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

ANNUAL COMPLIANCE REVIEW, 2014

Docket No. ACR2014

UNITED STATES POSTAL SERVICE
FY 2014 ANNUAL COMPLIANCE REPORT
(December 29, 2014)

The United States Postal Service hereby submits its Fiscal Year 2014 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. <u>OVERVIEW OF REPORT</u>

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-FY14-1, and the International Cost and Revenue Analysis (ICRA) report, at USPS-FY14-NP2. The intra-product cost analyses 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.

[2] The folders are sequentially numbered and labeled as USPS-FY14-1, USPS-FY14-2, etc. Folders in the nonpublic annex, discussed in Section VI below, are labeled as USPS-FY14-NP1, USPS-FY14-NP2, etc. (with "NP" signifying "nonpublic").

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 2014 Comprehensive Statement appears within the FY 2014 Annual Report provided as USPS-FY14-17. 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 as part of USPS-FY14-39, 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-FY14-9. The roadmap is a technical document that consolidates brief descriptions of each of the appended folders 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 2013 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-FY14-9. 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 2014 ACR. It also includes previous proposals upon which rulings were issued after submission of the 2013 ACR. Omitted from the table, however, are more recent proposals (Proposals Nine and Thirteen, regarding city carrier costs) for changes which the Postal Service does not hope to implement until preparing reports for the next year, Fiscal Year 2015.

PROPOSAL	TOPIC	FILING DATE	DOCKET	NOTICE ORDER	NOTICE DATE	FINAL ORDER	FIN ORDER DATE
Six	Proposed Changes in SFS Handling and Philatelic Sales Cost Estimation Models	11/08/2013	RM2014-1	1877	11/14/2013	2076	5/8/2014
Seven	Change in Attributable Costs for Competitive Post Office Box Service Enhancements	11/08/2013	RM2014-1	1877	11/14/2013	2076	5/8/2014
Eight	Changes to MODS Operation Groups for Productivity Calculations	11/08/2013	RM2014-1	1877	11/14/2013	2076	5/8/2014

PROPOSAL	TOPIC	FILING DATE	DOCKET	NOTICE ORDER	NOTICE DATE	FINAL ORDER	FIN ORDER DATE
Nine	Changes in In-Office Cost System (IOCS) Encirclement Rules	11/12/2013	RM2014-1	1877	11/14/2013	2076	5/8/2014
	Eliminate Requirement for an Alternative Format CRA Report	11/15/2014	RM2014-2	1891	11/21/2013	2061	4/23/2014
One	Change in RPW methodology for use of additional Postal One! and self-service kiosk data to replace ODIS-RPW statistical sampling estimates	3/27/2014	RM2014-4	2035	3/28/2014	2101	6/25/2014
Two	TRACS Change to FedEx Night Turn distribution key	3/27/2014	RM2014-4	2035	3/28/2014	2101	6/25/2014
Three	Revision to Parcel Return Service Full Network Cost Model	6/20/2014	RM2014-6	2103	6/26/2014	2180	9/10/2014
Four	A Proposed Change in International NSA Methodology	6/20/2014	RM2014-6	2103	6/26/2014	2180	9/10/2014
Five	A Proposed Change in PRIME Exprès Costing Methodology	6/20/2014	RM2014-6	2103	6/26/2014	2180	9/10/2014
Six	Updating the Highway Transportation Variabilities	6/20/2014	RM2014-6	2103	6/26/2014	2180	9/10/2014
Seven	Modification of the Standard Mail Destination Entry Cost Model and the Standard Mail Parcel Mail Processing Cost Model	6/20/2014	RM2014-6	2103	6/26/2014	2180	9/10/2014
Eight	Changes in Attributable Costs Related to USPS Tracking	6/20/2014	RM2014-6	2103	6/26/2014	2180	9/10/2014
Ten	Incorporate new field study data into three mail processing cost models and the Standard Mail destination entry cost model	11/3/2014	RM2015-3	2240	11/5/2014		
Eleven	Change in the Attribution of Debit and Credit card fees	11/4/2014	RM2015-4	2244	11/7/2014		
Twelve	Establish a Cost Methodology for the Postal Service Customer Care Centers	11/7/2014	RM2015-5	2246	11/12/2014		

II. MARKET DOMINANT PRODUCTS

Below, the Postal Service discusses, for each market dominant mail class, FY 2014 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-FY14-1, and in the ICRA, at USPS-FY14-NP2. Full data regarding workshare discounts and passthroughs are contained in USPS-FY14-3.

The Postal Service notes that the implementation of prices from Docket Nos. R2013-10 and R2013-11, on January 26, 2014, present a unique issue for workshare passthroughs generally. In particular, since the prices implemented in January of 2014 utilized cost avoidance estimates from FY 2012, many workshare passthroughs exceed 100 percent solely due to subsequent changes in cost avoidance estimates.[3] Since there is no statutory workshare exception under Section 3622(e)(2) to address the structural lag between the estimation of cost avoidances and the implementation of new discounts, the Postal Service finds itself unable to rely on any of the worksharing exceptions for certain workshare passthroughs exceeding 100 percent. In such instances, the Postal Service will look to correct those passthroughs as quickly as possible (taking into account the potential disruption that immediate equalization of discounts with cost avoidance estimates may cause) in future price adjustments. These future price adjustments will then be reviewed by the Commission.[4]

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[3] There has been no succeeding price adjustment filing where workshare discounts could have been adjusted to reflect more recent cost avoidance estimates.

[4] 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 many 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. In that regard, the Postal Service will continue to review the timing of its annual price adjustments in order to balance USPS, customer, and regulatory timing needs.

The Postal Service believes that this approach is consistent with its longstanding position that section 3622(e) applies over the long term, as a principle guiding pricing over a series of price adjustments.[5] Indeed, this position is embodied in subsections (B) and (D) of section 3622(e)(2), which allow for measured adjustments to workshare discount passthroughs to minimize rate shock and disruption to postal operations.

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	21,524	$10,448	$5,977	$4,471	$0.485	$0.278	$0.208	174.81%
Presorted Letters/Cards	40,193	$15,189	$4,744	$10,445	$0.378	$0.118	$0.260	320.16%
Flats	1,783	$2,492	$1,564	$925	$1.398	$0.879	$0.519	159.10%
Parcels	233	$591	$543	$48	$2.535	$2.328	$0.206	108.86%
Domestic NSA First-Class Mail	103	$39	$13	$26	$0.379	$0.123	$0.257	309.18%
First-Class Mail Fees		$167						
Total First-Class Domestic Mail (incl. fees)	63,836	$28,926	$12,843	$16,083	$0.453	$0.201	$0.252	225.2%
Outbound Single-Piece First-Class Mail Int'l	216	$308	$188	$119	$1.428	$0.874	$0.554	163.40%
Inbound Letter Post	242	$175	$249	-$75	$0.720	$1.029	-$0.309	70.00%
Total First-Class Mail	64,294	$29,408	$13,280	$16,128	$0.457	$0.207	$0.251	221.44%

However, the Postal Service notes that regardless of the needs of customer or the USPS, the timings of the ACR and ACD are set by statute at 90 [calendar] days and 180 [calendar] days, respectively, after the end of the fiscal year. This cannot be changed absent new legislation.

[5] *See, e.g.* Docket No. ACR2013, United States Postal Service FY 2013 Annual Compliance Report, at 9 (December 27, 2013).

As shown above, with the exception of Inbound Letter Post, all First-Class Mail products covered their attributable costs in FY 2014, 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, 4.2 percent (or 2.9 billion pieces) in FY2013, and 3.3 percent (2.2 billion pieces) in FY2014.

Recovering from the past couple of years, the cost coverage for First-Class Mail Parcels clearly exceeds 100 percent. The price increase implemented on January 26, 2014, increased the revenue per-piece from $2.341 to $2.535, while the cost per piece declined from $2.361 to $2.328.

