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POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2013	Docket No. ACR2013

UNITED STATES POSTAL SERVICE
FY 2013 ANNUAL COMPLIANCE REPORT
(December 27, 2013)

The United States Postal Service hereby submits its Fiscal Year 2013 Annual Compliance Report (ACR or Report). The Report is submitted pursuant to 39 U.S.C. § 3652, which requires the Postal Service to file with the Postal Regulatory Commission, within 90 days after the end of each fiscal year (FY), a variety of data on “costs, revenues, rates, and quality of service,” in order to “demonstrate that all products during such year complied with all applicable requirements of [title 39].”[1]

[1] Unless specified otherwise, section numbers used herein refer to statutory provisions in title 39, United States Code.

I. OVERVIEW OF REPORT

A. Contents

This Report consists of both the present document and underlying data appended as 71 separate folders. The present document contains only the most salient information from those folders, in order to demonstrate compliance with title 39. The reader should refer to the appended folders for more detailed information. A list of the appended folders appears at the end of this document at Attachment One.[2] Each folder includes a preface document explaining its purpose, background, structure, and relationship with other materials in the Report.

Broadly speaking, there are three types of data in the appended folders: (1) product costing material; (2) intra-product cost analyses; and (3) billing determinants. The focus of the product costing material, in terms of ultimate output, is the Cost and Revenue Analysis (CRA) report, at USPS-FY13-1, and the International Cost and Revenue Analysis (ICRA) report, at USPS-FY13-NP2.[3] The intra-product cost analyses

[2] The folders are sequentially numbered and labeled as USPS-FY13-1, USPS-FY13-2, etc. Folders in the nonpublic annex, discussed in Section VI below, are labeled as USPS-FY13-NP1, USPS-FY13-NP2, etc. (with "NP" signifying "nonpublic").

[3] Commission Rule 3050.14 currently requires that the CRA be presented in two formats, one reflecting the current Mail Classification Schedule (MCS), and another reflecting the classification structure in effect prior to the adoption of the Postal Accountability and Enhancement Act of 2006 (PAEA). The latter format is referred to as the Alternative CRA; last year it appeared at USPS-FY12-NP28. As the MCS has changed over time from the pre-2007 classification structure, and particularly with the recent transfer of products from the market dominant list to the competitive list, preparation of the Alternative CRA has become a far more complex task. Indeed, because several of the classifications in the Alternative CRA no longer exist, it is virtually impossible for postal data systems to identify and track costs, volumes and other necessary data for those classifications. Thus, increasingly, the information shown in the Alternative CRA reflects assumptions more than it does actual data. In light of this, and in light of the fact that seven years have passed since the enactment of the PAEA, the Postal Service believes that the continued utility of the Alternative CRA is questionable, and in any case that its utility is now outweighed by the effort and expense needed to prepare it. Accordingly, the Postal Service has petitioned the Commission to lift the requirement to prepare the Alternative CRA for future ACRs, by striking the second sentence of Commission Rule 3050.14. In response, the Commission initiated Docket N. RM2014-2, which is now pending. Within that docket, on December 18, 2013, the Commission also issued Order No. 1913, in which as an interim measure it granted the Postal Service's request for a waiver of the

make possible the examination of workshare discounts presented in Section II below. The billing determinants set forth the volume and calculated revenue for each rate cell of every mail product.

As in previous ACRs, certain materials are presented in two versions, one public and the other nonpublic. The public versions of these materials are limited to information on individual market dominant products, and aggregate information on either competitive products as a whole or large groups of competitive products. Correspondingly, the nonpublic versions contain either disaggregated information on competitive products or information on both market dominant and competitive products in contexts in which it is not possible to segregate the two. This is discussed further in Section VI below.

Section 3652(g) of title 39 requires the Postal Service to submit, together with this Report, a copy of its most recent Comprehensive Statement. A copy of the Postal Service's FY 2013 Comprehensive Statement appears within the FY 2013 Annual Report provided as USPS-FY13-17. Similarly, a copy of the Postal Service's annual report to the Secretary of the Treasury regarding the Competitive Products Fund, required by section 2012(i) of title 39, appears at USPS-FY13-39, along with the other Competitive Products Fund materials required by Commission Rules 3060.20 through 3060.23.

B. Roadmap

A separate roadmap document is included at USPS-FY13-9. The roadmap is a technical document that consolidates brief descriptions of each of the appended folders

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requirement for purposes of this year's Report. Consequently, no FY 2013 Alternate Format CRA is submitted with this filing.

and of the flow of inputs and outputs among them. It also discusses any changes between the methodologies used to prepare this Report and the methodologies applied by the Commission in the FY 2012 Annual Compliance Determination (ACD). In addition, it includes the listing of special studies and the discussion of obsolescence required by Commission Rule 3050.12.

C. Methodology

The methodologies employed are in general also quite familiar to the Commission and parties that have historically been involved in postal ratemaking. Because heavy reliance is placed on replicating the methodologies used most recently by the Commission, the scope of new methodologies has been minimized. Postal operations and postal data collection are not entirely static, however, and consequently some minor changes in methodology are identified and discussed. This is done in two places. First, methodology changes are identified in a separate section of the roadmap document, USPS-FY13-09. Second, they are discussed in the preface accompanying each of the appended materials; often, this preface contains a discussion that is more detailed than that contained in the roadmap document. Thus, if a change relates to an area of particular interest to the reader, it may be useful to refer to the particular folder in question, rather than relying exclusively on the roadmap document. The basic costing methodologies applied are those most recently employed by the Commission. The table below lists the proposals introduced by the Postal Service, in chronological order, to change analytic principles used in the 2013 ACR.

PROPOSAL	TOPIC	FILING DATE	DOCKET	NOTICE ORDER	NOTICE DATE	FINAL ORDER	FIN ORDER DATE
Nine	Modifications to First-Class Mail, Standard Mail, and Periodicals Flats Cost Models	09/28/2012	RM2012-8	1488	10/02/2012	1656	2/14/2013
One	New Formula and Location for Alaska Air Adjustment Factor	08/16/2013	RM2013-6	1814	08/20/2013		
Two	New Set of Distribution Factors for Alaska Non-Preferential, Alaska Preferential, Hawaii, and Air Taxi Cost Pools in Cost Segment 14	08/16/2013	RM2013-6	1814	08/20/2013		
Three	New Set of Distribution Factors for Highway and Rail Plant Load Cost Pools in Cost Segment 14	08/16/2013	RM2013-6	1814	08/20/2013		
Four	Change in Canada Air Transportation Costing Methodology	08/16/2013	RM2013-6	1814	08/20/2013		
Five	Change in Methodology for Distributing Settlement Costs for Certain NSAs[1]	N/A	RM2013-6	1814	08/20/2013		
Six	Proposed Changes in SFS Handling and Philatelic Sales Cost Estimation Models	11/08/2013	RM2014-1	1877	11/14/2013		
Seven	Change in Attributable Costs for Competitive Post Office Box Service Enhancements	11/08/2013	RM2014-1	1877	11/14/2013		
Eight	Changes to MODS Operation Groups for Productivity Calculations	11/08/2013	RM2014-1	1877	11/14/2013		
Nine	Changes in In-Office Cost System (IOCS) Encirclement Rules	11/12/2013	RM2014-1	1877	11/14/2013		
	Eliminate Requirement for an Alternative Format CRA Report	11/15/2014	RM2014-2	1891	11/21/2013	1913	12/18/2013

[1]Proposal Five was not filed with the Postal Service's petition. The Commission assigned its number with Order 1814 dated August 20, 2013.

As the table indicates, the Postal Service filed a petition to consider changes in analytical principles, Proposals One through Five, in Docket No. RM2013-6 on August 16, 2013. The Public Representative filed comments on September 9, 2013. The Postal Service responded to two Chairman's Information Requests and filed reply comments. The last activity in this docket was September 23, 2013.

Although review by the Commission of Proposals One through Three is still pending, as explained below, it was not practical for the Postal Service to prepare the FY 2013 Report without employing those proposals. Proposal One requested a new readily updatable calculation and location for the Alaska Adjustment Factor (AAF). The AAF is the ratio of the hypothetical cost of contract highway transportation in Alaska to the actual air transportation cost. The AAF had not been updated since Docket No. R2005-1. The established method for computing the factor was quite complex, requiring detailed information from the Department of Transportation (DOT), surface densities, and general ledger data. In an effort to reflect the FY13 operating environment, the Postal Service initially attempted to update the factor with the established methodology. However, these efforts were unsuccessful due to the unavailability of the same DOT data that was used to compute the factor in Docket No. R2005-1. The Postal Service also realized that its current data systems can now estimate the volume variable highway long-haul cost per pound which serves as the numerator of the AAF in Proposal One. As the Postal Service explained in its petition, the new calculation method for the AAF is simpler, and is capable of being updated annually. In addition to those issues, the Commission ordered the Postal Service to report the attributable costs for Alaska Bypass, as of January 27, 2013, in the 2013 ACR. Alaska Bypass costs only occur in the Alaska Non-Preferential cost pool in cost segment 14, so an accurate AAF was critical to meeting the Commission's order of calculating Alaska Bypass attributable costs reflecting the FY13 operating environment. The combination of these factors compelled use of Proposal One in the 2013 ACR.

Proposals Two and Three offered new sets of annually updatable distribution factors for the Alaska Non-Preferential, Alaska Preferential, Hawaii, Air Taxi, Highway Plant Load, and Rail Plant Load to reflect the FY13 operating environment. The established distribution factors for these cost pools were not relevant to the current product list. Current products were being assigned transportation costs based on aged studies and incorrect cost drivers using ratios, often ones hard to justify, that attempted to map the established set of distribution factors to the current product list. As the product list has continued to change, these mappings were practically indefensible. Thus, the Postal Service set out to derive sets of updatable distribution factors that reflect the dynamic product list. Proposals Two and Three use current operational and Transportation Cost System (TRACS) data and achieved the objective of calculating defensible distribution factors to assign costs to the current product list. Again, this combination of factors compelled use of Proposals Two and Three in the 2013 ACR.

As noted in previous ACRs, to facilitate ACR preparation, it would be helpful to the Postal Service to have more timely rulings on proposals to change methodologies.[4] In addition, the Postal Service has requested that, alongside its ACD, the Commission

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[4] In its FY 2011 ACD, the Commission stated that it "expects the Postal Service to file future proposals to change analytical principles in sufficient time so that the proposals are approved before the Postal Service files its upcoming ACR." The Postal Service filed Proposals One through Four on August 16, 2013. Nonetheless, as of today, a ruling on these proposals has not been issued. Although the federal government shutdown and the dual Exigent/CPI filings certainly made this year atypical in some respects, past precedent suggests that lags between proposal filings and Commission resolution are not unusual.

also file all of the models that the Commission has applied in preparing the ACD. Such a filing would allow a central repository of the most up-to-date models to be established, and would thus enable the Postal Service, when preparing future ACRs, to confirm that it is correctly using the most up-to-date models.[2]

[2] In the past, the Postal Service has found that the Commission sometimes mistakenly reverts to prior models, when more up-to-date models have already been approved. As an example, the FY 2012 ACD, issued in March 2013, apparently relied upon the same versions of the First-Class Mail, Standard Mail and Periodicals Flats models (at ACD pages 87, 120, and 102-104, respectively) as were filed by the Postal Service in the December 2012 ACR, even though, in the interim, Proposal 9 from Docket No. RM2012-8 had been approved in Order No. 1656 (Feb. 14, 2013). Approval of Proposal 9 should have resulted in the ACR models being superseded in the ACD by the more up-to-date versions presented in that proposal. A central repository of the most up-to-date models would hopefully help prevent such occurrences.

II. MARKET DOMINANT PRODUCTS

Below, the Postal Service discusses, for each market dominant mail class, FY 2013 costs, revenues, and volumes by product, as well as intra-product workshare discounts and passthroughs. Comprehensive cost, revenue, and volume data are contained in the CRA, at USPS-FY13-1, and in the ICRA, at USPS-FY13-NP2. We expect that the cost coverages presented in those folders will continue to improve when the recently approved exigent prices go into effect. Full data regarding workshare discounts and passthroughs are contained in USPS-FY13-3.

With respect to passthroughs generally, the Postal Service reiterates its longstanding position that section 3622(e) applies over the long term, as a principle guiding pricing over a series of price adjustments. This approach is consistent with subsections (B) and (D) of section 3622(e)(2) – the efficient operation of the Postal Service and the need to mitigate rate shock necessitate a measured approach to adjusting passthroughs. It should go without saying that it would be inefficient and unduly disruptive to the Postal Service and to its customers to immediately adjust prices to correct passthroughs that exceed 100 percent. The Postal Service will look to correct those passthroughs that exceed 100 percent in its next price adjustment, which will then be reviewed by the Commission.[5]

[5] In the past, parties have complained that the Postal Service's filing of its annual price adjustment before the filing of the ACR dilutes the efficacy of the Commission's ACD, as any pricing recommendations made by the Commission in the ACD must wait nine months before they can be implemented. The Postal Service is sympathetic to this concern – it would be ideal for the Postal Service's price adjustment filings to have the benefit of a recently issued ACD. However, the Postal Service notes that the timings of the ACR and ACD are set by statute at 90 days and 180 days, respectively, after the end of the fiscal year. This cannot be changed absent new legislation. While the Postal Service could theoretically change the timing of its annual price adjustments, it presently views January as the most efficient time of the year to adjust prices, both for itself and for most of its customers. The Postal Service will continue to review the timing of its annual price adjustments in order to balance USPS, customer, and regulatory timing needs.

A. First-Class Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for First-Class Mail products appear below.

Table 1: First-Class Mail Volume, Revenue, and Cost by Product								
Product	Volume (million)	Revenue ($million)	Attributable Costs	Contribution	Revenue/ Piece	Cost/ Piece	Unit Contribution	Cost Coverage
Single-Piece Letters/Cards	22,577	$10,514	$6,197	$4,317	$0.466	$0.2745	$0.191	169.66%
Presorted Letters/Cards	41,144	$14,902	$4,800	$10,102	$0.362	$0.117	$0.246	310.46%
Flats	1,899	$2,520	$1,686	$834	$1.327	$0.888	$0.439	149.48%
Parcels	248	$580	$597	-$17	$2.341	$2.408	-$0.067	97.22%
Domestic NSA First-Class Mail	214	$80	$23	$57	$0.374	$0.107	$0.267	350.08%
First-Class Mail Fees		$136						
Total First-Class Domestic Mail (incl. fees)	66,081	$28,732	$13,302	$15,430	$0.435	$0.201	$0.233	216.0%
Outbound Single-Piece First-Class Mail Int'l	231	$458	$321	$136	$1.977	$1.389	$0.588	142.37%
Inbound Single-Piece First-Class Mail Int'l	226	$150	$228	-$78	$0.662	$1.010	-$0.348	65.58%
Total First-Class Mail	66,538	$29,339	$13,852	$15,488	$0.441	$0.208	$0.233	211.8%

As shown above, with the exception of First-Class Mail Parcels and Inbound Single-Piece First-Class Mail International, all First-Class Mail products covered their attributable costs in FY 2013, with most of them contributing significantly to institutional costs. This comports with the historical role of First-Class Mail as providing the highest contribution to institutional costs of all mail classes. The decline in First-Class Mail volume continues, but at a slowing rate: 6.6 percent in FY2010, 6.4 percent in FY2011, 5.6 percent in FY2012, and 4.2 percent (or 2.9 billion pieces) in FY2013. .

The cost coverage of First-Class Mail Parcels fell from 110.0 percent in FY 2011 to 98.4 percent in FY 2012. This likely stemmed from the transfer of commercial First-Class Mail Parcels to the competitive product list; only the retail portion of the product remains on the market dominant product list. In FY2013 there has been a small decline in this cost coverage to 97.2 percent. Based on the recently approved price increases to be implemented on January 26, 2014, the cost coverage for First-Class Mail Parcels will be well over 100 percent.

