

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

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman; and  
Robert G. Taub

Competitive Product Prices  
Priority Mail  
Priority Mail Contract 74

Docket No. MC2014-15

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

Docket No. CP2014-24

ORDER ADDING PRIORITY MAIL CONTRACT 74  
TO THE COMPETITIVE PRODUCT LIST

(Issued January 13, 2014)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Priority Mail Contract 74 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 Contract 74 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, December 27, 2013 (Request).

## II. BACKGROUND

On December 27, 2013, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that Priority Mail Contract 74 is a competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. Among the supporting documents, the Postal Service included a copy of Governors’ Decision No. 11-6,<sup>2</sup> a contract related to the proposed new product, requested changes to the competitive product list, a statement supporting the Request, and a certification of compliance with 39 U.S.C. § 3633(a). In addition, the Postal Service submitted an application for non-public treatment of materials to maintain redacted portions of Governors’ Decision No. 11-6, the contract, customer-identifying information, and related financial information filed under seal. Request, Attachment F.<sup>3</sup>

On December 31, 2013, the Commission issued an order establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>4</sup>

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<sup>2</sup> 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).

<sup>3</sup> In its application for non-public treatment of materials, the Postal Service asks the Commission to protect customer-identifying information from public disclosure indefinitely. *Id.* at 7. The Commission has consistently denied similar requests for indefinite protection. See, e.g., Docket Nos. MC2011-1 and CP2011-2, Order No. 563, Order Approving Express Mail Contract 9 Negotiated Service Agreement, October 20, 2010, at 6-7.

<sup>4</sup> Order No. 1939, Notice and Order Concerning the Addition of Priority Mail Contract 74 to the Competitive Product List, December 31, 2013.

### III. COMMENTS

The Public Representative filed comments on January 10, 2014.<sup>5</sup> No other interested person filed comments. The Public Representative reviewed the contract, the Statement of Supporting Justification, and the financial data filed under seal. *Id.* at 2. The Public Representative asserts that the Postal Service's assertions in the Statement of Supporting Justification appear reasonable and concludes that Priority Mail Contract 74 should be added to the competitive product list. *Id.* at 3. Based on her review of the financial model, the Public Representative states that the negotiated prices 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. *Id.* She notes that the Postal Service provides no data to demonstrate that the contract will comply with 39 U.S.C. § 3633(a) during the entire three-year period of the contract and questions why the FY 2013 cost per piece inputs were not used in the financial model. *Id.* at 2 n.5, 3.

### IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the instant contract, the supporting data filed under seal, and the Public Representative's comments.

*Product list requirements.* The Commission's statutory responsibilities when evaluating the Request include assigning Priority Mail Contract 74 to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.34. In addition, the Commission must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product,

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<sup>5</sup> Public Representative Comments on Postal Service Request to Add Priority Mail Contract 74 to Competitive Product List, January 10, 2014 (PR Comments). The Public Representative also filed a motion for late acceptance of her comments. Motion of the Public Representative for Late Acceptance of Comments, January 10, 2014 (Motion). The Motion is granted.

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 Postal Service asserts that it provides Priority Mail service in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service states that the contract partner supports the Request, that expedited shipping is widely available from private firms, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3.

The Commission agrees that the priority market is highly competitive and thus prevents the Postal Service from significantly increasing rates or degrading service without potentially losing volume. This is borne out by the availability of other providers. Further, there is no evidence of an adverse impact on small businesses. For these reasons, having considered the relevant statutory and regulatory requirements and the Postal Service's supporting justification, the Commission finds that Priority Mail Contract 74 is appropriately classified as competitive and is added to the competitive product list.

*Cost considerations.* Because Priority Mail Contract 74 is a competitive product, the Postal Service must also show 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.

As part of its Request, the Postal Service submitted a certified statement that the contract complies with the requirements of 39 U.S.C. § 3633(a). Request, Attachment E. In addition, the Postal Service filed supporting revenue and cost data showing that the contract is expected to cover its costs. Based on a review of the financial spreadsheet, the rates during the first year of the contract cover attributable costs. The Public Representative questions why the Postal Service used FY 2012,

rather than FY 2013, cost per piece inputs in the financial model. The Commission assumes that the FY 2012 cost per piece inputs were used because the data for FY 2013 were not yet available through Docket No. ACR2013 at the time the Postal Service filed the Request. PR Comments at 2 n.5. The Commission expects the latest available cost per piece inputs will be used in future requests.

The contract contains a price adjustment provision that increases contract rates during subsequent contract years. Request, Attachment B at 2. The adjustment provision increases the likelihood that prices will cover attributable costs during contract years two and three. The Commission will review the contract's cost coverage in the Commission's Annual Compliance Determination to ensure that rates continue to cover costs during subsequent years.

*Other considerations.* By its terms, the contract becomes effective one business day after the date that the Commission issues all necessary regulatory approvals. *Id.* at 4. The contract is scheduled to expire three years from the effective date, unless, among other things, either party terminates the contract with 30 days' written notice to the other party or it is renewed by mutual agreement.<sup>6</sup>

The contract also contains a provision that allows the parties to extend the contract for two 90-day periods if a successor agreement is being prepared and the Commission is notified within 7 days of the contract expiring.<sup>7</sup> During the extension periods, prices will be adjusted as described in the contract. Request, Attachment B at 3. The Commission finds the two potential 90-day extension periods are reasonable

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<sup>6</sup> *Id.* at 5. Should both parties agree to renew the contract, any such renewal is required to follow the requirements of 39 U.S.C. § 3633 and the Commission's implementing regulations of 39 C.F.R. part 3015.

<sup>7</sup> *Id.* As the Commission noted in Order No. 1773, the Postal Service clarified that identical language in Priority Mail Contract 60 contemplates the Postal Service filing any notices of extension with the Commission *at least one week prior to* the expiration of the contract, as opposed to the instant contract's "within seven (7) days of the contract expiring." See Docket Nos. MC2013-54 and CP2013-70, Order No. 1773, Order Adding Priority Mail Contract 60 to the Competitive Product List, July 8, 2013, at 3; see also Docket Nos. MC2013-54 and CP2013-70, Response of the United States Postal Service to Chairman's Information Request No. 1, July 1, 2013, question 2.

because: (1) prices are automatically adjusted in the extension period, making it likely that the contract will continue to cover its attributable costs; and (2) the extension(s) should assist the Postal Service's contract negotiations by providing additional flexibility.

If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

Within 30 days after the instant contract terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by weight and zone associated with the contract.

In conclusion, the Commission approves Priority Mail Contract 74 as a new product. The revision to the competitive product list appears below the signature of this Order and is effective immediately.

#### V. ORDERING PARAGRAPHS

*It is ordered:*

1. Priority Mail Contract 74 (MC2014-15 and CP2014-24) is added to the competitive product list as a new product under Negotiated Service Agreements, Domestic. The revision to the competitive product list appears below the signature of this Order and is effective immediately.
2. The Postal Service shall notify the Commission if the instant contract terminates prior to the scheduled expiration date as discussed in this Order.
3. Within 30 days after the instant contract terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by weight and zone associated with the contract.

4. 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.

Ruth Ann Abrams  
Acting Secretary

CHANGE IN MAIL CLASSIFICATION SCHEDULE  
CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission’s order in Docket Nos. MC2014-15 and CP2014-24. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2000 Competitive Product List

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Negotiated Service Agreements

Domestic

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Priority Mail Contract 74

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