Inbound Letter Post's cost coverage increased from 65.58 percent in FY 2013 to 70 percent in FY 2014. The Postal Service believes that this increase is largely attributable to new terminal dues rates, which became effective on January 1, 2014. Despite the increase in cost coverage, the continued failure of Inbound Letter Post 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. The formula for most of the mail is based on a percentage of the one-ounce retail Single-Piece First-Class Mail price, while the remainder of the mail is priced based on a set rate per kilo, instead of on actual costs. Though the new terminal dues rates are expected to continue having a positive effect on revenue and cost coverage, it is unlikely that there will be any significant changes in FY 2015.

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 QBRM Letters is 106.3 percent. In the ACD for FY 2013 this particular passthrough was 113.3 percent. A brief history of this worksharing discount shows that the calculated passthrough decreased from 287.5 percent in FY 2011 to 129.4 percent in FY 2012. This reduction was the result of a significant increase in 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, sustaining a 100 percent passthrough. However, the cost avoidance estimate decreased to 1.5 cents in FY 2013, causing this passthrough to increase to 113.3. In the current docket, this cost avoidance has increased to 1.6 cents bringing the passthrough to 106.3 percent.

Since the FY 2012 cost avoidance was the reference point for developing the discount implemented on January 26, 2014, and since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and the implementation of discounts, the Postal Service is not relying on any of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

ii. Presorted Letters and Cards

Out of the nine First-Class Mail Presorted Letters and Cards workshare discounts, the passthroughs for four exceed 100 percent of the estimated cost avoidance: Automation AADC Letters (145 percent), Automation Mixed AADC Cards (136.4 percent) Automation AADC Cards (144.4 percent) and Automation 5-Digit Cards (107.7 percent).

Automation AADC Letters

The passthrough for AADC Automation Letters increased from 105 percent in FY 2013 to 145 percent in FY 2014 (discount of 2.9 cents versus a cost avoidance of 2.0 cents). In Docket No. 2013-10 the Commission approved this particular price with a passthrough of 89.7 percent (discount of 2.6 cents versus a cost avoidance of 2.9 cents). In Docket No. R2013-11, the passthrough for this particular price cell was 100 percent (discount of 2.9 cent discount equaling a cost avoidance of 2.9 cents). Since the discounts in these cases were developed using FY 2012 costs, and since there is no statutory exception to address the structural lag between estimation of new cost avoidances and the implementation of new discounts, the Postal Service is not relying on any of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Mixed AADC Automation Cards

The passthrough for Mixed AADC Automation Cards is 136.4 percent compared to 176.9 percent in the ACD for FY 2013, and 227.3 percent in the ACD for FY 2012. The cost avoidance associated with this 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 ACD for FY 2013, the trend reversed, with the cost avoidance increasing to 1.3 cents. In FY 2014, the cost avoidance has declined to 1.1 cents. In response to declining cost avoidance, the Postal Service reduced the discount to 2.3 cents in Docket No. R2013-1 and to 1.5 cents in Docket No. R2013-11. Since the FY 2012 cost avoidance was the reference point for developing the discount implemented on January 26, 2014, and since there is no statutory exception to address the structural lag between estimation of new cost avoidances and the adjustment of discounts, the Postal Service is not relying on any of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Automation AADC Cards

The passthrough for Automation AADC Cards is 144.4 percent (discount of 1.3 cents versus a cost avoidance of 0.9 cents). In FY 2013 this passthrough was 109.1 percent (discount of 1.2 cents versus a cost avoidance of 1.1 cents). In FY 2012 this passthrough was 84.6 percent (discount of 1.1 cents versus a cost avoidance of 1.3 cents). Since the FY 2012 cost avoidance was the reference point for developing the discount implemented on January 26, 2014, and since there is no statutory exception to address the structural lag between estimation of new cost avoidances and the adjustment of discounts, the Postal Service is not relying on any of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

5-Digit Automation Cards

The passthrough for 5-Digit Automation Cards is 107.7 percent (discount of 1.4 cents divided by cost avoidance of 1.3 cents). This particular passthrough was 80 percent in FY 2013 (based on a 1.2 cent discount and 1.5 cent cost avoidance). In Docket No. R2013-10 the Commission approved this price with a passthrough of 66.7 percent (1.2 cent discount and 1.8 cent cost avoidance). The passthrough improved slightly in Docket No. R2013-11 to 77.8 percent (1.4 cent discount and 1.8 cent cost avoidance). Since the last approved prices in Docket No. R2013-11, the only change has been the drop in cost avoidance from 1.8 cents to 1.3 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 any of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

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.

Automation ADC Flats

The Automation ADC Flats passthrough is 113.8 percent compared to 140.8 percent in FY 2013, which was also a reduction compared to the 158.7 percent passthrough in the ACD for FY 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, to 158.7 percent in FY 2012, to 140.8 percent in FY 2013, and to the current 113.8 percent. Given the volatility of cost avoidances, the progress made in reducing the passthrough in recent price changes, and the fact that the FY 2012 cost avoidance was the reference point for setting the discount implemented on January 26, 2014, the Postal Service is not relying on any of the statutory exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

3-Digit Automation Flats

The 3-Digit Automation Flats passthrough is 142.5 percent (a 5.7 cent discount compared to 4.0 cents in cost avoidance). In ACD for FY 2013 this passthrough was 127.8 percent (4.6 cent discount versus 3.6 cents in cost avoidance). The cost avoidance was 5.7 cents in the ACD or FY 2012. In Docket No. R2013-10, the Postal Service increased this discount to 5.7 cents to match the FY 2012 cost avoidance. There has been no intervening price adjustment. 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 of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount above avoided costs as soon as practicable in future market dominant price adjustments, taking into consideration other business and operational needs.

5-Digit Automation Flats

The 5-Digit Automation Flats passthrough is 120.4 percent (a 18.3 cent discount versus a 15.2 cent cost avoidance). This passthrough was 133.3 percent in the ACD for FY 2013 (discount of 18.8 cents versus cost avoidance of 14.1 cents). 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 FY 2013 estimate was 14.1 cents. In Docket No. R2013-1, the Postal Service set the discount at 18.8 cents. In Docket No. R2013-10 the Postal Service dropped this discount to 18.3 cents, to match the cost avoidance for FY 2012. Immediately reducing the discount to match avoided cost would result in a price increase as large as 14 percent, which the Postal Service believes could result in rate shock for its customers. The Postal Service therefore justifies the current passthrough pursuant to section 3622(e)(2)(B). The discount will be reduced to match the cost avoidance over time in future price change filings, while taking into consideration other business and operational needs.

iv. First-Class Mail Promotions

There were 6 First-Class Mail promotions in effect in FY 2014: Mobile Buy-It-Now, Branded Color Mobile Technology, Premium Advertising, Mail & Digital Personalization, Earned Value, and Color Print in First-Class Mail Transactions.

1. Mobile Buy-It-Now

The Mobile Buy It Now Promotion ran from November 1 to December 31, 2013, and provided business mailers with an upfront two percent postage discount on

Standard Mail® and First-Class Mail® letters, flats, and cards (presort and Automation). The mailpiece had to include a mobile barcode or mobile print technology that can be read or scanned by a mobile device and lead the recipient to a mobile-optimized shopping website. Over the course of the program period, the Postal Service issued $1.2 million in discounts for 157 million First-Class Mail pieces.

2. Branded Color Mobile Technology

The 2014 Branded Color Mobile Technology Promotion (February 1- March 31, 2014) encouraged mailers to push the envelope and expand their mobile technology usage beyond basic QR codes. By participating, mailers had the opportunity to receive an upfront 2 percent postage discount on qualifying Standard Mail® and First-Class Mail® letters, flats, and cards (presort and automation) that used creative elements such as color and/or graphics in their mobile print technology. Over the course of the program period, the Postal Service issued $1.1 million in discounts for 146 million First Class Mail pieces.