The failure of Inbound Single-Piece First-Class Mail International to cover its attributable costs stems from the product's unique pricing regime. The Postal Service does not independently determine the prices for delivering foreign origin mail. Rather, these prices are set according to a Universal Postal Union (UPU) terminal dues formula established in the Universal Postal Convention; for the majority of the mail, the formula is based on a percentage of the one-ounce retail Single-Piece First-Class Mail price, while the remainder is priced based on a set rate per kilo, instead of on actual costs. New terminal dues rates effective January 1, 2014 are expected to have a positive effect on revenue and cost coverage for both target and transition countries in FY14.

2. Workshare Discounts and Passthroughs

i. Single-Piece Letters and Cards

The First-Class Mail Single-Piece Letters/Postcards product has one worksharing discount, which is applicable to both Qualified Business Reply Mail (QBRM) Letters and QBRM Cards. The passthrough for both QBRM Letters and Cards is 113.3 percent. A brief history of this particular passthrough shows that the calculated passthrough for this discount decreased from 287.5 percent in FY 2011 to 129.4 percent in FY 2012. This reduction came about due to a significant increase in the avoided costs, from 0.8 cents to 1.7 cents, and a reduction in the QBRM discount, from 2.3 cents to 2.2 cents. On January 26, 2013, due to the pricing resulting from Docket No. R2013-1, the discount was reduced further to 1.7 cents, matching the FY 2012 avoided costs. In Docket No. R2013-10 the Postal Service maintained the discount at 1.7 cents, thereby, maintaining a 100 percent passthrough. The current cost avoidance estimate is 1.5 cents causing this passthrough to rise above 100 percent. With the approval of the Exigent prices filed in Docket No. R2013-1, the passthrough for QBRM postcards (but not for QBRM Letters) will be below 100 percent. Since there is no statutory exception to address the structural lag between estimation of new cost avoidances and pre-existing discounts, the Postal Service is not relying on the statutory worksharing exceptions. For both QBRM Letters and Postcards, the Postal Service plans to eliminate the portion of the discount above avoided costs as soon as practicable.

ii. Presorted Letters and Cards

Out of the seven First-Class Mail Presorted Letters and Cards workshare discounts, the passthroughs for two exceed 100 percent: Mixed AADC Automation Letters, and Mixed AADC Automation Cards.

The passthrough for Mixed AADC Automation Letters is 103.8 percent. On January 26, 2014, the discount will become 4.5 cents, which is lower than the current estimate of the cost avoidance of 5.3 cents. Since there is no statutory exception to address the structural lag between estimation of new cost avoidances and pre-existing discounts, the Postal Service is not relying on the statutory worksharing exceptions.

The passthrough for Mixed AADC Automation Cards is 176.9, compared to 227.3 percent in ACD 2012. The cost avoidance associated with the discount has fallen quickly in the recent past – from 2.7 cents in FY 2010, to 1.9 cents in FY 2011, to 1.1 cents in FY 2012. In the instant docket the trend has reversed somewhat, with the cost avoidance increasing to 1.3 cents. The discount was reduced to 2.3 cents in Docket No. R2013-1, with a further reduction to 1.5 cents in Docket No. R2013-10. The Postal Service has already made substantial progress in terms of reducing the discount, and the small increase in the cost avoidance has also helped. Changing the discount rapidly enough to match the reductions in the cost avoidance immediately would cause abrupt changes in prices for the mailers and markets. Instead, the Postal Service intends to eliminate the portion of the discount above avoided costs, as soon as practicable, while taking into consideration other business needs. The Commission, moreover, found that the 136.4 percent passthrough in Docket No. R2013-10 was justified under the statutory criteria.[6] The 115.4 percent (1.5 cents divided by 1.3 cents) passthrough resulting from the Docket No. R2013-10 discount and the current cost avoidance is similarly justified.

iii. Flats

All three of the First-Class Mail Flats passthroughs exceed 100 percent: Automation ADC Flats, Automation 3-Digit Flats and Automation 5-Digit Flats. The Automation ADC Flats passthrough is 140.8 percent, a reduction compared to the 158.7 percent passthrough in ACD 2012. The Postal Service has been steadily bringing this passthrough toward 100 percent – from 277.3 percent in FY 2010, to 214.3 percent in FY 2011, 158.7 percent in FY 2012, 140.8 percent in FY2013, and 128.2 percent (9.1

[6] Order No. 1890 at 44 (November 21, 2013)

cents divided by 7.1 cents) using the Docket No. R2013-10 discount and the current cost avoidance. Given the volatility of cost avoidances, the progress made in recent price changes, and the Commission's acceptance of a 112.3 percent passthrough in Docket No. R2013-10, the Postal Service is not relying on any of the statutory exceptions. Instead, it intends to eliminate the portion of the discount above avoided costs, as soon as practicable, while taking into account relevant business considerations.

The 3-Digit Automation Flats passthrough is 127.8 percent . The cost avoidance was 5.7 cents in ACD 2012.[7] In Docket No. R2013-10, the Postal Service increased this discount to 5.7 cents to match the cost avoidance, but now the cost avoidance has shrunk to 3.6 cents. If the Proposal 8 methodology in Docket No. RM2014-1 is approved, then the cost avoidance will increase to 5.3 cents which is substantially closer to the 5.7 cent discount that will go into effect in January 2014. Since there is no statutory exception to address the structural lag between estimation of new cost avoidances and pre-existing discounts, the Postal Service is not relying on the statutory worksharing exceptions. The Postal Service plans to eliminate the portion of the discount above avoided costs as soon as practicable.

The 5-Digit Automation Flats passthrough is 133.3 percent. The cost avoidance was 17.4 cents in FY 2010, grew to 18.8 cents in FY 2011, and then unexpectedly shrank to 14.3 cents in FY 2012. The FY2013 estimate is 14.1 cents. In Docket No. R2013-1, the Postal Service set the discount at 18.8 cents, matching the FY 2011 cost avoidance. In Docket No. R2013-10 the Postal Service dropped this discount to 18.3

[7] PRC-ACR2012-LR2-FY2012 First-Class Mail FY2012FCM-Prsrt_Flats_PRC2.xls

cents. Reducing the discount an additional 4 cents immediately would lead to rate shock.[8] Instead, the Postal Service intends to reduce the discount to match the cost avoidance over time, while taking into consideration other business needs. The Postal Service therefore justifies the passthrough pursuant to section 3622(e)(2)(B). More generally, the Postal Service must move slowly when cost avoidances swing back and forth.

iv. First-Class Mail Promotions

There were five First-Class Mail promotions in effect in Fiscal Year 2013: the Holiday Mobile Shopping Promotion, the Mobile Coupon and Click-to-Call Promotion, the Picture Permit Promotion, the Emerging Technologies Promotion, and the Earned Value Promotion.

1. Holiday Mobile Shopping Promotion

The 2012 Holiday Mobile Shopping Promotion (November 7 – November 21, 2012) provided business mailers with an upfront 2 percent postage discount on First-Class Mail letters, flats, and cards (presort and automation) that included a mobile barcode or print/mobile technology that could be read or scanned by a mobile device and that led the recipient to a mobile optimized website. Mailers could also qualify for an additional 1 percent rebate on the postage of their qualifying mailings, if a portion of their orders were fulfilled via Priority Mail with USPS Tracking between November 9, 2012 and December 31, 2012. Over the course of the program period, the Postal Service issued $151,000 in discounts for 21 million First-Class Mail pieces.

[8] This would require approximately a 10 percent increase above the approved Docket No. R2013-10 price. The price for 5-Digit Automation Flats is already increasing over 3 percent, well above the average increase.

2. Mobile Coupon and Click-to-Call Promotion

The Mobile Coupon and Click-to-Call Promotion (March 1 – April 30, 2013), offered business mailers a 2 percent postage discount on First-Class Mail letters, flats, and cards (presort and automation) that used a mobile barcode or other technology that either led the recipient to a digital coupon, or to a site that initiated a one-touch phone call on a mobile device. Over the course of the program, the Postal Service issued $851,000 in discounts for 117 million First-Class Mail pieces.

3. Picture Permit Promotion

The Picture Permit Promotion (August 1 – September 30, 2013) waived the fees (First-Class Mail Letters and Cards = 1¢ fee per mailpiece) for business mailers who registered for the promotion and were pre-approved to use the Picture Permit Indicia. Over the course of the program period, the Postal Service waived $2,000 in fees for 203,000 First-Class Mail pieces.

4. Emerging Technologies Promotion

The Emerging Technologies Promotion (August 1 – September 30, 2013) offered business mailers a 2 percent postage discount on First-Class Mail letters, flats, and cards (presort and automation) that incorporated innovative technology, such as Near-Field Communication, Augmented Reality, and Authentication. Over the course of the program, the Postal Service issued $643,000 in discounts for 86 million First-Class Mail pieces.

5. Earned Value Promotion

The Earned Value Promotion (April 1 – June 30, 2013) offered participating mailers the opportunity to earn rebate credits of 2 cents per scanned Courtesy Reply Mail (CRM) or Business Reply Mail (BRM) letter or postcard. Mailers could use the credit toward future mailings of First-Class Mail letters and flats. Over the course of the program period, the Postal Service issued $10.7 million credits, of which $3.5 million were used for First-Class Mail letters and flats in FY2013.

B. Standard Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Standard Mail products appear below.

Table 2: Standard Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue ($million)	Attributable Costs	Contribution	Revenue/ Piece	Cost/ Piece	Unit Contribution	Cost Coverage
HD/Sat Letters	5,712	$805	$341	$464	$0.141	$0.060	$0.081	235.8%
HD/Sat Flats & Parcels	11,338	$1,930	$843	$1,087	$0.170	$0.074	$0.096	229.0%
Carrier Route	9,507	$2,373	$1,779	$594	$0.250	$0.187	$0.062	133.4%
Letters	46,835	$9,282	$4,911	$4,372	$0.198	$0.105	$0.093	189.0%
Flats	5,568	$2,134	$2,514	($380)	$0.383	$0.452	($0.068)	84.9%
Parcels	72	$70	$110	($39)	$0.973	$1.513	($0.540)	64.3%
Every Door Direct Mail Retail	975	$138	$38	$100	$0.142	$0.039	$0.103	359.9%
Standard Mail NSAs	953	$196	$85	$111	$0.206	$0.089	$0.116	230.0%
Standard Mail Fees		$56						
Total Standard Mail (incl. fees)	80,960	$16,985	$10,621	$6,364	$0.210	$0.131	$0.079	159.9%

As shown above, all Standard Mail products other than Standard Mail Parcels and Standard Mail Flats covered their attributable costs in FY 2013. As a class, Standard Mail covered its attributable costs and contributed significantly to institutional costs.

Under section 3626(a)(6), when the Postal Service adjusts Standard Mail prices, the estimated average revenue per piece for Standard Mail sent by nonprofit mailers must equal, as nearly as practicable, 60 percent of the estimated average revenue per piece for Standard Mail sent by commercial customers. For FY 2013, the ratio was 59.7 percent.

Standard Mail Parcels' cost coverage declined from 85.5 percent in FY2012 to 64.3 percent in FY 2013. This decline comes on the heels of repeated above average price increases – i.e. 2.864 percent in January 2012 (vs 2.041 percent class average); 3.081 percent in January 2013 (vs 2.569 percent class average); and 1.820 percent (based on Docket No. R2013-10) in January 2014 (vs 1.642 percent class average). Despite these aggressive pricing efforts, however, several issues have caused this product's cost coverage to decline. First, on January 22, 2012, a large portion of the Parcels product – specifically, commercial Standard Mail machinable and irregular parcels generally used for fulfillment purposes – transferred to the competitive product list. At the same time, a portion of the Parcels product (formerly titled Non Flat-Machinables) became Marketing Parcels, with different mailing standards. These changes have left the remaining Standard Mail Parcels product with a significantly higher proportion of nonprofit mailpieces, driving down cost coverage. In addition, unit costs for this product increased significantly in FY2013. Consequently, the Standard Mail Parcels product is likely to continue to have a cost coverage below attributable costs in FY 2014. Nevertheless, the Postal Service is committed to improving this product's cost coverage by proposing above average price increases in future price adjustments.

Standard Mail Flats had a cost coverage of 84.9 percent in FY 2013, an increase of 4.2 percentage points over FY 2012. This increase follows the 1.4 percent cost coverage improvement reported in the FY2012 ACD, which reversed three consecutive years of declines. This continuing cost coverage improvement in Flats was realized notwithstanding a 6.3 percent decline in volume in FY 2013. As the Postal Service has stated in the past, it agrees with the Commission that having products cover their costs is an appropriate long-term goal.[9] The improved FY13 cost coverage takes a significant step toward that goal.

In Order No. 1472, the Commission directed the Postal Service, as part of its Annual Compliance Report (ACR) for Fiscal Year (FY) 2012, to "respond to the specific remedy adopted by the 2010 ACD by presenting a schedule of future price adjustments for Standard Mail Flats."[10] With respect to the specific remedy, the Annual Compliance Determination (ACD) for FY 2010 required the Postal Service to present "a schedule of future above-CPI price increases for Standard Mail Flats."[11] The Postal Service complied with the Commission order by presenting a three-year schedule of above average CPI price increases for Standard Mail Flats in the ACR for FY2012.[12] The Commission approved the schedule of above average price increases in its ACD for FY2012.[13] In compliance with the Commission's order in the ACD for FY2010, Table 3,

[9] *See, e.g.*, Docket No. ACR2012, United States Postal Service FY 2012 Annual Compliance Report, at 15 (December 28, 2012) (*hereafter* "ACR for FY2012").
[10] Docket No. ACR2010-R, Order No. 1472: Notice and Order Confirming Termination of Stay, at 3 (Sept. 21, 2012).
[11] Docket No. ACR2010, Annual Compliance Determination Report for Fiscal Year 2010, at 107 (March 29, 2011) (*hereafter* "ACD for FY2010"). Additionally, this report required that the schedule of above average price increases be updated during each subsequent market-dominant price adjustment and Annual Compliance Report. *Id*.
[12] ACR for FY2012, at 19.
[13] ACD for FY2012 at 115-116.

below, updates the approved schedule through 2016. As the Postal Service argued in Docket No. R2013-10, a two-year time horizon is appropriate for the schedule of above average price increases, because of the Commission's responsibility to review the system for regulating rates and classes of market dominant products in 2016.[14]

Table 3 – Planned Standard Mail Flats Price Increases

Year	Planned Flats Price Increases
2015	CPI * 1.05
2016	CPI * 1.05

2. Workshare Discounts and Passthroughs

i. Letters

Three workshare passthroughs for Standard Mail Letters exceed 100 percent: Nonautomation ADC Nonmachinable Letters, Nonautomation 3-Digit Nonmachinable Letters, and Nonautomation 5-Digit Nonmachinable Letters.

The Nonautomation ADC Nonmachinable Letters passthrough is 135.7 percent. The cost avoidance increased from 7.9 cents in FY 2011 to 8.0 cents in FY 2012, and decreased to 7.0 cents in FY 2013. Pursuant to Order No. 1890, on January 26, 2014, the discount will be reduced from 9.5 cents in FY 2013 to 9.3 cents. Given the volatility of cost avoidances, the progress made in recent price changes, and the Commission's acceptance of a 116.3 percent passthrough in Docket No. R2013-10, the Postal Service is not relying on any of the statutory exceptions. Instead, it intends to eliminate the portion of the discount above avoided costs, as soon as practicable, while taking into account relevant business considerations.

[14] 39 U.S.C. § 3622(d)(3).

