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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Global Expedited Package Services 6 (MC2016-149)
Negotiated Service Agreement

Docket No. CP2016-269

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE NOTICE CONCERNING AN ADDITIONAL GLOBAL EXPEDITED PACKAGE SERVICES 6 NEGOTIATED SERVICE AGREEMENT

(September 8, 2016)

The Public Representative hereby provides comments pursuant to the Commission's Notice in this Docket.[1] In that Notice, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of filing a functionally equivalent Global Expedited Package Services 6 (GEPS 6) negotiated service agreement (Agreement).[2]

Agreements with the GEPS 6 product offer incentive pricing to mailers that send items directly to foreign destinations using Priority Mail Express International (PMEI), Priority Mail International (PMI), or First Class Package International Service. Notice at 4. Prices offered pursuant to an agreement may differ depending upon the volume or postage commitments made by the mailers. *Id.*

[1] PRC Notice Initiating Docket No. CP2016-269, September 1, 2016

[2] Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 6 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, August 31, 2016 (Notice).

Prices and classifications not "of general applicability" for GEPS agreements were previously established by Governors' Decision No. 11-6.[3] GEPS 6 was added to the competitive products list, and the contract filed in Docket No. CP2016-188 serves as the baseline agreement for comparison of functionally equivalent agreements under the GEPS 6 grouping.[4]

This additional GEPS 6 contract is intended to become effective on September 15, 2016. Notice at 3. The Agreement is expected to remain in effect for one calendar year from the effective date, subject to early termination provisions. *Id.*

The Postal Service states that the Agreement is functionally equivalent in all pertinent respects to the baseline agreement and is in compliance with the requirements of 39 U.S.C. § 3633. Notice at 5. The Postal Service therefore requests that the Agreement be added to the GEPS 6 product grouping. *Id*.

COMMENTS

The Public Representative has reviewed the Postal Service's Notice, the Agreement, and supporting financial model filed under seal as part of the Notice. Based upon that review, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement. In addition, it appears that the negotiated prices in the Agreement should generate sufficient revenues to cover costs.

Functional Equivalence. The Postal Service asserts that the Agreement shares similar cost and market characteristics as those of the contract that is the subject of Docket No. CP2016-188, which serves as the baseline agreement for the GEPS 6

[3] Decision of the Governors of the United States Postal Service on Establishment of 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] PRC Order No. 3365, Order Adding Global Expedited Package Services 6 Contracts to the Competitive Products List and Approval of designation as Baseline Agreement, Docket Nos. MC2016-149 and CP2016-188, June 14, 2016.

product grouping. *Id.* at 3. However, the Postal Service identifies differences between the Agreement and the GEPS 6 baseline agreement. *Id.* at 4-7. Most of these differences are specific to the customer (*e.g.,* the customer's name and address). Other differences between the Agreement and the GEPS 6 baseline agreement include revisions to paragraphs; revisions to numerous existing articles, as well as deletion, addition and renumbering of some articles; revision to Annex 1. *Id*.

The Postal Service maintains that these differences do not affect either the fundamental service the Postal Service is offering or the fundamental structure of the contract. *Id*. at 5. The Public Representative concludes that the Agreement exhibits similar cost and market characteristics to the baseline agreement. Therefore, the Public Representative agrees that the Agreement is functionally equivalent to the baseline agreement and should be added to the GEPS 6 product.

39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices 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.

As presented, the Postal Service's financial model does not directly address whether the addition of the Agreement to the GEPS 6 product will result in the product as a whole covering costs as required by 39 U.S.C. § 3633(a)(2). However, the Postal Service's financial model indicates that the negotiated rates in the Agreement will generate sufficient revenue to cover its attributable costs. Therefore, the addition of the Agreement to the GEPS 6 product will not likely cause the product's cost coverage to fall below 100 percent. Under this assumption, the addition of the Agreement should allow the GEPS 6 product to continue to comply with 39 U.S.C. § 3633(a)(2), and 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).

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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