

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

Market Dominant Product Prices
Inbound Market Dominant Multi-Service Agreements
with Foreign Postal Operators
PostNL–United States Postal Service Bilateral
Agreement (MC2010-35)
Negotiated Service Agreement

Docket No. R2015-3

PUBLIC REPRESENTATIVE REPLY COMMENTS IN RESPONSE
TO POSTAL SERVICE COMMENTS CONCERNING
TYPE 2 RATE ADJUSTMENT AND ROYAL POSTNL BV
NEGOTIATED SERVICE AGREEMENT

(December 9, 2014)

On November 14, 2014, the Postal Service filed notice of a bilateral agreement with Royal PostNL BV, formally known as the Royal PostNL BV – United States Postal Service Strategic Bilateral Agreement (PostNL 2014 Agreement).¹ The PostNL 2014 Agreement establishes negotiated rates for the entry of inbound letterpost with the Postal Service in the form of letters, flats, small packets, bags, and International Registered Mail service for inbound letterpost. Notice at 4.

On December 2, 2014, the Public Representative filed comments concerning the negotiated rates in the PostNL 2014 Agreement.² In its comments, the Public Representative concluded that the Postal Service did not demonstrate that the negotiated rates in the PostNL 2014 Agreement improve the net financial position of the Postal Service. PR Comments at 5.

¹ United States Postal Service Notice of Type 2 Rate Adjustment, Notice of Filing Functionally Equivalent Agreement and Application for Nonpublic Treatment, November 14, 2014 (Notice).

² Public Representative Comments on Postal Service Notice Concerning Type 2 Rate Adjustment and Royal PostNL BV Negotiated Service Agreement, December 2, 2014 (PR Comments). The comments were accompanied by a nonpublic library reference; see Public Representative Notice of Nonpublic Library Reference PR-LR-R2015-3/NP1 Concerning Royal PostNL BV Negotiated Service Agreement, December 2, 2014.

On December 5, 2014, the Postal Service filed its response to the comments of the Public Representative, and takes issue with the Public Representative's conclusion.³ The Postal Service argues that the "Public Representative's conclusion appears to be based on mistaken assumptions." *Id.* More specifically, the Postal Service states that:⁴

. . . the Public Representative applied a quality of service link multiplier to the UPU default rates, but the same multiplier was not applied to the rates resulting from the bilateral. Annex 1 to the Agreement makes clear that the quality of service effects are factored into the contract rates.

This inconsistent application of the multiplier, the Postal Service maintains, "thus results in erroneous conclusions regarding the effect of the 2014 PostNL Agreement on the net financial position of the Postal Service." *Id.* at 1 and 2.

COMMENTS

The Postal Service claim that the Public Representative misapplied the quality of service multiplier, resulting in erroneous conclusions, is a "red herring." Moreover, the Postal Service's description of the Public Representative's application of the multiplier is in error. In fact, the Postal Service has it exactly backward. Below, the Public Representative explains the reasoning for the correct application of the quality of service multiplier in the financial model presented in its library reference.

The Public Representative's conclusion is based upon the financial model presented in library reference PR-LR-R2015-3/NP1, which compares financial results using the negotiated rates and the UPU default rates to determine whether the negotiated rates will improve the net financial position of the Postal Service. In making its comparison, the Public Representative applied the multiplier to the negotiated rates of the PostNL 2014 Agreement and did not apply the multiplier to the UPU default rates. With respect to the negotiated rates, the Public Representative's application of the

³ United States Postal Service Comments in Response to Public Representative Comments on Postal Service Notice Concerning Type 2 Rate Adjustment and Royal PostNL BV Negotiated Service Agreement, December 5, 2014 (USPS Comments), at 1.

⁴ *Id.*

multiplier is consistent with the Postal Service's application of the multiplier, as shown in the financial model filed with the Postal Service's Notice.

The Public Representative did not apply the quality of service multiplier to the UPU default rates because the UPU default rates are already adjusted for quality of service. Specifically, the "provisional" quality of service linked terminal dues rates for 2015, which as the name indicates, are provisionally adjusted by the UPU for the quality of service actually provided by the Postal Service to inbound letterpost in 2013. No further adjustment is needed. The 2015 provisional quality of service linked terminal dues rates "*are the default rates that would be paid for inbound letterpost tendered to the Postal Service by PostNL in the absence of the PostNL 2014 Agreement.*" PR Comments at 5 (emphasis added).

The Postal Service's primary objection that the Public Representative misapplied the quality of service multiplier in library reference PR-LR-R2015-3/NP1 is a factual one. As such, the Public Representative presents the following questions for submittal to the Postal Service concerning certain key facts that underlie the financial results, *i.e.*, the proper application of the multiplier, and identification of the 2015 UPU default rates.