The Nonautomation 3-Digit Nonmachinable Letters passthrough is 161.9 percent. The cost avoidance increased from 2.5 cents in FY 2011 to 2.7 cents in FY 2012, and decreased to 2.1 cents in 2013. This discount was 3.9 cents in ACD 2012 and reduced to 3.4 cents in R2013-1 and, furthermore, pursuant to Order No. 1890, on January 26, 2014, the discount will be reduced to 3.1 cents. Aligning the discount and avoided cost would result in a price increase as high as 10.4 percent. In order to avoid a significant price increase that could result in rate shock, the Postal Service intends to continue reducing the discount until the passthrough reaches 100 percent. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B). Moreover, this discount encourages mailers to enter more finely presorted mail. Given the fewer number of processing plants, reduction of the passthroughs could lead to additional allied operations, manual processing, and transportation costs. The Postal Service also justifies this passthrough pursuant to section 3622(e)(2)(D).

The Nonautomation 5-Digit Nonmachinable Letters passthrough is 137.7 percent. The cost avoidance increased from 7.6 cents in FY 2011 to 7.7 cents in FY 2012 and decreased to 6.9 cents in 2013. For context, the Postal Service also notes that the cost avoidance was 10.5 cents in FY 2010. Pursuant to Order No. 1890, On January 26, 2014, the discount will decrease from 9.5 cents to 9.3 cents. Aligning the discount and avoided cost would result in a price increase as large as 20.3 percent. In order to avoid a significant price increase that could result in rate shock, the Postal Service intends to continue reducing the discount until the passthrough reaches 100 percent. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B). Moreover, this discount encourages mailers to enter more finely presorted mail. Given the fewer number of processing plants, reduction of the passthroughs could lead to additional allied operations, manual processing, and transportation costs. The Postal Service also justifies this passthrough pursuant to section 3622(e)(2)(D).

The Postal Service also notes that the FY 2013 cost avoidance for Standard Mail Automation Mixed AADC Letters reversed signs to 0.2 cents from negative 0.3 cents in FY 2012. This can be compared to the positive 1.8 cent cost avoidance in FY 2011. The new cost avoidance corrects the negative passthrough.[15] The Commission recently approved a 1.1 cent discount in Docket No. R2013-10, despite the negative 0.3 cents cost avoidance. Order No.1890 at 81. This barcoding discount encourages mailers to provide an Intelligent Mail barcode (IMb) on their mailpieces, which improves operational efficiency. The Postal Service justifies this passthrough pursuant to section 3622(e)(2)(D). Given the recent volatility in cost avoidance, the Postal Service intends to eliminate the portion of the discount above avoided costs as soon as practicable, consistent with operational conditions.

ii. Flats

Before discussing each specific Flats passthrough that exceeds 100 percent, it is important to highlight the decline in Flats cost avoidances over the past few years. Such a discussion will help illustrate one of the major difficulties faced by the Postal Service each year when it attempts to align workshare discounts with avoided costs.

[15] It appears that the main factors that served to reduce the 'OUT BCS SECONDARY' productivity in FY2012 were temporary. See Docket No. ACR2012, responses to ChIR No. 4, questions 18(a), 22, and 23. Thus, in FY2013 that productivity has increased to a level more in line with longer-term trends, which reduces the cost of sorting Automation Mixed AADC pieces.

Flats cost avoidances are declining faster than the Postal Service can reasonably reduce the existing discounts.

To begin, between any two years a number of factors can influence cost avoidances: 1) changes in operating practices such as plant consolidations; 2) the introduction of new equipment such as the Flats Sequencing System (FSS); 3) changes in cost calculation methodologies; 4) wage changes; and 5) mail preparation changes. Of these potential changes, increased mechanization (due to network changes) and the introduction of FSS have had the most significant impacts in recent years.

Indeed, beginning in FY 2010, a gradual decline in the modeled costs of MADC, ADC, and 3D pieces (both automation and non-automation) can be seen. This decline corresponds with the increased usage of mechanized equipment such as the APPS and AFSM 100, due primarily to network improvements. For example, between FY 2010 and FY 2013, the percentage of mail handled in facilities that had no mechanized distribution equipment declined from 8.0 percent to 2.5 percent. Similarly, APPS coverage increased from 41.3 percent to 52.4 percent, and destinating manual bundle distribution fell from 13.4 percent to 6.9 percent. This increased mechanization has decreased the mail processing costs, and thus, the cost avoidances for Flats.

The effect of FSS is more complex. All else equal, FSS has increased the mail processing costs of Flats as the sequencing activity has moved from delivery to mail processing. However, these increased costs are offset by lower delivery costs. In that regard, it is worth noting that reductions in delivery costs take a longer time to manifest themselves, as additional time is needed to optimize the delivery function through route readjustments. Nevertheless, since FY 2012 delivery costs for Standard Mail Flats have fallen by nearly 0.6 cents from 15.833 cents to 15.254 cents. Thus, similar to the effects of increased mechanization, FSS has helped reduce the cost avoidances for Flats over time.

Taken together, the effects of increased mechanization and the introduction of FSS can be seen in the below tables. These data illustrate that the Postal Service's efforts to reduce the processing and delivery costs of flat shaped mail has significantly reduced the avoided costs of worksharing.

Table 4-a: Standard Mail Flats Historical Total Mail Processing Unit Cost (cents)

	FY10	FY11	FY-11A[1]	FY-12	FY-12A[1]	FY-13	FY-13A[1]
Nonauto MADC	41.71	40.65	41.25	42.072	41.49	37.56	37.18
Nonauto ADC	36.22	36.11	36.05	36.203	35.78	33.41	32.90
Nonauto 3-Digit	30.10	31.17	31.12	30.128	30.12	29.91	29.11
Nonauto 5-Digit	21.87	24.22	24.18	24.358	24.28	24.04	24.58
Auto MADC	38.86	38.84	41.68	39.934	40.63	38.87	37.74
Auto ADC	39.03	37.87	37.98	37.779	37.45	35.11	34.48
Auto 3-Digit	33.43	33.31	33.27	31.915	31.90	31.18	30.28
Auto 5-Digit	20.52	22.82	22.79	23.227	23.25	22.62	23.05

Table 4-b: Standard Mail Flats Hist. Total Mail Proc. Unit Cost Presort Levels Held Constant (cents)							
	FY10	FY11	FY-11A[1]	FY-12	FY-12A[1]	FY-13	FY-13A[1]
Nonauto MADC	41.71	40.65	41.25	42.07	41.49	37.56	37.18
Nonauto ADC	36.22	36.11	36.05	36.20	35.78	33.41	32.90
Nonauto 3-Digit	30.10	31.17	31.12	30.13	30.12	29.91	29.11
Nonauto 5-Digit	21.87	24.22	24.18	24.36	24.28	24.04	24.58
Auto MADC	39.20	38.54	39.12	37.56	37.38	35.79	35.30
Auto ADC	33.92	34.10	34.03	33.04	32.82	31.60	30.98
Auto 3-Digit	27.96	29.23	29.18	28.46	28.59	28.16	27.26
Auto 5-Digit	20.35	22.71	22.68	22.94	22.98	22.46	22.90

Source: Historical USPS-FY 2010-2013-11.STD.flats.xls

Tab: CRA ADJ UNIT COSTS page (for presorting—Table 4-a);

Tab: Presort LEVELS HELD CONSTANT (for pre-barcoding—Table 4-b)

[1] In each of the ACR in 2011, 2012 and 2013 the Postal Service filed a PRC approved version of the Standard Flats Model and a version containing methodology changes that had not yet been ruled upon (“Alternate” version). The “Alternate” versions of the model are depicted by (FY)A

Four presorting passthroughs and one prebarcoding passthrough for Standard Mail Flats exceed 100 percent: the presorting Automation 3-Digit Flats passthrough, the presorting Automation 5-Digit Flats passthrough, the presorting Nonautomation 3-Digit Flats passthrough, the presorting Nonautomation 5-Digit Flats passthrough, and the pre-barcoding Automation Mixed ADC Flats passthrough.

The presorting Automation 3-Digit Flats passthrough is 117.9 percent. In Docket No. R2013-1, the discount of 4.6 cents was aligned with the avoided cost. Using FY2012 avoided costs, the discount was increased to 5.0 cents in Docket No. R2013-10. The avoided cost in FY 2012 was 5.5 cents, well above the discount. However, in FY 2013, the cost avoidance fell significantly, to 3.9 cents. Since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and pre-existing discounts, the Postal Service is not relying on any statutory worksharing exception. Rather, the Postal Service plans to align the discount with avoided costs during future market-dominant price adjustments.

The presorting Automation 5-Digit Flats passthrough is 108.1 percent. On January 26, 2014, the discount will decrease from 9.3 cents to 9.0 cents. In FY 2013, the cost avoidance fell slightly to 8.6 cents from 8.7 cents. Since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and pre-existing discounts, the Postal Service is not relying on any statutory worksharing exception. As with Automation 3-digit flats, Postal Service plans to align the Automation 5-digit Flats discount with avoided costs during future market-dominant price adjustments.

The presorting Nonautomation 3-Digit Flats passthrough is 142.9 percent. In Docket No. R2013-1, the discount of 5.0 cents was well below the avoided cost of 5.4 cents. In Docket No. R2013-10, the discount of 5.1 cents was still below the avoided cost of 5.7 cents. However, in FY 2013, the cost avoidance fell significantly, to 3.5 cents, meaning that the passthrough will likely remain above 100 percent in FY 2014. . Since there is no statutory exception to address the structural lag between estimation of new cost avoidances and pre-existing discounts, the Postal Service is not relying on the statutory worksharing exceptions. Instead, the Postal Service plans to eliminate the portion of the discount above avoided costs as soon as practicable.

The presorting Nonautomation 5-Digit Flats passthrough is 132.2 percent. In Docket No. R2013-1, the discount of 7.8 cents was aligned with the avoided cost. On

January 26, 2014, the discount will remain at 7.8 cents. However, in FY 2013, the cost avoidance fell significantly, to 5.9 cents, meaning that the passthrough will likely remain above 100 percent in FY 2014. Moving the discount in line with the cost avoidance immediately would result in a price increase as high as 11.7 percent. In order to avoid a significant price increase that could result in rate shock, the Postal Service intends to continue reducing the discount until the passthrough reaches 100 percent. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B).

The pre-barcoding Automation Mixed ADC Flats passthrough is 305.6 percent, up from 239.1 percent in FY 2012. On January 26, 2014, this discount will decrease to 4.9 cents from 5.5 cents. In FY 2013 the avoided cost decreased significantly from 4.1 cents to 1.8 cents. The Postal Service justifies this passthrough pursuant to section 3622(e)(2)(D). As FSS machines were being deployed over the past few years, a pre-barcoding discount was necessary for the efficient operation of the Postal Service. While there still continues to be a need for a pre-barcoding incentive, the Postal Service is committed to gradually reducing the discount over time. Indeed, with the reduction slated to take effect on January 26, 2014, the discount will have declined by 1.3 cents since FY 2010. The Postal Service intends to continue reducing the discount until it no longer exceeds avoided costs.

iii. Parcels

Five Standard Mail Parcels passthroughs exceed 100 percent: the presorting NDC Irregular Parcels passthrough, the presorting NDC Marketing Parcels passthrough, the pre-barcoding Mixed NDC Machinable Barcoded Parcels passthrough, the pre-barcoding Mixed NDC Irregular Barcoded Parcels passthrough, and the pre-barcoding NDC Marketing Barcoded Parcels passthrough.

The presorting passthrough for NDC Irregular Parcels is 187.2 percent, down from 242.8 percent in FY 2012. The passthrough fell because of both a decrease in the discount and an increase in the cost avoidance. On January 26, 2014, the discount will be reduced further, from 36.5 cents to 33.4 cents. The Postal Service intends to continue reducing the discount until it is line with the cost avoidance. However, immediately aligning the discount with avoided cost would result in a price increase as high as 18.6 percent. In order to avoid a significant price increase that could result in rate shock, the Postal Service intends to continue reducing the discount until the passthrough reaches 100 percent. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B).

The presorting passthrough for NDC Marketing Parcels is 135.3 percent. On January 26, 2014, the discount will be reduced from 41.4 cents to 40.1 cents. The Postal Service intends to continue moving the discount in line with the avoided costs. However, immediately aligning the discount with avoided cost would result in a price increase as high as 13 percent. In order to avoid a significant price increase that could result in rate shock, the Postal Service intends to continue reducing the discount until the passthrough reaches 100 percent. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B). Furthermore, with respect to the NDC Marketing Parcels presorting passthrough, the Postal Services notes that the substantial changes in the definition of Standard Mail Parcels (with the transfer of the majority of the product to the competitive product list in FY 2012) introduces some uncertainty as to whether Standard Mail Parcels' cost avoidances will remain steady in FY 2014.

The pre-barcoding passthroughs for Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and NDC Marketing Barcoded Parcels are all 182.9 percent. As discussed in previous price adjustment filings and ACRs, the Postal Service has been sending a strong signal to mailers through the nonbarcoded surcharge to develop a fully barcoded parcels mailstream. The Postal Service has plans to soon require barcodes on all ground parcels. A fully barcoded mailstream would permit the elimination of keying stations on parcel sorters, thereby increasing the efficiency of postal operations. In light of the above, it makes sense, in the near term, to maintain the pre-barcoding discounts above 100 percent of avoided costs. The Postal Service therefore justifies these passthroughs pursuant to section 3622(e)(2)(D).

iv. High Density and Saturation Letters, Flats, and Parcels

No workshare discount associated with Standard Mail High Density Saturation Letters, Flats, or Parcels exceeds 100 percent of avoided costs.

v. Standard Mail Promotions

There were 5 Standard Mail promotions in effect in FY 2013: the Holiday Mobile Shopping Promotion, the Mobile Coupon and Click-to-Call Promotion, the Picture Permit Promotion, the Product Samples Promotion, the Emerging Technologies Promotion, and the Earned Value Promotion.

1. Holiday Mobile Shopping Promotion

The 2012 Holiday Mobile Shopping Promotion (November 7 – November 21, 2012) provided business mailers with an upfront 2 percent postage discount on

Standard Mail letters and flats that included a mobile barcode or print/mobile technology that could be read or scanned by a mobile device and that led the recipient to a mobile optimized website. Mailers could also qualify for an additional 1 percent rebate on the postage of their qualifying mailings, if a portion of their orders were fulfilled via Priority Mail with USPS Tracking between November 9, 2012 and December 31, 2012. Over the course of the program period, the Postal Service issued $4.5 million in discounts for 1 billion Standard Mail pieces.

2. Mobile Coupon and Click-to-Call Promotion

The Mobile Coupon and Click-to-Call Promotion (March 1 – April 30, 2013), offered business mailers a 2 percent postage discount on Standard Mail letters and flats that used a mobile barcode or other technology that led the recipient to either a digital coupon or a site that initiated a one touch phone call on a mobile device. Over the course of the program period, the Postal Service issued $10.6 million in discounts for 2.5 billion Standard Mail pieces.

3. Picture Permit Promotion

The Picture Permit Promotion (August 1 – September 30, 2013) waived the fees (Standard Mail Letters = 2¢ fee per mailpiece) for business mailers who registered for the promotion and were pre-approved to use the Picture Permit Indicia. Over the course of the program period, the Postal Service waived $2,500 in fees for 125,000 Standard Mail pieces.

4. Product Samples Promotion

The Product Samples Promotion (August 1 – September 30, 2013) offered business mailers a 5 percent postage discount on Standard Mail Regular and Nonprofit

Marketing parcels. Over the course of the program period, the Postal Service issued $29,000 in discounts for 520,000 Standard Mail pieces.

5. Emerging Technologies Promotion

The Emerging Technologies Promotion (August 1 – September 30, 2013) offered business mailers a 2 percent postage discount on Standard Mail letters and flats that incorporated innovative technology, such as Near-Field Communication, Augmented Reality, and Authentication. Over the course of the program period, the Postal Service issued $4 million in discounts for 1 billion Standard Mail pieces.

