

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

PERIODIC REPORTING

Docket No. RM2010-1

PETITION OF THE UNITED STATES POSTAL SERVICE REQUESTING
INITIATION OF A PROCEEDING TO CONSIDER A PROPOSED CHANGE
IN ANALYTIC PRINCIPLES (Proposal Twenty)
(October 6, 2009)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a proceeding to consider a proposal to change analytic principles relating to the Postal Service's periodic reports. The proposal, labeled as Proposal Twenty, is discussed below, and in greater detail in the attached text and documentation. (Proposal One was filed as Docket No. RM2009-5 on June 22, 2009, Proposal Two was filed as Docket No. RM2009-7 on July 7, 2009, and Proposals Three through Nineteen were filed as Docket No. RM2009-10 on July 28, 2009. See Order No. 229, June 24, 2009; Order No. 245, July 10, 2009; and Order No. 269, July 31, 2009.)

Proposal Twenty represents an effort to improve the quality, accuracy, and completeness of data reported in the ACR. Specifically, the Postal Service proposes to use updated density factors for the purpose of distributing certain Cost Segment 14 transportation costs, and Cost Segment 8 Vehicle Service Driver costs, to products. A field data collection effort was initiated this year to update the density factors, using, to the extent possible, the same methodology of the field data collection effort employed to

develop the previous set of density factors. The result of this update was relatively minor changes in the density factors. The proposal is discussed in greater detail as part of this pleading, while the field data collection effort is documented in a pdf file attached to this pleading electronically.

Also attached to this Petition is an application for non-public treatment of certain of the supporting information that relates to competitive products. Specifically, the cost impact table attached to this pleading has been redacted, as well as the product density results table included with the electronically attached pdf file. Unredacted versions of those tables are being provided under seal in USPS-RM2010-1/NP1, and the attached application for nonpublic treatment seeks confidentiality for the unredacted tables.

Respectfully submitted,

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October 6, 2009

PROPOSAL 20

Proposal to Update Density Factors Used to Estimate Net Cubic Volume of Mail in the Transportation Cost System (TRACS)

OBJECTIVE:

The purpose of this document is to propose a methodology change to incorporate updated density factors in the TRACS Highway and Rail subsystems, which are used to develop distribution keys to assign volume-variable purchased transportation costs in Cost Segment 14 and Vehicle Service Driver costs in Cost Segment 8. In order to better reflect products and product characteristics, the density factors are updated from time to time. The factors were most recently updated in Docket No. R2001-1.

BACKGROUND:

The TRACS Highway and Rail subsystems estimate the cubic volume occupied by mail of various products and rate categories to distribute certain Cost Segment 8 and Cost Segment 14 volume-variable costs to those products. The net cubic volume occupied by mail is, in certain cases, estimated by weighing sampled mail and applying a density factor to convert the weight into cubic feet. (See Docket No. ACR2008, USPS-FY08-36 for details on TRACS expansion processes.) The factors currently employed are derived from a special study carried out in 2001; see Docket No. R2001-1, USPS-LR-K-33.

PROPOSAL:

This proposal seeks to update the TRACS density factors with results from a 2009 density special study and related data collection and analysis. The current special study generally followed the methodology of the USPS-LR-K-33 study, where possible. As before, the 2009 density study uses quota sampling at randomly selected facilities to develop samples of letter mail in trays, flat mail in tubs, and parcel-shape mail containers. However, the removal of floor scales from Postal Service mail processing facilities made it impossible to update the measurement of "load densities" for parcel-shape mail using the previous study's methodology of filling wheeled containers of known tare weight with mail, and then weighing the full containers. Thus, the proposed factors would implement a "piece density" method for estimating the net cubic volume of parcel-shape mail in TRACS.

RATIONALE:

Numerous product design changes have been implemented since Docket No. R2001-1, and certain density factors from the previous study are obsolete. For instance, those for U.S.-origin economy International Mail, as well as others, are in need of updating.

Proposal Twenty

The previous study potentially introduced a degree of subjectivity into the density measurements by instructing data collectors to fill trays, tubs, and other containers in a manner consistent with postal operations. The 2009 study covers full (or nearly full) trays and tubs as prepared by mailers or the Postal Service to ensure that data collectors do not over- or under-fill containers relative to operational practices. Where necessary, the 2009 study's data collectors measured empty space in trays and tubs to allow adjustment of densities to the equivalent of full trays or tubs. For parcels, "load densities" depend on the methods used to pack containers, container types, and mail characteristics (including but not limited to size, weight, and rigidity) for the selected pieces; it is difficult if not impossible to replicate operational practice reliably. Piece densities, in contrast, are readily amenable to direct measurement.

