

The Public Representative has reviewed the financial model, filed under seal, which uses the Calendar Year (CY) 2012 rates for inbound EMS to estimate the expected contribution to the Postal Service. The new CY 2012 rates represent, on average, a sizable increase over the previous inbound EMS rates implemented January 1, 2011. The financial model estimates that the new rates, to be implemented January 1, 2012, should generate sufficient revenues to cover costs during the calendar year. Consequently, the Public Representative recommends that the CY 2012 rates for inbound EMS be approved by the Commission.

Nevertheless, the Public Representative is concerned that the new inbound EMS rates may not cover costs on a fiscal year basis. In its Annual Compliance Determination (ACD) for FY 2010, the Commission found that for FY 2010, “revenues for Inbound International Expedited Services as a whole did not cover attributable costs using the booked or imputed accounting methods.”⁵ The Commission observed that the FY 2010 results differed from the estimated results presented in earlier financial models. Those models showed that the proposed rates that became effective in CY 2009 and CY 2010 would cover costs. *Id.* The cause of these differences included timing differences between implementation of calendar year rate changes and reporting of results on a fiscal year basis (*i.e.*, actual FY 2010, Quarter 1 rates were lower than the rate for Quarters 2-4, which reflected the Postal Service’s implementation of the CY 2010 rates), unfavorable exchange rates, and a net increase unit domestic mail processing, delivery and other costs, and domestic transportation, compared to the inflation-adjusted costs estimated in the financial models. *Id.*, at 146-147.

The Commission concluded that with respect to estimating contribution:

⁵ 2010 Annual Compliance Determination, Docket No. ACR2010, March 29, 2011, at 146.

The Postal Service is responsible for setting inbound EMS rates annually, which are then implemented on a calendar year basis rather than on a fiscal year basis. The Postal Service therefore needs to ensure that such rates cover attributable costs for the entire fiscal year to comply with section 3633(a)(2). Moreover, exchange rate fluctuations and price changes that reduce revenues and otherwise adversely affect contribution must be adequately factored into the financial models used in setting the Inbound EMS rates.

The timing difference with respect to the implementation of the new inbound EMS rates on January 1, 2012, and the reporting of results based upon the fiscal year beginning October 1, 2011, can again be expected to adversely affect the resulting contribution for FY 2012. Moreover, the instant financial model uses the same contingency factor to estimate costs as was used in previous financial models that supported the proposed inbound EMS rates implemented in CY 2009 and CY 2010 (and CY 2011). These considerations suggest to the Public Representative that the new inbound EMS rates may not generate sufficient revenues to cover costs, and thereby fail to provide a contribution to the institutional costs of the Postal Service during FY 2012.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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