



January 28, 2019

Hon. Stacy L. Ruble, Secretary
Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, D.C. 20268-0001

Dear Mr. Ruble:

In accordance with Commission Rule 3050.26, I am submitting today copies of the Postal Service's econometric estimates of demand elasticities for all postal products. I have uploaded two folders on the United States Postal Service Secure Large File Transfer Web Application Portal (USPS SLFT); the public folder, filed in the Public Periodic Reports folder on USPS SLFT, provides materials relating to mail categories that fall into the Market Dominant domain, while the non-public folder, filed in the Non-Public Periodic Reports folder on USPS SLFT, provides materials relating to mail categories in the Competitive domain. The contents of these folders update the demand analyses for categories of mail and services provided to the Commission last year.

Attachment One to this letter describes the files provided in the two folders uploaded on SLFT. Attachment Two to this letter, titled "Application of the United States Postal Service for Non-Public Treatment of Materials," supports submission of the material relating to Competitive products filed under seal. Pursuant to 39 C.F.R. Part 3007, Attachment Two describes the non-public material, presents the statutory basis for the Postal Service's request for confidentiality, and describes the harm that would result from disclosure.

If you have any questions or concerns about the Postal Service's position on disclosure of any information provided today or subsequently, please contact me. As in the past, the Postal Service expects that any FOIA request for the records and information provided at this time will entail consultation between the Postal Service and the Commission, before any records are made publicly available. This approach accords with Department of Justice guidance and with our understanding of the Commission's current policy regarding such requests.

Best regards,

Kara C. Marcello
Attorney
Pricing and Product Support

cc: Ms. Taylor
Enclosures

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**Listing of Files Being Provided to the Postal Regulatory Commission
Documenting the United States Postal Service's Demand Equation
Estimation and Volume Forecasting Methodologies**

Prepared for the Postal Regulatory Commission
January, 2019

The following is a list and brief overview of the files being provided to the Postal Regulatory Commission at this time, documenting the Postal Service's econometric demand equation methodology and providing a volume forecast for Fiscal Year 2019.

These files are divided into two folders as follows.

1. Competitive

This folder contains four Microsoft Word documents and two sub-folders which document the Postal Service's econometric demand equations and one-year-ahead forecasts for Competitive mail products.

The first Word document, 'Changes.vs.2018(c).doc' describes changes to the Postal Service's Competitive econometric demand equation specifications from those filed in January, 2018.

The second document, 'DataDictionary(c).doc' provides a glossary of terms used throughout this documentation.

The third document, 'DemandEquations-Jan2019(c).doc' provides a detailed presentation of the exact specifications for all of the Postal Service's demand equations for Competitive mail products with full econometric output.

The fourth document, 'DemandEquationTables(c).doc' presents summary tables of key econometric output for all of the Postal Service's demand equations for Competitive mail products.

Sub-Folder: Regressions

The files used to generate the Postal Service's econometric demand equations for Competitive products are presented in the sub-folder Regressions.

Econometric demand equations for Competitive products are estimated using the statistical software EViews (version 9.5). The program which generates the econometric output is DEQN_c.prg. The files PRE_EQS.prg and PROGGUTS.prg are

Attachment One

called from DEQN_c.prg and contain the bulk of the methodological framework used for estimation. The equation-specific explanatory variables, restrictions, et al., are identified in the VOL*.prg files. A glossary of suffixes for the VOL*.prg files can be found in the Word document, DataDictionary(c).doc.

The data used to estimate these demand equations is read into EViews from the Excel spreadsheet, RCFDATA_c.xlsx. The econometric output generated by EViews can be found in the text file, OUT_c.txt.

Sub-Folder: Volume Forecasts

This folder contains two files which document the Postal Service's volume forecasts for Competitive products. The file, 'VolumeForecastMethodology(c).doc' is a Microsoft Word document which describes the Postal Service's methodology for making volume forecasts.

