

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

COMPETITIVE PRODUCTS PRICE CHANGES
RATES OF GENERAL APPLICABILITY

Docket No. CP2011-26

**NOTICE OF THE UNITED STATES POSTAL SERVICE
OF FILING SUPPLEMENTAL INFORMATION UNDER SEAL
IN RESPONSE TO COMMISSION ORDER NO. 575**
(November 12, 2010)

The United States Postal Service hereby gives notice of filing supplemental information in response to Commission Order No. 575 (November 4, 2010). In its Order, at pages 4-6, the Commission requested additional information via four questions. In addition to public responses filed for Questions 1-4, complete responses for Questions 1(a), 1(c), and 2 are filed under seal, and an application for non-public treatment of that information is attached.¹ Redacted versions of all documents associated with the responses to Questions 1(a), 1(c), and 2 are being concurrently filed.

¹ A portion of the response to Question 2, regarding Priority Mail International, will be forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
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1. Please refer to the redacted tables attached to the Request which present “Competitive Product Contribution & Cost Coverage Analysis” for FY 2011 “January 2, 2011 Implementation” and “October 1, 2010 Implementation”.
 - a. Provide FY 2011 volumes, revenues, attributable costs, contribution, and cost coverage data similar to that provided in Docket No. CP2010-8 to support all data in both the redacted and unredacted tables.
 - b. Provide a narrative explaining the method used to forecast data in the referenced tables.
 - c. Provide attributable costs, revenues, and volumes data for each product grouped in “All Other Competitive International (including Services)” at the same level of detail provided for all other competitive products in this docket. For each of these international products, explain how the expected revenues and costs comply with 39 U.S.C. 3633(a).

RESPONSE:

1(a-c). 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 as Attachments 1 and 2 to the United States Postal Service Response to Commission Order No. 575.

The revenue and volume forecasts used the same methodology as was used in the exigent case, Docket Number R2010-4. Demand equations and the forecast base were updated, as were the forecasts of the exogenous factors such as those obtained from IHS Global Insight. Unlike the exigent case, the forecast assumes no price changes for market dominant products. For competitive products, the exigent case forecasts assumed a 5 percent price increase; for the after-rates forecast in this case, the actual proposed prices are used to populate the price indexes in the forecasting model. (The before rates forecast assumes no price increase for competitive products.)

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The Postal Service also used the Cost Factor Development and Product Cost & Contribution Estimation models to provide estimates of FY 2011 operating results as was used in the exigent case Docket Number R2010-4. These estimates include the summary contribution, unit cost by class of mail, unit cost by function, and cost reduction summaries.

All Competitive International products (including Services) were calculated separately by the "International Product Cost and Contribution Estimation Model" because the PCCE models do not accommodate international products at that level at this time. As noted in POIR 1, question 4, in Docket No. R2010-4, the International Product Cost and Contribution Estimation Model disaggregated the International cost, revenue and volume results to individual products. However, this system is still being refined.

The revenues and volumes for Address Enhancement Services were derived from FY2010 Q3 billing determinant revenue and volume.

For Post Office Boxes – 49 Competitive Locations, the most recent Webbats report was used for box volume information at the 49 competitive locations. This provided the number of rented boxes by box size, the number of E Boxes by box size, and the number of vacant boxes by box size at the 49 locations moved from market dominant to competitive.

The total number of rented boxes became the before rates volume of boxes. The revenues were calculated from the current rates of the rented boxes.

Next, the attributable costs were calculated by taking each of the PO Box costs listed in the CRA and apportioning them to either the number of rented boxes at the

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competitive locations, the square footage of total box space at all the competitive locations, or the commercial real estate adjusted square footage at all competitive locations. The cost application depended on whether the cost was caused by box rental activity, box space maintenance, or box space acquisition at the 49 locations. These costs were calculated in the same manner shown in the USPS answer to CHIR No. 1 in Docket No. MC2010-20 but were calculated only on the competitive boxes. The cost calculation followed the methodology that the Commission found acceptable in Order No. 473, at 14 (June 17, 2010).

Then, after-rate volumes were calculated by applying the assumed elasticity of PO Boxes to the proposed price increase. The proposed prices were then applied to the elasticity-reduced volumes to produce the New Prices Revenue.

