

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. CP2014-70

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE NOTICE OF FILING A FUNCTIONALLY
EQUIVALENT GLOBAL EXPEDITED PACKAGE SERVICES 3
NEGOTIATED SERVICE AGREEMENT

(August 20, 2014)

The Public Representative hereby provides comments pursuant to Order No. 2155.¹ 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 a functionally equivalent Global Expedited Package Services (GEPS) 3 agreement (Agreement).²

GEPS 3 agreements provide incentive pricing to businesses that mail items to foreign destinations using Priority Mail Express International (PMEI), Priority Mail International (PMI), or both. Notice at 4. Prices offered to business mailers pursuant to an agreement may differ depending upon the volume or postage commitments made by such mailers. *Id.* To qualify for an agreement, a business mailer “must be capable, on an annualized basis, of paying at least \$200,000 in international postage to the Postal Service.”³

¹ PRC Order No. 2155, Notice and Order Concerning Additional Global Expedited Package Services 3 Negotiated Services Agreement, August 15, 2014.

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, August 14, 2014 (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 Mail Classification Schedule, 2510.3.1.

Prices and classifications not “of general applicability” for GEPS agreements were previously established by Governors’ Decision No. 08-7.⁴ In Order No. 86, the Commission established GEPS 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 agreement (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 agreements were functionally equivalent to the baseline agreement and should be included in the GEPS 3 (MC2010-28) product.

This additional GEPS 3 contract is intended to become effective on September 1, 2014, after the expiration on August 31, 2014 of the customer’s current GEPS contract that was filed in Docket No. CP2013-72.⁷ The instant agreement is set to expire one year after its Effective Date unless terminated earlier pursuant to the contract.

The Postal Service states that the Agreement 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 Agreement “be added to the GEPS 3 product grouping.” *Id.*

COMMENTS

The Public Representative has reviewed the Postal Service’s Notice, the Agreement, and supporting financial model filed under seal that accompanies the Notice. Based upon that review, the Public Representative concludes that this Agreement is functionally equivalent to the baseline agreement. In addition, it appears

⁴ See United States Postal Service Notice of Filing Redacted Copy of Governors' Decision No. 08-7, Docket No. CP2008-5, July 23, 2008.

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.

⁷ PRC Order No. 1780, Order Approving a Global Expedited Package Services 3 Negotiated Service Agreement, July 18, 2013.

the negotiated prices in the Agreement should generate sufficient revenues to cover costs.

Functional Equivalence. The Postal Service asserts that the Agreement “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. 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 Agreement and the GEPS 3 baseline agreement. *Id.* at 4-7. Most of these differences consist of changes similar to those included in other recent GEPS 3 agreements, or are specific to the customer (*i.e.*, customer name, address, and identification of customer’s representative to receive notice).⁸

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 Agreement. *Id.* at 6. The Public Representative agrees and concludes that the Agreement 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 directly address whether the addition of the Agreement to the GEPS 3 product will result in the product as a whole covering costs as required by 39 U.S.C. § 3633(a)(2). However, the Postal Service’s financial model indicates that the negotiated rates in the Agreement will generate sufficient revenues to cover its attributable costs. Therefore, its addition to the product will not cause the product’s cost coverage to fall below 100 percent—assuming the

⁸Compare 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. CP2014-34, March 13, 2014, at 4-7.

product currently covers its attributable costs.⁹ Under this assumption, the addition of the Agreement should allow the GEPS 3 product to continue to comply with 39 U.S.C. § 3633(a)(2), and should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Moreover, the GEPS 3 product should improve the likelihood that competitive products as a whole contribute an appropriate share to the Postal Service's institutional costs, consistent with 39 U.S.C. § 3633(a)(3).

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

Kenneth R. Moeller
Public Representative

901 New York Ave. NW
Washington, DC 20268-0001
202-789-6888
Kenneth.moeller@prc.gov

⁹ The Commission recently determined that the GEPS 3 product covered costs. FY 2013 Annual Compliance Determination Report, March 27, 2014, at 81.