

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

Competitive Product Prices
Global Expedited Package Services 3 (MC2010-28)
Negotiated Service Agreement

Docket No. CP2014-19

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE NOTICE CONCERNING ADDITIONAL
GLOBAL EXPEDITED PACKAGE SERVICES 3
NEGOTIATED SERVICE AGREEMENT

(December 30, 2013)

The Public Representative hereby provides comments pursuant to Order No. 1924.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of filing an additional Global Expedited Package Services (GEPS) 3 contract.² GEPS contracts provide incentive pricing to businesses that mail products to foreign destinations using Priority Mail Express International (PMEI), Priority Mail International (PMI), or both. Notice at 4. To qualify for a GEPS contract, a business mailer “must be capable, on an annualized basis, of paying at least \$200,000 in international postage to the Postal Service.”³

Prices and classifications not “of general applicability” for GEPS contracts were previously established by Governors’ Decision No. 08-7.⁴ In Order No. 86, the

¹ PRC Order No. 1924, Notice and Order Concerning Additional Global Expedited Package Services 3 Contract, December 23, 2013.

² Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, December 20, 2013 (Notice).

³ Notice of the United States Postal Service of Minor Classification Change, Docket No. MC2012-8, January 30, 2012, at 3, showing conforming changes to the draft Mail Classification Schedule, 2510.3.1.

⁴ See Notice of United States Postal Service of Governors’ Decision Establishing Prices and Classifications for Global Expedited Package Services Contracts, Docket No. CP2008-4, May 20, 2008.

Commission established GEPS contracts as a product in the competitive product list.⁵ The Commission subsequently approved the addition of the GEPS 3 product to the competitive product list (MC2010-28), and included within that product a GEPS contract (CP2010-71) that would serve as the baseline agreement for functional equivalence comparisons with future agreements.⁶ Since the addition of the GEPS 3 product to the competitive product list, the Commission has determined that many additional GEPS 3 contracts were functionally equivalent to the baseline agreement and should be included in the GEPS 3 (MC2010-28) product.

The instant GEPS 3 contract is with a new mailer. If approved, the contract would expire one year after the effective date, or the last of the month which falls one calendar year from the effective date, unless terminated sooner. Notice, Attachment 1 at 7 (Article 12).

The Postal Service states that the instant GEPS 3 contract is functionally equivalent to the baseline agreement and is in compliance with the requirements of 39 U.S.C. § 3633. Notice at 7. The Postal Service therefore requests that the instant contract “be added to the GEPS 3 product grouping.” *Id.*

COMMENTS

The Public Representative has reviewed the Postal Service’s Notice, the instant GEPS 3 contract, and supporting financial model filed under seal that accompanies the Notice. Based upon that review, the Public Representative concludes that the instant contract is functionally equivalent to the baseline agreement. In addition, it appears the negotiated prices in the instant contract should generate sufficient revenues to cover costs.

Functional Equivalence. The Postal Service asserts that the instant contract “shares similar cost and market characteristics . . . [and the] functional terms of the contract at issue are the same as those of the contract that is the subject of Docket No.

⁵ See PRC Order No. 86, Order Concerning Global Expedited Package Services Contracts, Docket No. CP2008-5, June 27, 2008.

⁶ See PRC Order No. 503, Order Approving Global Expedited Package Services 3 Negotiated Service Agreement, Docket Nos. MC2010-28 and CP2010-71, July 29, 2010.

CP2010-71, which serves as the baseline agreement for the GEPS 3 product grouping.” *Id.* at 3. However, the Postal Service identifies differences between the instant contract and the GEPS 3 baseline agreement. *Id.* at 4-7. Most of these differences consist of changes similar to those included in previous GEPS 3 contracts, or are specific to the customer (*i.e.*, customer name, address, and identification of customer’s representative to receive notice).⁷

The Postal Service maintains that these differences do not affect either the fundamental service the Postal Service is offering or the fundamental structure of the contract. *Id.* at 6. The Public Representative agrees and concludes that the instant contract is functionally equivalent to the baseline agreement.

39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service’s competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

The Postal Service’s financial model does not demonstrate that the addition of the instant contract results in the GEPS 3 product as a whole covering costs as required by 39 U.S.C. § 3633(a)(2).⁸ However, the Postal Service’s financial model indicates that the negotiated rates in the instant contract will generate sufficient revenues to cover its attributable costs, and therefore will not degrade the cost coverage of the product.

⁷ Compare Notice at 4-7 and Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, Docket No. CP2013-76, August 14, 2013, at 4-6.

⁸ In worksheet tab 10_Product_Dist of the financial model, the Postal Service has distributed more volume to PMEI than is projected for PMEI as shown in worksheet tab 01_Inputs, cell reference [As] to [Qs]. This distribution does not change the Public Representative’s conclusions herein.

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

James F. Callow
Public Representative

901 New York Ave. NW
Washington, DC 20268-0001
202-789-6839
callowjf@prc.gov