

ORDER NO. 1783

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

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Robert G. Taub, Vice Chairman;  
Mark Acton;  
Tony Hammond; and  
Nanci E. Langley

Competitive Product Prices  
Priority Mail International Regional Rate Boxes  
Non-Published Rates

Docket No. MC2013-53

Competitive Product Prices  
Priority Mail International Regional Rate Boxes  
Non-Published Rates Contracts (MC2013-53)

Docket No. CP2013-69

ORDER ADDING PRIORITY MAIL INTERNATIONAL REGIONAL RATE BOXES–  
NON-PUBLISHED RATES TO THE COMPETITIVE PRODUCT LIST

(Issued July 19, 2013)

I. INTRODUCTION

The Postal Service seeks to add Priority Mail International Regional Rate Boxes–Non-Published Rates (PMI RRB–NPR) to the competitive product list.<sup>1</sup> For the reasons discussed below, the Commission approves the Request.

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<sup>1</sup> Request of the United States Postal Service to Add Priority Mail International Regional Rate Boxes–Non-Published Rates to the Competitive Product List and Notice of Filing Priority Mail Regional Rate Boxes–Non-Published Rates Model Contract and Application for Non-Public Treatment of Materials Filed Under Seal, June 25, 2013 (Request). See also Errata to Request of the United States Postal Service to Add Priority Mail International Regional Rate Boxes–Non-Published Rates to the Competitive Product List and Notice of Filing Priority Mail International Regional Rate Boxes–Non-Published Rates Model Contract and Application for Non-Public Treatment of Materials Filed Under Seal, July 8, 2013 (Errata).

## II. BACKGROUND

On June 27, 2013, the Commission issued an order providing public notice that the Postal Service, pursuant to 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, had filed a Request seeking to add PMI RRB–NPR to the competitive product list and to use a model contract for subsequent filings, in a single docket, of executed agreements.<sup>2</sup> Supporting materials include an application for non-public treatment of materials filed under seal (Application); Governors’ Decision No. 11-6; a certified statement addressing product pricing required under 39 C.F.R. § 3015.5(c)(2); proposed Mail Classification Schedule (MCS) language, and related financial workpapers.<sup>3</sup> Some of the supporting material was filed in public and non-public (unredacted) versions. Request at 3. Order No. 1767 also addressed related administrative actions, including establishment of companion dockets for consideration of the Request and the model contract; an invitation for public comment on the consistency of the Postal Service’s filings with applicable statutory criteria and Commission rules; and appointment of a public representative to represent the interests of the general public.

*Product description.* PMI RRB–NPR offers incentive pricing, pursuant to Governors’ Decision No. 11-6, to small and medium-size business mailers that satisfy prescribed capability requirements and are willing to enter a contractual commitment to tender annually certain minimum levels of postage for Priority Mail International

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<sup>2</sup> Notice and Order Concerning Addition of Priority Mail International Regional Rate Boxes–Non-Published Rates to the Competitive Product List, June 27, 2013 (Order No. 1767).

<sup>3</sup> The Errata replaced the certified statement and tabs 2 and 4 in workpaper “RRB\_PRC\_2013.06.06\_v2.xls (filed with the Request) with new versions.

Regional Rate Box mailings.<sup>4</sup> Request at 3-4. Three box types (designated as A, B, and C) are available, with specified weight limits and dimensions.<sup>5</sup> There are eight country groups. *Id.* at 4-5. PMI RRB–NPR customers who select postage through a permit imprint using Postal Service-provided Global Shipping Software are required to meet minimum volume or weight requirements established for presentation of a manifest mailing and to use Postal Service-provided Global Shipping Software to generate labels and customs declarations. *Id.* at 5.

PMI RRB–NPR is patterned on the approach the Commission approved for GEPS-NPR 4 filings. This approach allows the Postal Service, following approval of PMI RRB–NPR and the model contract, to enter into agreements using the model contract and to file them serially in a single docket, without seeking advance approval of each agreement in individual dockets. *Id.* The Postal Service then reports all agreements as a single competitive product in the Annual Compliance Report. *Id.* Attachment 2C at 5).

*Pricing.* For PMI RRB–NPR contracts, the Postal Service offers several incentive tiers based on a mailer’s revenue commitment, with one of the tiers reserved for the largest volume customers. The mailer assumes responsibility and the costs associated with delivering to the point of entry. *Id.* at 4.

