

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

Competitive Product Prices
Priority Mail
Priority Mail Contract 74

Docket No. MC2014-15

Competitive Product Prices
Priority Mail Contracts 74 (MC2014-15)
Negotiated Service Agreement

Docket No. CP2014-24

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD
PRIORITY MAIL CONTRACT 74 TO
COMPETITIVE PRODUCT LIST

(January 10, 2014)

The Public Representative hereby provides comments pursuant to Order No. 1939.¹ 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 Request to add Priority Mail Contract 74 to the competitive product list.²

The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), a redacted copy of Governor's Decision No. 11-6, and proposed changes to the Mail Classification Schedule competitive product list with the addition underlined. The Postal Service also filed (under seal) a contract related to the proposed new product and supporting financial data.

¹ PRC Order No. 1939, Notice and Order Concerning the Addition of Priority Mail Contract 74 to the Competitive Product List, December 31, 2013.

² Request of the United States Postal Service to Add Priority Mail Contract 74 to the Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, December 27, 2013 (Request).

According to the Postal Service, Priority Mail Contract 74 is a competitive product “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. The Postal Service also maintains that the prices and classification underlying the instant contract are supported by Governors’ Decision No. 11-6.³ The Postal Service further asserts that the Statement of Supporting Justification (Statement) provides support for adding Priority Mail Contract 74 to the competitive product list and the compliance of the instant contract with 39 U.S.C. § 3633(a)(1) and (3).⁴ Request at 1; Attachment D.

The effective date for Priority Mail Contract 74 is the day following the date on which the Commission issues all necessary regulatory approvals. Attachment B at 4. The contract is scheduled to expire 3 years from the effective date unless either party terminates the contract on 30 days’ prior written notification, or other specific events. Attachment B at 5.

COMMENTS

The Public Representative has reviewed the instant contract, the Statement of Supporting Justification, and the financial data filed under seal that accompanies the Postal Service’s Request. Based upon that review, the Public Representative agrees that Priority Mail Contract 74 should be categorized as a competitive product and added to the competitive product list. In addition, the negotiated prices in the first contract year, given similar projected customer experience⁵ and similar FY 2012⁵ financial model average cost inputs, may produce sufficient revenues to cover estimated 2014 projected costs and thereby satisfy 39 U.S.C. § 3633(a).

³ Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors’ Decision No. 11-6).

⁴ Attachment E, “Certification of Prices for Priority Mail Contract 74” certifies that the “financial analysis provided herewith, that the prices are in compliance with 39 U.S.C. § 3633 (a)(1), (2), and (3). They are expected to cover attributable costs.”

⁵ Costs per piece inputs may change from year-to-year. It is not clear to the PR as to why the most currently available FY 2013 cost per piece inputs were not used in the financial model. The Postal Service’s footnote in the “Analysis” worksheet in the “PM74_Analysis_public.xls” file gives the source of the cost per piece items as “SupportPriority_FY12.xls.”

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Priority Mail Contract 74 be added to the competitive product list. 39 U.S.C. § 3642 requires the Commission to consider whether “the Postal Service exercises sufficient market power that it can effectively set the price of such product 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.” 39 U.S.C. § 3642(b)(1). Products over which the Postal Service exercises such power are categorized as market dominant while all others are categorized as competitive.

The Postal Service’s Statement of Supporting Justification makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D at 2. These assertions appear reasonable. Based upon the Statement, the Public Representative concludes that the Postal Service’s Request to add Priority Mail Contract 74 to the competitive product list is appropriate.

Requirements of 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; and, must ensure that each competitive product will cover its attributable costs, and that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

Based upon a review of the financial model, the negotiated prices⁶ would appear to result in sufficient revenues to cover projected estimated 2014 costs during the first contract year, given similar projected customer experience and similar FY 2012 financial model average cost inputs. However, the Postal Service provides no data to demonstrate that the instant contract will comply with 39 U.S.C. § 3633(a) during the entire three-year period of the contract.

⁶ First contract year discounted tiered prices are specific in the Shipping Services Contract. Attachment B at 2. However, for subsequent contract years, “Customized prices for the subsequent years will be calculated by the Postal Service and rounded up to the nearest whole cent.” Attachment B at 4. It is unclear to the PR, how “customized” prices will be calculated.

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

Respectfully Submitted,

/s/ Manon A. Boudreault

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