3. Premium Advertising

The Premium Advertising Promotion (April 1 – June 30, 2014) was intended to encourage marketers and advertisers to use First-Class Mail® as a marketing vehicle. The promotion offered an upfront 15 percent First-Class Mail postage discount on presort letters composed entirely of marketing or advertising content. This promotion enabled marketers who currently use Standard Mail® as an advertising channel to leverage the benefits and brand recognition of First-Class Mail. Over the course of the program period, the Postal Service issued $1.9 million in discounts for 32 million First-Class Mail pieces.

4. Mail and Digital Personalization

The 2014 Mail and Digital Personalization Promotion (May 1- June 30, 2014) encouraged mailers to use variable data printing (VDP) or other print technology that provides varying levels of mailpiece personalization and customization. Additionally, mailers were encouraged to utilize personalization through urls, webpages or mobile experiences with both messaging and content linked to the mailpiece, thereby enhancing the overall personalized experience for the recipient. Combining these technologies with a "personalized" experience can provide impact to brand value, consumer retention and acquisition, all of which improve the overall marketing experience. Mailers could earn an upfront discount of 2 percent on eligible postage. Over the course of the program period, the Postal Service issued $8,000 in discounts for 1.5 million First-Class Mail pieces.

5. Earned Value

The Earned Value Promotion (April 1 – June 30, 2014) offered business mailers who send qualifying First-Class Mail Business Reply Mail (BRM) and Courtesy Reply Mail (CRM) enclosures a credit on each piece that is returned during the promotion period. Mailers could earn $0.02 per returned reply mail piece. Participants whose total CRM and BRM counts equaled or exceeded their counts from the 2013 promotion earned $0.03 per piece. At the end of the promotion, the total credit amount was applied to the mailer’s Permit account. The credit could be applied to future mailings of First-Class Mail Presort and Automation cards, letters and flats, and Standard Mail letters and flats. Over the course of the program, the Postal Service issued $11.0 million in credits for 512.9 million BRM and CRM pieces.

6. Color Print in First-Class Mail Transactions

The 2014 Color Print in First-Class Mail® Transactions Promotion (August 1 – December 31, 2014) is intended to encourage producers of bills and statements to produce and mail statements that create a greater connection and response from consumers, by using color messaging. The promotion is a way to grow the value of First-Class Mail and encourage mailers to invest in color print technology. This promotion provides an upfront 2 percent postage discount to mailers who use dynamic/variable color print for marketing and consumer messages on their bills and statements. Through September 30, 2014, the Postal Service issued $2.56 million in discounts for 329 million First-Class Mail pieces.

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	5,970	$880	$370	$510	$0.147	$0.062	$0.085	237.96%
HD/Sat Flats & Parcels	11,279	$2,006	$881	$1,125	$0.178	$0.078	$0.100	227.62%
Carrier Route	8,980	$2,364	$1,686	$678	$0.263	$0.188	$0.076	140.24%
Letters	47,572	$9,817	$4,895	$4,922	$0.206	$0.103	$0.103	200.53%
Flats	5,054	$2,037	$2,497	($460)	$0.403	$0.494	($0.091)	81.59%
Parcels	66	$68	$102	($34)	$1.032	$1.557	($0.525)	66.28%
Every Door Direct Mail Retail	890	$149	$39	$110	$0.167	$0.044	$0.123	379.11%
Standard Mail NSAs	566	$119	$63	$56	$0.210	$0.112	$0.099	188.13%
Standard Mail Fees		$57						
Total Standard Mail (incl. fees)	88,377	$17,497	$10,534	$6,963	$0.218	$0.131	$0.087	166.10%

As shown above, all Standard Mail products other than Standard Mail Parcels and Standard Mail Flats covered their attributable costs in FY 2014. 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 2014, the ratio was 58.89 percent.

Standard Mail Parcels' cost coverage Improved to 66.3 percent from 64.3 percent in FY 2013. This was after a decline from 85.5 percent in FY2012. To address this issue, in the last three pricing cases the Postal Service has implemented above average price increases – e.g. 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 in January 2014 (vs 1.642 percent class average). As noted last year, despite these aggressive pricing efforts, several issues have caused this product's cost coverage to decline and remain below 100 percent. 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 remaining Standard Mail Parcels product (formerly titled Non Flat-Machinables) became Marketing Parcels, with different mailing standards. These changes left the remaining Standard Mail Parcels product with a significantly higher proportion of nonprofit mailpieces, driving down cost coverage. In addition, for the second year in a row, unit costs for this product increased significantly in FY 2014. Consequently, the Standard Mail Parcels product is likely to continue to have a cost coverage below attributable costs in FY 2015. 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 cost coverage of 81.6 percent in FY 2014, down 3.3 percentage points from FY 2013. Though Standard Flats experienced a 5 percent increase in revenue per piece, this was not enough to overcome: 1) an increase in cost per piece of over 9 percent; and 2) a volume decrease of 9.2 percent. 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.[6] We will continue to propose above average price increases for this product to improve cost coverage.[7]

As part of its Annual Compliance Report (ACR) for Fiscal Year (FY) 2012, the Commission directed the Postal Service to "respond to the specific remedy adopted by the 2010 ACD by presenting a schedule of future price adjustments for Standard Mail Flats."[8] 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-

[6] *See, e.g.*, Docket No. ACR2013, United States Postal Service FY 2013 Annual Compliance Report, at 19 (December 27, 2013) (*hereafter* "ACR for FY2013").

[7] The Postal Service is aware that as part of the Commission's order in the ACD for FY 2010 (at 107), it is required to: 1) describe all operational changes designed to reduce flat costs in FY 2014 and estimate the financial effects of such changes; 2) describe all costing methodology or measurement improvements made in FY 2014 and estimate the financial effects of such changes; and 3) Provide a statement summarizing the historical and current fiscal year subsidy of the Standard Mail Flats product, and the estimated timeline for phasing out this subsidy. However, due to the unavailability of critical operations staff during the peak holiday mailing season, the Postal Service was unable to complete this analysis in time for today's filing. The Postal Service will provide this information to the Commission as a supplement to today's filing sometime in early January.

[8] Docket No. ACR2010-R, Order No. 1472: Notice and Order Confirming Termination of Stay, at 3 (Sept. 21, 2012).

CPI price increases for Standard Mail Flats."[9] 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 FY2013.[10] The Commission approved the schedule of above average price increases in its ACD for FY2013.[11] In compliance with the Commission's order in the ACD for FY2010, Table 3, below, updates the approved schedule through 2016. As the Postal Service has repeatedly argued, 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.[12]

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

Six workshare passthroughs for Standard Mail Letters exceed 100 percent: Automation Mixed AADC Letters, Automation AADC Letters, Nonautomation AADC Machinable Letters, Nonautomation ADC Nonmachinable Letters, Nonautomation 3-Digit Nonmachinable Letters, and Nonautomation 5-Digit Nonmachinable Letters.

[9] Docket No. ACR2010, Annual Compliance Determination Report for Fiscal Year 2010, at 107 (March 29, 2011). 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*.

[10] ACR for FY2013, at 20.

[11] Docket No. ACR2013, Annual Compliance Determination Report for Fiscal Year 2013, at 52-54 (March 27, 2013).

[12] 39 U.S.C. § 3622(d)(3).

Automation Mixed AADC Letters

The Automation Mixed AADC Letters passthrough is 800 percent. The cost avoidance decreased from 1.8 cents in FY 2011 to negative 0.3 cents in FY 2012. The cost avoidance increased to 0.2 cents in FY 2013, but has decreased to 0.1 cents in FY 2014. This barcoding discount encourages mailers to provide an Intelligent Mail barcode (IMb) on their mailpieces, which improves operational efficiency. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(D). Given the volatility in cost avoidance, the Postal Service will do its best to eliminate the portion of the discount above avoided costs as soon as practicable, consistent with operational business conditions.