### III. THE POSTAL SERVICE’S POSITION

The Postal Service states that the Management Analysis (Attachment 2C) explains how product pricing conforms to Governors’ Decision No. 11-6 and provides an explanation of how floor and ceiling prices are established. *Id.* at 5.

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<sup>4</sup> Governors’ Decision No. 11-6 authorized the rates and classification for products such as PMI RRB–NPR. Request at 3.

<sup>5</sup> Rates in the non-discounted price table for PMI RRB are set by country of destination and by box selection. PMI RRB Box A has a maximum weight of 10 pounds. PMI RRB Boxes B and C have a maximum weight of 20 lbs. The dimensions for PMI RRB Boxes A, B, and C are identical to those for Priority Mail Regional Rate Boxes A, B, and C. Request at 4.

*Product list assignment.* The Postal Service asserts that under 39 U.S.C. § 3642(b), the only criteria for such review are whether the product qualifies as market dominant, whether it is excluded from the postal monopoly, and whether the proposed classification reflects certain market considerations. *Id.* at 6. It states that with respect to 39 U.S.C. § 3642(b)(1), the product does not qualify as market dominant because the Postal Service does not exercise sufficient monopoly market power so that it can effectively set the price of PMI RRB “substantially above costs, raise prices significantly, decrease quality, or decrease output without risk of losing a significant level of business to other firms offering similar products.” *Id.*

With respect to 39 U.S.C. § 3642(b)(2) and to whether the product is excluded because it is subject to postal monopoly, the Postal Service states that the Qualifying Mail in PMI RRB–NPR contracts is intended for the conveyance of merchandise, which falls outside the scope of the Private Express Statutes. *Id.* It states that any “letters” as defined by 39 C.F.R. § 310.1(a) inserted in such items would likely fall within the suspensions or exceptions of the Private Express Statutes, noting that the minimum prices at issue here exceed the scope of the reserved area in 39 U.S.C. § 601. *Id.*

*Confidential treatment.* The Postal Service asserts that redacted portions of materials filed under seal should remain confidential as sensitive business information. *Id.* It seeks the standard 10-year protection period allowed by Commission rules. *Id.*, Attachment 1 at 10.<sup>6</sup> The Postal Service intends to rely on its Application in this docket when it files PMI RRB-NPR agreements. Request at 8.

*Filing and reporting.* The Postal Service states that it anticipates that the Commission will request that the Postal Service file PMI RRB–NPR contracts in filings that are similar to the Postal Service’s filings of GEPS–NPR 4 contracts. *Id.* at 5. It also

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<sup>6</sup> The Postal Service states that foreign postal operators, other than the designated operators or foreign posts with which the U.S. Postal Service settles accounts, can be considered to have a proprietary interest in some of the confidential financial workpapers. *Id.* at 2. As an alternative to actual notice to these foreign operators, the Postal Service identifies a Postal Service employee to serve as a point of contact for foreign operation and provides the employee’s telephone number and email address. *Id.* The Commission accepts the Postal Service’s alternative.

anticipates that notice of new rates for PMI RRB—NPR will necessitate the addition of successor filings. *Id.*

#### IV. COMMENTS

The Public Representative filed two sets of comments on July 9, 2013.<sup>7</sup> One set is a redacted public version; the other is an unredacted version filed under seal. No other comments were received.

The Public Representative's review of the Request and supporting materials leads her to conclude that she cannot confirm that pricing comports with relevant provisions of title 39 without knowing the status of PMI flat rate envelopes in the PMI volumes used in the calculations of the financial model. PR Comments at 2. She is also uncertain as to whether costs, *e.g.*, for Pickup On Demand service, have been underestimated (or misestimated) and whether proxy assumptions related to average weight of domestic Flat Rate boxes are appropriate for the proposed international RRB Boxes. *Id.* at 4.

The Public Representative also suggests that different maximum weights for domestic and international regional rate boxes may cause some confusion among mailers. *Id.* at 2-3.<sup>8</sup>

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<sup>7</sup> See Public Representative Comments on Addition of Priority Mail International Regional Rate Boxes—Non-Published Rates to the Competitive List, July 9, 2013 (PR Comments) and Notice of the Public Representative of Filing of Materials Under Seal, July 9, 2013 (Notice). See also Motion of the Public Representative for Late Acceptance for Comments, July 9, 2013. That motion is granted. The Public Representative also filed a motion for leave to file supplemental comments. Motion of the Public Representative for Leave to File Supplemental Comments, July 9, 2013. That motion is granted.

