

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

Competitive Product Prices
Priority Mail Express, Priority Mail &
First-Class Package Service
Priority Mail Express, Priority Mail &
First-Class Package Service Contract 4

Docket No. MC2014-43

Competitive Product Prices
Priority Mail Express, Priority Mail &
First-Class Package Service Contract 4
(MC2014-43)
Negotiated Service Agreement

Docket No. CP2014-76

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD PRIORITY MAIL EXPRESS,
PRIORITY MAIL & FIRST-CLASS PACKAGE SERVICE CONTRACT 4
TO THE COMPETITIVE PRODUCT LIST
(ERRATA)

(September 12, 2014)

The Public Representative hereby provides comments pursuant to Order No. 2177.¹ 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 Express, Priority Mail & First-Class Package Service Contract 4 to the competitive product list.² The Postal Service's Request includes a Statement of Supporting Justification, the requested changes in the competitive product list, a certification of compliance with 39 U.S.C. § 3633(a), and a copy of Governor's Decision No. 11-6. In addition, the Postal Service filed a redacted, public version of the contract related to the proposed new product. The

¹ PRC Order No. 2177, Notice and Order Concerning the Addition of Priority Mail Express, Priority Mail & First-Class Package Service Contract 3 to the Competitive Product List, June 17, 2014.

² Request of the United States Postal Service to Add Priority Mail Express, Priority Mail & First-Class Package Service Contract 4 to the Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, September 4, 2014 (Request).

contract was also filed in its entirety as a non-public document, along with required cost and revenue data in a financial model.

The Postal Service states that the Priority Mail Express, Priority Mail & First-Class Package Service Contract 4 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 Contract 4 are supported by Governors’ Decision No. 11-6.³ The Postal Service further asserts that the Statement of Supporting Justification provides support for adding Priority Mail Express, Priority Mail & First-Class Package Service Contract 4 to the competitive product list and the compliance of the instant contract with 39 U.S.C. § 3633(a). Request at 2.

The effective date of Contract 4 is one business day following the day on which the Commission issues all necessary regulatory approvals. *Id.*, Attachment B at 4-5. Contract 4 is scheduled to expire 3 years from the effective date unless either party terminates the contract on 30 days’ prior written notification. *Id.*

COMMENTS

The Public Representative has reviewed Contract 4, the Statement of Supporting Justification, and financial model filed under seal with the Postal Service’s Request. Based upon that review, the Public Representative concludes that Priority Mail Express, Priority Mail & First-Class Package Service Contract 4 should be categorized as a competitive product and added to the competitive product list. In addition, Contract 4 is projected to generate sufficient revenues to cover costs in its first year and thereby satisfy the standards of 39 U.S.C. § 3633(a).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Priority Mail Express, Priority Mail & First-Class Package Service Contract 4 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

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

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 powers are categorized as market dominant while all others are categorized as competitive.

The Postal Service makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D, at 2. Based upon these assertions, the Public Representative concludes that the Postal Service’s Request to add Priority Mail Express, Priority Mail & First-Class Package Service Contract 4 to the competitive product 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; 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, it appears the negotiated prices in the instant contract should generate sufficient revenues to cover costs during its first year.

As noted above, Contract 4 is expected to remain in effect for a period of three years. During this period, Contract 4 provides for price adjustments after the January 2015 competitive product price changes of general applicability through the end of the contract. Such price adjustments should improve the likelihood that Contract 4 meets the requirements of 39 U.S.C. § 3633(a) over the lifetime of the contact. However, the price adjustments are linked to the generally applicable prices for Priority Mail Commercial Plus. If generally applicable prices for Commercial Plus rise at a slower rate than the increase in the contract’s costs, or decrease in absolute terms during the term of the contract, the cost coverage for Contract 4 would decline. This concern is mitigated somewhat by the fact that the Postal Service will file revenue and cost data for Contract 4 in its Annual Compliance Report. This data will permit the Commission to annually review the financial performance of Contract 4 in its Annual Compliance Determination (ACD) report for compliance with 39 U.S.C. § 3633(a).

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

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