Automation AADC Letters

The Automation AADC Letters passthrough is 136.5 percent for FY 2014. This represents an increase from a passthrough of 106.7 percent in FY 2013 and 76.20 percent in FY 2012. The cost avoidance decreased from 2.1 cents in FY 2012 to 1.5 cents in FY 2013, and increased to 1.6 cents in FY 2014. Since the current discount of 1.8 cents used the FY 2012 cost avoidance as a reference, and since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and the implementation of discounts, the Postal Service is not relying on any of the statutory worksharing exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation AADC Machinable Letters

The Nonautomation AADC Machinable Letters is 112.5 percent in FY 2014. This represents an increase from a passthrough of 100 percent in FY 2013 and 88.90 percent in FY 2012. The cost avoidance remained steady at 1.6 cents between FY 2013 and FY 2014. Only two years ago, in the FY 2012 ACD, the avoided cost was 1.8 cents. This was the reference point for when the current 1.8 cent discount was developed prior to implementation in January 2014. Since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and implementation of discounts, the Postal Service is not relying on any statutory worksharing exception. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation ADC Nonmachinable Letters

The Nonautomation ADC Nonmachinable Letters passthrough is 118.9 percent. This has improved from a passthrough of 135.7 in FY 2013. The cost avoidance increased from 7.9 cents in FY 2011 to 8.0 cents in FY 2012, decreased to 7.0 cents in FY 2013, and increased to 7.4 cents in FY 2014. The discount was reduced to 8.8 cents when prices were implemented in January of 2014. As ordered in the FY 2013 ACD, the Postal Service intends to eliminate the portion of the discount above avoided costs during the next market-dominant price change. Accordingly, the Postal Service does not rely on any of the statutory exceptions.

Nonautomation 3-Digit Nonmachinable Letters

The Nonautomation 3-Digit Nonmachinable Letters passthrough is 119.2 percent, down from 161.9 percent in FY 2013. The cost avoidance increased from 2.5 cents in FY 2011 to 2.7 cents in FY 2012, decreased to 2.1 cents in FY 2013, and increased to 2.6 cents in FY 2014. In Docket No. R2013-1, this discount was reduced from 3.9 cents to 3.4 cents. In Docket No. R2013-11 the discount was further reduced to 3.1 cents. Given the steady progress made in reducing the discount, and the fact that FY 2012 cost avoidances were used as the reference point for establishing the discounts implemented in January of 2014, the Postal Service is not relying on any of the statutory workshare exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation 5-Digit Nonmachinable Letters

The Nonautomation 5-Digit Nonmachinable Letters passthrough is 143.1 percent up from 137.7 percent in FY 2013. The cost avoidance increased from 7.6 cents in FY 2011 to 7.7 cents in FY 2012, decreased to 6.9 cents in 2013, and decreased to 6.5 cents in FY 2014. Aligning the discount and avoided cost would result in a price increase as large as 20.3 percent, which could result in rate shock. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B), but intends to continue reducing the discount until the passthrough reaches 100 percent.

ii. Flats

Six 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 ADC 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.

Automation 3-Digit Flats

The presorting Automation 3-Digit Flats passthrough is 123.8 percent, up slightly from 117.9 percent in the ACR for FY 2013. This reflects a discount of 5.2 cents, exceeding an avoided cost of 4.2 cents. Only two years ago, in the ACR for FY 2012, the avoided cost was 5.5 cents. This was the reference point when the 5.2 cent discount was developed, prior to implementation in January 2014. Since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and the implementation of discounts, the Postal Service is not relying on any statutory worksharing exception. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Automation 5-Digit Flats

The presorting Automation 5-Digit Flats passthrough is 101.2 percent, down from 108.1 percent in the FY 2013 ACR. This stems from a decrease in the discount from 9.3 cents to 8.6 cents. Since the Postal Service intends to align the discount with avoided costs in the next market-dominant price adjustment, it is not relying on any of the statutory workshare exceptions.

Nonautomation ADC Flats

The presorting Nonautomation ADC Flats passthrough is 110.9 percent, up from 88.1 percent in the FY 2013 ACR. This reflects a discount of 5.1 cents, exceeding an avoided cost of 4.6 cents. Only two years ago, in the FY 2012 ACR, the avoided cost was 5.9 cents. This was the reference point when the 5.1 cent discount was developed, prior to implementation in January 2014. Since there is no statutory exception to address the structural lag between the estimation of new cost avoidances and the implementation of discounts, the Postal Service is not relying on any statutory worksharing exception. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation 3-Digit Flats

The presorting Nonautomation 3-Digit Flats passthrough is 114.9 percent, significantly reduced from 142.9 percent in the FY 2013 ACR. The reduction was the result of a 0.4 cent increase in the discount (from 5.0 cents to 5.4 cents) being offset by a larger 1.2 cent increase in the avoided cost (from 3.5 cents to 4.7 cents). Given the significant progress made in reducing the passthrough to 100 percent, and since the current 5.4 cent discount was established using FY 2012 cost avoidance estimates, the Postal Service is not relying on any of the statutory exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation 5-Digit Flats

The presorting Nonautomation 5-Digit Flats passthrough is 133.3 percent, similar to the 132.2 percent in the FY 2013 ACR. This results from a discount of 6.8 cents and an avoided cost of 5.1 cents. The reference point for development of the 6.8 cent discount was the FY 2012 avoided cost of 7.8 cents. Since then, the avoided cost has decreased to 5.9 cents in the FY 2013 ACR and 5.1 cents in the present docket. The Postal Service will take future action to align the discount with the new, lower avoided-cost level, while also taking pains to avoid rate shock. However, immediately reducing the passthrough to 100 percent would require a price increase as high as 7.3 percent, which the Postal Service believes could result in rate shock for its customers. Accordingly, the Postal Service justifies the current 133.3 percent passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to continue reducing the discount in future market-dominant price adjustments until the passthrough reaches 100 percent.

Automation Mixed ADC Flats

The pre-barcoding Automation Mixed ADC Flats passthrough is 233.3 percent, significantly reduced from 305.6 percent in the FY 2013 ACR. This decrease is the result of an increase in the avoided cost, from 1.8 cents to 2.1 cents, and a decrease in the discount, from 5.5 cents to 4.9 cents. The 2.1 cent avoided cost is significantly below the FY 2012 ACR level of 4.5 cents. As FSS machines have been deployed over the past few years, a pre-barcoding discount has been necessary to encourage customers to prepare their flats for FSS processing. While there still continues to be a need for a pre-barcoding incentive for the efficient operation of the Postal Service, the Postal Service is committed to further reducing the discount over time – until it no longer exceeds avoided cost. Accordingly, the Postal Service justifies the passthrough pursuant to section 3622(e)(2)(D).

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.

NDC Irregular Parcels

The presorting passthrough for NDC Irregular Parcels is 139.7 percent, down significantly from 187.2 percent in FY 2013 and 242.8 percent in FY 2012. The passthrough fell because of both a decrease in the discount, from 36.5 cents to 32.4 cents, and an increase in the avoided cost, from 19.5 cents to 23.2 cents. However, immediately reducing the passthrough to 100 percent would require a price increase of as much as 7.78 percent, which the Postal Service believes could result in rate shock for its customers. Accordingly, the Postal Service justifies the current 139.7 percent passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to continue reducing the discount in future market-dominant price adjustments until the passthrough reaches 100 percent.

NDC Marketing Parcels

The presorting passthrough for NDC Marketing Parcels is 124.8 percent, down from 135.3 percent in the ACR for FY 2013. Immediately aligning the discount with avoided cost would result in a price increase as high as 7.62 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).