6. Earned Value Promotion

The Earned Value Promotion (April 1 – June 30, 2013) offered participating mailers the opportunity to earn rebate credits of 2 cents per scanned Courtesy Reply Mail (CRM) or Business Reply Mail (BRM) letter or postcard. Mailers could use the credit toward future mailings of Standard Mail letters and flats. Over the course of the program period, the Postal Service issued $10.7 million credits, of which $1.4 million were used for Standard Mail letters and flats in FY2013.

C. Periodicals

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Periodicals products appear below.

Table 5: Periodicals Volume, Revenue, and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attributable Costs ($Million)	Contribution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contribution ($)	Cost Coverage (%)
Within County Periodicals	603	65	87	$(22)	$0.108	$0.144	$(0.036)	75.18
Outside County Periodicals	5,756	$1,586	$2,092	$(506)	$0.276	$0.363	$(0.088)	75.82
Fees		$6.7	-	-	-	-	-	-
Total Periodicals Mail (incl.fees)	6359	$1,658	$2,179	$(521)	$0.261	$0.343	$(0.082)	76.10

As shown above, both Periodicals products failed to cover their attributable costs in FY 2013. Significantly, however, the cost coverage of these products increased during FY 2013. In particular, the cost coverage of Within County Periodicals increased from 69.7 percent in FY 2012 to 75.2 percent in FY 2013. Similarly, the cost coverage of Outside County Periodicals increased from 71.8 percent in FY 2012 to 75.8 percent in FY 2013. Overall, the cost coverage of the Periodicals class increased from 72.1 percent in FY 2012 to 76.1 percent in FY 2013. These increases are due to effective cost measures and pricing strategies.

When examining Periodicals cost coverage, it is important to remember that both cost and revenue play a role in the calculation. In this instance, the revenue per piece for Periodicals as a whole increased from 25.7 cents in FY2012 to 26.1 cents in FY 2013. At the same time, cost per piece decreased from 35.6 cents to 34.3 cents, or 3.7 percent. The combination of these factors led to a higher calculated cost coverage in FY 2013.

The Postal Service shares the Commission's concern about Periodicals cost coverage, and, as stated in the *Periodicals Mail Study*, "the Postal Service and the Commission will continue to work together to identify and address challenges related to Periodicals."[16] That Study outlined the continuing steps that the Postal Service is taking to reduce costs. The improved cost coverage shows that savings from those steps are now starting to accrue.

More generally, while the Postal Service will continue to pursue whatever efficiency enhancements are possible, it is extremely doubtful, in the context of price

[16] Periodicals Mail Study, September 2011, at 3.

increases limited to the CPI cap, that the Periodicals class can achieve 100 percent cost coverage.

2. Workshare Discounts and Passthroughs

All workshare discounts associated with Within County Periodicals are at or below 100 percent of avoided costs. Ten workshare discounts associated with Outside County Periodicals exceed 100 percent of avoided costs: the presorting discounts for Machinable Nonautomation 5-Digit Flats, High Density, Machinable Automation 5-Digit Flats, Nonmachinable Nonautomation ADC Flats,Nonmachinable Automation ADC Flats, ADC Automation Letters, 3-Digit Automation Letters, and 5-Digit Automation Letters; and the pre-barcoding discounts for Machinable Automation MADC Flats and Nonmachinable Automation MADC Flats. Due to an anomaly there are two passthroughs which are negative: Nonmachinable nonautomation 3-digit/SCF Flats and Nonmachinable Automation 3-digit/SCF Flats. This anomaly has been addressed as part of Proposal 8, which was submitted to the Commission as part of Docket No. RM2014-1. As a general matter, the Postal Service justifies all of these discounts pursuant to section 3622(e)(2)(C), which permits discounts provided in connection with mail matter of educational, cultural, scientific, or informational value to exceed 100 percent of avoided costs.

D. Package Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Package Services products appear below.

Table 6: Package Services Volume, Revenue and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attributable Costs ($Million)	Contribution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contribution ($)	Cost Coverage (%)
Parcel Post	29	318	331	(13)	11.078	11.533	(0.455)	96.1
Bound Printed Matter Flats	230	185	130	55	0.805	0.568	0.237	141.7
Bound Printed Matter Parcels	216	275	263	12	1.269	1.216	0.053	104.4
Media Mail/Library Mail	94	314	372	(58)	3.353	3.981	(0.628)	84.2
Alaska Bypass	1	21	10	11	24.437	11.721	12.716	208.5
Fees		3						
Inbound Surface Parcel Post	1	17	11	6	19.930	12.976	6.954	153.6
Total Package Services Mail (incl. fees)[17]	570	1,132	1,118	14	1.985	1.961	0.024	101.2

Two Package Services products failed to cover their attributable costs. Parcel Post had a cost coverage of 96.1 percent, and Media Mail / Library Mail had a cost coverage of 84.2 percent. The January 27, 2013 move of Parcel Post from market dominant to competitive combined with the stand-alone contribution of Alaska Bypass allowed the Package Services mail class to cover attributable costs for the first time since FY2008. Overall, the class had a cost coverage just over attributable costs, at

[17] Totals are calculated from unrounded numbers and then rounded. This is why the rounded totals do not always equal the sum of the rounded subtotals in Table 5.

101.2 percent. The Postal Service intends to attempt to improve the cost coverage of Media Mail / Library Mail over time through price increases.[18]

2. Workshare Discounts and Passthroughs

i. Media Mail / Library Mail

Two passthroughs associated with Media Mail / Library Mail exceeded 100 percent in FY 2013: the Media Mail Basic presort passthrough and the Library Mail Basic presort passthrough. The former is 156.1 percent, and the latter is 141.9 percent, compared to 133.3 percent and 126.7 percent, respectively, in FY 2012. The Postal Service justifies these passthroughs pursuant to section 3622(e)(2)(C), as Media Mail and Library Mail transport matter of educational, cultural, scientific, and informational value. The Postal Service moreover notes that the Commission recently found that these discounts (at higher passthroughs of 156.7 percent and 150.0 percent respectively) are justified pursuant to 39 U.S.C. § 3622(e)(2)(C). Order No. 1890 at 96-97. Nonetheless, the Postal Service plans to move the discounts toward the new cost avoidances over time, while avoiding any drastic changes that could cause rate shock.

ii. BPM Flats and BPM Parcels

Two passthroughs for BPM Flats and BPM Parcels exceed 100 percent. The passthroughs for the BPM Flats and BPM Parcels DNDC dropship discounts are both 121.4 percent. On January 26, 2014, the discounts will be reduced from 17.0 cents to 14.1 cents, in line with the FY 2012 cost avoidance of 14.1 cents but still slightly above the newly calculated FY 2013 cost avoidance of 14.0 cents. When these prices become

[18] Media/Library Mail cost coverage is expected to improve from the 84.2 percent reported in the FY2013 CRA to 94.3 percent after the exigent prices go into effect. See Steve Nickerson Statement in R2013-11 at Attachment 25.

effective next year, this will reduce the passthrough from 121.4 percent to 100.7 percent. The Postal Service intends to further align the discounts with the cost avoidance in the next price adjustment. As the Postal Service has been adjusting prices to match the most currently known cost avoidance for the past several years, it believes there is no need to rely on the statutory worksharing exception to justify the above 100 percent passthrough. Instead, the passthrough can be explained by the lag between the most recent price adjustments and the fiscal year cost avoidance calculations.

E. Special Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Special Services appear below.

Table 7: Special Services Volume, Revenue and Cost by Service/Product

Service/Product	Volume (Million)	Revenue ($Million)	Attributable Costs ($Million)	Contribution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contribution ($)	Cost Coverage
Certified Mail	234.6	717.0	535.3	181.7	3.1	2.3	0.8	133.9%
COD	0.5	4.4	3.7	0.7	8.8	7.4	1.5	119.7%
Insurance	28.0	108.4	75.8	32.6	3.9	2.7	1.2	143.1%
Registered Mail	2.2	35.5	28.0	7.5	15.8	12.5	3.3	126.7%
Stamped Envelopes	N/A	11.5	6.5	5.0	N/A	N/A	N/A	177.8%
Stamped Cards	34.8	1.4	0.5	0.9	0.0	0.0	0.0	308.4%
Other Ancillary Services	N/A	550.7	348.0	202.7	N/A	N/A	N/A	158.3%
Total Ancillary Services	N/A	1429.0	997.7	431.3	N/A	N/A	N/A	143.2%
Int’l Ancillary Services	23.9	36.1	18.4	17.7	1.5	0.8	0.7	196.4%
Caller Service	N/A	93.6	22.8	70.8	N/A	N/A	N/A	411.3%
Address Management Services	N/A	15.8	8.4	7.4	N/A	N/A	N/A	187.5%
Credit Card Authentication*	14.7	14.7	1.9	12.8	1.0	0.1	0.9	786.7%
Customized Postage	0.0	0.3	0.1	0.2	315000.0	66126.0	248874.0	476.4%
Int’l Reply Coupon Service	N/A	0.2	N/A	N/A	N/A	N/A	N/A	N/A
Int’l Business Reply Mail Service	0.2	0.2	N/A	N/A	1.5	N/A	N/A	N/A
Money Orders	102.5	155.0	103.3	51.7	1.5	1.0	0.5	150.1%
Post Office Box Service	N/A	358.5	293.9	64.6	N/A	N/A	N/A	122.0%
Stamp Fulfillment Services	2.7	4.1	5.1	-1.0	1.5	1.9	-0.4	80.8%
Total Special Services Mail	N/A	2107.3	1451.4	655.8	N/A	N/A	N/A	145.2%

*See USPS-FY12-NP26 for cost after revenue-sharing with third-party partners.

One Special Services product failed to cover its attributable costs in FY 2013: Stamp Fulfillment Services. The product had attributable costs of $5.1 million in FY 2013, but listed revenues of only $4.1 million, resulting in a cost coverage of 80.8 percent. The SFS price increases of 25 to 75 percent in January 2012, have significantly improved the cost coverage. Despite this improvement, the Postal Service agrees with the Commission's comments in the 2012 ACD, at 142:

> The costs and revenues associated with the SFS product do not entirely capture the value that the Services Center adds to the Postal Service, and to other Postal Service products. Although SFS does not cover its attributable costs, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. Thus, it promotes the objectives of reducing costs and increasing efficiency. See 39 U.S.C. 3622(b)(1) and (c)(12).

F. Negotiated Service Agreements

There were two market dominant Negotiated Service Agreements (NSAs) in effect in FY 2013: Discover Financial Services and Valassis. Full information regarding the Discover Financial Services NSA appears in USPS-FY13-30. The Valassis NSA was approved by the Commission on August 23, 2012, in Order No. 1448. Valassis did not send enough NSA-eligible volume to qualify for volume discounts, and paid published rates during FY 2013. Therefore, there are no further data to report.

From a fiscal year perspective, the Discover Financial Services NSA had a volume of 1.169 billion pieces, revenue of $275.8 million, and attributable costs of $108.0 million, resulting in an attributable cost coverage of 255 percent. The Commission reviews NSAs from a contract year perspective, and focuses on the net benefit of an NSA to the Postal Service. As shown in USPS-FY13-30, the net benefit of the Discover Financial Services NSA for the contract year of April 2012 to March 2013 is estimated to be between $13.7 million and $18.0 million.

It is clear, then, that the NSA improved the net financial position of the Postal Service. Furthermore, the Postal Service has no reason to believe that the NSA caused unreasonable harm in the marketplace. The scale of the agreement was sufficiently small to make market effects unlikely, and similar functionally-equivalent NSAs could have been made available to similarly-situated mailers. The Discover Financial Services NSA therefore satisfies section 3622(c)(10)(A) and the Commission's rules.

III. SERVICE PERFORMANCE, CUSTOMER SATISFACTION, AND CONSUMER ACCESS

A. Service Performance

During FY 2010, the Commission issued its final rules on periodic reporting of service performance measurement and customer satisfaction, which are codified at 39 C.F.R. Part 3055.[19] Among other things, Commission Rules 3055.20 through 3055.24 require annual reporting of service performance achievements at the national level for all market dominant products. Reporting, however, is not required where the Commission has granted a semi-permanent exception or a temporary waiver.[20] The Postal Service's report, including information responsive to the criteria listed in Rule 3055.2(b)-(k), is included as USPS-FY13-29.

The Postal Service set for itself aggressive on-time targets of 90 percent or above for all market dominant products. Overall, the Postal Service has been successful in continuously improving these scores. For some products and in some districts, these targets have already been met or exceeded, but there are several instances where the scores have not yet been met at the national level. The Postal Service's targets are intended to guide longer-term improvement and are based on the continued evolution of Intelligent Mail barcode systems and on customers' participation in data collection, which enables performance measurement at the necessary levels. The specific reasons why national scores have not been met are discussed in USPS-FY13-29.

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[19] PRC Order No. 465, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11, May 25, 2010.

[20] *Id.* at 21-23.

B. Customer Satisfaction with Market Dominant Products

Section 3652(a)(2)(B)(ii) requires the Postal Service to provide measures of the degree of customer satisfaction with the service provided for its market dominant products, also known as mailing services.

1. Overview

The Customer Engagement and Strategic Alignment (CE&SA) group in Consumer and Industry Affairs at Postal Service Headquarters was responsible for survey measurement of the level of customer satisfaction with market dominant products during FY 2013 for Postal Service customers. Surveys were administered across each quarter of the year for two customer groupings – Residential and Small/Medium Business customers, and once per quarter for Large Business customers.

2. Background

In FY 2010, the Postal Service transitioned from a long-standing customer satisfaction measurement (CSM) system administered by The Gallup Organization, to a "customer experience" based measurement (Customer Experience Measurement, or CEM) system which focuses on the sending and receiving mail experience, the visiting the Post Office experience, and the experience contacting the Postal Service. Results obtained through the CEM system are very consistent from 2010-2013.

3. Methodology

For the CEM system in FY 2013, Residential and Small/Medium business customers were randomly selected, contacted by mail and offered the opportunity to complete either an online or a hard copy survey. Large business customers were randomly selected and contacted by mail and asked to complete a survey online. Residential and Small/Medium businesses are sampled sufficiently to ensure, at the Performance Cluster level, a minimum precision level of +/- 3 percentage points, at the 95 percent level of confidence per postal quarter. Large business customers are sampled in sufficient quantity to ensure at the national level a precision level of +/- 3 percentage points, at the 95 percent level of confidence per postal quarter.

To measure customer experience with market dominant products, residential and small business survey respondents were asked to rate their product satisfaction using a six-point scale: *Very Satisfied*, *Mostly Satisfied*, *Somewhat Satisfied*, *Somewhat Dissatisfied*, *Mostly Dissatisfied*, and *Very Dissatisfied*. Respondents were also given the option of marking "*Don't Use Product*" and those that responded in this manner were not included in the calculations for satisfaction with market dominant products. Large business customers were asked which market dominant products they used, and then instructed to rate their satisfaction with their experience with those products. Customers who indicated that they did not use a product or were not familiar with a product were excluded from the calculated satisfaction ratings.

In FY 2013, the Postal Service continued combining only the top two box scores of *Very Satisfied* and *Mostly Satisfied*. The scores reported for market dominant products in FY 2013 result from combining only these *Very Satisfied* and *Mostly Satisfied* ratings.

4. Survey Results – FY 2013 Ratings for Market Dominant Products

The table below reflects the FY 2013 CEM survey data (with corresponding FY 2012 data following in parenthesis for comparison) responsive to the requirements in

Section 3652(a)(2)(B)(ii). The results represent data from residential, small/medium business, and large business customer segments. For each row of data, the table indicates the mail service and the corresponding customer rating (combined top two boxes - Very Satisfied and Mostly Satisfied).

