

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

Before Commissioners:

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

Competitive Product Prices
Global Plus 1D Contracts (CP2016-193)
Negotiated Service Agreement

Docket No. CP2016-265

ORDER APPROVING ADDITIONAL GLOBAL PLUS 1D
NEGOTIATED SERVICE AGREEMENT

(Issued September 1, 2016)

I. INTRODUCTION

The Postal Service seeks to include an additional Global Plus 1D negotiated service agreement (Agreement) within the Global Plus 1D product.¹ For the reasons discussed below, the Commission approves the Postal Service's request.

II. BACKGROUND

Agreements under the Global Plus 1D product offer volume-based prices to Postal Qualified Wholesalers and other high-volume mailers that market mailing

¹ Notice of the United States Postal Service of Filing a Functionally Equivalent Global Plus 1D Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, August 22, 2016 (Notice).

services to their end-use customers who ship mail and articles via any combination of the following: International Priority Airmail, International Surface Air Lift, Priority Mail Express International, Priority Mail International, and Commercial ePacket.

On August 22, 2016, in accordance with 39 C.F.R. § 3015.5, the Postal Service filed its Notice, along with supporting documents. In the Notice, the Postal Service asserts that the Agreement is functionally equivalent to the baseline agreement for the Global Plus 1D product and requests that the Agreement be added to the existing Global Plus 1D product. Notice at 3-4. Among the supporting documents, the Postal Service included a copy of the Governors' Decision authorizing the Global Plus 1D product, the Agreement proposed to be added to the product, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Agreement, customer-identifying information, and related financial information remain under seal. *Id.* Attachment 4.

The Postal Service intends to notify the mailer of the effective date of the Agreement within 30 days after receiving Commission approval. Notice, Attachment 1 at 4. If the effective date of the Agreement is the first of the month, the Agreement will remain in effect for one calendar year unless it is terminated earlier. *Id.* If the effective date of the Agreement is not the first of the month, the Agreement is set to expire on the last day of the month in which the effective date falls in the year subsequent to the effective date unless the Agreement is terminated earlier. *Id.*

On August 23, 2016, the Commission issued a notice establishing the instant docket, appointing a Public Representative, and providing interested persons with an opportunity to comment.²

² Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, August 23, 2016.

III. COMMENTS

The Public Representative filed comments on August 29, 2016.³ No other comments were received.

Based upon a review of the Postal Service's filing, including the information filed under seal with the Commission, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement and should be added to the Global Plus 1D product. PR Comments at 2. She explains that the Agreement exhibits similar cost and market characteristics as the baseline agreement. *Id.* She also concludes "that the Agreement should meet the requirements of 39 U.S.C. § 3633(a)." *Id.* She states that "the addition of the Agreement to the Global Plus 1D product will not likely cause the Global Plus 1D product's cost coverage to fall below 100 percent" and it "should not prohibit competitive products as a whole from complying with 39 U.S.C. § 3633(a)(1) and 39 U.S.C. § 3633(a)(3)." *Id.* She notes that she reviewed the Agreement using Commission-accepted methodology, even though the financial model provided by the Postal Service includes revised inputs based on a new methodology as provided in USPS-LR-CP2016-261/NP1. *Id.* at 2-3.

IV. COMMISSION ANALYSIS

The Commission's responsibilities in this case are to ensure that the Agreement: (1) is functionally equivalent to the baseline agreement established for the Global Plus 1D product; and (2) satisfies the requirements of 39 U.S.C. § 3633 and applicable Commission rules (39 C.F.R. §§ 3015.5 and 3015.7).

Functional equivalence. In Order No. 3395, the Commission added the Global Plus 1D product to the competitive product list and designated a baseline agreement for

³ Public Representative Comments on Postal Service Notice Concerning Additional Global Plus 1D Negotiated Service Agreement, August 29, 2016 (PR Comments).

assessing the functional equivalence of other agreements proposed for inclusion within the Global Plus 1D product.⁴

The Postal Service asserts that its filing demonstrates that the Agreement is functionally equivalent to the baseline agreement, and requests that the Agreement be included within the Global Plus 1D product. Notice at 3-4. It asserts that the Agreement fits within the Mail Classification Schedule language for the Global Plus 1D product. *Id.* at 4. The Postal Service also asserts that the Agreement and the baseline agreement possess similar cost and market characteristics and the same functional terms, but states that prices may differ. *Id.* The Postal Service identifies numerous differences between the Agreement and the baseline agreement, but asserts that these differences do not affect the fundamental service being offered or the fundamental structure of the Agreement.⁵

The Commission has reviewed the Postal Service's reasons for asserting that the Agreement shares similar cost and market characteristics with the baseline agreement; meets the pricing formula and falls within the classification established in the Governors' Decision authorizing this product; and comports with 39 U.S.C. § 3633 and applicable Commission rules. It also has considered the Public Representative's comments. The Commission concludes that the Agreement is substantially similar to the baseline agreement and that the differences between them do not fundamentally alter either the service the Postal Service will provide under the Agreement or the structure of the Agreement. The Commission therefore finds that the Agreement may be included within the Global Plus 1D product.

