

ORDER NO. 2513

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
Global Expedited Package Services Contracts
Non-Published Rates

Docket No. MC2015-23

Competitive Product Prices
Global Expedited Package Services Contracts
Non-Published Rates 5 (MC2015-23)

Docket No. CP2015-65

ORDER APPROVING CHANGES IN PRICES AND MODEL CONTRACT AND ADDING
REDESIGNATED GLOBAL EXPEDITED PACKAGE SERVICES—NON-PUBLISHED
RATES 6 TO THE COMPETITIVE PRODUCT LIST

(Issued May 27, 2015)

I. INTRODUCTION

The Postal Service asks the Commission to approve a change in rates not of general applicability for the Global Expedited Package Services—Non-Published Rates

(GEPS—NPR) 5 Version 2 product.¹ Request at 4. For the reasons discussed below, the Commission approves the Request, redesignates GEPS—NPR 5 Version 2 as GEPS—NPR 6, and adds GEPS—NPR 6 to the Competitive Product List.

II. BACKGROUND

Initial Commission action. In Order No. 2476, the Commission noticed the Request, described the accompanying supporting documentation (including an application for non-public treatment of certain material), appointed a Public Representative, and provided the public with an opportunity to comment.²

GEPS—NPR product history. The GEPS—NPR grouping offers incentive pricing to small-and medium-sized businesses that satisfy prescribed capability requirements and make a contractual commitment to generate minimum levels of revenue through the use of Priority Mail Express International (PMEI), Priority Mail International (PMI), and (since the addition of GEPS—NPR 3) Global Express Guaranteed (GXG). Notice at 5.

Under an approach developed in several orders, the Commission authorizes the Postal Service, following approval of a GEPS—NPR product, to enter into standard agreements and to file the executed agreements for review after execution, subject to several conditions.³ The latter include filing requirements, such as notice of the fact that the Postal Service has entered into a GEPS—NPR contract, the effective date, the

¹ Notice of the United States Postal Service of Change in Prices for Global Expedited Package Services—Non-Published Rates 5 (GEPS-NPR 5 Version 2) and Application for Non-Public Treatment of Materials Filed Under Seal, May 7, 2015 (Notice). The model contract was filed pursuant to 39 U.S.C. § 3633; 39 C.F.R. § 3015.5. *Id.* at 1, 9.

² Notice and Order Concerning Global Expedited Package Services—Non-Published Rates 5 Version 2, May 11, 2015 (Order No. 2476).

³ See Docket No. CP2011-45, Order Adding Global Expedited Package Services—Non-Published Rates 2 to the Competitive Product List, December 30, 2010 (Order No. 630); Docket Nos. MC2012-4 and CP2012-8, Order Approving Postal Service Request to Add Global Expedited Package Services—Non-Published Rates 3 (GEPS—NPR 3) to Competitive Product List, January 20, 2012 (Order No. 1161); and Docket Nos. MC2013-27 and CP2013-35, Order Adding Global Expedited Package Services—Non-Published Rates 4 (GEPS—NPR 4) to the Competitive Product List, January 16, 2013 (Order No. 1625).

termination date, and quarterly results. See *generally* Order Nos. 630 and 1161, as revised by Order No. 1333.⁴ In addition, the Commission has directed the Postal Service to file price changes for GEPS—NPR products in a "CP" docket and revisions to a model contract, even if minor, in an "MC" docket.⁵

The GEPS—NPR 5 product. The Commission approved the addition of GEPS—NPR 5 to the competitive product list, along with a model contract, following consideration in Docket Nos. MC2015-23 and CP2015-29.⁶ In this case, the Postal Service proposes to create GEPS—NPR 5 Version 2. In light of the new published postage prices for PMEI, PMI, and GXG scheduled to go into effect on May 31, 2015, the Postal Service presents a new management analysis and pricing methodology and identifies several differences between the GEPS—NPR 5 Version 2 contract and the GEPS NPR 5 contract filed in Docket Nos. MC2015-23 and MC2015-29. Request at 2-3, 6-7.

⁴ Docket Nos. MC2012-4 and CP2012-8, Order on Motion for Partial Reconsideration, May 4, 2012 (Order No. 1333).

⁵ See Docket Nos. MC2013-27 and CP2013-35, Order No. 1835, Order Approving Revisions to Model Contract, September 16, 2013, at 5, 6 (ordering paragraph 3); and Docket Nos. MC2013-27 and CP2014-22, Order No. 1959, Order Approving Change in Prices for Global Package Services—Non-Published Rates 4 (GEPS-NPR 4), January 10, 2014 at 5, 6 (ordering paragraph 4).

⁶ Docket Nos. MC2015-23 and CP2015-29, Order No. 2320, Order Adding Global Expedited Package Services—Non-Published Rates Contract 5 (GEPS—NPR 5) to the Competitive Product List, January 13, 2015.