Customer Satisfaction with Market Dominant Products (Mailing Services) - FY 2013 *(FY 2012)*

Market Dominant Products (Mailing Services)	Residential % Rated Very/Mostly Satisfied	Small/Medium Business % Rated Very/Mostly Satisfied	Large Business % Rated Very/Mostly Satisfied
First-Class Mail	**94.67** (*94.73)*	**93.21** *(93.35)*	**91.12** *(91.16)*
Single-Piece International	**87.38** *(87.54)*	**84.27** *(84.93)*	**88.11** *(87.37)*
Standard Mail	**85.11** *(84.84)*	**87.95** *(87.92)*	**86.05** *(85.68)*
Periodicals	**88.09** *(87.96)*	**85.92** *(86.14)*	**83.27** *(84.88)*
Single-Piece Parcel Post	**89.87** *(89.83)*	**88.81** *(88.88)*	**86.56** *(87.14)*
Media Mail	**89.32** *(89.10)*	**88.15** *(88.17)*	**86.51** *(85.89)*
Bound Printed Matter	**86.84** *(87.17)*	**85.85** *(85.89)*	**82.84** *(83.53)*
Library Mail	**87.77** *(87.89)*	**86.33** *(87.06)*	**88.22** *(87.04)*

C. Customer Access to Postal Services

Information regarding post offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY13-33. The Postal Service closed 60 Post Offices and 13 stations and branches in FY 2013. At the end of FY 2013, there were 26,648 Post Offices, 4,949 stations and branches, and 689 carrier annexes. Also at the end of FY 2013, there were 99 suspensions of Post Offices in effect and 31 suspensions of stations and branches. To provide increased access and to help mitigate the effect of closures of post offices and stations and branches, the Postal Service opened 338 Village Post Offices in FY 2013. Thus far in FY 2014, the Postal Service has opened an additional 91 Village Post Offices, and it hopes to open a total of 400 Village Post Offices in FY 2014.

Nationally, there were 159,729 collection boxes available at the end of FY 2013, compared to 164,099 at the beginning of FY 2013. Average wait time in line improved at the national level from 2 minutes 34 seconds in FY 2012 to 2 minutes 29 seconds in FY 2013. Average wait time in line also improved in six of the seven Areas from FY 2012 to FY 2013.

IV. COMPETITIVE PRODUCTS

A. Product-by-Product Costs, Revenues, and Volumes

For FY 2013, cost, revenues, and volumes for competitive products of general applicability are shown directly in the FY 2013 CRA and ICRA. In the CRA, competitive products are disaggregated into six groups – Total Priority Mail Express, Total (non-Express) Priority Mail, Total First-Class Package Service, Total Ground, Total International Competitive, and Total Domestic Competitive Services.[21] The constituent products for each of those groups are listed in a table in the attached Application for Non-Public Treatment of the Non-Public Annex (Attachment Two). Those groups are further disaggregated in the Nonpublic CRA (USPS-FY13-NP11). For competitive products not of general applicability, available data on international customized mailing agreements (ICMs) for FY 2013 are presented in the ICRA materials within USPS-FY13-NP2. For domestic competitive products not of general applicability, information is provided in USPS-FY13-NP27.

B. Section 3633 Standards

The competitive product pricing standards of section 3633 have been implemented by the Commission at 39 C.F.R. § 3015.7. This section discusses the available FY 2013 data with reference to those standards.

i. Subsection 3633(a)(1)

Subsection 3633(a)(1) states that competitive products should not be cross-subsidized by market dominant products. The Commission's regulations define the

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[21] With respect to Total International Competitive, it should be noted that no mailers elected to participate in the promotion for GXG service described in Docket No. CP2013-54.

most appropriate test for this standard as the incremental cost test for the aggregation of competitive products.[22] Simply stated, if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall are not being cross-subsidized by market dominant products.

As in past ACRs, the Postal Service is presenting what can be termed a “hybrid” estimate of incremental costs, in which an estimate of the aggregate incremental costs of domestic competitive products (including group specific costs) is added to an estimate of the attributable costs of international competitive products. The “hybrid” characterization reflects the blending of an actual estimate of domestic incremental costs with an attributable cost proxy for international incremental costs. The need for the hybrid approach is caused by the structure of the ICRA, which precludes direct application of the incremental cost model to international products. As demonstrated in Proposal 22, Docket No. RM2010-4, the hybrid estimate is an improvement over the full proxy of attributable costs for both domestic and international competitive products, plus group specific costs, used before FY 2009.[23] The hybrid approach provides stronger protection against cross-subsidy than the previous full proxy approach.

The incremental cost for domestic competitive products, and the hybrid incremental cost for the group of all competitive products, are presented below.

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[22] *See* 39 C.F.R. § 3015.7(a).

[23] Proposal 22 was approved by the Commission in Order No. 399, Docket No. RM2010-4 (Jan. 27, 2010).

FY13 INCREMENTAL COST CALCULATION FOR TOTAL COMPETITIVE PRODUCTS[1]

	Attributable Cost	Group Specific	Incremental	Hybrid Incremental
Domestic Competitive Mail	$ 8,491,324	$ 25,681	$ 8,672,245	$ 8,672,245
International Competitive	$ 1,270,783	$ -	na	$ 1,270,783
Total Competitive	$ 9,762,107	$ 25,681	na	$ 9,943,028

[1] Costs are ($000)

The total competitive hybrid incremental cost is $9,943,028 thousand, which is the sum of the hybrid incremental costs for domestic competitive mail and the hybrid incremental costs for international competitive. In the past, the Commission used attributable cost plus group specific cost for the cross-subsidy test. That proxy would provide a cost floor of $9,787,788 thousand ($9,762,107 + $25,681). The hybrid provides a preferred cost floor because it includes at least some properly calculated incremental costs, and is a better approximation of the true incremental costs required for the test.[24]

The hybrid incremental costs of $9.943 billion are well below total competitive products revenue of $13.661 billion (shown on page 3 of USPS-FY13-1). Therefore, based on these estimates, it is clear that competitive products in FY 2013 were not cross-subsidized by market dominant products, and thus were in compliance with subsection 3633(a)(1).

[24] As demonstrated in Proposal 22, the resulting hybrid will be greater than the group's overall attributable cost (while not overstating the incremental costs for competitive products). This means that the hybrid is a preferred cost floor for performing a cross subsidy test.

ii. Subsection 3633(a)(2)

Subsection 3633(a)(2) requires that each competitive product cover its attributable costs. As shown in the Nonpublic CRA (USPS-FY13-NP11) and the ICRA (USPS-FY13-NP2), every competitive product covered its attributable costs, with the exception of the non-NSA portion of Parcel Select, International Priority Airmail (IPA), International Return Receipt, International Money Transfer Service – Outbound, and Inbound Air Parcel Post (at non-UPU rates).

The cost coverage for the non-NSA portion of Parcel Select appears to be under 100 percent. However, there are some initial indications that the revenue for this category of mail may be understated. The Postal Service is investigating the potential revenue and costing issues that may be behind the reported Parcel Select cost coverage, but a complete review could not be completed in time for this filing. Please note that the Parcel Select product will receive a 9.2 average price increase in January 2014.

International Priority Airmail (IPA) and International Return Receipt, both relatively small products, provided negative contribution in FY13. The Postal Service continues to consider possible causes for the declines in cost coverage from those recognized in FY12, but it notes that identifying specific causes with small revenue-reporting products is often difficult on a year-to-year basis. Moreover, the subset of IPA under consideration here includes only the non-NSA component, which accounted for 2.3 percent of the volume and 1.1 of the weight of IPA generally, according to the RPW extract report.

International Money Transfer Service – Outbound failed to cover attributable costs in FY13. The Postal Service notes that in FY13, Outstanding Money Orders Taken into Revenue changed substantially in comparison to FY12.

Although the imputed version of the ICRA shows positive cost coverage for Inbound Air Parcel Post (at non-UPU rates), the booked version of the ICRA reports a negative contribution. This category consists of the Royal Mail air parcel post bilateral,[25] and agreements for inbound rates with several other European postal operators that are parties to Sub-Agreement B to the Agreement for the Delivery of Day-Certain Cross-Border Parcels (effective October 17, 2006), (hereinafter "eParcels" or "EPG" agreement) and that have executed and implemented bilateral inbound parcel rate agreements as provided in Annex B2 of the EPG agreement. Several of these inbound parcel bilateral rate agreements (*i.e*., those with postal operators of Belgium, Denmark, Finland, Sweden, Switzerland, Slovakia, and Slovenia) derive from instruments executed prior to the implementation of the new rate structure under the PAEA, and thus have not yet been classified since the inbound rates for EPG air parcels tendered by these posts have not been changed. As the Postal Service pointed out in the FY2012 ACR,[26] the rates with postal operators of Netherlands [27] and Norway [28] were

[25] See Request of the United States Postal Service to Add Royal Mail Inbound Air Parcel Post Agreement to the Competitive Products List, and Notice of Filing (Under Seal) Contract and Enabling Governors' Decision (Docket Nos. CP2009-28, MC2009-24).

[26] FY2012 ACR at 41-42.

[27] See Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with a Foreign Postal Operator (Docket Nos. CP2013-24, MC2010-34); Request of United States Postal Service to Add Inbound Competitive Multi-Service Agreements With Foreign Postal Operators to the Competitive Product List, and Notice of Filing (Under Seal) of Enabling Governors' Decision and Negotiated Service Agreement (Docket Nos. CP2010-95; MC2010-34).

[28] Notice of United States Postal Service of Filing Additional Functionally Equivalent Agreement (Docket No. CP2011-69); Notice of United States Postal Service of Filing Additional Functionally Equivalent Agreement (Docket Nos. CP2012-60, MC2010-34).

changed since the implementation of the PAEA rate review structure and were reported with the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators grouping. This past year, the Postal Service also classified Air Parcels pieces originating in Germany under a new bilateral agreement which was included in the Competitive Multi-Service Agreements with Foreign Postal Operators grouping;[29] however, the Air Parcel volume from Germany was not transferred until the fourth quarter of FY2013 since the new bilateral became effective on July 1, 2013.

iii. Subsection 3633(a)(3)

Subsection 3633(a)(3) states that competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. In its regulations, the Commission has determined that an appropriate minimum share is 5.5 percent of total institutional costs.[30] Page 3 of USPS-FY13-1 shows total institutional costs of $33.149 billion.[31] Applying the 5.5 percent to that figure yields a target contribution of $1.823 billion. Page 3 of USPS-FY13-1 shows total competitive attributable costs of $9.762 billion and total competitive product revenue of $13.661 billion. Subtracting the former from the latter results in total

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[29] Docket No. CP2013-65 (see http://www.prc.gov/Docs/87/87240/Order%201761.pdf).

[30] *See* 39 C.F.R. § 3015.7(c). The Commission In 2012 affirmed 5.5 percent as an appropriate minimum share of total institutional costs to be borne by competitive products. Order No. 1449, Docket No. RM2012-3 (Aug. 23, 2012).

[31] Institutional costs were significantly higher in FY 2012 compared to FY 2011 because the $5.5 billion Retiree Health Benefits Fund prefunding payment due in FY 2011 was deferred to FY 2012, and an additional $5.6 billion Retiree Health Benefits Fund Prefunding payment was already due in FY 2012, resulting in a total $11.1 billion of additional Retiree costs in FY 2012 compared to FY 2011. For FY 2013, the effect was the opposite. Comparing FY 2013 with FY 2012, since only one year of prefunding payment was expensed in FY 2013, the institutional costs for FY 2013 were significantly lower than for FY 2012 (which included expenses for two years of prefunding).

competitive contribution of $3.899 billion, greater than the $1.823 billion target. Thus, the subsection 3633(a)(3) requirement was met in FY 2013.

V. MARKET TESTS AND NONPOSTAL SERVICES

A. Market Dominant Market Tests

Two market dominant market tests of experimental products were offered under the provisions of section 3641 in FY 2013: Alternate Payment Method for Greeting Cards, and First-Class Tracer. Information for these market tests is provided below:

Market Test	Revenue	Cost	Volume
Alternate Payment Method for Greeting Cards	$ 185,328	$ 58,354	386,093
First-Class Tracer	$ 547	$ 0	277
Total Market Dominant	$ 185,875	$ 58,354	

Given the dissimilarity of the two market dominant experimental products, the Postal Service has not calculated an aggregate volume. The Postal Service does not possess comprehensive cost information for the market tests. The cost listed above for Alternate Payment Method for Greeting Cards represents the information technology costs associated with the product, while the product development costs for First-Class Tracer (reported in last year's ACR) were all incurred last year.

The Postal Service does not have a method for estimating the quality of service of its market dominant experimental products. Nonetheless, for Alternate Payment Method for Greeting Cards, the quality of service associated with First-Class Mail would apply. The Postal Service does not believe that the offering of either of these market dominant experimental products created an inappropriate competitive advantage for the Postal Service or any mailer.

B. Competitive Market Tests

Gift Cards and Metro Post were the only competitive market tests of experimental products offered under the provisions of section 3641 in FY 2013. Information for these market tests is provided under seal in USPS-FY13-NP27. The Postal Service does not have a method for estimating the quality of service of its competitive experimental products. The Postal Service does not believe that the offering of these competitive experimental products created an inappropriate competitive advantage for the Postal Service or any mailer.

C. Nonpostal Services

On December 11, 2012, the Commission issued an order approving Mail Classification Schedule (MCS) descriptions and prices for nonpostal service products.[32] The approved MCS includes 11 nonpostal service products, two of which are market dominant and nine of which are competitive. FY 2013 revenue, cost, and volume data for the two market dominant products are provided below.

Alliances with the Private Sector to Defray Costs of Key Postal Functions	
Revenue	$38,811,403
Expense	$3,474,821
Net Income (Loss)	$35,336,582
Volume	NA

With respect to the other Market Dominant nonpostal service, Philatelic Sales, in order to align with the product descriptions in the Mail Classification Schedule (MCS), the Postal Service filed Proposal Six (Docket No. RM2014-1) on November 8, 2013.

[32] Order No. 1575, Docket No. MC2010-24 (Dec. 11, 2012).

Proposal Six seeks to update the methodology for calculating the costs of Philatelic Sales and the handling costs of Stamp Fulfillment Services (SFS). Proposal Six is still pending before the Commission. As a result, the Postal Service provides estimated revenue, costs, and volumes using the current methodology, as used in previous years, and the methodology proposed in Proposal Six.

Philatelic Sales (Previous Years' Methodology)

Revenue:	$ 9,256,686
Costs:	$ 5,187,233
Net Income	$ 4,069,453
Volume:	562,141

Philatelic Sales (Proposal Six Methodology)
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Revenue:	$ 25,266,119
Costs:	$ 6,395,667
Net Income	$ 18,870,452
Volume	: 1,857,547

Comparable data for the nine competitive nonpostal services in effect in FY 2013 are provided in USPS-FY13-NP27.

VI. <u>NONPUBLIC ANNEX</u>

Section 3652(f)(1) contemplates the use of a nonpublic annex for documents or other materials that the Postal Service considers exempt from public disclosure, pursuant to 39 U.S.C. § 410(c) and 5 U.S.C. § 552(b). In particular, section 410(c)(2) exempts from mandatory disclosure "information of a commercial nature…which under good business practice would not be publicly disclosed." Accordingly, such information is contained in this Report's nonpublic annex.

A complete listing of the contents of the nonpublic annex appears at Attachment One. In general, the nonpublic annex contains the same types of materials that were included in the nonpublic annex in Docket No. ACR2012. Thus, its primary contents are:

(1) versions of the CRA and Cost Segments and Components reports that provide disaggregated information for competitive products, and supporting materials underlying the CRA (such as the CRA "B" workpapers, the CRA model, and files relating to the various costing data systems);

(2) the ICRA, supporting materials underlying the ICRA, and data for international customized agreements with customers;

(3) billing determinants for domestic and international competitive products; and

(4) information on individual domestic competitive product NSAs.