<sup>8</sup> The Public Representative observes that the eight PMI RRB county groups differ for some countries from the grouping including in the Mail Classification Schedule. PR Comments at 3. The difference is not significant because PMI RRB-NPR is a new product and, in any event, a country's pricing group may vary by product.

## V. COMMISSION ANALYSIS

The Postal Service's Request presents three issues: (1) whether PMI RRB–NPR should be added to the competitive product list; (2) whether the rates generated by the methodology in the accompanying financial model satisfy 39 U.S.C. 3633(a) and 39 CFR part 3015; and (3) whether the model contract should be approved. Based on a review of the Request, the supporting documentation (as revised by the Errata), and the PR Comments, the Commission approves the Postal Service's request to add PMI RRB–NPR to the competitive product list and the model contract. Approval is subject to conditions addressed below.

*Competitive status.* The Commission's statutory responsibilities in evaluating the Request include assigning PMI RRB–NPR to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.34. The Commission also must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. §§ 3020.32(f), (g), and (h).

The Commission has considered the relevant statutory and regulatory requirements, the Postal Service's supporting justification, and the PR Comments. It finds that PMI RRB–NPR is appropriately classified as a competitive product and approves its addition to the competitive product list.<sup>9</sup>

*Cost considerations.* Because PMI RRB–NPR is a competitive product, the Postal Service must demonstrate that the contract covers its attributable costs, contributes to the Postal Service's institutional costs, and does not cause any market dominant products to subsidize competitive products. 39 U.S.C. § 3633(a); 39 C.F.R. § 3015.5. The Commission finds that the Certified Statement addresses reasons why the

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<sup>9</sup> Priority Mail International was added to the competitive product list in Order No. 43. Docket No. RM2007-1, Order 43, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007. Neither the Request nor PR Comments presents any reason to conclude that PMI RRB–NPR should not be similarly assigned to the competitive product list.

pricing formula ensures satisfaction of the applicable criteria. In addition, as part of its Annual Compliance Determination, the Commission will review financial performance for consistency.

The Postal Service does not currently have Priority Mail International Regional Rate Boxes. Therefore, it uses existing international PMI data and domestic Priority Mail data to develop volume weights used in the financial model. The Public Representative expresses concern about the impact of PMI flat rate envelopes on certain volume weights. PR Comments at 2. Review of the financial workpapers indicates that this concern relates to settlement unit costs, as the Postal Service uses International Cost and Revenue Analysis data to develop other unit costs. The Commission notes that the source of volumes that concern the Public Representative in the financial model is Global Shipping Software (GSS).<sup>10</sup> The Postal Service does not currently provide GSS volumes to the Commission. Consequently, the impact of flat rate envelopes in the Postal Service's financial model cannot be quantified precisely. However, the Commission finds that the Postal Service's financial model includes sufficient contingencies<sup>11</sup> making it highly unlikely that any resulting changes to the financial model will cause the PMI RRB–NPR product to fail to satisfy the requirements of section 3633.

Nevertheless, to ensure that the financial model's cost estimates are not skewed by use of certain existing data, the Postal Service is directed to file GSS volumes within 30 days of this Order, along with a reconciliation of PMI GSS volumes with FY 2012 international PMI billing determinants. The Postal Service should continue to file updated GSS volumes annually with its Annual Compliance Report until such time that PMI-RRB data are available and the financial model is updated to include actual PMI-RRB data.

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<sup>10</sup> See RRB\_PRC\_2013.07.05 - Redacted.xls; tab:04\_Billing\_Determinants.

<sup>11</sup> The financial model includes a general contingency factor, an international transportation contingency factor, an exchange rate contingency factor, as well as includes estimates of "start up costs" that are allocated to each contract piece. See RRB\_PRC\_2013.07.05 - Redacted.xls; tab 01\_Inputs.

