

ORDER NO. 2558

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. MC2015-55

Competitive Product Prices
Global Expedited Package Services Contracts
Non-Published Rates 7 (MC2015-55)

Docket No. CP2015-83

ORDER ADDING GLOBAL EXPEDITED PACKAGE SERVICES—NON-PUBLISHED
RATES 7 TO THE COMPETITIVE PRODUCT LIST

(Issued July 1, 2015)

I. INTRODUCTION

The Postal Service asks that the Commission add Global Expedited Package Services—Non-Published Rates 7 (GEPS—NPR 7) to the competitive product list within the Mail Classification Schedule (MCS).¹ Request at 2. The Request includes

¹ Request of the United States Postal Service to Add Global Expedited Package Services – Non-Published Rates 7 (GEPS – NPR 7) to the Competitive Products List and Notice of Filing GEPS – NPR 7 Model Contract and Application for Non-Public Treatment of Materials Filed Under Seal, June 19, 2015 (Request). The model contract was filed pursuant to 39 U.S.C. § 3633; 39 C.F.R. § 3015.5. *Id.* at 1, 8.

a GEPS—NPR 7 revised model contract. Request at 3.² For the reasons discussed below, the Commission approves the Request.

II. BACKGROUND

Initial Commission action. In Order No. 2549, 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.³

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). See Request 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.⁴ Request, Attachment 2C at 1. The latter include filing requirements, such as notice of the fact that the Postal Service has entered into a

² The model contract was filed pursuant to 39 U.S.C. § 3632(b)(3) and 39 C.F.R. § 3015.5. *Id.*

³ Notice and Order Concerning the Addition of Global Expedited Package Services—Non-Published Rates Contract 7 to the Competitive Product List, June 22, 2015 (Order No. 2549).

⁴ 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); 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); Docket Nos. MC2015-23 and CP2015-29, Order Adding Global Expedited Package Services—Non-Published Rates Contract 5 (GEPS—NPR 5) to the Competitive Product List, January 13, 2015 (Order No. 2320); and Docket Nos. MC2015-23 and 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, May 27, 2015 (Order No. 2513).

GEPS—NPR contract, the effective date, the termination date, and quarterly results. See *generally* Order Nos. 630 and 1161, as revised by Order No. 1333.⁵

The GEPS—NPR 7 product. The Postal Service proposes to create GEPS—NPR 7, due to its creation of both a Management Analysis of the Prices and Methodology for Determining Prices for Negotiated Service Agreements under Global Expedited Package Services—Non-Published Rates 7 (GEPS—NPR 7 Management Analysis), and an accompanying financial model that revises the previously filed GEPS—NPR 6 Management Analysis and its financial model. Request at 2-3.

III. THE POSTAL SERVICE'S POSITION

The Postal Service asserts that the GEPS—NPR 7 model contract under consideration is almost identical to the GEPS—NPR 6 model contract reviewed in Order No. 2513. Request at 6. The Postal Service identifies the major differences between the two model contracts to be in the Management Analysis, the financial model, and the rates. *Id.* at 6-7. The Postal Service also mentions other less-substantive changes to the model agreement that are mainly administrative in nature. *Id.* at 6.

The Postal Service asserts that the changes in the contract do not affect 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.*

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 7 and all successor groupings under the GEPS—NPR 7 product, “management is hereby authorized to prepare any necessary product description, including text for inclusion in the Mail

⁵ Docket Nos. MC2012-4 and CP2012-8, Order on Motion for Partial Reconsideration, May 4, 2012 (Order No. 1333).

Classification Schedule, and to present such product description to the Postal Regulatory Commission.”⁶ Request at 6-7.

Section 3633(a). The Postal Service includes a Statement of Supporting Justification to support a finding that the GEPS—NPR 7 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. Request, Attachment 3.

Filing and reporting practices. The Postal Service states that it will provide a copy of each GEPS—NPR 7 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 7 agreement. Request, Attachment 2C at 6. Each GEPS—NPR 7 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 7 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.⁷ No other comments were received.

The Public Representative’s review of the Postal Service’s filing leads her to conclude that the filing is consistent with the policies of title 39. PR Comments at 2-3. She also concludes that the amended prices should generate sufficient revenues to

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

⁷ Public Representative Comments on Postal Service Request to Add Global Expedited Package Services—Non-Published Rates (GEPS—NPR 7) to the Competitive Product List, June 29, 2015 (PR Comments).

allow GEPS—NPR 7 products to cover costs, and thereby be in compliance with section 3633(a). *Id.* at 4. Consequently, she suggests that the Commission approve the changes the Postal Service has filed in this docket. *Id.* at 2.

V. COMMISSION ANALYSIS

The Postal Service's Request presents two main issues: (1) whether GEPS—NPR 7 should be added to the competitive product list; and (2) whether the rates generated by the revised 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 7 to the MCS, and 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 6 which, in Order No. 2513, was classified as a competitive product. In addition to the new Management Analysis and rates, the Postal Service made administrative revisions to the original contract.⁸ The Commission finds these administrative 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.

⁸ The inclusion of an additional Paragraph 33 concerning Conditions Precedent caused subsequent contract articles to be renumbered. Request at 6.

Cost considerations. The revised management analysis and financial model presented by the Postal Service in support of the GEPS—NPR 7 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 7 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 7 (MC2015-55 and CP2015-83) 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. 2513, will provide a copy of each GEPS—NPR 7 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 7 agreement. Request, Attachment 2C at 6. All contracts using the GEPS—NPR 7 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 ACR. *Id.* In addition, each GEPS—NPR 7 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 adds Global Expedited Package Services—Non-Published Rates Contract 7 (MC2015-55 and CP2015-83) 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 immediately.
3. Changes in rates due to changes to the GEPS—NPR 7 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.
4. 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.
5. 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.
6. 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.

7. 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. MC2015-55 and CP2015-83. 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 7

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 7

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 7
Baseline Reference
Docket Nos. MC2015-55 and CP2015-83
PRC Order No. 2558, July 1, 2015
Included Agreements