An Application for Nonpublic Treatment of Materials regarding the nonpublic annex appears at Attachment Two.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Richard T. Cooper
Managing Counsel, Corporate & Postal Business Law

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Anthony F. Alverno
Chief Counsel, Global Business & Service Development

Caroline R. Brownlie
Eric P. Koetting
Laree K. Martin
James M. Mecone
Christopher C. Meyerson
Keith C. Nusbaum
John F. Rosato
David H. Rubin

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 277-6333, Fax -5402
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Attachment One

LIST OF APPENDED MATERIALS

PUBLIC FOLDERS

USPS-FY13-1	FY 2013 Public Cost and Revenue Analysis (PCRA) Report
USPS-FY13-2	FY 2013 Public Cost Segments and Components Report
USPS-FY13-3	FY 2013 Discounts and Passthroughs of Workshare Items
USPS-FY13-4	FY 2013 Market Dominant Billing Determinants
USPS-FY13-5	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances)
USPS-FY13-6	General Classification of Accounts (Formerly Handbook F-8)
USPS-FY13-7	Cost Segment 3 Cost Pools & Other Related Information (Public Portion)
USPS-FY13-8	Equipment and Facility Related Costs
USPS-FY13-9	FY 2013 ACR Roadmap Document
USPS-FY13-10	FY 2013 Special Cost Studies Workpapers - Letter Cost Models (First and Standard)
USPS-FY13-11	FY 2013 Special Cost Studies Workpapers - Flat Cost Models (First and Standard) & Periodicals Cost Model
USPS-FY13-12	Standard Mail Parcel Mail Processing Cost Model
USPS-FY13-13	FY 2012 Standard Mail and Periodicals Destination Entry Cost Models
USPS-FY13-14	Mail Characteristics Study (Public Portion)
USPS-FY13-15	Bound Printed Matter Mail Processing Cost Model and Media Mail – Library Mail Mail Processing Cost Model
USPS-FY13-16	Bound Printed Matter Transportation Cost Model and Bulk Parcel Return Service Cost Model

USPS-FY13-17	2013 Annual Report and Comprehensive Statement of Postal Operations
USPS-FY13-18	FY 2013 ECR Mail Processing Unit Costs
USPS-FY13-19	FY 2013 Delivery Costs By Shape
USPS-FY13-20	FY 2013 Window Service Cost by Shape
USPS-FY13-21	Business Reply Mail Cost Model
USPS-FY13-22	FY 2013 Bound Printed Matter Mail Processing Costs
USPS-FY13-23	MODS Productivity Data
USPS-FY13-24	FY 2013 Non-Operation Specific Piggyback Factors (Public Portion)
USPS-FY13-25	FY 2013 Mail Processing Piggyback Factors (Operation Specific)
USPS-FY13-26	FY 2013 Mail Processing Costs by Shape (Public Portion)
USPS-FY13-27	FY 2013 Nonprofit Mail Cost Approximations
USPS-FY13-28	FY 2013 Special Cost Studies Workpapers – Special Services (Public Portion)
USPS-FY13-29	Annual Report on Service Performance for Market Dominant Products
USPS-FY13-30	FY 2013 Market Dominant NSA Materials
USPS-FY13-31	FY 2013 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)
USPS-FY13-32	FY 2013 CRA “B” Workpapers (Public Version)
USPS-FY13-33	Consumer Access to Postal Services
USPS-FY13-34	City Carrier Cost System (CCCS) Documentation (Public Version)
USPS-FY13-35	Rural Carrier Cost System (RCCS) Documentation (Public Version)

USPS-FY13-36	Transportation Cost Systems (TRACS) Documentation (Public Version)
USPS-FY13-37	In-Office Cost System (IOCS) Documentation (Public Version)
USPS-FY13-38	USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments
USPS-FY13-39	FY 2013 Competitive Products Fund Reporting Materials
USPS-FY13-40	2013 Rural Mail Count
USPS-FY13-41	International Market Dominant Billing Determinants
USPS-FY13-42	FY 2013 Revenue, Pieces, and Weight Report (Public Version)

NONPUBLIC FOLDERS:

USPS-FY13-NP1	FY 2013 Domestic Competitive Product Billing Determinants
USPS-FY13-NP2	FY 2013 International Cost and Revenue Analysis (ICRA) Report (Hard Copy & Excel)
USPS-FY13-NP3	FY 2013 International Cost Segments and Components Report (Hard Copy & Excel)
USPS-FY13-NP4	FY 2013 ICRA Domestic Processing Model (Cost Matrices, Reports, Control File, & Changes)
USPS-FY13-NP5	FY 2013 ICRA Overview/Technical Description
USPS-FY13-NP6	FY 2013 International Cost Segment Spreadsheets
USPS-FY13-NP7	Cost Segment 3 International Subclass Costs by Cost Pools (Volume Variable Cost Pools)
USPS-FY13-NP8	FY 2013 International Billing Determinants
USPS-FY13-NP9	FY 2013 Miscellaneous International Data

USPS-FY13-NP10	FY 2013 Competitive Product Incremental and Group Specific Costs
USPS-FY13-NP11	FY 2013 Nonpublic Cost and Revenue Analysis (NPCRA) Report (Hard copy & Excel)
USPS-FY13-NP12	FY 2013 Nonpublic Cost Segments and Components Report (Hard copy & Excel)
USPS-FY13-NP13	FY 2013 CRA Model (Model Files, Cost Matrices, and Reports)
USPS-FY13-NP14	FY 2013 CRA "B" Workpapers (Nonpublic Version)
USPS-FY13-NP15	Parcel Select / Parcel Return Service (PRS) Mail Processing Cost Model
USPS-FY13-NP16	Parcel Select / Parcel Return Service (PRS) Transportation Cost Model
USPS-FY13-NP17	Parcel Select / Parcel Return Service (PRS) Cube-Weight Relationship Estimation
USPS-FY13-NP18	Cost Segment 3 Cost Pools & Other Related Information (Nonpublic Portion)
USPS-FY13-NP19	FY 2013 Non-Operation Specific Piggyback Factors (Nonpublic Portion)
USPS-FY13-NP20	FY 2013 Mail Processing Costs by Shape (Nonpublic Portion)
USPS-FY13-NP21	In-Office Cost System (IOCS) Documentation (Nonpublic Version)
USPS-FY13-NP22	City Carrier Cost System (CCCS) Documentation (Nonpublic Version)
USPS-FY13-NP23	Rural Carrier Cost System (RCCS) Documentation (Nonpublic Version)
USPS-FY13-NP24	Transportation Cost Systems (TRACS) Documentation (Nonpublic Version)
USPS-FY13-NP25	Mail Characteristics Study (Nonpublic Portion)

USPS-FY13-NP26	FY 2013 Special Cost Studies Workpapers – Special Services (Nonpublic Portion)
USPS-FY13-NP27	FY 2013 Domestic Competitive NSA & Nonpostals Materials
USPS-FY13-NP28	RESERVED
USPS-FY13-NP29	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances) (Nonpublic Version)
USPS-FY13-NP30	FY 2013 Revenue, Pieces, and Weight Report (Nonpublic Version)

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NONPUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,[1] the United States Postal Service (Postal Service) hereby applies for the twenty-nine appended folders identified as nonpublic in Attachment One of the FY 2013 Annual Compliance Report (these are referred to collectively as the "Nonpublic Annex"). As is apparent from the Attachment One list, the majority of the folders in the Nonpublic Annex have a corresponding public folder.

In many instances, a set of material has been divided into one portion that relates to Market Dominant products and another portion that relates to Competitive products. In those instances, the public folder includes the portion of material relating to Market Dominant products, and the nonpublic folder includes the portion of materials relating to Competitive products. In many other instances, two versions of materials are prepared, one that is public and contains aggregated information regarding Competitive products or large groups of Competitive products, and another that is nonpublic and contains information regarding Competitive products that is disaggregated to the product level. In still other instances, a nonpublic folder contains information about Competitive products, and there is no corresponding public folder, because there is no corresponding need for similar information relating to Market Dominant products.[2] In general, except for the six groups of Competitive products for which cost data are shown in the Cost and Revenue Analysis (CRA), all disaggregated cost information

[1] Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1 (June 19, 2009).
[2] For example, Commission Rule 3015.7(a) calls only for the incremental costs of Competitive products, so there is a nonpublic folder on the incremental costs of Competitive products, but there is no need for a corresponding public folder on the incremental costs of Market Dominant products.

relating to Competitive products, and all background data used to develop disaggregated cost information on Competitive products, are filed under seal in the Nonpublic Annex.

(1) The rationale for claiming that the materials are nonpublic, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as nonpublic consist of commercial information concerning postal operations and finances that under good business practice would not be disclosed publicly. Based on its longstanding and deep familiarity with the postal and communications businesses and markets generally, and its knowledge of many firms, including competitors, mailers, and suppliers, the Postal Service does not believe that any commercial enterprise would voluntarily publish information pertaining to the costs, volumes, revenues, and markets for its competitive products, as well as inbound market dominant products for which rates are negotiated with other postal operators. In the Postal Service's view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).[3]

(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

The Postal Service believes that the only third parties that have a proprietary interest in the materials submitted in connection with the FY 2013 Annual Compliance

[3] In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1 (Mar. 20, 2009), at 11.

Report are (1) entities, including foreign postal operators, holding competitive negotiated service agreements (NSAs) in FY 2013 for which data are reported on a contract-specific basis, (2) Federal Express Corporation (FedEx Express) with respect to data concerning Global Express Guaranteed (GXG), (3) the Canada Post Corporation (CPC), (4) Correos de México, and (5) other foreign postal operators who tendered postal items to the Postal Service, or to whom the Postal Service tendered items, in FY 2013 at rates not of general applicability. Except with respect to the fourth category as described below, the Postal Service gives notice that it has already informed each third party, in compliance with 39 C.F.R. § 3007.20(b), of the nature and scope of this filing and its ability to address its confidentiality concerns directly with the Commission.

Various materials contain data specific to customers holding competitive NSAs, such as Priority Mail and/or Express Mail contracts, Parcel Select contracts, Parcel Return Service contracts, Global Expedited Package Services (GEPS) contracts, Global Reseller Expedited Package Services contracts, Global Plus 1 and 2 Contracts, Global Direct Contracts, GEPS – Non-published Rates contracts, Inbound Direct Entry agreements, the Royal Mail Inbound Air Parcel Post Agreement, the outbound Air Parcel agreement with VN Post Express Joint Stock Company, Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1, and International Business Reply Service competitive contracts. For certain of the NSA customers for which the Postal Service has already disclosed the counter-party's identity, the Postal Service identifies the following contacts:

- For the Inbound Direct Entry Contract with New Zealand Post Limited: Mr. Lindsay Welsh, Regional Business Director - Europe/North America, +64 4 496 4574, lindsay.welsh@nzpost.co.nz;
- For the Inbound Direct Entry Contract with China Post Group: Mr. Zhu Lei, Deputy Manager, International Operations, China Post EMS and Logistics Corporation (China Post Group), +86 10 68855592, zhulei@ems.com.cn;
- For the Inbound Direct Entry Contract with Hongkong Post: Sammy Cheng, Senior Manager, International Letters, +852 9304 3057, sammy_cw_cheng@hkpo.gov.hk, and Penny Hung, Manager, International Letters, +852 2921 2115, penny_hung@hkpo.gov.hk;
- For the Inbound Direct Entry Contract with P&T Express Service Joint Stock Company and the outbound Air Parcel agreement with VN Post Express Joint Stock Company, Ms. Dang Thi Bich Hoa, General Director, +84 43 757 5588, hoadb@ems.com.vn;
- For the Royal Mail Inbound Air Parcel Post Agreement: Tracy Hayward, Regional Director International, Royal Mail, +44 7802 864 132, tracy.s.hayward@royalmail.com;
- For the China Post Group, the China Post Inbound Market-Dominant Multi-Service Agreement and the China Post Inbound Competitive Multi-Service Agreement, Mr. Zhu Lei, Deputy Manager, International Operations, China Post EMS and Logistics Corporation (China Post Group), +86 10 68 855 592, zhulei@ems.com.cn;

- For the Hongkong Post Inbound Market-Dominant Multi-Service Agreement and the Hongkong Post Inbound Competitive Multi-Service Agreement, Mr. Sammy Cheng, Senior Manager (International Letters), External Affairs Division, Hongkong Post, +852 2921 6026, Sammy_cw_cheng@hkpo.gov.hk;
- For the Singapore Post Limited – United States Postal Service Small Packet with Delivery Scanning Bilateral Agreement, Lee Hon Chew, Director, International Affairs, Singapore Post Limited, +65 6845 6753, leehonchew@singpost.com; and
- For the Strategic Bilateral Agreement Between United States Postal Service and Koninklijke TNT Post BV and TNT Post Pakketservice Benelux BV, Mr. Ben Pilgram, Consultant, International Distribution Agreements, PostNL, +31 (0)6 83 64 57 90, ben.pilgram@postnl.nl

Because the Postal Service maintains that the remaining competitive NSA customers' identities are commercially sensitive and should not be publicly disclosed, the Postal Service employees responsible for providing notice to these third parties are:

- Elizabeth A. Reed, Attorney, Pricing and Product Support, whose telephone number is (202) 268-3179 and whose email address is elizabeth.a.reed@usps.gov; and
- James J. Crawford, Business Development Specialist, Global Business, whose telephone number is 202-268-7714 and whose email address is james.j.crawford@usps.gov.

The International Cost and Revenue Analysis (ICRA) report and supporting documentation contain data specific to GXG service, which the Postal Service offers in partnership with FedEx Express.[4] The Postal Service identifies James H. Ferguson, Corporate Vice President, Customer and Business Transactions, FedEx Corp. & General Counsel, FedEx Corporate Services, Inc., as the appropriate contact on behalf of FedEx Express. Mr. Ferguson's telephone number is (901) 434-8600, and his email address is jhferguson1@fedex.com.

The International Cost and Revenue Analysis (ICRA) report contains data for various products that are specific to Canada Post Corporation (CPC). These data pertain to various categories of inbound mail that CPC tenders in a "customer" capacity and to categories of outbound mail that CPC delivers for the Postal Service in a "supplier" role, in both cases pursuant to CPC's negotiated bilateral agreement with the Postal Service. The Postal Service identifies Terry Dunn, General Manager, International Relations, Canada Post Corporation, as the appropriate contact on behalf of Canada Post. Mr. Dunn's telephone number is (613) 734-8894, and his email address is terry.dunn@canadapost.ca. Canada Post requests that any communications regarding confidential treatment of these data be sent with a courtesy copy to Ewa Kowalski, Director, International Mail Settlement, Canada Post Corporation. Ms. Kowalski's telephone number is (613) 734-6201, and her email address is ewa.kowalski@canadapost.ca.[5]

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[4] Although FedEx Express might have a proprietary interest in data reflecting charges between the Postal Service and FedEx Express and possibly data showing volume or weights for GXG, the Postal Service maintains that the Postal Service is the only party with a proprietary interest in revenue data reflecting GXG transactions between the Postal Service and its customers.

[5] In the event of a request for early termination of non-public treatment under 39 C.F.R. § 3007.31, a preliminary determination of non-public status under 39 C.F.R. § 3007.32, or a request for access to non-public materials under 39 C.F.R. § 3007.40, the Postal Service notes, on Canada Post's behalf, that differences in the official observation of national holidays might adversely and unduly affect Canada Post's ability to avail itself of the times allowed for response under the Commission's rules. In such cases, Canada Post has requested that the Postal Service convey its preemptive request that the Commission account for such holidays when accepting submissions on matters that affect Canada Post's

The ICRA report also contains inbound and outbound international mail data specific to Correos de México, the public postal operator for Mexico, and in which Correos de México might be deemed to have a proprietary interest. Due to language and cultural differences as well as the sensitive nature of the Postal Service's relationship with Correos de México, the Postal Service proposes that a designated Postal Service employee serve as the point of contact for any notices to Correos de México.[6] The Postal Service identifies as an appropriate contact person Guadalupe Contreras, Business Systems Manager, International Postal Affairs. Ms. Contreras's phone number is (202) 268-4598, and her email address is guadalupe.n.contreras@usps.gov.