Mixed NDC Machinable Barcoded Parcels

The pre-barcoding passthroughs for Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and NDC Marketing Barcoded Parcels are all 181.1 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 Promotion

There were five Standard Mail promotions in effect in FY 2014: Mobile Buy-It-Now, Branded Color Mobile Technology, Mail & Digital Personalization and Emerging Technology featuring Near Field Communication (NFC), and EDDM Coupon.[13]

[13] Though the Earned Value promotion is also listed in the Mail Classification Schedule under Standard Mail, the Postal Service has omitted it from the list of Standard Mail promotions in this pleading, since the results have already been reported in the First-Class Mail promotions section above.

1. Mobile Buy-It-Now

The Mobile Buy It Now Promotion ran from November 1 to December 31, 2013, and provided business mailers with an upfront two percent postage discount on Standard Mail® and First-Class Mail® letters, flats and cards (presort and Automation). The mailpiece had to include a mobile barcode or mobile print technology that can be read or scanned by a mobile device and lead the recipient to a mobile-optimized shopping website. Over the course of the program, the Postal Service issued $10.7 million in discounts for 2.4 billion Standard Mail pieces.

2. Branded Color Mobile Technology

The 2014 Branded Color Mobile Technology Promotion (February 1- March 31, 2014) encouraged mailers to push the envelope and expand their mobile technology usage beyond basic QR codes. By participating, mailers had the opportunity to receive an upfront 2 percent postage discount on qualifying Standard Mail® and First-Class Mail® letters, flats and cards (presort and automation) that used creative elements such as color and/or graphics in their mobile print technology. Over the course of the program period, the Postal Service issued $10.7 million in discounts for 2.4 billion Standard Mail pieces.

3. Mail and Digital Personalization

The 2014 Mail and Digital Personalization Promotion (May 1- June 30, 2014) encouraged mailers to use variable data printing (VDP) or other print technology that provides varying levels of mailpiece personalization and customization. Additionally, mailers were encouraged to utilize personalization through urls, webpages or mobile experiences with both messaging and content linked to the mailpiece, thereby enhancing the overall personalized experience for the recipient. Combining these technologies with a "personalized" experience can provide impact to brand value, consumer retention and acquisition, all of which improve the overall marketing experience. Mailers could earn an upfront discount of 2 percent on eligible postage. Over the course of the program period, the Postal Service issued $745,000 in discounts for 159 million Standard Mail pieces.

4. Emerging Technology featuring Near Field Communication (NFC)

The 2014 Emerging Technology Promotion (August 1 – September 30, 2014) built upon previous promotions and continued the strategy of encouraging mailers to integrate direct mail with mobile technology. To participate in the promotion, the mailpiece must have incorporated the use of standard NFC technology, or an "enhanced" augmented reality experience, allowing the recipient to engage in an interactive experience using the mailpiece and mobile device. Mailers could earn an upfront discount of 2 percent on eligible postage. Over the course of the program period, the Postal Service issued $4.1 million in discounts for 1 billion Standard Mail pieces.

5. The Every Door Direct Mail (EDDM) Coupon Program

The 2014 Every Door Direct Mail® (EDDM) Coupon Promotion (September 7 – December 31, 2014) is an incentive program for new customers that will provide a postage credit for mailings that meet a certain threshold. New EDDM customers are issued a coupon by a USPS sales representative on a first-come, first-served basis. The coupon offers a $50 postage credit towards an EDDM order of $350 - $750, or a $100 postage credit towards an EDDM order of $751 or more. Customers can use their coupons online when the order is created, or present the coupons at a USPS retail location or Business Mail Entry unit. Between September 7 and September 30, 2014, the Postal Service redeemed 161 coupons valued at $50 and 170 coupons with a face value of $100, for a total of $25,050.

C. Periodicals

1. Cost, Revenues, and Volumes

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

Table 4: Periodicals Volume, Revenue, and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attribu-table Costs ($Million)	Contri-bution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contri-bution ($)	Cost Cover-age (%)
Within County Periodicals	586	$67	$86	$(19)	$0.114	$0.146	$(0.033)	77.73
Outside County Periodicals	5,459	$1,552	$2,048	$(496)	$0.284	$0.375	$(0.091)	75.77
Fees		$6	-	-	-	-	-	-
Total Periodicals Mail (incl.fees)	6,045	$1,625	$2,134	$(515)	$0.269	$0.353	$(0.084)	76.16

As shown above, both Periodicals products failed to cover their attributable costs in FY 2014. The cost coverage of these products remained unchanged when compared to FY 2013. Nevertheless, the Postal Service would notes that the cost coverage of Within County Periodicals has increased from 75.2 percent in FY 2012. Similarly, the cost coverage of Outside County Periodicals has increased from the 71.8 percent in FY 2012. Overall, in FY 2014 the cost coverage of the Periodicals class remained steady at 76.1 percent. Again, this represents an increase from 72.1 percent in FY 2012. 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 26.1 cents in FY 2013 to 26.9 cents in FY

2014. At the same time, cost per piece increased slightly to 35.3 cents from 34.3 cents, or 2.9 percent. The combination of these factors led to the FY 2014 cost coverage remaining at 76.1 percent.[14]

2. Workshare Discounts and Passthroughs

The 3-Digit Automation Letter workshare discount for Within County Periodicals was the only discount above 100 percent of avoided costs. Twelve 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 Nonautomation 3D/SCF Flats, Nonmachinable Nonautomation 5D Flats, Nonmachinable Automation ADC Flats, Nonmachinable Automation 3D/SCF Flats, Nonmachinable Automation 5D Flats, ADC Automation Letters, 3-Digit Automation Letters, and 5-Digit Automation Letters. 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.

[14] The Postal Service is aware that, in the ACD for FY 2013, the Commission requested that it submit a detailed analysis of the progress made in improving Periodicals cost coverage. However, due to the unavailability of critical operations staff during the peak holiday mailing season, the Postal Service was unable to complete this analysis in time for today's filing. The Postal Service will provide the requested information as a supplement to today's filing sometime in early January.

Table 5: Package Services Volume, Revenue and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attribu-table Costs ($Million)	Contri-bution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contri-bution ($)	Cost Coverag e (%)
Bound Printed Matter Flats	250	202	134	68	0.808	0.538	0.271	150.36
Bound Printed Matter Parcels	212	272	251	21	1.285	1.185	0.100	108.43
Media Mail/Library Mail	86	308	328	(20)	3.566	3.802	(0.235)	93.81
Alaska Bypass	1	33	16	17	25.666	12.698	12.968	202.12
Fees		3						
Inbound Surface Parcel Post	1	18	13	5	19.957	14.199	5.758	140.55
Total Package Services Mail (incl. fees)[15]	550	836	743	93	1.519	1.350	0.169	112.53

One Package Services product failed to cover its attributable cost. Media Mail / Library Mail had a cost coverage of 93.8 percent. This is an improvement from a cost coverage of 84.2 percent in FY 2013. Overall, the class had a cost coverage of 112.5 percent improving from a cost coverage of 101.2 percent in FY 2013. The Postal Service intends to continue improving the cost coverage of Media Mail / Library Mail over time through above average price increases.

2. Workshare Discounts and Passthroughs

i. Media Mail / Library Mail

Two passthroughs associated with Media Mail / Library Mail exceeded 100 percent in FY 2014: the Media Mail Basic presort passthrough and the Library Mail Basic presort passthrough. The former is 175.0 percent, and the latter is 167.9 percent. This represents an increase from 156.1 percent and 141.9 percent, respectively, in FY 2013. The Postal Service justifies these passthroughs pursuant to section

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

3622(e)(2)(C), as Media Mail and Library Mail transport matter of educational, cultural, scientific, and informational value. Moreover, the Postal Service notes that in Order No. 1890 the Commission found that passthroughs of 156.7 percent and 150.0 percent were justified pursuant to 39 U.S.C. § 3622(e)(2)(C). 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

Six passthroughs for BPM Flats and BPM Parcels exceed 100 percent.