III. THE POSTAL SERVICE'S POSITION

The Postal Service asserts that the model contract under consideration is almost identical to the GEPS—NPR 5 model contract reviewed in Order No. 2320. Request at 6. The Postal Service identifies the major difference between the two model contracts as the rates. *Id.* at 7. The Postal Service also lists six changes to the model agreement that are mainly administrative in nature. *Id.* at 6-7.

The Postal Service asserts that the changes in the contract do not affect the rate design used to generate rates for GEPS—NPR 5 Version 2 or the market characteristics of the GEPS—NPR product, which it claims “continues to be designed for small-and medium-sized business mailers wishing to use international expedited delivery services for their correspondence and order fulfillment.” *Id.* at 7.

With respect to new rates, the Postal Service asserts that changes are authorized by Governors’ Decision No. 11-6, which states that for Outbound International Competitive Agreements, such as GEPS—NPR 5 Version 2, “management is hereby authorized to prepare any necessary product description, including text for inclusion in the Mail Classification Schedule, and to present such product description to the Postal Regulatory Commission.”⁷ Notice at 7.

Section 3633(a). The Postal Service includes a Statement of Supporting Justification to support a finding that the GEPS—NPR 5 product’s cost coverage will ensure that cross-subsidization of this product by market dominant products should not occur and demonstrates that the product should make an ample contribution to institutional costs, in addition to covering its attributable costs. *Id.* Attachment 2D.

Filing and reporting practices. The Postal Service states that it will provide a copy of each GEPS—NPR 5 Version 2 customer agreement to the PRC, along with the financial cost inputs used to generate the rates for the customer, and the effective date of each GEPS—NPR 5 Version 2 agreement. *Id.* Attachment 2B at 6. Each GEPS—

⁷ See Governors’ Decision No. 11-6, at 1-2.

NPR 5 Version 2 contract will bear a serial number, and subsequent information filed with the Commission concerning a specific contract will be filed with reference to the applicable docket and serial number. *Id.* The Postal Service further states that all contracts using the GEPS—NPR 5 Version 2 model customer contract and the rates in the Management Analysis will be filed in a single docket and will be reported as a single competitive product in the appropriate Annual Compliance Report (ACR). *Id.*

IV. COMMENTS

Comments were filed by the Public Representative.⁸ No other comments were received.

The Public Representative's review of the Postal Service's filing leads him to conclude that the filing is consistent with the policies of title 39 of the United States Code. PR Comments at 2. The Public Representative also concludes that the amended prices should generate sufficient revenues to allow GEPS—NPR 5 Version 2 products to cover costs, and thereby be in compliance with section 3633(a). *Id.* Consequently, he suggests that the Commission approve the changes the Postal Service has filed in this docket. *Id.*

V. COMMISSION ANALYSIS

The Postal Service's Request presents two main issues: (1) whether GEPS—NPR 5 Version 2 should be added to the competitive product list, either as designated by the Postal Service or redesignated as GEPS NPR 6; and (2) whether the rates

⁸ Public Representative Comments on Notice of the United States Postal Service Change in Prices for Global Expedited Package Services—Non-Published Rates 5 (GEPS—NPR Version 2), May 21, 2015 (PR Comments). The Public Representative also filed a motion for late acceptance of his comments. Motion of the Public Representative for Late Acceptance of Comments, May 19, 2015 (Motion). The Motion is granted.

generated by the methodology presented in the accompanying financial model satisfy 39 U.S.C. § 3633(a) and 39 C.F.R. part 3015.

Based on a review of the Request and the supporting documentation, the Commission approves the Postal Service's request to add GEPS—NPR 5 Version 2 to the Mail Classification Schedule (MCS); redesignates the product as GEPS—NPR 6; and, as redesignated, adds it to the competitive product list.

Inclusion within the competitive product list. The applicable criteria, under 39 U.S.C. § 3642(b), are whether the proposed product qualifies as market dominant or competitive; is excluded from the postal monopoly; and reflects several additional considerations related to the impact on private enterprises engaged in delivery of the product, the views of those who use the product, and the likely impact on small business concerns.

The instant filing revises several aspects of GEPS—NPR 5 which, in Order No. 2320, was classified as a competitive product. In addition to new rates, the Postal Service identifies six revisions to the original contract.⁹ The Commission finds that these revisions concern routine updates or clarification of matters associated with contract administration, and do not require reconsideration of the Commission's previous determination concerning product classification. See Order No. 630.