The ICRA report contains rate information and other information that might be deemed proprietary to postal operators who are partners in the E Parcels Group arrangement. For the same reasons as for Correos de México, the Postal Service proposes that a designated Postal Service employee serve as the point of contact for any notices to the relevant postal operators. The Postal Service identifies as an appropriate contact person Franca Davis, Executive Director, International Strategy and Business Development Support. Ms. Davis's phone number is (202) 268-5459, and her email address is franca.s.davis@usps.gov.

Finally, the ICRA report contains rate information and other information that might be deemed proprietary to postal operators whose governments are members of

interests. A listing of Canada's official holidays can be found at http://www.pch.gc.ca/eng/1266366005340/1268235063611.

[6] The Postal Service acknowledges that 39 C.F.R. § 3007.21(c)(2) appears to contemplate only situations where a third party's identification is "sensitive" as permitting the designation of a Postal Service employee who shall act as an intermediary for notice purposes. To the extent that the Postal Service's proposal might be construed as beyond the scope of this exception, the Postal Service respectfully requests a waiver that would allow it to designate a Postal Service employee as the contact person under these circumstances, in light of the practical considerations outlined herein.

the UPU. For the same reasons as for Correos de México, the Postal Service proposes that a designated Postal Service employee serve as the point of contact for any notices to the relevant postal operators. The Postal Service identifies as an appropriate contact person Flori McClung, Manager, UPU Relations. Ms. McClung's phone number is (202) 268-2603, and her email address is flori.mcclung@usps.gov. In view of the practical difficulties, the Postal Service has not undertaken to inform all affected postal operators about the nature and scope of this filing and about the ability to address any confidentiality concerns directly with the Commission as provided in 39 C.F.R. § 3007.20(b). To the extent that the Postal Service's filing in the absence of actual notice might be construed as beyond the scope of the Commission's rules, the Postal Service respectfully requests a waiver that would allow it to forgo providing a notice to each postal operator. It is impractical to communicate with dozens of operators in multiple languages about this matter.

(3) A description of the materials claimed to be nonpublic in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are nonpublic;

The materials in the Nonpublic Annex fall into several categories. The first category is the Nonpublic CRA, and all of the background materials feeding into the Nonpublic CRA. These materials, in general, show cost information at the product level, including disaggregated information for Competitive products. These materials are found in folders USPS-FY13-NP11 - USPS-FY13-NP14, USPS-FY13-NP18 - USPS-FY13-NP25, and USPS-FY13-NP27. Descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY13-9. The roadmap indicates the corresponding public folder which contains information similar to that in each nonpublic folder, except that, in the public folder, the cost information for Competitive products is generally aggregated into one Competitive products row. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A second category consists of Special Cost Studies materials that provide cost information below the product level for Competitive products. These materials are found in folders USPS-FY13-NP15 - USPS-FY13-NP17, and USPS-FY13-NP26. Again, descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY13-9. The roadmap indicates the corresponding public folder which contains information similar to that in the nonpublic folder, except that, in the public folder, the cost information below the product level relates to Market Dominant, rather than Competitive, products. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A third category consists of the International CRA (ICRA) and the supporting documentation. These materials are found in folders USPS-FY13-NP2 through USPS-FY13-NP7 and USPS-FY13-NP9. Collectively, they present the inputs and the analyses used to attribute and distribute costs to International products. In general, the ICRA follows the same basic methodologies used in the CRA – dividing accounting data into cost segments and components, distributing the attributable costs within segments to products, and summing the total attributable costs of a product across segments.

Descriptions of the contents of the individual ICRA-related folders can be found in the roadmap document, USPS-FY13-9. There are no corresponding public folders.

A fourth category is the Competitive product billing determinants. These are found in USPS-FY13-NP1 for domestic Competitive products, and USPS-FY13-NP8 for International products. They are comparable in format to the Market Dominant billing determinants presented in USPS-FY13-4, but include the corresponding information for Competitive products. Again, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate them accordingly.

Another folder in the Nonpublic Annex is USPS-FY13-NP10, which presents the application of the incremental cost methodology set forth in the Petition for Proposal Twenty-two (filed on Oct. 23, 2009, and considered as part of Docket No. RM2010-4) to Competitive products. The outputs of that application are shown in the text of the FY 2013 ACR itself, and USPS-FY13-NP10 merely provides the background materials supporting those outputs. The incremental cost model used in USPS-FY13-NP10 is comparable to the model employed in USPS-T-18 in Docket No. R2006-1, and the group specific costs are based on the same type of analysis considered by the Commission as Proposal One in Docket No. RM2008-2, and applied (to Market Dominant products) in USPS-FY08-33. The contents of USPS-FY13-NP10 are described in the roadmap document, USPS-FY13-9.

In general, the premise of this application is that, for Competitive products and certain market dominant international products, disaggregated cost data (and detailed volume and revenue data, such as that provided in billing determinants) constitute commercially-sensitive information and should not be publicly disclosed. The Postal Service is therefore placing all such information in the Nonpublic Annex, and filing it under seal. One exception to this approach appears in the CRA. The CRA (USPS-FY13-1) presents some disaggregated data for Competitive products, but those data are not disaggregated down to the product level, as they are in the Nonpublic CRA (USPS-FY13-NP11). Instead, in the CRA, the Postal Service is aggregates data for Competitive products into six product groups. Those groups are Total Priority Mail Express, Total First-Class Package Service, Total (non-Express) Priority, Total Ground, Total Competitive International, and Total Domestic Competitive Services. (The product rows in the Nonpublic CRA that are rolled up into each of the six Competitive product group rows in the CRA are shown in the table below.) At this level of disaggregation, the Postal Service has been unable to identify any of its major competitors that are publicly disclosing a potentially greater amount of disaggregated competitive cost data. The Postal Service maintains that the further disaggregation shown in the Nonpublic CRA should thus appropriately remain confidential. The Postal Service believes that the approach jointly embodied in its CRA and Nonpublic CRA prudently maximizes the amount of information available to the public, keeping such information as detailed as possible without prompting the competitive concerns outlined in the following section.

FY2013 Public-Nonpublic Crosswalk Table

Category in Public Version CRA	Categories Rolled in from Nonpublic Version CRA
Total Priority Mail Express	Domestic Priority Mail Express Domestic Priority Mail Express NSAs
Total First-Class Package Service	First-Class Package Service
Total Priority Mail	Domestic Priority Mail Domestic Priority Mail NSAs Priority Mail Fees

Total Ground	Parcel Select Mail Parcel Select NSAs Parcel Return Service Mail Parcel Return Service NSAs Standard Post
Total Competitive International	Outbound International Expedited Services Inbound International Expedited Services Outbound Priority Mail International Inbound Air Parcel Post First-Class Package International Service International Priority Airmail (IPA) International Surface Airlift (ISAL) International Direct Sacks M-Bags Outbound Intl Negotiated Serv. Agreement Mail Inbound Intl Negotiated Serv. Agreement Mail International Money Transfer Service Inbound International Money Transfer Service International Ancillary Services
Total Domestic Competitive Services	Premium Forwarding Service Address Enhancement Services Greeting Cards Shipping and Mailing Supplies Post Office Box Service Other Ancillary Services

(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;

If the information that the Postal Service determined to be protected from disclosure due to its commercially sensitive nature were to be disclosed publicly, the Postal Service considers it quite likely that it would suffer commercial harm. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. In this regard, the Postal Service is not aware of any business with which it competes (or in any other commercial enterprise), either within industries engaged in the carriage and delivery of materials and hard copy messages, or those engaged in communications generally, that would disclose publicly information and data of comparable nature and detail.

The protected materials consist of comprehensive analytical tools and reports employed by the Postal Service for several purposes in its operations and finances. Most prominently, in the context of the ACR, they enable the Postal Service to address the issues mandated in 39 U.S.C. § 3652(a) having to do with the costs, revenues, rates, and quality of service of competitive postal products. Furthermore, many of the materials outlined in section (3) above consist of sub-reports, workpapers, and other documentation used to create the basic reports in the CRA and ICRA. These materials share the protected status and confidential nature of the basic reports, since they provide the building blocks that permit compilation of the data and statistics and would permit competitors to gain the same types of knowledge, understanding, and insights at finer levels of detail. The Postal Service believes that this information would lead to competitive harm, if publicly disclosed.

As explained below, the data and information considered to be non-public can be classified in several general groupings: product cost information; general product volume and revenue information; product billing determinants; and information pertaining to service and pricing agreements with particular mailers or suppliers (NSAs). The following describes generally the expected harms from each of these classes of information. The explanations also include a separate discussion of international mail products, and their relatively distinct characteristics that arise from the structure of international business, including the involvement of foreign postal operators and international organizations.

Cost Information

Information relating to the costs of producing products is generally considered to be among the most sensitive commercial information. The CRA and ICRA present data and statistics for products that would provide competitors with valuable information, enabling them to better understand the Postal Service's cost structures, operational capabilities, and pricing and marketing strategies. This confidential information includes per-piece costs in several analytical categories (attributable costs, volume variable costs, and product-specific costs), as well as cost contribution and cost coverage (margin) by product. Such information would be extremely valuable to competitors in assessing the strengths and weaknesses of various postal products. Armed with detailed product cost information, competitors would be able to better identify and understand areas where they could adapt their own operations to be more competitive with postal products and better assess how to price and market their own products in such a way as to target the Postal Service's weaknesses and compensate for its strengths in producing and marketing various products. Furthermore, information contained in the various sub-reports, workpapers, and other documentation that feed the reports would provide an even more refined knowledge of the Postal Service's costs, cost structures, and capabilities. In this regard, the structure of the Postal Service's analytical tools and reports is well known among the postal community from years of exposure in general rate cases under the former regulatory regime. Postal costs are recorded in elaborate systems of general ledger accounts. These are grouped into various functional and other categories (cost segments and components) for further analysis and ultimate allocation and distribution to individual products. The level of detail contained in the sub-reports and workpapers is highly refined and would enable competitors, and existing and potential customers with whom the Postal Service might negotiate particular contract rates, to gain competitive or negotiating advantages that could lead to suppressing potential financial gains from the sale of postal products or the diversion of business away from the Postal Service to competitors. Either of these results would constitute serious commercial harm.

Volume and Revenue Information

Competitors could use the product-specific revenue, pieces, and weight information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with potential customers, who would be able to ascertain critical information about relevant product trends (*e.g.*, average revenue per piece, average weight per piece). Finally, as explained in greater detail below, disclosure would expose certain foreign postal operators and other customers to the same competitive harms, to the extent that a category is associated with a single customer or a small group of customers. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

Billing Determinants

Billing determinants present a special category of volume and revenue information that would enable highly refined understanding of individual products aligned specifically to their individual price structures. In this regard, billing determinants present a picture of each product's experience, analyzed according to the different mail characteristics that comprise the elements of the product's price structure. Detailed billing determinants, especially combined with specific product cost information, would enable competitors to better analyze the strengths and weaknesses of individual products, including specific elements of the markets for them, such as advantages in certain weight categories and distance zones. This information would provide insights into how competitors might adapt their operations and product offerings, alter their pricing, and target their marketing to take business away from the Postal Service.

Armed with this type of information, competitors would likely focus their marketing and price cutting efforts on the Postal Service's most profitable products. This would lead to erosion of contribution for these products through lost sales and/or the need to lower prices to remain competitive. Postal product cost and contribution information would provide suppliers of postal transportation and other services with information they could use to seek higher rates for services they provide. This would lead to higher postal costs and loss of contribution. Although the extent of the commercial harm is difficult to quantify, even small changes in market share, prices, or costs could lead to millions of dollars in lost revenue, higher costs, and lower margins. It is highly likely that if this information were made public, the Postal Service's competitors and suppliers would take advantage of it almost immediately.

Negotiated Service Agreements

The utility of the sensitive information in billing determinants and other materials would be particularly enhanced with regard to NSA product information relating to particular customers. First, revealing any customer identifying information would enable competitors to focus marketing efforts on current postal customers that have been cultivated through the Postal Service's efforts and resources. The Postal Service considers it highly probable that, if this information were made public, the Postal Service's competitors would take immediate advantage of it. Many NSAs include a provision allowing the mailer to terminate the contract without cause by providing at least 30 days' notice. Therefore, there is a substantial likelihood of losing the customers to a competitor that targets them with lower pricing.

Other NSA-related information consists of mailing profiles. This information, if disclosed from any source within the CRA or ICRA, would offer competitors invaluable insight into the types of customers to whom the Postal Service is offering each type of competitive NSA. Even without identifying individual mailers, competitors would be able to direct their sales and marketing efforts at the customer segment that the Postal Service has had the most success at attracting. This would undermine both existing customer relationships and the potential for other new NSA customers.

A similar rationale applies to information showing product revenue, volume according to weight, pricing, and insured value levels, as well as adjustment factor calculations based on product revenues. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. Competitors could use the information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

Commercially sensitive information related to NSAs is included in the agreements and their annexes, and in related financial work papers. Typically, these materials are filed under seal or redacted when the agreements are established as products. Since the Commission's rules governing confidentiality have taken effect, the Postal Service has filed applications for nonpublic status with each agreement. The reasoning expressed in those applications supports and is consistent with the discussion here.

Information derived from these documents is included in some of the materials filed in the Nonpublic Annex here. This information may include prices, product cost, contribution, or cost coverage. It also may concern customer mailing profiles, product volume, weight and revenue distribution, and product insured-value distribution. Competitors for the services covered by these agreements consist of domestic and international transportation and delivery firms and even foreign postal operators, which could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. Competitors could also use the information to assess offers made by the Postal Service to customers for any possible comparative vulnerabilities and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Customers could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

Potential customers, including foreign postal operators, could deduce from the rates provided in individual pricing agreements, in work papers, or in a Governors' Decision, whether additional margin for net profit exists. From this information, each customer or foreign postal operator could attempt to negotiate ever-decreasing prices or incentives, such that the Postal Service's ability to negotiate competitive yet financially sound rates would be compromised.

Information derived from financial work papers supporting NSAs can include costs, assumptions used in pricing formulas and decisions, formulas and negotiated prices, mailer profile information, projections of variables, and cost coverage and contingency rates that have been included to account for market fluctuations and exchange risks. All of this information is highly confidential in the business world. If this information were made public, the Postal Service's competitors would have the advantage of being able to assess the Postal Service's costs and pricing and determine the absolute floor for Postal Service pricing, in light of statutory, regulatory, or policy constraints. Competitors would be able to take advantage of the information to offer lower pricing to postal customers, while subsidizing any losses with profits from other customers. Such competitors could include foreign posts, which in some instances are not required to use the Postal Service for delivery of parcels destined to the United States. Additionally, foreign postal operators or other potential customers could use costing information to their advantage in negotiating the terms of their own agreements with the Postal Service. Eventually, this could freeze the Postal Service out of the relevant markets.