Additionally, the 2009 study estimates several densities not separately provided by the previous update, including Standard and First-Class parcel densities. TRACS began collecting density information on July 1, 2009. The Postal Service believes that the use of ongoing data systems will allow regular density factor updates at much lower costs than special studies.

More details regarding the 2009 study are presented in a document attached to this pleading electronically, Prop.20.Attach.pdf.

IMPACT:

The attached table presents a simulation exercise in which the new density factors are used to distribute FY08 highway, rail, and VSD costs, and the results are then compared to the corresponding FY08 costs derived with the existing distribution factors, based on the densities from the previous study. For most categories, the percentage changes are small – in the range of one to two percent of total highway, rail, and VSD costs. For a few categories, the effects are larger.

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	HWY&Rail Original	HWY&Rail Simulation	VSD Original	VSD Simulation	Net Changes	FY08 Volume	Change in Cost per Piece
	UNITS		\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	(000)	\$
1	MARKET DOMINANT PRODUCTS								
2	FIRST-CLASS MAIL:								
3	SINGLE PIECE LETTERS	3	234,142	237,630	39,723	40,651	4,973	33,509,710	\$ 0.000
4	SINGLE PIECE CARDS	4	7,320	7,029	1,285	1,225	-388	1,845,860	\$ (0.000)
5	PRESORT LETTERS	8	247,438	248,774	26,828	27,369	2,202	48,379,874	\$ 0.000
6	PRESORT CARDS	9	13,757	13,308	1,245	1,113	-660	3,555,997	\$ (0.000)
7	SINGLE PIECE FLATS	16	134,809	133,635	23,632	23,354	-1,619	2,607,157	\$ (0.001)
8	PRESORT FLATS	17	28,619	28,080	4,114	3,921	-848	772,584	\$ (0.001)
9	SINGLE PIECE PARCELS	19	83,604	97,568	10,102	12,755	18,212	595,014	\$ 0.031
10	PRESORT PARCELS	20	1,730	2,059	258	330	445	10,507	\$ 0.042
11	TOTAL FIRST CLASS		751,419	768,083	107,187	110,718	22,317	91,276,703	\$ 0.000
12	STANDARD MAIL								
13	HIGH DENSITY AND SATURATION LETTERS	21	4,499	4,554	1,496	1,519	92	5,598,913	\$ 0.000
14	HIGH DENSITY AND SATURATION FLATS & PARCELS	22	10,771	10,789	3,740	3,747	28	13,584,059	\$ 0.000
15	CARRIER ROUTE	23	90,370	91,063	20,686	20,895	1,027	12,070,176	\$ 0.000
16	LETTERS	25	177,067	178,177	22,027	22,486	1,844	57,086,421	\$ 0.000
17	FLATS	26	198,784	201,361	28,696	29,731	4,234	10,010,857	\$ 0.000
18	NOT FLAT-MACHINABLE AND PARCELS	27	80,834	90,707	5,972	8,294	13,590	733,729	\$ 0.019
19	TOTAL STANDARD MAIL		562,327	576,650	82,617	86,672	20,815	99,084,155	\$ 0.000
20	PERIODICALS								
21	IN COUNTY	31	136	138	59	59	2	830,887	\$ 0.000
22	OUTSIDE COUNTY	32	249,158	250,757	40,011	40,564	2,484	7,774,339	\$ 0.000
23	TOTAL PERIODICALS		249,294	250,895	40,070	40,623	2,486	8,605,227	\$ 0.000
24	PACKAGE SERVICES								
25	SINGLE PIECE PARCEL POST	41	321,180	319,696	25,469	25,166	-1,970	89,536	\$ (0.022)
26	BOUND PRINTED MATTER FLATS	42	16,648	12,801	3,189	2,077	-5,627	289,623	\$ (0.019)
27	BOUND PRINTED MATTER PARCELS	43	65,473	60,571	6,302	5,180	-6,699	308,561	\$ (0.022)
28	MEDIA AND LIBRARY MAIL	44	128,783	124,471	11,712	10,815	-5,747	158,505	\$ (0.036)
29	TOTAL PACKAGE SERVICES		532,084	517,539	46,672	43,238	-20,043	846,225	\$ (0.024)
30	USPS MAIL	125	31,670	27,374	6,331	5,136	-6,209	823,685	\$ (0.008)
31	FREE MAIL -BLIND HANDICAPPED & SERVICEMEN	130	5,894	5,095	1,121	912	-1,133	71,975	\$ (0.016)
32	TOTAL MARKET DOMINANT MAIL		2,132,687	2,145,635	283,998	287,299	18,233	200,707,969	\$ 0.000
33	COMPETITIVE PRODUCTS								
34	EXPRESS MAIL	150					< -1%		
35	PRIORITY MAIL	155					-2%		
36	PARCEL SELECT	160					< -1%		
37	PARCEL RETURN SERVICE	165					-2%		
38	PREMIUM FORWARDING SERVICE	170					-4%		
39	INTERNATIONAL MAIL	185					-1%		
40	TOTAL COMPETITIVE MAIL AND SERVICES		776,745	763,796	120,066	116,764	-18,235	1,175,890	\$ (0.016)
41	TOTAL MARKET DOMINANT AND COMPETITIVE		2,909,432	2,909,431	404,064	404,063	-2	201,883,859	\$ (0.000)
42	TOTAL VOLUME VARIABLE		2,909,432	2,909,431	404,064	404,063			
43	OTHER	199	706,473	706,473	264,474	264,474			
44	TOTAL		3,615,905	3,615,904	668,538	668,537			

