

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Priority Mail
Priority Mail Contract 89

Docket No. MC2014-39

Competitive Product Prices
Priority Mail Contract 61 (MC2014-39)
Negotiated Service Agreement

Docket No. CP2014-72

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD
PRIORITY MAIL CONTRACT 89
TO COMPETITIVE PRODUCT LIST

(August 27, 2014)

The Public Representative hereby provides comments pursuant to Order No. 2161.¹ 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 89 to the competitive product list (Agreement).² The Postal Service's Request includes a certification of compliance with 39 U.S.C. § (a)(1) and (3), a Statement of Supporting Justification, and a copy of Governors' Decision No. 11-6. The Postal Service also filed (under seal) a contract related to the proposed new product, and supporting financial data.

The Postal Service notes that Priority Mail Contract 89 is a competitive product "not of general applicability" within the meaning of 39 U.S.C. § 3632(b)(3). *Request at 1.*

¹ Notice and Order Concerning the Addition of Priority Mail Contract 89 to the Competitive Product List, August 19, 2014.

² Request of the United States Postal Service to Add Priority Mail Contract 89 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, August 18, 2014 (Request).

In addition, the Postal Service maintains that the prices and classification underlying the instant contract are supported by Governors' Decision No. 11-6.³

COMMENTS

The Public Representative has reviewed the instant contract, the Statement of Supporting Justification, as well as the financial data and the model filed under seal that accompanies the Postal Service's Request. The Public Representative has found the provided clarification, which includes the calculation of quarterly average volume of packages⁴, sufficient and concludes that Priority Mail Contract 89 should be categorized as a competitive product and added to the competitive product list. In addition, based on the financial workpapers filed by the Postal Service, it appears that the contract is expected to generate sufficient revenues to cover costs and thereby satisfy the requirements of 39 U.S.C. § 3633(a).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Commission is required 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 asserts that the contract is competitive and constrained by the existing market. *Request, Attachment D.* These assertions appear reasonable. Based upon these assertions, the Public Representative concludes that the Postal Service's Request to add Priority Mail Contract 61 to the competitive product list is appropriate.

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 See Order 2161. The Postal Service states that the quarterly average volumes will be based on the total number of quarters from the Effective Date of the contract *divided by* the total number of contract packages. Therefore, the Commission asked the Postal Service to clarify how quarterly average volumes will be calculated under the contract.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service's rates for competitive products 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. Based upon a review of the financial model filed under seal with the Postal Service's Request, the negotiated prices in the instant contract should generate sufficient revenues to cover costs during the contract year.

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

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