The Postal Service once previously proposed creating a second version of an NPR contract rather than creating a new NPR product in creating GEPS—NPR 4 Version 2. See Order No. 1959. However, in this case, unlike in the GEPS—NPR 4 Version 2 contract, the new version of the model contract version 2 is not a complete replacement for the original version. Notice at 8. In this case, the Postal Service is seeking authorization contemporaneously to offer services under two different model contract vehicles, pursuant to different financial models and management analyses.

⁹ The revisions address payment methods and an updated reference to the International Mail Manual (in Article 2); permit imprint usage (in Article 5); a revised docket number (in Article 19); an additional paragraph (in Article 22); and a revised format for Rate Group 1 prices (in Annex 1). Request at 6-7.

Based on these considerations, the Commission redesignates the GEPS—NPR Version 2 model contract as GEPS—NPR 6 and adds it as a new product to the competitive product list. In future proceedings, the Postal Service should file a revised model contract that does not completely replace an earlier version of the same contract as a separate product for addition to the competitive product list.

Cost considerations. The financial model presented by the Postal Service in support of the redesignated product indicates that rates are sufficient to cover attributable costs, and that the product is not being cross-subsidized by market dominant products and should make a positive contribution to institutional costs. Thus, based on a review of the Request, supporting data, and comments, the Commission finds that the rates for GEPS—NPR 6 contracts should cover their attributable costs (39 U.S.C. § 3633(a)(2)), should not lead to the subsidization of competitive products by market dominant products (39 U.S.C. § 3633(a)(1)), and should have a positive effect on competitive products' contribution to institutional costs (39 U.S.C. § 3633(a)(3)).

Conclusion. The Commission approves the inclusion of GEPS—NPR 6 (MC2015-23 and CP2015-65) within the GEPS—NPR product grouping in the MCS and as a new product on the competitive product list.

In connection with the new product, the Postal Service, consistent with Order No. 1959, will provide a copy of each GEPS—NPR 6 customer agreement to the Commission, along with the financial cost inputs used to generate the rates for the customer, and the effective date of each GEPS—NPR 6 agreement. *Id.*, Attachment 2C at 6. All contracts using the GEPS—NPR 6 model customer contract and the rates in the Management Analysis will be filed in a single docket and will be reported as a single competitive product in the appropriate Annual Compliance Report. *Id.* In addition, each GEPS—NPR 6 contract will bear a serial number and subsequent information filed with the Commission concerning a specific contract will be filed with reference to the docket and serial number. *Id.*

VI. ORDERING PARAGRAPHS

It is ordered:

1. The Commission approves the proposed model contract filed in this case.
2. The Commission redesignates GEPS—NPR 5 Version 2 as Global Expedited Package Services—Non-Published Rates Contract 6 (MC2015-23 and CP2015-65).
3. The Commission adds Global Expedited Package Services—Non-Published Rates Contract 6 (MC2015-23 and CP2015-65) to the competitive product list within the product grouping for GEPS—NPR in the Mail Classification Schedule. Revisions to the competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective May 31, 2015.
4. Notice of changes to a model contract that is not a complete replacement for a previous version is to be filed as a new product in an "MC" docket and in a related "CP" docket.
5. Changes in rates due to changes to the GEPS—NPR 6 model contract and/or changes to the financial model must be approved in advance by the Commission pursuant to 39 C.F.R. part 3015.
6. A copy of each contract, along with the financial model inputs used to generate rates for each contract, must be filed with the Commission within a reasonable time, e.g., within 10 days of the effective date of the contract.

7. The Postal Service shall notify the Commission of the effective date of each contract. If any contract terminates earlier than scheduled, the Postal Service shall inform the Commission prior to the new termination date.
8. The Postal Service shall file, within 30 days of the end of each fiscal year quarter, costs, volumes, and revenues disaggregated by weight and country group associated with each contract that expires during that quarter, including any penalties paid.
9. The Secretary shall arrange for the publication in the *Federal Register* of an updated product list reflecting the change made in the body of this Order.

By the Commission.

Shoshana M. Grove
Secretary

CHANGES TO THE PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission’s order in Docket Nos. MC2015-23 and CP2015-65. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Outbound International*

Global Expedited Package Services (GEPS)—Non-Published Rates

Global Expedited Package Services (GEPS)—Non-Published Rates 6

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Outbound International*

Global Expedited Package Services (GEPS)—Non-Published Rates

Global Expedited Package Services (GEPS)—Non-Published Rates 6

2500 **Negotiated Service Agreements**

2510 **Outbound International**

2510.8 **Global Expedited Package Services (GEPS)—Non-Published Rates**

2510.8.7 **Products Included in Group (Agreements)**

Each product is followed by a list of agreements included within that product.

- Global Expedited Package Services (GEPS)—Non-Published Rates 6
Baseline Reference
Docket Nos. MC2015-23 and CP2015-65
PRC Order No. 2513, May 27, 2015
