

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Priority Mail & First-Class Package Service
Priority Mail & First-Class Package Service
Contract 2

Docket No. MC2015-24

Competitive Product Prices
Priority Mail & First-Class Package Service
Contract 2 (MC2015-24)
Negotiated Service Agreement

Docket No. CP2015-32

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD PRIORITY MAIL & FIRST-CLASS
PACKAGE SERVICE CONTRACT 2 TO COMPETITIVE PRODUCT LIST

(February 4, 2015)

The Public Representative hereby provides comments pursuant to Order No. 2332.¹ 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 & First-Class Package Service Contract 2 to the competitive product list.²

The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), a public (redacted) version of Governor's Decision No. 11-6 and related analysis, a public version of Priority Mail & First-Class Package Service Contract 2, and proposed changes to the Mail Classification Schedule competitive product list with the addition underlined. The Postal

¹ Notice and Order Concerning the Addition of Priority Mail & First-Class Package Service Contract 2 to the Competitive Product List, January 28, 2015 (Order No. 2332).

² Request of the United States Postal Service to Add Priority Mail & First-Class Package Service Contract 2 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, January 22, 2015 (Request).

Service also filed (under seal) an unredacted version of Governors' Decision No. 11-6, the unredacted contract related to the proposed new product, and supporting financial data.

According to the Postal Service, Priority Mail & First-Class Package Service Contract 2 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 the instant contract are supported by Governors' Decision No. 11-6.³

The effective date of the instant contract is one business day following the day on which the Commission issues all necessary regulatory approvals. Request, Attachment B, at 3. The contract is scheduled to expire 3 years from the effective date, subject to early termination provisions. *Id.*

To clarify the Postal Service's request, the Chairman's Information Request was issued.⁴ On February 3, 2015, the Postal Service responded to CHIR No. 1.⁵

COMMENTS

The Public Representative has reviewed the Postal Service's Request, including the Statement of Supporting Justification, the contract and financial model filed under seal with the Request, as well as Responses to CHIR No. 1. Based upon that review, the Public Representative concludes that Priority Mail & First-Class Package Service Contract 2 should be categorized as a competitive product and added to the competitive product list. In addition, it appears that the instant contract should generate sufficient revenues to cover costs in its first year, and thereby satisfy the standards of 39 U.S.C. § 3633(a) during the first year.

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 Chairman's Information Request No. 1 and Notice of Filing Under Seal, January 29, 2015 (CHIR No.1).

⁵ Responses of the United States Postal Service to Chairman's Information Request No. 1, Filed Under Seal, February 3, 2015 (Responses to CHIR No.1).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Priority Mail & First-Class Package Service Contract 2 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 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. These assertions appear reasonable. Based upon these assertions, the Public Representative concludes that the Postal Service’s Request to add Priority Mail & First-Class Package Service Contract 2 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 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 and the contract filed under seal with the request, it appears that the negotiated prices should generate sufficient revenues to cover costs during the first year of the contract, and therefore meet the requirements of 39 U.S.C. § 3633(a) during the first year.

As noted above, the instant contract is expected to remain in effect for a period of three years. The Postal Service’s financial model does not demonstrate that the contract will comply with the requirements of 39 U.S.C. § 3633(a) during the three-year period of the contract. Moreover, the contract’s mechanism for setting up prices for subsequent years⁶ leads to a concern that cost coverage for the contract would decline

⁶ See Request, Attachment B at 2-3.

- assuming costs rise over the three-year period. This concern is mitigated somewhat by the fact that the Postal Service must file cost, revenue and volume data in future Annual Compliance Reports. This data will permit the Commission to annually review the financial results for Priority Mail & First-Class Package Service Contract 2 to ensure it continues to comply with the requirements of 39 U.S.C. § 3633(a).

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

Lyudmila Bzhilyanskaya
Public Representative

901 New York Ave. NW
Washington, DC 20268-0001
202-789-6849
lyudmila.bzhilyanskaya@prc.gov