

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

COMPETITIVE PRODUCT PRICES  
BILATERAL  
NEGOTIATED SERVICE AGREEMENT

Docket Nos.  
MC2010-14

COMPETITIVE PRODUCT PRICES  
CANADA POST – UNITED STATES POSTAL SERVICE  
CONTRACTUAL BILATERAL AGREEMENT FOR INBOUND  
COMPETITIVE SERVICES (MC2010-14)  
NEGOTIATED SERVICE AGREEMENT

CP2010-13

**NOTICE OF THE UNITED STATES POSTAL SERVICE OF FILING RESPONSES TO  
CHAIRMAN'S INFORMATION REQUEST NO. 1 AND REVISED FINANCIAL  
DOCUMENTATION**  
(December 16, 2009)

The United States Postal Service hereby gives notice of filing its responses to Chairman's Information Request No. 1 in this proceeding, issued on December 10, 2009. An additional document responsive to question 1 and a revised version of the financial documentation filed with the Postal Service's November 25, 2009, Request are filed under seal; a redacted version of each is attached to this filing. The Postal Service has included an application for non-public treatment of the first document as Attachment 1 to the Postal Service's responses. To the extent that an application for non-public treatment is deemed necessary for the revised financial documentation, the Postal Service incorporates by reference Attachment 4 to its Request to Add Canada Post – United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services to the Competitive Product List, and Notice of Filing (Under Seal) the Enabling Governors' Decision and Agreement, Docket Nos. MC2010-14 and CP2010-13, November 25, 2009.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
DOCKET NOS. MC2010-14 AND CP2010-13  
CHAIRMAN'S INFORMATION REQUEST NO. 1**

1. Please refer to the worksheet tab "01\_Inputs," Cells C107 to F115. Please explain and provide the data that informed the Postal Service's decision for the adjustment factors in the columns headed "08 to '09," "09 to '10," and "11 to '11." If these factors are derived from calculations based on historic data, please provide the calculations.

**RESPONSE**

Due to the lack of data specific to the relevant inbound mail streams, the Postal Service relied on available forecasts for comparable domestic First Class, Express Mail, and Standard mail streams as proxies. The data and calculations that informed the adjustment factors for 2008 to 2009, 2009 to 2010, and 2010 to 2011 are contained in the Microsoft Excel document entitled "FY2009Q3v11BRJulyDist\_Revised (2).xls," which is filed separately in connection with these responses. It should be noted that the volume information that appears in the document for FY 2009, even historical information, was preliminary at the time it was generated and might not correlate to more recent or actual volume information available elsewhere.

Subsequent to the submission of the Postal Service's Request in this proceeding, it has been determined that First Class Mail and Standard Mail are not the most appropriate proxies as they represent market dominant product volumes. Instead, available forecasts for domestic Priority Mail represent a more accurate proxy for inbound Xpresspost and Surface Parcel streams. Accordingly, the above-referenced Excel document shows the original proxies, as well as those that are now considered more accurate. A revised version of the financial documentation that accounts for this change is filed simultaneously to these responses.

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2. In worksheet tab "04\_Unit\_Cost\_Inputs," the following source is provided for the figure in [Aa]: Summary of FY 2008 IOCS Attributable Costs for Inbound Mail by Category and Terminal Dues Group (Docket No. ACR2008, library reference PRC-ACR2008-NP-LR3). Please identify the cell(s) in Docket No. ACR2008, library reference PRC-ACR2008-NP-LR3 for the figure referenced in [Aa].

**RESPONSE**

The figures referenced in [Aa] to [Ab] result from a calculation based on multiple inputs. The appropriate processing costs attributable to Canada (Segments 2 and 3) are added, and then divided by the ICRA volume provided within the workbook to create a processing unit cost for ALC and SCP. This calculation may be expressed as follows:

- ALC – [Tab IOCSWT2, Worktable G-2 (Column 1, Row 3) + Tab IOCSWT2, Worktable G-2 (Column 1, Row 9)] / Tab DomTransWT4, Worktable G-4 (Column 1, Row 8)
- SCP – [Tab IOCSWT2, Worktable G-2 (Column 1, Row 2) + Tab IOCSWT2, Worktable G-2 (Column 1, Row 8)] / Tab DomTransWT4, Worktable G-4 (Column 1, Row 7).

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3. Please refer to worksheet tabs "06\_PFP\_QoS 2010" and "07\_PFP\_QoS 2011," and [Ae] to [Ai], which reference the "2010 Target" and "2011 Target." Please explain why the 2010 and 2011 targets in [Ae] to [Ai] differ from the targets in Attachment 3 to Postal Service Request entitled "Scanning and On-Time Quality of Service Pay for Performance."

**RESPONSE**

The 2010 and 2011 targets in [Ae] to [Ai] were based on information that did not reflect the final outcome of negotiations. Upon further review, the Postal Service has determined that the targets in Attachment 2 of the Agreement (which in turn was filed as Attachment 3 to the Postal Service's November 25, 2009, Request) are more appropriate for use in those worksheet tabs. Accordingly, the Postal Service is filing a revised version of the financial documentation for the Agreement that accounts for this revision.

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4. Please refer to worksheet tabs "06\_PFP\_QoS 2010" and "07\_PFP\_QoS 2011," and [Ba] to [Bi], respectively. Please explain why the "presumed actual" percentages shown in 2010 are the same as the percentages shown in 2011.