The file, 'VF-Jan2019(c).xlsx' is a Microsoft Excel spreadsheet which generates volume forecasts for the four quarters of the current Postal Fiscal Year (FY 2019) for the Postal Service's competitive products.

2. Market Dominant

This folder mirrors the **Competitive** folder only for Market Dominant mail products. Like the **Competitive** folder, this folder contains four Microsoft Word documents and two sub-folders. These files document the Postal Service's econometric demand equations and one-year-ahead volume forecast for Market Dominant mail products.

The first Word document, 'Changes.vs.2018(md).doc' describes changes to the Postal Service's Market Dominant econometric demand equation specifications from those filed in January, 2018.

The second document, 'DataDictionary(md).doc' provides a glossary of terms used throughout this documentation.

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The third document, 'DemandEquations-Jan2019(md).doc' provides a detailed presentation of the exact specifications for all of the Postal Service's demand equations for Market Dominant mail products with full econometric output.

The fourth document, 'DemandEquationTables(md).doc' presents summary tables of key econometric output for all of the Postal Service's demand equations for Market Dominant mail products.

Sub-Folder: Regressions

The files used to generate the Postal Service's econometric demand equations for Market Dominant products are presented in the sub-folder Regressions.

Econometric demand equations for Domestic Market Dominant products are estimated using the statistical software EViews (version 9.5). The program which generates the econometric output is DEQN_md.prg. The files PRE_EQS.prg and PROGGUTS.prg are called from DEQN.prg and contain the bulk of the methodological framework used for estimation. The equation-specific explanatory variables, restrictions, et al., are identified in the VOL*.prg files. A glossary of suffixes for the VOL*.prg files can be found in the Word document, DataDictionary(md).doc.

The data used to estimate these demand equations is read into EViews from the Excel spreadsheet, RCFDATA_md.xlsx. The econometric output generated by EViews can be found in the text file, OUT_md.txt.

Sub-Folder: Volume Forecasts

This folder contains two files which document the Postal Service's volume forecasts. The file, 'VolumeForecastMethodology(md).doc' is a Microsoft Word document which describes the Postal Service's methodology for making volume forecasts.

Attachment One

The file, 'VF-Jan2019(md).xls' is a Microsoft Excel spreadsheet which generates volume forecasts for market-dominant products for the four quarters of the current Postal Fiscal Year (FY 2019).

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.201, the United States Postal Service (Postal Service) hereby applies for non-public treatment of certain materials filed under seal with the Commission. The materials consist of the demand analysis and forecasting materials, as required by 39 C.F.R. § 3050.26, for competitive products. This material is provided under seal. A public version of this report, which contains similar information for market dominant products, is included with this filing as a separate Excel file.

The Postal Service hereby furnishes the justification required for this application by 39 C.F.R. § 3007.201(b) below.

(1) The rationale for claiming that the materials are non-public, including the specific statutory provision(s) supporting the claim, and an explanation justifying application of the provision(s) to the materials.

The materials designated as non-public consist of information of a commercial nature that under good business practice would not be publicly disclosed. 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).¹ Because the portions of the materials that the Postal Service is applying to file only under seal fall within the scope of information not required to be publicly disclosed, the Postal Service asks the

¹ 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. PRC Order No. 4679, Order Adopting Final Rules Relating to Non-Public Information, Docket No. RM2018-3 (June 27, 2018) at 16 (reconfirming that the adopted final rules do not alter this long-standing practice); PRC 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.

Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

(2) A statement of whether the submitter, any person other than the submitter, or both have a proprietary interest in the information contained within the non-public materials, and the identification(s) specified in paragraphs (b)(2)(i) through (iii) of this section (whichever is applicable). For purposes of this paragraph, identification means the name, phone number, and email address of an individual.²

The Postal Service has a proprietary interest in the information contained within the non-public materials. The Postal Service designates Nabeel R. Cheema, Chief Counsel, to accept actual notice of a motion related to the non-public material or notice of the pendency of a subpoena or order requiring production of the materials.