BPM Flats and BPM Parcels DNDC Dropship

The passthroughs for the BPM Flats and BPM Parcels DNDC dropship discounts are both 121.1 percent. On January 26, 2014, the discounts were reduced from 17.0 cents to 14.1 cents, in line with the FY 2012 cost avoidance of 14.1 cents, which was used to set these discounts in Docket Nos. R2013-10 and R2013-11. Since then, in FY 2014 the cost avoidance dropped to 11.6 cents. Since there is no statutory workshare exception to account for the lag between the most recent price adjustments and the fiscal year cost avoidance calculations, the Postal Service is not relying on any exception in section 3622(e)(2). Rather, as it has done in recent years, the Postal Service will adjust these discounts to match the most currently known cost avoidance during the next market-dominant price change, taking into consideration other business and operational needs.

BPM Flats and BPM Parcels DSCF dropship

The passthroughs for the BPM Flats and BPM Parcels DSCF dropship discounts are 105.4 and 105.8 percent, respectively. On January 26, 2014, the discounts were increased to 64 cents from 61.5 cents for flats and 64.2 from 61.6 cents for parcels. These discounts were below the FY 2012 cost avoidances for both flats and parcels (64.8 cents), which were used to set the discounts in Docket Nos. R2013-10 and R2013-11. Since then, the FY 2014 cost avoidances have dropped to 60.7 cents. Since there is no statutory workshare exception to account for the lag between the most recent price adjustments and the fiscal year cost avoidance calculations, the Postal Service is not relying on any exception in section 3622(e)(2). Rather, as it has done in recent years, the Postal Service will adjust these discounts to match the most currently known cost avoidance during the next market-dominant price change, taking into consideration other business and operational needs.

BPM Flats and BPM Parcels DDU dropship

The passthroughs for the BPM Flats and BPM Parcels DDU dropship discounts are both at 109.1 percent. On January 26, 2014, the discounts were increased to 79.1 cents for both flats and parcels, from 76.2 cents and 76.5 cents, respectively. These discounts were below the FY 2012 cost avoidances for both flats and parcels (79.1 cents), which were used to set the discounts in Docket Nos. R2013-10 and R2013-11. Since then, the FY 2014 cost avoidance dropped to 77.6 cents. Since there is no statutory workshare exception to account for the lag between the most recent price adjustments and the fiscal year cost avoidance calculations, the Postal Service is not relying on any exception in section 3622(e)(2). Rather, as it has done in recent years, the Postal Service will adjust these discounts to match the most currently known cost avoidance during the next market-dominant price change, taking into consideration other business and operational needs.

E. Special Services

1. Cost, Revenues, and Volumes

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

Table 6: 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	212.5	687.3	542.2	145.1	3.23	2.55	0.68	126.76%
COD	0.4	3.6	2.7	0.9	9.89	7.35	2.54	134.59%
Insurance	19.6	91.6	63.5	28.2	4.67	3.23	1.43	144.38%
Registered Mail	2.2	34.9	28.6	6.3	15.98	13.10	2.89	122.04%
Stamped Envelopes	N/A	9.9	7.8	2.1	N/A	N/A	N/A	126.60%
Stamped Cards	42.0	1.7	0.6	1.1	0.04	0.01	0.03	291.76%
Other Ancillary Services	N/A	525.2	259.6	265.6	N/A	N/A	N/A	202.30%
Total Ancillary Services	N/A	1,354.3	905.0	449.3	N/A	N/A	N/A	149.64%
Int’l Ancillary Services	26.7	41.1	12.8	28.3	1.538	0.478	1.060	321.7%
Caller Service	N/A	97.9	21.9	76.0	N/A	N/A	N/A	446.42%
Address Management Services	N/A	17.2	4.3	12.9	N/A	N/A	N/A	396.42%
Credit Card Authentication*	14.6	15.1	1.3	13.9	1.04	0.09	0.95	1197.76%
Customized Postage	2.0	0.6	0.1	0.5	0.30	0.03	0.27	867.05%
Money Orders	97.0	165.3	99.7	65.6	1.70	1.03	0.68	165.84%
Post Office Box Service	N/A	365.3	281.9	83.4	N/A	N/A	N/A	129.57%
Stamp Fulfillment Services	2.3	3.3	4.3	(1.0)	1.43	1.84	(0.41)	77.54%
Total Special Services Mail	N/A	2,060.09	1,332.05	728.05	N/A	N/A	N/A	154.66%

*See USPS-FY14-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 $4.3 million in FY 2014, but listed revenues of only $3.3 million, resulting in a cost coverage of 77.5 percent. Fees increased in 2014, but revenue dropped, suggesting that further fee increases may not improve the cost coverage much. The Postal Service continues to agree with the Commission's comments in the ACD for FY 2012, 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 three domestic market dominant Negotiated Service Agreements (NSAs) in effect in FY 2014: Valassis Direct Mail, Inc. ("Valassis"), Discover Financial Services ("Discover") and PHI Acquisitions, Inc. ("Potpourri "). Full information regarding the Discover NSA and the Potpourri NSA appears in USPS-FY14-30. 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 2014. Therefore, there are no data to report.

From a fiscal year perspective, the Discover NSA had a volume of 602.9 million pieces, revenue (after subtraction of the allocated fiscal year rebate) of $137.5 million, and attributable costs of $64.8 million, resulting in attributable cost coverage of 212 percent. The Potpourri NSA was implemented in Q4 of FY 2014. During the period July 2014 through September 2014, Potpourri had NSA volume of 66.4 million pieces, after-rebate revenue of $15.8 million, and attributable costs of $11.2 million, resulting in attributable cost coverage of 141 percent. The volume-based agreement earned a rebate of approximately $175,000 during the July 2014 to September 2014 period. The Commission reviews NSAs from a contract year perspective, and it focuses on the net benefit of an NSA to the Postal Service. As shown in USPS-FY14-30, the net benefit of the Discover NSA for the contract year of April 2013 to March 2014 is estimated to be between $18.2 million and $23.1 million. The corresponding net benefit of the Potpourri NSA cannot yet be evaluated on a contract-year basis, as the agreement has not been in effect for a full year.

It is clear, then, that the Discover NSA improved the net financial position of the Postal Service, and it is hoped the Potpourri NSA will do likewise in the remaining quarters of the contract year. Furthermore, the Postal Service has no reason to believe that these NSAs caused unreasonable harm in the marketplace. The scale of the agreements were sufficiently small to make market effects unlikely, and similar functionally-equivalent NSAs could have been made available to similarly-situated mailers. Thus, the Discover NSA and the Potpourri NSA satisfy 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.[16] 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.[17] The Postal Service's report, including information responsive to the criteria listed in Rule 3055.2(b)-(k), is included as USPS-FY14-29.

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-FY14-29.

[16] 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.

[17] *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. In addition to the discussion below, please see USPS-FY14-38.

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 2014 for Postal Service customers. Surveys were administered across quarter four of the year for two customer groupings – Residential and Small/Medium Business customers. A separate Large Business Survey was not needed in FY14 due to the inclusion of the BSN survey as a CI component.

2. Background

In FY 2014, the Postal Service restructured the Customer Experience Measurement (CEM) of FY 2010 by establishing the new Customer Insights (CI) program. The CEM residential, small/medium and large business surveys were discontinued at the end of FY2013. The prior CEM survey program was comprised of a single paper-based survey related to the overall satisfaction associated with mail entry, receipt, lobby services, and other contact with the Postal Service. The restructuring aims to address concerns that the CEM results were not sufficiently sensitive to small changes in customer perception and did not provide results in the most efficient manner (>45 days). The new CI composite metric is a weighted multi-channel customer driven experience measurement which presents an improved holistic view of customer satisfaction.

