

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

Before Commissioners:

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

Competitive Product Prices
Global Expedited Package Services Contracts
Non-Published Rates

Docket No. MC2016-46

Competitive Product Prices
Global Expedited Package Services Contracts
Non-Published Rates 9 (MC2016-46)

Docket No. CP2016-61

ORDER ADDING GLOBAL EXPEDITED PACKAGE SERVICES—NON-PUBLISHED
RATES CONTRACT 9 (GEPS—NPR 9) TO THE COMPETITIVE PRODUCT LIST

(Issued December 30, 2015)

I. INTRODUCTION

The Postal Service requests that the Commission add Global Expedited Package Services—Non-Published Rates Contract 9 (GEPS—NPR 9) to the competitive product list within the Mail Classification Schedule (MCS).¹ Request at 1. The Request includes

¹ Request of the United States Postal Service to Add Global Expedited Package Services - Non-Published Rates 9 (GEPS - NPR 9) to the Competitive Products List and Notice of Filing GEPS - NPR 9 Model Contract and Application for Non-Public Treatment of Materials Filed Under Seal, December 18, 2015 (Request).

a GEPS—NPR 9 revised model contract and associated workpapers. Request at 4-5.² For the reasons discussed below, the Commission approves the Request.

II. BACKGROUND

Initial Commission action. In Order No. 2909, 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), Global Express Guaranteed (GXG), and First Class Package International Service (FCPIS). See Request at 5-6.

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 9 (GEPS—NPR 9) to the Competitive Product List, December 21, 2015 (Order No. 2909).

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 See Request, Attachment 2C at 7-8. 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 termination date, and quarterly results. See *generally* Order Nos. 630 and 1161, as revised by Order No. 1333.⁵

The GEPS—NPR 9 product. The Postal Service proposes to create GEPS—NPR 9, due to its creation of a Management Analysis of the Prices and Methodology for Determining Prices for Negotiated Service Agreements under Global Expedited Package Services—Non-Published Rates 9 (GEPS—NPR 9 Management Analysis), and an accompanying financial model that revises the previously filed GEPS—NPR 8 Management Analysis and its financial model. Request at 2-3, Attachment 2C.

III. THE POSTAL SERVICE'S POSITION

The Postal Service asserts that the GEPS—NPR 9 model contract under consideration is similar to the GEPS—NPR 8 model contract reviewed in Order

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 No. 1625, Order Adding Global Expedited Package Services—Non-Published Rates 4 (GEPS—NPR 4) to the Competitive Product List, January 16, 2013; 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; Docket Nos. MC2015-23 and CP2015-65, Order No. 2513, 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; Docket Nos. MC2015-55 and CP2015-83, Order Adding Global Expedited Package Services—Non-Public Rates 7 to the Competitive Product List, July 1, 2015; Docket Nos. MC2016-05 and CP2016-05, Order Adding Global Expedited Package Services—Non-Published Rates Contract 8 to the Competitive Product List, October 23, 2015 (Order No. 2774).

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

No. 2774. *Id.* at 6. The Postal Service identifies the major differences between the two model contracts to be in the GEPS—NPR 9 Management Analysis, the financial model, and the rates. *Id.* at 6-7. The Postal Service states that the prices in Governors’ Decision No. 15-1 are the basis for the GXG, PMEI, PMI, and FCPIS ceiling prices for the GEPS—NPR 9 product grouping. *Id.* at 7.

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.* at 6-7.

With respect to new rates, the Postal Service asserts that the changes are authorized by Governors’ Decision No. 11-6, which states that for Outbound International Competitive Agreements, such as GEPS—NPR 9 and all successor groupings, “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.” *Id.* at 7.

Section 3633(a). The Postal Service includes a Statement of Supporting Justification to support a finding that the GEPS—NPR 9 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 3.

Filing and reporting practices. The Postal Service states that it will provide a copy of each GEPS—NPR 9 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 9 agreement. *Id.* Attachment 2C at 7-8. Each GEPS—NPR 9 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.* at 8. The Postal Service further states that all contracts using the GEPS—NPR 9 model customer contract and the rates in the GEPS—NPR 9

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.⁶ No other party submitted comments.

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. PR Comments at 2. He also concludes that the prices developed from the financial model should generate sufficient revenues to allow GEPS—NPR 9 products to cover marginal costs, thereby satisfying section 3633(a). *Id.* Consequently, he supports approval of the GEPS-NPR 9 prices. *Id.*

V. COMMISSION ANALYSIS

The Postal Service's Request presents two main issues: (1) whether GEPS—NPR 9 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 9 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

⁶ Public Representative Comments on Global Expedited Package Services Non-Published Rates Contract 9, December 22, 2015 (PR Comments).

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 8 which, in Order No. 2774, was classified as a competitive product. In addition to the new GEPS—NPR 9 Management Analysis and rates, the Postal Service made several additional revisions to the original contract. Request at 6. The Commission finds these revisions do not require reconsideration of the Commission’s previous determination concerning product classification. See Order No. 630.

Cost considerations. The revised management analysis and financial model presented by the Postal Service in support of the GEPS—NPR 9 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 the Public Representative’s comments, the Commission finds that the rates for GEPS—NPR 9 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 9 (MC2016-46 and CP2016-61) 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. 2774, will provide a copy of each GEPS—NPR 9 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 9 agreement. Request, Attachment 2C at 7-8. All contracts using the GEPS—NPR 9 model customer contract and the rates in the GEPS—NPR 8 Management Analysis will be filed in a single docket and will be reported as a single competitive product in the appropriate ACR. *Id.* at 8. In

addition, each GEPS—NPR 9 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 9 (MC2016-46 and CP2016-61) 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 9 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.

Stacy Ruble
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. MC2016-46 and CP2016-61. 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 9

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents changes 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 9

2500 **Negotiated Service Agreements**

2510 **Outbound International**

2510.8 **Global Expedited Package Services (GEPS)—Non-Published Rates 9**

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 9
Baseline Reference
Docket Nos. MC2016-46 and CP2016-61
PRC Order No. 2967, December 30, 2015
Included Agreements