International Product Information

The Postal Service believes that the same vulnerabilities and harms discussed above that would result from the disclosure of the cost, volume, and billing determinant information would also generally apply to international product information designated as nonpublic. In particular, the harms resulting from disclosure of competitive information in the CRA would also result from disclosure of similar information, workpapers, and supporting documentation related to the ICRA. International mail products and business, however, exhibit operational and pricing distinctions not always shared by domestic counterparts. In particular, international products may be either inbound or outbound and, in some instances, are affected by bilateral and multilateral agreements among foreign postal operators. In some cases, particular lines within the ICRA reflect agreements with a single foreign postal operator. The public disclosure of this information would likely lead to limitations on the negotiating positions of both the Postal Service and the other foreign postal operator in similar agreements they might wish to negotiate with other foreign postal operators. The same is true where the partner is a private entity rather than a foreign postal operator: for example, disclosure of statistical, billing, and cost information about GXG could limit the ability of FedEx Express, a supplier to the Postal Service, to negotiate effectively, and could allow competitors to analyze the traffic for competitive advantage against FedEx Express. Further, the outbound letter monopoly has been largely suspended by virtue of 39 C.F.R. § 320.8, thereby contributing to the intensity of competition in this market. The more disaggregated nature of the product information in the international context and the relatively smaller numbers associated with them make the international data particularly vulnerable to analysis and use by competitors.

(5) At least one specific hypothetical, illustrative example of each alleged harm;

The following restates the harms discussed above and presents at least one hypothetical situation illustrating the consequences of disclosure.

Harm: Competitors, mailers, and suppliers could use cost, revenue, and volume summary data and statistics in the CRA and the ICRA, disaggregated by individual product and by NSA category, to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's competitive product lines. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete. Mailers and suppliers would be able to negotiate favorable deals with the Postal Service more effectively. As a result, the Postal Service would experience losses of existing and new business, or erosion of contributions and margins.

Hypothetical: The CRA and ICRA provide data by product that indicate total revenues, attributable costs, volume variable costs, product specific costs, and per-piece attributable costs, contribution, and cost coverage (margin). These data are broken out by individual product and separated between products purchased through public schedules and those purchased through contract rates (NSAs). Hypothetically, this information is made public. Competitors use it to gain a refined understanding of the relative strengths and weaknesses of the Postal Service's product lines (domestic and international), the individual strengths and weaknesses of particular products, and the degree to which products are sold through public schedules, compared to contract pricing arrangements. Financial analysts for the competitors relay their assessments to colleagues in the competitors' marketing and investment divisions. This information provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based on such assessments, for example, firms that have individual products for domestic express service (overnight), international express service, or package service comparable to Priority Mail determine that they have potential for competitive gain against the Postal Service in these areas and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

Hypothetical: Cost, contribution, and/or cost coverage information is released to the public and becomes available to a competitor. The competitor, which could be a foreign postal operator operating in the United States, assesses the profitability of certain services based on the data released. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service has substantial contribution, thereby hindering the Postal Service's ability to keep these customers' business.

Hypothetical: Cost, contribution, and/or cost coverage information is released to the public and becomes available to a supplier of materials, transportation, or other services. Suppliers are made aware of expected contribution margins by product and are better able to assess the relative strengths and weaknesses of the Postal Service's product lines. With this information, suppliers, including foreign postal operators in the case of international products, decide to increase the rates they charge the Postal Service to provide transportation and/or other services or become more resistant to negotiating favorable prices for their goods and services.

Hypothetical: Cost information is disclosed to the public. Mailers who seek to negotiate individual contract rates with the Postal Service gain a better understanding of the average or unit costs of particular products, as well as the relative and absolute strengths and weaknesses of particular product lines. This information enables the mailers to negotiate contract rates with the Postal Service more effectively than in the absence of such information. Similar disclosures result in advantages for foreign postal operators or other competitive entities in international mail.

Harm: The various companion reports, sub-reports, workpapers, special cost and other studies, and documentation contained in the Nonpublic Annex would provide detailed and refined knowledge and understanding of the individual costs, cost structures, contributions, and cost coverages (margins) of individual postal products and contract pricing agreements. These materials, which produce and support the summary data and statistics contained in the CRA and ICRA, would provide highly detailed information regarding operational procedures used to produce the products, the costs and relative efficiencies of operations and sub-operations, and the amount and character of overhead, including the relative proportions of volume variable and overhead costs. Companion reports and sub-reports provide detailed functional analyses of Postal Service costs within a framework that is well-understood, or easily learned, from information in the Public Annex, or from familiarity with or research into past postal rate cases. Public disclosure would therefore be tantamount to publishing virtually every detail regarding the relative costs and efficiencies of providing postal competitive products. This information would provide blueprints for competitors, suppliers, and mailers who might seek to negotiate favorable contract rates. The information would better enable them to make favorable operational, investment, pricing, and marketing decisions in relationships with the Postal Service. The results would be loss of existing or future business for the Postal Service, or the erosion of total revenues, contributions, margins, and overall financial stability.

Hypothetical: The Cost Segments and Components reports of the CRA and ICRA are disclosed to the public. These reports group costs recorded in postal accounts according to various functional categories. The costs are distributed by postal product. The hypothetical disclosure provides competitors with a detailed understanding of the cost structures of each competitive postal product, the relative strengths and weaknesses of each product from cost perspectives, and the flexibilities available to the Postal Service within the legal framework applicable to postal prices. The refined understanding resulting from disclosure enables competitors to make decisions that would compensate for Postal Service strengths and capitalize on its weaknesses. These decisions might involve design of competing firms' own products, alternative price structures, operational procedures, and marketing strategies. They could also involve formulation of negotiating approaches and strategies by existing and potential suppliers of goods and services used in producing postal products, and the formulation of more informed negotiating positions by mailers seeking to enter into favorable contract rate arrangements with the Postal Service. Such competitive advantages lead to diversion of business away from the Postal Service or reduction of potential contribution from individual contracts.

Hypothetical: Cost distribution models, cost estimation models, and several sub-reports feeding into the CRA and ICRA are disclosed to the public. These materials provide highly refined information that would improve understanding of product cost structures and the behavior of postal costs. Certain cost reports, such as those outlining in detail the application of specific cost pools by mail processing operation in estimating product costs, provide detailed knowledge of operational procedures employed by the Postal Service in offering products and services. This information enhances competitors' abilities to make informed decisions about investment in capital and technologies used to produce their own competing products. For example, knowledge of inflexibilities in processing Priority Mail, or in transportation used to convey Parcel Return Service, leads competitors to explore more efficient processing of competing products or to negotiate more competitive transportation contracts used for competing products. Over time, annual disclosures of such information enable competitors (or suppliers and mailers) to identify and understand trends in cost behavior that better inform their decision-making. Such developments lead to an erosion of the Postal Service's competitive position and a loss of business or contribution.

Hypothetical: Information in certain reports and documentation of special cost and other studies (*e.g.*, Parcel Return Service cost models) is disclosed publicly. Such information provides a better understanding of the Postal Service's customer base for particular products. For instance, data from mail characteristics studies enables competitors to formulate a profile of the Postal Service's customer base for certain products. This information better enables competitors to devise marketing and sales strategies that target the most vulnerable markets for particular postal products. More effective marketing by competitors leads to reduced sales by the Postal Service and an erosion of contributions and margins.

Hypothetical: Cost models and sub-reports feeding the CRA and ICRA reports are disclosed to the public. Detailed knowledge of the Postal Service's cost estimation, cost distribution, and special study models and procedures provides competitors, as well as mailers who seek favorable contract rates, with tools that enhance their abilities to analyze postal costs and operations. Large, sophisticated firms who have competed with the Postal Service for long periods of time have been exposed to them before and likely have developed their own sophisticated analytical tools and therefore might not benefit as much from these models; however, the hypothetical availability of this information decreases barriers to entry in certain competitive markets and creates new competitors that erode the Postal Service's customer base.

Harm: Competitors could use disaggregated product volume, weight, and revenue distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Disaggregated revenue, volume, and weights contained in the Nonpublic Annex are disclosed to the public. Another delivery service's employee monitors the filing of this information and passes it along to the firm's sales and marketing functions. The competitor assesses the profitability of certain services on a per-piece or per-pound basis or the Postal Service's relative concentration in certain service offerings. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to have made headway, hindering the Postal Service's ability to reach out effectively to these customers.

This example applies even more strongly for information split between NSA mail and other mail in the same category, because the competitor can assess the profitability and market strengths of the Postal Service's offerings to a small subset of NSA customers, thereby gaining somewhat more particularized insight into the characteristics of customers that the Postal Service specifically targets with its own contractual sales efforts.

A more pointed variant on this hypothetical pertains to Inbound Surface Parcel Post (at Non-UPU Rates). Because this category is associated with a single foreign postal operator (CPC), a competing delivery service provider with access to this information can use it to determine the average per-item and per-pound price offered by the Postal Service to CPC, as well as the average weight of Surface Parcel Post items from Canada. The competitor can use that information as a baseline to negotiate with freight companies to develop lower-cost alternatives and entice CPC's volume away from the Postal Service's domestic delivery network.

Harm: Customers, including foreign postal operators, and suppliers could use disaggregated product volume, weight, and revenue distribution information to undermine the Postal Service's leverage in negotiations.

Hypothetical: Disaggregated revenue, volume, and weight information in the Nonpublic Annex would be released to the public. A foreign postal operator's employee monitors the filing of this information and passes the information along to its international postal relations functions. The foreign postal operator assesses the Postal Service's average per-item or per-pound revenue for categories about which it is negotiating with the Postal Service, with particular focus on categories known to be included in bilaterals with other foreign postal operators (*e.g.*, letter post, air and surface parcels, and EMS). Accurately or not, the foreign postal operator uses the average revenue information as a justification for pricing demands in negotiations, refusing to accept a higher price without steeper concessions than the Postal Service might otherwise have been able to foreclose. The Postal Service's ability to negotiate the best value from the bargain suffers as a result. This hypothetical applies with equal force for customers other than foreign postal operators, for NSA mail and non-NSA mail that can be made subject to an NSA (*e.g.*, International Priority Airmail, which can be included in Global Plus 1 NSAs), and for partnerships with suppliers such as FedEx Express with respect to GXG.

Harm: Public disclosure of information in the report would be used by competitors of the NSA customers to their detriment.

Hypothetical: A competitor of a Postal Service NSA customer obtains unredacted versions of the billing determinants for domestic and international products, including NSAs and ICMs. It analyzes the work papers to assess the customer's underlying costs and uses that information to identify lower cost alternatives to compete against the Postal Service customer. Likewise, suppliers of goods and services to the NSA customer can use the detailed information to their advantage in negotiations with the NSA customer.

Harm: Public disclosure of information contained in the Nonpublic Annex associated with international delivery services provided in partnership with specific third parties would be used by those parties' competitors to their detriment.

Hypothetical: A competitor of Canada Post Corporation, such as a competing international delivery service, obtains information contained in the Nonpublic Annex. The competitor analyzes the information to assess the average per-piece and per-pound revenue for Inbound International Letter-Post NSA Mail, Inbound Xpresspost, and/or Inbound Surface Parcels (at Non-UPU Rates), which correspond to Canada Post's average per-piece and per-pound cost for U.S. delivery of its pertinent products. The competitor uses that information to assess the market potential and, as a baseline, to negotiate with U.S. customs brokers and freight companies to develop lower-cost alternatives and undermine Canada Post's market offerings. The same scenario could apply with respect to comparable information, such as settlement charges due or payable, for other foreign postal operators or for FedEx Express concerning GXG.

Harm: Competitors could use customer mailing profiles, product volume, weight, and revenue distributions, and product insured-value distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Customer mailing profile information in the Nonpublic Annex is released to the public. Another delivery service's employee monitors the filing of this information and passes the information along to its sales and marketing functions. The competitor assesses the typical size, mailing volume, and content characteristics of Postal Service NSA customers. The competitor then targets its advertising and sales efforts at actual or potential customers with similar profiles, hindering the Postal Service's ability to reach out effectively to these customers.

This hypothetical would apply even for more generic product-level data, from which one could calculate the distribution of the Postal Service's overall customer base in terms of item weight, revenue, or value (in the case of international insurance). For these reasons, release of any of the nonpublic information would pose actual commercial harm to the Postal Service, regardless of the information's present favorability.

Harm: Revealing customer identifying information associated with competitive domestic and international NSAs would enable competitors to target the customers for sales and marketing purposes.

Hypothetical: The identities of customers with which prices are established in NSAs are revealed to the public. Another expedited delivery service passes along the information to its sales function. The competitor's sales representatives quickly contact the Postal Service's customers and offer them lower rates or other incentives to terminate their contracts with the Postal Service in favor of using the competitor's services. Lost sales undermine the Postal Service's revenues.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, disclosure of information that would reveal prices associated with particular pricing agreements would provide

competing domestic and foreign postal operators, or other potential customers, extraordinary negotiating power to extract lower rates from the Postal Service.

Hypothetical: Customer A's negotiated rates are disclosed publicly. Customer B sees the rates and determines that there may be some additional profit margin between the rates provided to Customer A and the statutory cost coverage that the Postal Service must produce in order for the agreement to be added to the competitive products list. Customer B, which was offered rates identical to those published in Customer A's agreement, then uses the publicly available rate information to insist that it must receive lower rates than those the Postal Service has offered it, or it will not use the Postal Service for its expedited package service delivery needs.

Alternatively, Customer B attempts to extract lower rates only for those destinations for which it believes the Postal Service is the low-cost provider among all service providers. The Postal Service may agree to this demand in order to keep the customer's business overall, which it believes will still satisfy total cost coverage for the agreement. Then, the Customer would use other providers for destinations other than those for which it extracted lower rates. This would affect the Postal Service's overall projected cost coverage for the agreement, so that it no longer would meet its cost coverage requirement. Although the Postal Service could terminate the contract when it first recognized that the mailer's practice and projected profile were at variance, the costs associated with establishing the contract, including filing it with the Postal Regulatory Commission, would be sunk costs that would have a negative impact on the product overall.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, public disclosure of information

contained in underlying financial analyses would be used by competitors and customers to the detriment of the Postal Service.

Hypothetical: A competing package delivery service obtains a copy of information contained in unredacted versions of financial work papers associated with particular agreements. It analyzes information contained in the work papers to determine what the Postal Service would have to charge its customers in order to comply with business or legal considerations, including meeting its minimum statutory obligations regarding cost coverage and contribution to institutional costs. It then sets its own rates for products similar to those that the Postal Service offers its customers below that threshold and markets its purported ability to beat the Postal Service on price for domestic or international delivery services. By sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service's competitors acting in a similar fashion, freeze the Postal Service out of one or more relevant delivery markets. Even if the competing providers do not manage wholly to freeze out the Postal Service, they significantly cut into the revenue streams upon which the Postal Service relies to finance provision of universal service.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, public disclosure of product volume, weight, revenue distribution, and product insured-value distribution would enable competitors to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: For Inbound Air Parcel Post, a competing package delivery service determines what the Postal Service would need to charge its customers (which may include foreign postal operators) to meet its minimum statutory obligations for cost coverage and contribution to institutional costs. The competing package delivery service then sets its own rates for products similar to those the Postal Service offers other postal operators under that threshold and markets its ability to beat the Postal Service's price for inbound air parcels. By sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service's competitors acting in a likewise fashion, freezes the Postal Service out of the inbound air parcel delivery market.

Hypothetical: For Inbound Surface Parcel Post (at Non-UPU rates) and Canada Post Bilateral for Inbound Competitive Services, another postal operator sees the price and concludes that there may be some additional profit margin between the rates provided to Canada Post and the statutory cost coverage that the Postal Service must produce in order for the agreement to be added to the competitive products list. That postal operator then negotiates lower prices with the Postal Service on its own behalf or uses its knowledge to offer postal customers lower prices than they currently receive. Either or both ways, the Postal Service loses market share and contribution.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the portions of the materials filed nonpublicly and relating to competitive products should be withheld from persons involved in competitive decision-making in the relevant markets for competitive delivery products (including private sector integrators and foreign postal operators), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or potential customers of the Postal Service for these or similar products should not be provided access to the nonpublic materials.

(7) The length of time deemed necessary for the nonpublic materials to be protected from public disclosure with justification thereof; and

The Commission's regulations provide that nonpublic materials shall lose nonpublic status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for nonpublic treatment of the Nonpublic Annex of the FY 2013 ACR.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 277-6333

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