In this regard, the following questions are all based on library reference PR-LR-R2015-3/NP1, which consists of the nonpublic Excel file PR-LR-R2015-3-NP1.xls. The Public Representative respectfully request that the Commission direct the Postal Service to answer these questions which, if confirmed, would make clear the factual basis for the Public Representative's conclusion that the negotiated rates in the PostNL 2014 Agreement do not improve the net financial position of the Postal Service compared to the UPU default rates.⁵

⁵ The questions mostly refer to one or more worksheet tabs in the Excel file PR-LR-R2015-3-NP1.xls. It should also be noted that except for the addition of one worksheet tab, the Excel file PR-LR-R2015-3-NP1.xls, is identical to the Postal Service's financial model in the Excel file, Copy of Netherlands_MD_IB_2014_FINAL.xls, which was filed under seal with the Postal Service's Notice. The additional worksheet tab is 17_Proj_Cost & Revenue PR REV, which calculates only the CY 2015 financial results (cost coverage) for the PostNL 2014 Agreement using the negotiated rates and the 2015 UPU default rates.

QUESTIONS

1. In the worksheet tab 01_Inputs, please confirm (or explain if not confirmed) that the quality of service multiplier (“Updated Scenario”) is found in cell [Eej].
2. In the worksheet tab 10_Current_TDues_Rates, please confirm (or explain if not confirmed) that the Rate per Piece and Rate per Kg for Period 1 (January 2015 to December 2015) shown in cells [Fa] to [Gm] are the same as the inbound letterpost rates shown in the Royal PostNL BV – United States Postal Service Strategic Bilateral Agreement, Annex 1, in the table “Netherlands to the United States,” under the columns headed 2015 Rates, subheaded Piece and Kg.
3. In the worksheet tab 11_TDues_Rates, please confirm (or explain if not confirmed) that except for International Registered Mail service and certain bags for letterpost, the Rate per Piece and Rate per Kg for Period 1 (January 2015 to December 2015) shown in cells [Ca] to [Dm] are derived by multiplying the quality of service multiplier in cell [Eej], worksheet tab 01_Inputs, and the Rate per Piece and Rate per Kg for Period 1 shown in cells [Fa] to [Gm], worksheet tab 10_Current_TDues_Rates.
4. In the worksheet tab 12_Pieces-Wgt & TDues_Rates:
 - a. Please confirm (or explain if not confirmed) that the Settlement Charge (Rate) per kg and Settlement Charge (Rate) per Piece for Period 1 (January 2015 to December 2015) shown in cells [Fa] to [Gm] are identical to the Rate per Piece and Rate per Kg for Period 1 shown in cells [Ca] to [Dm], worksheet tab 11_TDues_Rates.
 - b. Please confirm (or explain if not confirmed) that the Estimated Gross Settlement Charges (Revenues) for Period 1 (January 2015 to December 2015) shown in cells [Ha] to [Hm] are derived from the Settlement Charge (Rate) per kg and Settlement Charge (Rate) per Piece for Period 1 shown in cells [Fa] to [Gm] and the Projected Billable Kg and Projected Billable Pieces for Period 1 shown in cells [Da] to [Em].
5. In the worksheet tab 17_Proj_Cost & Revenue PR REV, please confirm (or explain if not confirmed) that for the PostNL 2014 Agreement, the total Estimated 2015 Period Revenue shown in cell [Cd] is identical to the total Estimated Gross Settlement Charges (Revenues) for Period 1 (January 2015 to December 2015) calculated by the Postal Service in cell [Ht], worksheet tab 12_Pieces-Wgt & TDues_Rates.
6. In the worksheet tab 17_Proj_Cost & Revenue PR REV:
 - a. Please confirm (or explain if not confirmed) that the SDR (Rate)/Piece and SDR (Rate)/Kg shown in cells [As] to [Bt] are the calendar year (CY) UPU default rates for inbound letterpost, which can be found in UPU IB Circular 112, June 30, 2014, Table 1.1., in the columns for items and kilograms headed: “Provisional QS linked TD rates in SDR for 2015.”

- b. Please confirm (or explain if not confirmed) that the quality of service multiplier found in cell [Eej], worksheet tab 01_Inputs, is not applied to the SDR (Rate)/Piece and SDR (Rate)/Kg shown in cells [As] to [Bt], worksheet tab 17_Proj_Cost & Revenue PR REV.
- c. Please confirm (or explain if not confirmed) that the "Provisional QS linked TD rates in SDR for 2015," found in UPU IB Circular 112, Table 1.1., are the terminal dues rates that would be paid for inbound letterpost tendered to the Postal Service by PostNL during CY 2015 in the absence of the PostNL 2014 Agreement.

CONCLUSIONS

The Postal Service is mistaken with respect to its claim that the Public Representative's conclusion is based upon a misapplication of the quality of service multiplier. As discussed above, responses to the above questions will demonstrate that the Public Representative correctly applied the multiplier to the negotiated rates of the PostNL 2014 Agreement (but not to the UPU default rates) to show that the financial results using the negotiated rates do not represent an improvement compared to the 2015 UPU default rates and therefore do not improve the net financial position of the Postal Service.

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

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