3. Methodology

For the CI system in FY 2014, Residential and Small/Medium business customers were randomly selected, contacted by mail and offered the opportunity to complete an online or phone survey. Residential and Small/Medium businesses are sampled sufficiently to ensure, at the Performance Cluster level, a minimum precision level of +/- 5 percentage points, at the 90 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. 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 2014, 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 2014 result from combining only these *Very Satisfied* and *Mostly Satisfied* ratings.

4. Survey Results – FY 2014 Ratings for Market Dominant Products

The table below reflects the FY 2014 CI survey data (with corresponding FY 2013 data following in parenthesis for comparison) responsive to the requirements in

Section 3652(a)(2)(B)(ii). The results represent data from residential and small/medium 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 2014 *(FY 2013)*

Market Dominant Products (Mailing Services)	Residential % Rated Very/Mostly Satisfied	Small/Medium Business % Rated Very/Mostly Satisfied
First-Class Mail	91.15 *(94.67)*	87.25 *(93.21)*
Single-Piece International	85.58 *(87.38)*	83.04 *(84.27)*
Standard Mail	86.76 *(85.11)*	83.82 *(87.95)*
Periodicals	85.9 *(88.09)*	83.26 *(85.92)*
Single-Piece Standard Post	88.92 *(89.87)*	84.06 *(88.81)*
Media Mail	88.66 *(89.32)*	86.55 *(88.15)*
Bound Printed Matter	--* *(86.84)*	81.72 *(85.85)*
Library Mail	--* *(87.77)*	81.79 *(86.33)*
*-- Number of responses received did not meet minimum threshold for 90% level of confidence.		

C. Customer Access to Postal Services

Information regarding Post Offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY14-33. The Postal Service closed no Post Offices and no stations or branches in FY 2014. At the end of FY 2014, there were 26,655 Post Offices, 4,948 stations and branches, and 698 carrier annexes. Also at the end of FY 2014, there were 398 suspensions of Post Offices in effect and 96 suspensions of stations and branches. To provide increased access, the Postal Service opened 409 Village Post Offices in FY 2014. The Postal Service projects that it will open an additional 86 Village Post Offices in quarter 1 of FY 2015, and it hopes to open a total of 350 Village Post Offices in FY 2015.

Nationally, there were 156,349 collection boxes available at the end of FY 2014, compared to 159,729 at the beginning of FY 2014. Average wait time in line improved at the national level from 2 minutes 29 seconds in FY 2013 to 2 minutes 24 seconds in FY 2014. Average wait time in line also improved in four of the seven Areas from FY 2013 to FY 2014, and remained the same in one Area.

IV. COMPETITIVE PRODUCTS

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

For FY 2014, cost, revenues, and volumes for competitive products of general applicability are shown directly in the FY 2014 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. 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-FY14-NP11). For competitive products not of general applicability, available data on international customized mailing agreements (ICMs) for FY 2014 are presented in the ICRA materials within USPS-FY14-NP2. For domestic competitive products not of general applicability, information is provided in USPS-FY14-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 2014 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 most appropriate test for this standard as the incremental cost test for the aggregation of competitive products.[18] 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.[19] 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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[18] *See* 39 C.F.R. § 3015.7(a).

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

FY14 INCREMENTAL COST CALCULATION FOR TOTAL COMPETITIVE PRODUCTS[1]

	Attributable Cost	Group Specific	Incremental	Hybrid Incremental
Domestic Competitive Mail	$ 9,585,201	$ 31,715	$ 9,833,796	$ 9,833,796
International Competitive	$ 1,384,701	$ -	na	$ 1,384,701
Total Competitive	$ 10,969,902	$ 31,715	na	$ 11,218,497

[1] Costs are ($000)

The total competitive hybrid incremental cost is $11,218.497 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 $11,001,617 thousand ($10,969,902 + $31,715). 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.[20]

The hybrid incremental costs of $11.218 billion are well below total competitive products revenue of $15.280 billion (shown on page 3 of USPS-FY14-1). 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).

[20] 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-FY14-NP11) and the ICRA (USPS-FY14-NP2), every competitive product covered its attributable costs, with the exception of two products, International Money Transfer Service – Outbound and Inbound Air Parcel Post (at Non-UPU Rates). Both products involve complex issues, and the Postal Service continues to pursue opportunities for improvement.

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.[21] Page 3 of USPS-FY14-1 shows total institutional costs of $34.187 billion. Applying the 5.5 percent to that figure yields a target contribution of $1.880 billion. Page 3 of USPS-FY14-1 shows total competitive attributable costs of $10.970 billion and total competitive product revenue of $15.280 billion. Subtracting the former from the latter results in total competitive contribution of $4,310 billion, greater than the $1.880 billion target. Thus, the subsection 3633(a)(3) requirement was met in FY 2014.[22]

[21] *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).

[22] Section 3641(b)(3) appears to contemplate that either positive or negative contribution resulting from competitive market tests should be included in the contribution calculation performed to evaluate aggregate competitive product contribution relative to the 5.5 percent target. The above calculation does not include competitive market tests, but the very small negative aggregate market test contribution amount detailed in USPS-FY14-NP27 is clearly far too slight to have any material effect on the conclusion that competitive products in the aggregate exceeded the target by a wide margin in FY 2014.

V. MARKET TESTS AND NONPOSTAL SERVICES

A. Market Dominant Market Tests

One market dominant market test of experimental products was offered under the provisions of section 3641 in FY 2014: Alternate Payment Method for Greeting Cards. Information for this market test for FY 2014 is provided below:

Market Test	Revenue	Cost	Volume
Alternate Payment Method for Greeting Cards	$ 30,259	$ 58,192	63,039

Because this market test was winding down to its end on January 2, 2014, costs for that short portion of FY 2014 were greater than revenue. Across Fiscal Years 2013 and 2014 combined, however, the revenues comfortably exceeded the reported costs.

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 this market dominant experimental product created an inappropriate competitive advantage for the Postal Service or any mailer.

B. Competitive Market Tests

Gift Cards, IMRS, and Metro Post were the only competitive market tests of experimental products offered under the provisions of section 3641 in FY 2014. Information for these market tests is provided under seal in USPS-FY14-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.[23] The approved MCS includes 11 nonpostal service products, two of which are market dominant and nine of which are competitive. FY 2014 revenue, cost, and volume data for the two market dominant products are provided below.

Alliances with the Private Sector to Defray Costs [includes MoverSource nonpostal ervice]		
Revenue	$	33,722,621
Expense		1,937,385
Net Income (Loss)	$	31,785,236
Volume		NA
Philatelic Sales		
Revenue	$	34,340,516
Expense		11,090,926
Net Income (Loss)	$	23,249,590
Volume		6,163,414

Comparable data for the eight competitive nonpostal services in effect in FY 2014 are provided in USPS-FY14-NP27.

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

VI. NONPUBLIC ANNEX

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. ACR2013. 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

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
December 29, 2014

Attachment One

LIST OF APPENDED MATERIALS

PUBLIC FOLDERS

USPS-FY14-1	FY 2014 Public Cost and Revenue Analysis (PCRA) Report
USPS-FY14-2	FY 2014 Public Cost Segments and Components Report
USPS-FY14-3	FY 2014 Discounts and Passthroughs of Workshare Items
USPS-FY14-4	FY 2014 Market Dominant Billing Determinants
USPS-FY14-5	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances)
USPS-FY14-6	General Classification of Accounts (Formerly Handbook F-8)
USPS-FY14-7	Cost Segment 3 Cost Pools & Other Related Information (Public Portion)
USPS-FY14-8	Equipment and Facility Related Costs
USPS-FY14-9	FY 2014 ACR Roadmap Document
USPS-FY14-10	FY 2014 Special Cost Studies Workpapers - Letter Cost Models (First and Standard)
USPS-FY14-11	FY 2014 Special Cost Studies Workpapers - Flat Cost Models (First and Standard) & Periodicals Cost Model
USPS-FY14-12	Standard Mail Parcel Mail Processing Cost Model
USPS-FY14-13	FY 2014 Standard Mail and Periodicals Destination Entry Cost Models
USPS-FY14-14	Mail Characteristics Study (Public Portion)
USPS-FY14-15	Bound Printed Matter Mail Processing Cost Model and Media Mail – Library Mail Mail Processing Cost Model
USPS-FY14-16	Bound Printed Matter Transportation Cost Model and Bulk Parcel Return Service Cost Model

