

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Parcel Return Service
Parcel Return Service Contract 8

Docket No. MC2015-51

Competitive Product Prices
Parcel Return Service Contract 8 (MC2015-51)
Negotiated Service Agreement

Docket No. CP2015-73

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD
PARCEL RETURN SERVICE CONTRACT 8
TO COMPETITIVE PRODUCT LIST

(May 26, 2015)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to Order No. 2490.¹ 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 Parcel Return Service Contract 8 to the competitive product list.²

II. BACKGROUND

The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a) and proposed changes to the Mail

¹ Notice and Order Concerning the Addition of Parcel Return Service Contract 8 to the Competitive Product List, May 18, 2015 (Order No.2490).

² Request of the United States Postal Service to Add Parcel Return Service Contract 8 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, May 15, 2015 (Request).

Classification Schedule competitive product list. The Postal Service also filed (under seal) a contract related to the proposed new product, a copy of Governors' Decision No. 11-6³ and accompanying analysis.

As the Postal Service indicates in the Request, the instant contract will replace the contract that is the subject of Docket Nos. MC2013-46 and CP2013-60.⁴ According to the Postal Service, Parcel Return Service Contract 8 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.

The effective date of the instant contract is one business day following the day on which the Commission issues all necessary regulatory approval. Request, Attachment B, at 4. The Contract is scheduled to expire 3 years after the effective date. *Id.*

III. COMMENTS

The Public Representative has reviewed the instant contract, the Statement of Supporting Justification and the financial data filed under seal with the Request. The Public Representative concludes that Parcel Return Service Contract 8 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 in its first year is expected to generate sufficient revenues to cover costs and thereby satisfy the requirements of 39 U.S.C. § 3633(a).⁵

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 Docket Nos. MC2013-46 and CP2013-60, Order Adding Parcel Return Service Contract 4 to the Competitive Product List, May 8, 2013 (Order No.1711). See also Request of the United States Postal Service to Add Parcel Return Service Contract 4 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, April 29, 2013.

⁵ The proposed Parcel Return Service Contract 8 will be replacing the existing Parcel Return Service Contract 4 subject of the Docket Nos. MC2013-46 and CP2013-60. After reviewing the contract's revenue and cost data filed with the FY2014 Annual Compliance Report (ACR), the Public Representative

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Parcel Return Service Contract 8 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 power 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. These assertions appear reasonable. Based upon these assertions, the Public Representative concludes that the Postal Service’s Request to add Parcel Return Service Contract 8 to the competitive product list is appropriate.⁶

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, it appears that the negotiated prices in the instant contract 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, Parcel Return Service Contract 8 is expected to remain in effect for a period of three years. The Postal Service’s financial model does not demonstrate

concludes that in FY 2014, the contact subject of the Docket Nos. MC2013-46 and CP2013-60 covered costs and satisfied the requirements of 39 U.S.C. § 3633(a).

⁶ Since instant contract will be replacing Parcel Return Service Contract 4 subject of the Docket Nos. MC2013-46 and CP2013-60, the Public Representative assumes that Parcel Return Service Contract 4 will be cancelled simultaneously with the approval of Parcel Return Service Contract 8, subject of the current dockets.

that the contract will comply with the requirements of 39 U.S.C. 3633(a) during the three-year period. However, the contract contains the term for the annual adjustment of prices. Request, Attachment B at 3-4. It should help maintain the contract's ability to comply with the requirements of 39 U.S.C. 3633(a) over the life of the contract. The Commission will have an opportunity to review the revenue and cost data for Parcel Return Service Contract 8 in the future Annual Compliance Determination (ACD) Reports. That will aid the Commission in ensuring that the Parcel Return Service Contract 8 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.

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