

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

Before Commissioners:

Robert G. Taub, Acting Chairman;  
Tony Hammond, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Nanci E. Langley

Competitive Product Prices  
Priority Mail Contract 77 (MC2014-18)  
Negotiated Service Agreement

Docket No. CP2014-31

ORDER APPROVING AMENDMENT TO  
PRIORITY MAIL NEGOTIATED SERVICE AGREEMENT

(Issued April 23, 2015)

I. INTRODUCTION

The Postal Service seeks to amend a Priority Mail negotiated service agreement.<sup>1</sup> For the reasons discussed below, the Commission approves the Amendment.

In Order No. 2010, the Commission approved the Priority Mail Contract 77 negotiated service agreement (Existing Agreement).<sup>2</sup> On April 10, 2015, the Postal Service filed notice that it has agreed to the Amendment to the Existing Agreement. On

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<sup>1</sup> Notice of United States Postal Service of Change in Prices Pursuant to Amendment to Priority Mail Contract 77, April 10, 2015 (Notice). The Amendment is an attachment to the Notice (Amendment).

<sup>2</sup> See Docket Nos. MC2014-18 and CP2014-31, Order Adding Priority Mail Contract 77 to Competitive Product List, March 7, 2014 (Order No. 2010).

April 14, 2015, the Commission issued an order reopening this docket to consider the Amendment, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>3</sup>

The Postal Service intends for the Amendment to become effective one business day after the date that the Commission completes its review of the Notice. Notice at 1. The Postal Service filed supporting financial documentation and a certified statement, as required by 39 C.F.R. § 3015.5. *Id.* The Postal Service asserts that the Amendment will not impair the ability of the contract to comply with 39 U.S.C. § 3633. Notice, Attachment B at 1.

## II. COMMENTS

Comments were filed by the Public Representative.<sup>4</sup> No other person submitted comments. The Public Representative reviewed the Amendment and the Existing Agreement. *Id.* at 2. Based on that review, he concludes that the changes to the Existing Agreement, as amended, are not likely to have a material effect on cost coverage and recommends the Commission approve the Amendment. *Id.*

The Public Representative notes that the linkage of future price adjustments to the average increase in Priority Mail Commercial Plus prices may have the effect of reducing cost coverages if these prices do not increase. However, he states that his concern is mitigated by the fact that the Postal Service must report revenue and cost data for this contract in future Annual Compliance Reports, allowing the Commission to review the financial results for this contract. *Id.*

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<sup>3</sup> Order No. 2441, Notice and Order Concerning Amendment to a Priority Mail Negotiated Service Agreement, April 14, 2015.

<sup>4</sup> Public Representative Comments on Postal Service Notice of Amendment to Priority Mail Contract 77, April 16, 2015 (PR Comments).

### III. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the accompanying materials filed under seal, and the comments filed by the Public Representative.

*Cost considerations.* The Commission reviews competitive product prices to ensure that each product covers its attributable costs, does not cause market dominant products to subsidize competitive products, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if a product covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

The Amendment makes adjustments to the volume-related tier structure used to calculate prices and changes the methodology for the annual adjustment, which will now be based on the most recent average increase in prices of general applicability for Priority Mail Commercial Plus. Notice, Attachment A at 1-2.

Based on a review of the record, the Commission finds that the Existing Agreement, as amended, should cover its attributable costs. 39 U.S.C. § 3633(a)(2). For this reason, it finds that the Existing Agreement, as amended, 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). Similarly, it finds the amended agreement is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). *See also* 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the Amendment indicates it is consistent with section 3633(a). The annual rate adjustment provision in section I.F. of the amended agreement should allow the amended agreement's revenues to cover costs for the duration of its term. The Commission will continue to review the cost coverage of the amended agreement in its Annual Compliance Determination to ensure that rates cover costs.

*Other considerations.* The Postal Service states that the Amendment shall become effective on the day after the date that the Commission completes its review.<sup>5</sup>

If the Existing Agreement, as amended, is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

In conclusion, the Commission approves the Existing Agreement, as amended.

#### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission approves the Priority Mail Contract 77 negotiated service agreement, as amended.
2. The Postal Service shall notify the Commission if the Existing Agreement, as amended, terminates prior to the scheduled expiration date.

By the Commission.

Shoshana M. Grove  
Secretary

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<sup>5</sup> The Existing Agreement's expiration date was not altered as part of the Amendment.