

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

COMPETITIVE PRODUCTS PRICE CHANGES
RATES OF GENERAL APPLICABILITY

Docket No. CP2010-8

**SUPPLEMENTAL INFORMATION PROVIDED
BY THE UNITED STATES POSTAL SERVICE
IN RESPONSE TO COMMISSION ORDER NO. 333,
AND NOTICE OF FILING MATERIAL UNDER SEAL**
(November 19, 2009)

The United States Postal Service hereby provides supplemental information in response to Commission Order No. 333 (November 6, 2009). In its Order, at pages 4-5, the Commission requested additional information via two questions. Attached to this filing is the Postal Service's response to Question 1.

The Postal Service also hereby provides notice that the Excel files associated with this response have been filed under seal today. An application for non-public treatment of these materials is also attached. The Postal Service will file redacted versions of these files with the Commission as soon as all redactions have been completed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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

Elizabeth A. Reed
Jacob D. Howley

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3179, Fax -6187
Elizabeth.A.Reed@usps.gov
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1. Please refer to the redacted, untitled and unnumbered table attached to the Filing which presents certain information for FY 2010 (Table 1).
 - a. The Commission is unable to verify the FY 2010 volume, revenue, attributable cost, contribution, or cost coverage data provided by the Postal Service in Table 1. Please provide data similar to that provided in Docket No. CP2009-8 to support all data in both the redacted and unredacted versions of Table 1; and
 - b. Provide a narrative explaining the method used to forecast data in Table 1.

RESPONSE:

(a-b). Please see the attached Excel files (filed under seal). A table listing all of the files and a flowchart that demonstrates the interrelationships of the enclosed workbooks are also attached herein.

The Postal Service used the revenue requirement and roll forward models to provide estimates of FY 2010 operating results. These estimates include the summary contribution, unit cost by class of mail, unit cost by function, and cost reduction summaries.

Estimating the Postal Service's costs in FY 2010 is accomplished by:

1. Identifying and quantifying costs in the FY 2008 Annual Compliance Determination (ACD) base year;
2. Projecting or "rolling forward" costs for the FY 2009 interim year and FY 2010 at current rates; and
3. Adjusting FY 2010 year cost estimates for the volume effects of the proposed rate changes in that year.

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The results of this process were a “Baseline – Current Prices” contribution estimates for FY’s 2009-2010, and a “Proposed – New Prices” contribution estimates for FY 2010.

The FY 2009 and FY2010 Contribution reports include both a full report for all mail classes and a summary report for Competitive and Market Dominant products. Unit cost reports include unit costs by year, and percent change in unit cost by function. Cost reductions reports show the cost reductions net of Other Programs, by year, for all mail classes and a summary report for Competitive and Market Dominant products.

Contributions for Express Mail International, Global Express Guarantee and Priority Mail International were calculated separately because the roll forward models do not accommodate international products at that level at this time. However, the total international estimated percentage growth rates for revenue, volume and cost were used to roll forward the FY 2008 ICRA revenues, volumes and cost for these products.

Documents to be Filed With the PRC

Revenue Requirement Files

Inputs	Input_09.XLS	Inputs for factor development
Personnel Cost	Pers_Calc_09.xls	Calculates personnel cost level factors
Base Year Expense	Realtb08.XLS	Base year expenses by segment by account number
Repriced Annual Leave	Repal_09.XLS	Calculates repricing of annual leave expense
Roll Forward Reports	RF_Rpts_09.XLS	Contains reports resulting from the rollforward run.
Roll Forward Cost Factor Inputs	Rffac_09.XLS	Summarizes all roll forward cost factor inputs
Unit Labor Cost	Uncst_est_09.XLS	Develops unit labor costs by category
Workyears	Wkyrcalc_08.XLS	Calculates workyears for FY 2008

Roll Forward & Contribution Reports

FY2009 C - Report	FY2009BR.CRpt.xls	Cost Segments & Components Report (including PESSA)
FY2010 C - Report	FY2010BR.CRpt.xls	Cost Segments & Components Report (including PESSA)
RF Lite Reports	RFLiteReport2008-2010BR.Baseline.xls	Summary contribution and unit cost by function reports
FY2010 C - Report	FY2010AR.CRpt.xls	Cost Segments & Components Report (including PESSA)
RF Lite Reports	RFLiteReport2008-2010AR.Proposed.xls	Summary contribution and unit cost by function reports