The Public Representative's point with respect to pickup service is that the financial model could be made more precise by accounting for contracts that allow pickup and those that do not. The MCS language provided by the Postal Service indicates that mailers will be charged separately for Pickup On Demand Service. Therefore, there is no need to account for this additional service in the financial model. See Request, Attachment 2b. Appendix 2 sets forth the MCS language approved by the Commission. Among other things, it reflects the current \$20 charge for Pickup On Demand Service.

*Model contract.* This docket does not include consideration of an executed PMI RRB–NPR agreement. Instead, the Request provides (as Attachment 4) a model contract for use in subsequent filings. The model contract contains terms and conditions, similar to other Postal Service global customized mail agreements, which set forth the parties' obligations. Prices are developed based on the financial model. The Commission approves the use of the model contract for the PMI RRB–NPR product.<sup>12</sup>

*Other considerations—filing requirements.* When the Commission approved the GEPS–NPR 4 product, it directed that a copy of each contract and the financial model inputs used to generate rates for each contract be filed with the Commission within a reasonable time, e.g., within 10 days of the effective date of the contract.<sup>13</sup> The Commission adopts the same directive for PMI RRB–NPR filings, along with other filing requirements identified in the ordering paragraphs, required of the GEPS–NPR 4 product. See *id* at 7-8.

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<sup>12</sup> The Postal Service correctly states that “notice of new rates for PMI RRB - NPR would necessitate the addition of successor filings in connection with this competitive product.” Request at 5.

<sup>13</sup> PRC Order No. 1625, Order Adding Global Expedited Package Services–Non-Published Rates 4 (GEPS–NPR 4) to the Competitive Product List, Docket Nos. MC2013-27 and CP2013-35, January 16, 2013, at 7.

*Conclusion.* The Commission approves PMI RRB–NPR as a new competitive product. It also approves use of the model contract for subsequent filings under PMI RRB–NPR. The revision to the competitive product list reflecting the addition of PMI RRB–NPR appears in Appendix 1.

## VI. ORDERING PARAGRAPHS

*It is ordered:*

1. Priority Mail International Regional Rate Boxes–Non-Published Rates (MC2013-53 and CP2013-69) is added to the competitive product list as a new product under Part B—Competitive Products of the Mail Classification Schedule.
2. The Commission approves the use of the model contract filed as Attachment 4 to the Postal Service’s Request in this docket.
3. Changes in rates due to changes to the model contract and/or changes to the financial model must be approved in advance by the Commission pursuant to 39 CFR part 3015.
4. When there is a change in base rates, the Postal Service shall file a request pursuant to 39 CFR part 3015 and include a complete updated model.
5. A copy of each contract, along with the financial model inputs used to generate rates for each contract, must be filed with the Commission within a reasonable time, *e.g.*, within 10 days of the effective date of the contract.
6. The Postal Service shall notify the Commission of the effective date of each contract. If any contract terminates earlier than scheduled, the Postal Service shall inform the Commission within 10 days of the new termination date.
7. The Postal Service shall file, within 30 days of the end of each fiscal year quarter, costs, volumes, and revenues disaggregated by weight and country group associated with each agreement that expires during that quarter, including any penalties paid.

8. The Postal Service shall file GSS volumes within 30 days of this Order, along with a reconciliation of PMI GSS volumes with FY 2012 international PMI billing determinants. The Postal Service shall update this data in its Annual Compliance Report, until such time as PMI-RRB data are available and the financial model is updated to include actual PMI-RRB data.
9. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Shoshana M. Grove  
Secretary

## **COMPETITIVE PRODUCT LIST UPDATE**

The following material represents changes to the product list codified in Appendix A to 39 CFR part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission’s order in Docket Nos. MC2013-53 and CP2013-69. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

## MAIL CLASSIFICATION SCHEDULE

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### Part B Competitive Products

#### 2000 Competitive Product List

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#### Negotiated Service Agreements

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#### Outbound International

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Global Expedited Package Services (GEPS)—Non-Published Rates 4  
Priority Mail International Regional Rate Boxes—Non-Published Rates

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## MAIL CLASSIFICATION SCHEDULE

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### Part B Competitive Products

#### 2000 Competitive Product List

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#### Negotiated Service Agreements\*

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#### **Outbound International\***

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Global Expedited Package Services (GEPS)—Non-Published Rates 4  
Priority Mail International Regional Rate Boxes—Non-Published Rates

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#### **2510 Outbound International**