ATTACHMENT

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC 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 non-public treatment of certain materials filed under seal with the Commission. The materials consist of density data (pounds/cubic foot), transportation costs, and VSD costs, by product, to the extent they concern competitive products. The materials in question are provided to the Commission to aid in its assessment of approval of the Postal Service's proposed change in analytic principles regarding the product density data used in cost distribution. A public version of the material supporting this proposal (denominated as Proposal Twenty), which shows all domestic market dominant product information, as well as summary information for affected international and competitive product groupings, is included with this filing as either part of the main host document, or as an attached electronic pdf file. A non-public version showing all information for market dominant and competitive product groupings is filed under seal as USPS-RM2010-1/NP1.

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

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

¹ PRC Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1, June 19, 2009.

39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).² 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 Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

(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 has not identified any third parties which it believes have a proprietary interest in the materials.

(3) A description of the materials claimed to be non-public 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 non-public;

To support its Proposal Twenty, the Postal Service is providing information on density by product from the new study, and the effect on certain FY08 product transportation costs of using the new densities instead of the previous densities for purposes of cost distribution. A non-public version showing all information for market dominant and competitive products is filed under seal. A redacted version, showing information for all domestic market dominant products, and summary information for international mail and domestic competitive product groupings, is filed publicly as part of the instant petition. The public version, while omitting absolute cost amounts for

² 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. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

domestic competitive products, also includes estimated FY08 percentage cost change amounts associated with Proposal Twenty for those products. The Postal Service maintains that the non-public portions of these materials should remain confidential. For purposes of evaluation of this application by parties without access to the non-public materials, examination by those parties of the public material included with the instant petition for market dominant products will allow thorough and immediate understanding of the nature of the corresponding non-public material for competitive products,

(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. Competitors could use the product density and transportation cost information to analyze the Postal Service's possible market strengths and weaknesses, and to focus sales and marketing efforts accordingly, 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 NSA customers, who might be able to use postal cost information to extract greater price reductions when constructing a deal for a reduced set of service features. The Postal Service considers these to be 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 disaggregated product density information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Disaggregated density information 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 whether the trend in density for Parcel Select pieces is up or down. An upward trend might suggest that the Postal Service is making inroads on lucrative higher density/lower cube pieces. This intelligence might cause the competitor to offer somewhat steeper discounts for such pieces when negotiating contracts with its customers, hindering the Postal Service's ability to reach out effectively to these customers. Conversely, a downward trend might suggest that the Postal Service is not as competitive for such pieces, and the competitor might ease up on the discounts that it had been negotiating in that portion of the market.

Harm: Customers, including foreign postal administrations, could use disaggregated product transportation cost information to undermine the Postal Service's leverage in negotiations.

Hypothetical: Disaggregated transportation information for competitive products is released to the public. An employee of a parcel shipper monitors the filing of this information, and passes the information along to its shipping department. The parcel shipper has average haul characteristic less than the average. In negotiating an NSA, this information might be used estimate the Postal Service's typical transportation cost savings from shorter-haul parcels, and use such estimates 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 achieve. The Postal Service's ability to negotiate the best value from the bargain suffers as a result.

(6) The extent of protection from public disclosure deemed 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 deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and

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 the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30. The Postal Service believes that the ten-year period of non-public treatment is sufficient to protect its interests with regard to the information it determined should be withheld due to commercial sensitivity.

(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 non-public treatment of the identified materials.

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.

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