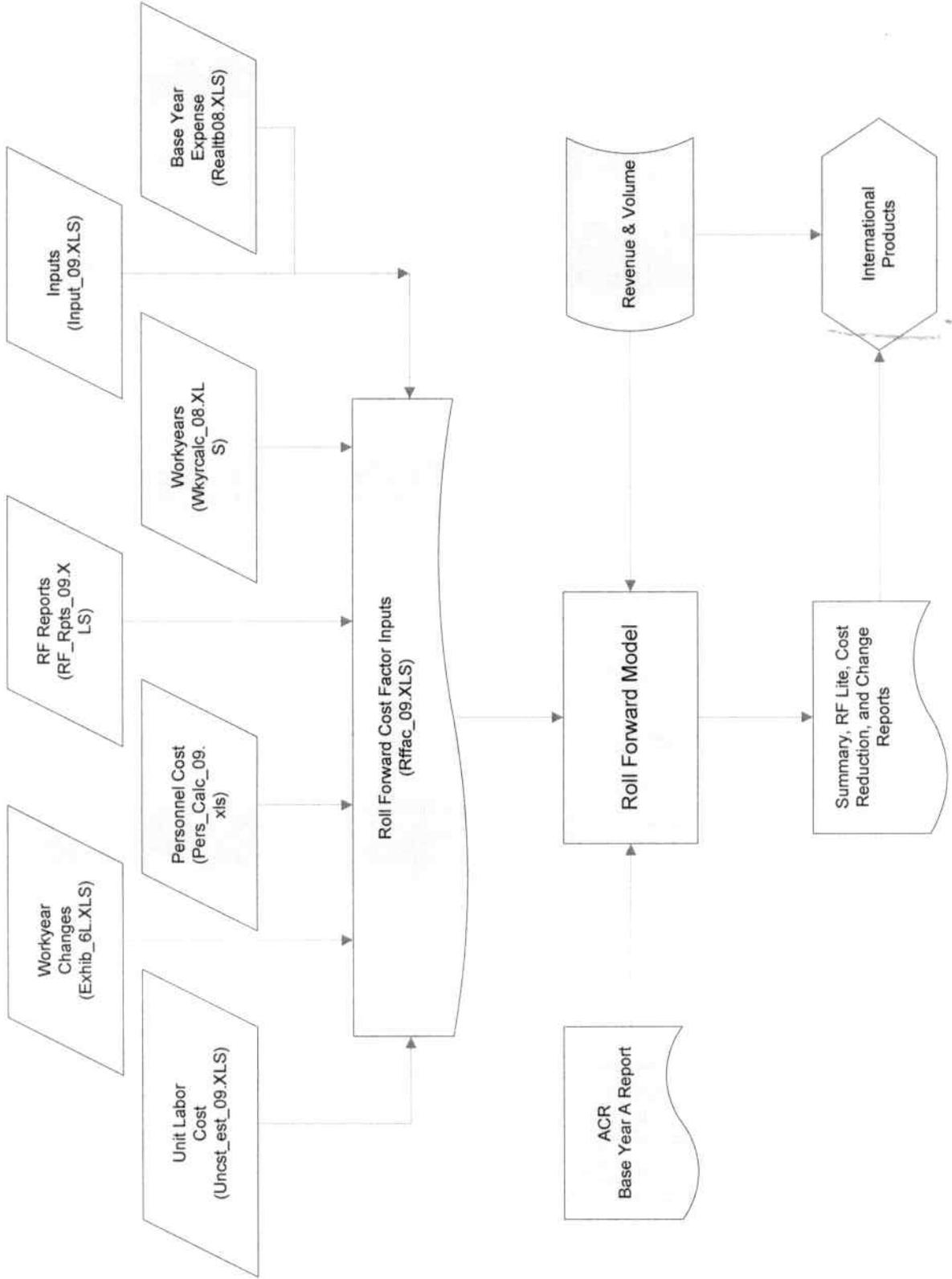
Calculation Report

Comp Report Worksheets	Comp Reports Worksheets.xls	Contribution and International unit revenue & cost calculation
International Unit Revenue/Cost	International Unit Rev-Cost Calc.xls	International unit revenue & cost calculation

Other Documents

Revenue Requirement & RF	Rev Req RF Doc.vsd	Revenue Requirement and Roll Forward Flow Chart
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Revenue Requirement and Roll Forward Cost



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

In accordance with 39 C.F.R. § 3007.21, the Postal Service hereby applies for non-public treatment of the materials (specifically, Excel files) filed in response to Question 1 of the Commission's request for supplemental information in this docket. The Postal Service hereby furnishes the justification required for this application by each subsection of 39 C.F.R. § 3007.21(c), as enumerated below. For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.

(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, which under good business practice would not be publicly disclosed. In the Postal Service's opinion, 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)¹. Because the portions of the materials which 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;

None.

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

- (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;**

The redacted information consists of the underlying revenue requirement and rollforward files that were used by the Postal Service to project FY 2010 attributable cost, contribution, and cost coverage for each competitive product that is the subject of this docket.

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

If competitors of the Postal Services were to have access to this information, they would likely focus their marketing and price cutting efforts on the Postal Service's most profitable products. This will lead to erosion of contribution of these products through lost sales and/or the need to lower prices to compete. 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, given that Shipping Services is a multi-billion dollar enterprise, even a small change in market share, prices, or costs could lead to millions of dollars in lost revenue, higher costs, and lower contribution 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.

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

Identified harm: Competitors could use product cost, contribution, or cost coverage information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Cost, contribution and/or cost coverage information is released to the public and available to a competitor. The competitor 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 maintain these customers.

Identified harm: Suppliers of transportation or other services use the information to seek higher rates for services they provide to the Postal Service.

Hypothetical: Cost, contribution and/or cost coverage information is released to the public and available to a supplier. Supplier reviews the information and is made aware of expected contribution margins for FY 2010. With this information, Supplier decides to increase the rate it charges the Postal Service to provide transportation and/or other services for postal products.

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

The Postal Service maintains that the redacted portions of the materials filed non-publicly should be withheld from persons involved in competitive decision-making in the market for domestic parcel shipping products, as well as their consultants and attorneys. Additionally, suppliers of transportation or other services to the Postal Service that affect costs for competitive services should not have access to these materials; this restriction should include their consultants and attorneys.

(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.