Mr. Cheema's email address is Nabeel.R.Cheema@usps.gov, and his telephone number is 202-268-2989. The Postal Service is unaware of any third-party with a known proprietary interest in the material provided under seal in this instance.

(3) A description of the information contained within the materials claimed to be non-public in a manner that, without revealing the information at issue, would allow the Commission to thoroughly evaluate the basis for the claim that the information contained within the materials are non-public.

² Section 3007.201(b) further states the following:

(i) If the submitter has a proprietary interest in the information contained within the materials, identification of an individual designated by the submitter to accept actual notice of a motion related to the non-public materials or notice of the pendency of a subpoena or order requiring production of the materials.

(ii) If any person other than the submitter has a proprietary interest in the information contained within the materials, identification of each person who is known to have a proprietary interest in the information. If such an identification is sensitive or impracticable, an explanation shall be provided along with the identification of an individual designated by the submitter to provide notice to each affected person.

(iii) If both the submitter and any person other than the submitter have a proprietary interest in the information contained within the non-public materials, identification in accordance with both paragraphs (b)(2)(i) and (ii) of this section shall be provided. The submitter may designate the same individual to fulfill the requirements of paragraphs (b)(2)(i) and (ii) of this section.

Attachment Two

In connection with this application, the Postal Service has filed the demand analysis and forecasting material for Market Dominant Products publicly, and the same material for Competitive Products under seal. A more complete description of the contents of the files can be found as Attachment One to the letter to which this application is presented as Attachment Two. The structure of the two sets of files is quite similar, with the only substantive difference being the specific demand equations and forecasts presented. The five demand equations presented within the Competitive materials are for:

1. Express Mail
2. Priority Mail
3. Parcel Select
4. Parcel Select Return Service
5. International Commercial Mail

Because the structure of the files is so similar, examination of the contents of the public file should allow a person to understand the nature of the contents of the nonpublic file, and evaluate accordingly.

(4) Particular identification of the nature and extent of the harm alleged and the likelihood of each harm alleged to result from disclosure.

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. Competitors could use recent volume data, estimated elasticities, and volume forecasts 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 demand information about relevant products (e.g., does the Postal Service consider the product to be price elastic; does the Postal Service expect demand for the product to be expanding or contracting). More broadly, interested parties could gain, at no effort or expense to themselves, valuable analytic information about the variables that the Postal Service considers important in evaluating market demand, and structure their strategic behavior accordingly. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed non-publicly.

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

Harm: Competitors could use forecasted volume information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Demand analysis and forecasting material for competitive products 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 historic and projected volume trends. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to expect to make headway, hindering the Postal Service's ability to reach out effectively to these customers.

Harm: Customers or competitors could use estimated price elasticities to guide their positions in NSA negotiations or price setting.

Hypothetical: Demand analysis and forecasting material for competitive products is released to the public. A customer preparing to negotiate an NSA with the Postal Service recognizes that the Postal Service considers demand for the product in

question to be elastic (i.e., above unitary elasticity). On that basis, the customer pushes for deeper discounts than otherwise might seem achievable. The resulting lower rates generate less contribution from the NSA. Alternatively, a competitor could examine the cross-price elasticities and, in determining how to set its own annual price adjustments, could put a relatively larger share of the price increase on its product with the lower cross-price elasticity, and a relatively smaller share on its product with the higher cross-price elasticity. As a result, the Postal Service achieves less volume and revenue growth than it might have otherwise.

(6) The extent of the protection from public disclosure alleged to be necessary.

The Postal Service maintains that the portions of the materials filed non-publicly 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 administrations), 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 non-public materials.

(7) The length of time for which non-public treatment is alleged to be necessary with justification thereof.

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless otherwise provided by the Commission. 39 C.F.R. § 3007.401(a). However, because the Postal Service's relationships with customers often continue beyond ten years, the Postal Service intends to oppose requests for disclosure of these materials pursuant to 39 C.F.R. § 3007.401(b-c).

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

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.