**RESPONSE**

The presumed actual percentages for 2010 and 2011 Quality of Service are based on the latest yearly result available. The Postal Service used these actual data because they represent the most accurate data available for Pay-for-Performance projections.

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5. Please refer to worksheet tabs "08\_PFP\_Prod\_Vis 2010" and "09\_PFP\_Prod\_Vis 2011," and [Ba] to [Bi], respectively. Please explain why the "projected actual" percentages shown in 2010 are the same as the percentages shown in 2011.

**RESPONSE**

The presumed actual percentages for 2010 and 2011 Product Visibility are based on the latest yearly result available. The Postal Service used these actual data because they represent the most accurate data available for Pay-for-Performance projections.

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6. Please refer to Attachment B, Management Analysis of Canada Post—United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services. Also, please refer to worksheet tab “18\_Proj\_Cost & Revenue,” and column [F], “Cost Coverage.”
  - a. Please reconcile the cost coverage for Xpresspost USA cited in the third bullet of Attachment B with the Xpresspost cost coverage calculated in column [F] of the worksheet tab.
  - b. Please reconcile the cost coverage for inbound competitive services from Canada cited in the fourth bullet of Attachment B with the total cost coverage calculated in column [F] of the worksheet tab.

**RESPONSE**

- a. The difference in cost coverage for Xpresspost-USA results from two changes in financial assumptions after the Management Analysis was provided to the Governors of the United States Postal Service for their consideration in establishing the rates for this Agreement but before the financial documentation provided in connection with the Postal Service's initial Request in this proceeding was finalized. The first change resulted from a shift in currency exchange rates in the intervening period. The second change stemmed from a revised assumption about the implementation schedule for certain scanner programming associated with Xpresspost merchandise items. Due to the relatively minor impact on cost coverage, it was deemed unnecessary to seek amendment of the Governors' Decision documentation prior to filing with the Commission.
- b. See response to (a) above. The difference in overall cost coverage results solely from the updating of Xpresspost-USA costs.

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7. For Inbound Surface Parcel Post and Xpresspost, please provide the FY 2009 cost per piece for processing, delivery, and other, even if those per piece costs are preliminary figures.

**RESPONSE**

No preliminary figures are available at this time.

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8. For Inbound Surface Parcel Post and Xpresspost, please provide the FY 2009 cost per kilogram for domestic air transportation and domestic surface transportation, even if those per kilogram costs are preliminary figures.

**RESPONSE**

No preliminary figures are available at this time.

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9. The worksheet tab “03\_Dom\_Tran\_Inputs,” at [Bc], reports that Inbound Surface Parcel Post, *i.e.*, “Foreign Origin – Surface CP,” incurs domestic air transportation costs. Please explain why there are any domestic air transportation costs included in the cost calculations for Inbound Surface Parcel Post.

**RESPONSE**

Inbound Surface Parcel Post uses Foreign Origin Surface CP as a cost proxy. Although it arrives in the United States by surface rather than by air, Inbound Surface Parcel Post incurs a mix of domestic air and surface transportation costs once it is within the Postal Service’s domestic network. The use of domestic air transportation is documented in ICRA-FY08 (USPS-CP2009-36/NP1, PRC Docket Nos. MC2009-26 and CP2009-36, July 2, 2009), Domestic Tran Calcs.xls file, 'annual' tab, cell [R17].

## ATTACHMENT 1

### 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,<sup>1</sup> the United States Postal Service (Postal Service) hereby applies for non-public treatment of certain information in a Microsoft Excel document entitled “FY2009Q3v11BRJulyDist\_Revised (2).xls,” which is responsive to Chairman’s Information Request No. 1, question 1. This document is being filed separately under seal with the Commission, with a redacted version filed publicly. The Postal Service hereby furnishes the justification required for this application by 39 C.F.R. § 3007.21(c) below.

**(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 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3).<sup>2</sup> 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

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

<sup>2</sup> 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.

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 believes that it is the only party with a proprietary interest in the instant responses.

**(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 materials consist of volume forecast information for two competitive products, which was generated for internal evaluation purposes and used in formulating proprietary assumptions about competitive postal services under the Agreement at issue in this proceeding.

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

If these responses were to be disclosed publicly, the Postal Service considers that it is quite likely that it would suffer commercial harm. Predictions about competitive product volumes are commercially sensitive, and the Postal Service does not believe that they would be disclosed under good business practices. Competitors could use the information to anticipate trends in Postal Service products, assess any possible comparative vulnerabilities, and focus sales and marketing efforts on those areas, to the detriment of the Postal Service. The Postal Service considers this to be a highly probable outcome that would result from public disclosure of the redacted material.

These concerns apply both to the extent that the information bears on domestic

competitive products, and to the extent that they have been determined eligible to function as indicators of competitive volume trends under the Agreement with Canada Post.

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

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

Hypothetical: The volume forecast 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 then designs its marketing strategy to target potential postal customers during those periods when the Postal Service predicts consumption of the relevant competitive services to be the strongest, thereby undercutting the Postal Service's own marketing efforts.

**(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 relevant market for international expedited and parcels products (including both 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 this or similar products (including other postal operators) should not be provided access to the non-public materials. This includes Canada Post with respect to all materials filed under seal except for the Agreement, to which Canada Post already has access.

**(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.