Cost considerations. The Commission reviews each competitive product to ensure that it covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's

⁴ Docket No. CP2016-193, Order Adding Global Plus 1D to the Competitive Product List and Approval of Designation as Baseline Agreement, June 29, 2016 (Order No. 3395).

⁵ Differences include, among others, revisions to the customer name and address, revisions to the negotiated minimum revenue commitment, and revisions to Annexes 1 and 2. *Id.* at 5.

institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by a 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, a product that covers its attributable costs is likely to comply with 39 U.S.C. § 3633(a).

The Commission has reviewed the Postal Service's filing, including supporting financial analyses provided under seal, and the Public Representative's comments. Based on this review, the Commission finds that the Agreement should cover its attributable costs. The addition of the Agreement to the Global Plus 1D product will not cause cost coverage for the product to fall below 100 percent. Consequently, the Commission finds that the addition of the Agreement to the Global Plus 1D product should allow the product to continue to comply with 39 U.S.C. § 3633(a)(2). Because it finds that the addition of the Agreement to the Global Plus 1D product should allow the product to cover its attributable costs, the Commission finds that the addition of the Agreement to the product 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 addition of the Agreement to the Global Plus 1D product 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). Accordingly, a preliminary review of the Agreement indicates it is consistent with section 3633(a). The Commission will review the Agreement's cost coverage, the cost coverage of the Global Plus 1D product, and the contribution of competitive products as a whole to the Postal Service's institutional costs in the Annual Compliance Determination report to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Other considerations. The Postal Service intends to notify the mailer of the effective date of the Agreement within 30 days after receiving Commission approval. Notice, Attachment 1 at 4. The Postal Service shall promptly notify the Commission of the effective date of the Agreement. If the effective date of the agreement is the first of

the month, the Agreement will remain in effect for one calendar year. *Id.* If the effective date of the Agreement is not the first of the month, the Agreement is set to expire on the last day of the month in which the effective date falls in the year subsequent to the effective date unless the Agreement is terminated earlier. *Id.* If the Agreement is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in this docket.

Change in accepted analytical principles. In support of its request to include the Agreement within the Global Plus 1D product, the Postal Service provides non-public financial workpapers that include revised inputs from Library Reference USPS-LR-CP2016-261/NP1.⁶ The Commission previously found that the revisions in USPS-LR-CP2016-261/NP1 constitute changes in analytical principles and the Commission requested that the Postal Service initiate a proceeding under 39 C.F.R. § 3050.11 if it intended to use the new methodology in USPS-LR-CP2016-261/NP1 for other agreements.⁷ To date, the Postal Service has not initiated a proceeding under 39 C.F.R. § 3050.11. Accordingly, the Commission has not relied upon the revised inputs from USPS-LR-CP2016-261/NP1 in analyzing the Agreement in this docket.

V. ORDERING PARAGRAPHS

It is ordered:

1. The Agreement filed in Docket No. CP2016-265 is included within the Global Plus 1D (CP2016-193) product. The revision to the Mail Classification Schedule appears below the signature of this Order and is effective immediately.
2. The Postal Service shall promptly notify the Commission of the effective date of the Agreement by filing a notice in this docket.

⁶ Notice at 2. See also Docket No. CP2016-261, Notice of the United States Postal Service of Filing of USPS-LR-CP2016-261/NP1, August 17, 2016.

⁷ Docket No. CP2016-261, Order No. 3488, Order Approving Additional Global Expedited Package Services 6 Negotiated Service Agreement, August 25, 2016.

3. The Postal Service shall promptly file notice of the Agreement's termination with the Commission in this docket if the Agreement is terminated prior to the scheduled expiration date.

By the Commission.

Stacy L. Ruble
Secretary

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

2500 Negotiated Service Agreements

2510 Outbound International

2510.6 Global Plus Contracts

2510.6.6 Products Included in Group (Agreements)

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

- Global Plus 1D
Baseline Reference
Docket No. CP2016-193
PRC Order No. 3395, June 29, 2016
Included Agreements

CP2016-265, expires TBD