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#### 2510.2 Negotiated Service Agreement Groups

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- Global Expedited Package Services (GEPS)—Non-Published Rates (2510.8)
- Priority Mail International Regional Rate Boxes—Non-Published Rates (2510.9)

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#### **2510.8 Global Expedited Package Services (GEPS)—Non-Published Rates**

#### **2510.9 Priority Mail International Regional Rate Boxes—Non-Published Rates**

#### 2510.9.1 Description

- a. Priority Mail International Regional Rate Boxes—Non-Published Rates (PMI RRB—NPR) service is available through customized negotiated service agreements. Prices under a PMI RRB—NPR agreement depends upon a mailer’s revenue commitment.
- b. PMI RRB—NPR negotiated service agreements provide tiered incentives for all destinations served by Priority Mail International Regional Rates Boxes.
- c. To qualify for a PMI RRB—NPR agreement, a mailer must be capable, on an annualized basis, of paying at least \$200,000.00 for Priority Mail International Regional Rates Boxes to the Postal Service under a PMI RRB—NPR agreement.
- d. A mailer must commit to tender varying minimum postage of Priority Mail International Regional Rates Boxes on an annualized basis under a PMI RRB—NPR agreement.
- e. Mail preparation requirements are similar to those required for a PMI Medium Flat Rate Box shipment, except that the mailer must use a Priority Mail Regional Rate Box A, B, or C with the specified markings, subject to size and weight limitations specific to PMI RRB—NPR.
- f. Indemnity for ordinary, uninsured parcels is included in the price of postage based on the weight of the item.
- g. Individual negotiated agreements must comply with the requirements specified in 39 U.S.C. § 3633.
- h. Individual negotiated agreements must be on file with the Commission within 10 days of their effective date.

2510.9.2 Size and Weight Limitations Requirements

	<u>Length</u>	<u>Height</u>	<u>Thickness</u>	<u>Weight</u>
<u>Regional Rate Box A1</u>	<u>Outside Dimensions:</u> <u>Top Loaded: 10.125 x 7.125 x 5.0 inches</u> <u>Side Loaded: 13.0625 x 11.0625 x 2.5 inches</u>			<u>10 pounds</u>

<u>Regional Rate Box B1</u>	<u>Outside Dimensions:</u> <u>Top Loaded: 12.25 x 10.5 x 5.5 inches</u> <u>Side Loaded: 16.25 x 14.5 x 3 inches</u>	<u>20 pounds</u>
<u>Regional Rate Box C1</u>	<u>Outside Dimensions:</u> <u>Top Loaded: 15 x 12 x 12 inches</u>	<u>20 pounds</u>

**Notes**

1. Notwithstanding any markings on the package for domestic service, size, and weight limitations.

2510.9.3 Minimum Volume Requirements

A PMI RRB—NPR customer who selects postage payment through a permit imprint using Postal Service-provided Global Shipping Software (GSS) is required to meet minimum volume or weight requirements established for presentation of a manifest mailing.

2510.9.4 Price Categories

The incentives are based on the customer's revenue commitment. Prices are subject to the terms and conditions of individual negotiated agreements. The non-published range of prices that may be offered to mailers are pre-approved and subject to regulatory review.

The following price categories are available for the product specified in this section:

- PMI RRB—NPR

2510.9.5 Optional Features

Optional features are separately charged according to the published prices for each service at the time of mailing. The following additional postal services may be available in conjunction with the product specified in this section:

- Pickup On Demand Service

- International Ancillary Services (2615)
  - None

2510.9.6 Indemnity

The indemnity amount is determined by the formula in UPU Parcel Post Regulations Article RC 149.2.1. This information is available in the Parcel Post Manual at [www.upu.int](http://www.upu.int). The formula, converted into U.S. equivalents of pounds and dollars, is shown in the International Mail Manual. It is updated annually to reflect the current SDR exchange rate.

2510.9.7 Prices

*PMI RRB—NPR*

Prices are subject to the terms and conditions of individual negotiated agreements.

*Pickup On Demand Service*

Add \$20.00 for each Pickup On Demand stop

2510.9.8 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- Priority Mail International Regional Rate Boxes—Non-Published Rates  
*Baseline Reference*  
Docket Nos. MC2013-53 and CP2013-69  
PRC Order No. 1783, July 19, 2013