USPS-FY14-17	2014 Annual Report and Comprehensive Statement of Postal Operations
USPS-FY14-18	FY 2014 ECR Mail Processing Unit Costs
USPS-FY14-19	FY 2014 Delivery Costs By Shape
USPS-FY14-20	FY 2014 Window Service Cost by Shape
USPS-FY14-21	Business Reply Mail Cost Model
USPS-FY14-22	FY 2014 Bound Printed Matter Mail Processing Costs
USPS-FY14-23	MODS Productivity Data
USPS-FY14-24	FY 2014 Non-Operation Specific Piggyback Factors (Public Portion)
USPS-FY14-25	FY 2014 Mail Processing Piggyback Factors (Operation Specific)
USPS-FY14-26	FY 2014 Mail Processing Costs by Shape (Public Portion)
USPS-FY14-27	FY 2014 Nonprofit Mail Cost Approximations
USPS-FY14-28	FY 2014 Special Cost Studies Workpapers – Special Services (Public Portion)
USPS-FY14-29	Annual Report on Service Performance for Market Dominant Products
USPS-FY14-30	FY 2014 Market Dominant NSA Materials
USPS-FY14-31	FY 2014 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)
USPS-FY14-32	FY 2014 CRA “B” Workpapers (Public Version)
USPS-FY14-33	Consumer Access to Postal Services
USPS-FY14-34	City Carrier Cost System (CCCS) Documentation (Public Version)
USPS-FY14-35	Rural Carrier Cost System (RCCS) Documentation (Public Version)

USPS-FY14-36	Transportation Cost Systems (TRACS) Documentation (Public Version)
USPS-FY14-37	In-Office Cost System (IOCS) Documentation (Public Version)
USPS-FY14-38	USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments
USPS-FY14-39	FY 2014 Competitive Products Fund Reporting Materials
USPS-FY14-40	2014 Rural Mail Count
USPS-FY14-41	International Market Dominant Billing Determinants
USPS-FY14-42	FY 2014 Revenue, Pieces, and Weight Report (Public Version)

NONPUBLIC FOLDERS:

USPS-FY14-NP1	FY 2014 Domestic Competitive Product Billing Determinants
USPS-FY14-NP2	FY 2014 International Cost and Revenue Analysis (ICRA) Report (Hard Copy & Excel)
USPS-FY14-NP3	FY 2014 International Cost Segments and Components Report (Hard Copy & Excel)
USPS-FY14-NP4	FY 2014 ICRA Domestic Processing Model (Cost Matrices, Reports, Control File, & Changes)
USPS-FY14-NP5	FY 2014 ICRA Overview/Technical Description
USPS-FY14-NP6	FY 2014 International Cost Segment Spreadsheets
USPS-FY14-NP7	Cost Segment 3 International Subclass Costs by Cost Pools (Volume Variable Cost Pools)
USPS-FY14-NP8	FY 2014 International Billing Determinants
USPS-FY14-NP9	FY 2014 Miscellaneous International Data

USPS-FY14-NP10	FY 2014 Competitive Product Incremental and Group Specific Costs
USPS-FY14-NP11	FY 2014 Nonpublic Cost and Revenue Analysis (NPCRA) Report (Hard copy & Excel)
USPS-FY14-NP12	FY 2014 Nonpublic Cost Segments and Components Report (Hard copy & Excel)
USPS-FY14-NP13	FY 2014 CRA Model (Model Files, Cost Matrices, and Reports)
USPS-FY14-NP14	FY 2014 CRA “B” Workpapers (Nonpublic Version)
USPS-FY14-NP15	Parcel Select / Parcel Return Service (PRS) Mail Processing Cost Model
USPS-FY14-NP16	Parcel Select / Parcel Return Service (PRS) Transportation Cost Model
USPS-FY14-NP17	Parcel Select / Parcel Return Service (PRS) Cube-Weight Relationship Estimation
USPS-FY14-NP18	Cost Segment 3 Cost Pools & Other Related Information (Nonpublic Portion)
USPS-FY14-NP19	FY 2014 Non-Operation Specific Piggyback Factors (Nonpublic Portion)
USPS-FY14-NP20	FY 2014 Mail Processing Costs by Shape (Nonpublic Portion)
USPS-FY14-NP21	In-Office Cost System (IOCS) Documentation (Nonpublic Version)
USPS-FY14-NP22	City Carrier Cost System (CCCS) Documentation (Nonpublic Version)
USPS-FY14-NP23	Rural Carrier Cost System (RCCS) Documentation (Nonpublic Version)
USPS-FY14-NP24	Transportation Cost Systems (TRACS) Documentation (Nonpublic Version)
USPS-FY14-NP25	Mail Characteristics Study (Nonpublic Portion)

USPS-FY14-NP26	FY 2014 Special Cost Studies Workpapers – Special Services (Nonpublic Portion)
USPS-FY14-NP27	FY 2014 Domestic Competitive NSA & Nonpostals Materials
USPS-FY14-NP28	FY 2014 Revenue, Pieces, and Weight Report (Nonpublic Version)
USPS-FY14-NP29	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances) (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 2014 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 2014 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 2014 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 2014 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 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: Guy Fischer, Regional Director International, Royal Mail,+44 7703104937; guy.fischer@parcelforce.co.uk;
- 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 6228, leehonchew@singpost.com;
- For the Korea Post – United States Postal Service Bilateral Agreement, Kim Jinkang, Assistant Director, International Business Division, +82-44-200-8283, jkim0124@koreapost.go.kr;
- For the Australian Postal Corporation – United States Postal Service Bilateral Agreement, Michael Cope, Global Development Manager, Australian Post, 111 Bourke Street, Melbourne Victoria 3000 Australia, michael.cope@auspost.com; and
- For the Strategic Bilateral Agreement Between United States Postal Service and PostNL, Mr. Win van de Sande, Senior Terminal Dues Manager, PostNL, +31 (0)6 83 64 57 90, wim.van.de.Sande@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
- Kathy L. Lynch, Manager, Customized Mail Agreements, Global Business, whose telephone number is 202-268-6662 and whose email address is kathy.l.lynch@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.

[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.

Kowalski's telephone number is (613) 734-6201, and her email address is ewa.kowalski@canadapost.ca.[5]

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

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[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 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.

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 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 Peter Chandler, Manager, UPU Relations (Acting). Mr. Chandler's phone number is (202) 268-5349, and his email address is Peter.R.Chandler@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-FY14-NP11 - USPS-FY14-NP14, USPS-FY14-NP18 - USPS-FY14-NP25, and USPS-FY14-NP27. Descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY14-9. 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-FY14-NP15 - USPS-FY14-NP17, and USPS-FY14-NP26. Again, descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY14-9. 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-FY14-NP2 through USPS-FY14-NP7 and USPS-FY14-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-FY14-9. There are no corresponding public folders.

A fourth category is the Competitive product billing determinants. These are found in USPS-FY14-NP1 for domestic Competitive products, and USPS-FY14-NP8 for International products. They are comparable in format to the Market Dominant billing determinants presented in USPS-FY14-4, 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-FY14-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 2014 ACR itself, and USPS-FY14-NP10 merely provides the background materials supporting those outputs. The incremental cost model used in USPS-FY14-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-FY14-NP10 are described in the roadmap document, USPS-FY14-9.

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-FY14-1) 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-FY14-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.

FY2014 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 First-Class Package Service NSAs
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.

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, Expedited Parcels and EMS 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 EMS 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 2014 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
eric.p.koetting@usps.gov

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