Additionally, costs for the PO Boxes at the New Prices were calculated in the same manner as to before rate costs with the adjustment made to the reduced number of rented boxes and increased number of vacant boxes. It was assumed that the price increase would have no effect on E box volumes at the 49 competitive locations. Contribution and Cost Coverage for New Prices were calculated in the same manner and before rates Prices and volumes.

The revenue forecast for Mailing and Shipping Supplies was determined by projecting the growth in market share as well as the rolling increase in product prices planned for fiscal year 2011. Revenue increased from FY09 to FY10 with an upward trend during quarters 3 and 4. Continued revenue growth through increased market share was projected to maintain at the same level as FY10 for FY11 which would increase revenue to \$114.5M. Prices will be increased during FY11 as products are

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reprinted (on a rolling basis) adding another \$0.5M depending on sell through during the year. Volume projections were based on the average sales price divided into the projected revenue. Attributed costs were projected to remain stable from FY10 to FY11 on a per piece basis, based on evaluation of cost of goods sold, transportation, and counter costs attributed to the Mailing and Shipping Supplies product line.

Finally, the revenue forecast for Greeting Cards was determined by projecting the growth in market share as well as the increase in the number of locations selling the product line during fiscal year 2011. This new product line has experienced substantial growth since program rollout starting in FY10 quarter 1. At the end of FY10, 1500 locations were installed and have been in market for at least four months. The initial ramp-up period is coming to an end for these locations. Volume projections were based on the average sales price divided into the projected revenue. Attributed costs were projected to remain stable from FY10 to FY11 on a per piece basis, based on evaluation of cost of goods sold and counter costs attributed to the product line.

Documents for the Competitive PRC Filing FY2011**Revenue Requirement Files****Cost Factor Model2 - Oct Competitive**

Inputs	Input_10.xls	Inputs for factor development
Personnel Cost	Pers_Calc_10.xls	Calculates personnel cost level factors
Base Year Expense	RealTB09.xls	Base year expenses by segment by account number
Annuitant Health Benefits	AnnHB_10Base_March2010.xls	Estimates of future payments on the average FEHB premiums
Roll Forward Reports	RF_Rpts_10.xls	Contains reports resulting from the rollforward run.
Roll Forward Cost Factor Inputs	Rffac_10.xls	Summarizes all roll forward cost factor inputs
Roll Forward Cost Factor Inputs	Rffac_10_Alt Format.xls	Summarizes all roll forward cost factor inputs (PCCM)
Unit Labor Cost	Uncst_est_10.xls	Develops unit labor costs by category
Workyears	Wkyrcalc_09.xls	Calculates workyears for FY 2009

CostFactorModel2 - Jan Competitive

Inputs	Input_10.xls	Inputs for factor development
Personnel Cost	Pers_Calc_10.xls	Calculates personnel cost level factors
Base Year Expense	RealTB09.xls	Base year expenses by segment by account number
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Roll Forward Cost Factor Inputs	Rffac_10.xls	Summarizes all roll forward cost factor inputs
Roll Forward Cost Factor Inputs	Rffac_10_Alt Format.xls	Summarizes all roll forward cost factor inputs (PCCM)
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Workyears	Wkyrcalc_09.xls	Calculates workyears for FY 2009

Roll Forward & Contribution Reports

FY2010 C - Report	FY2010BR.CRpt.xls	Cost Segments & Components Report (including PESSA)
FY2011 C - Report	FY2011BR.CRpt.xls	Cost Segments & Components Report (including PESSA)
RF Lite Reports	RFLiteReport2009-2011BR.Comp_Price_Inc_Before Rates (NonPublic).xls	Summary contribution and unit cost by function reports
FY2011 C - Report	FY2011AR.CRpt-Oct.xls	Cost Segments & Components Report (including PESSA)
RF Lite Reports	RFLiteReport2009-2011AR.Comp_Price_Inc_Oct 1, 2010 Implementation (NonPublic).xls	Summary contribution and unit cost by function reports
FY2010 C - Report	FY2011AR.CRpt-Jan.xls	Cost Segments & Components Report (including PESSA)
RF Lite Reports	RFLiteReport2009-2011AR.Comp_Price_Inc_Jan 2, 2011 Implementation (NonPublic).xls	Summary contribution and unit cost by function reports

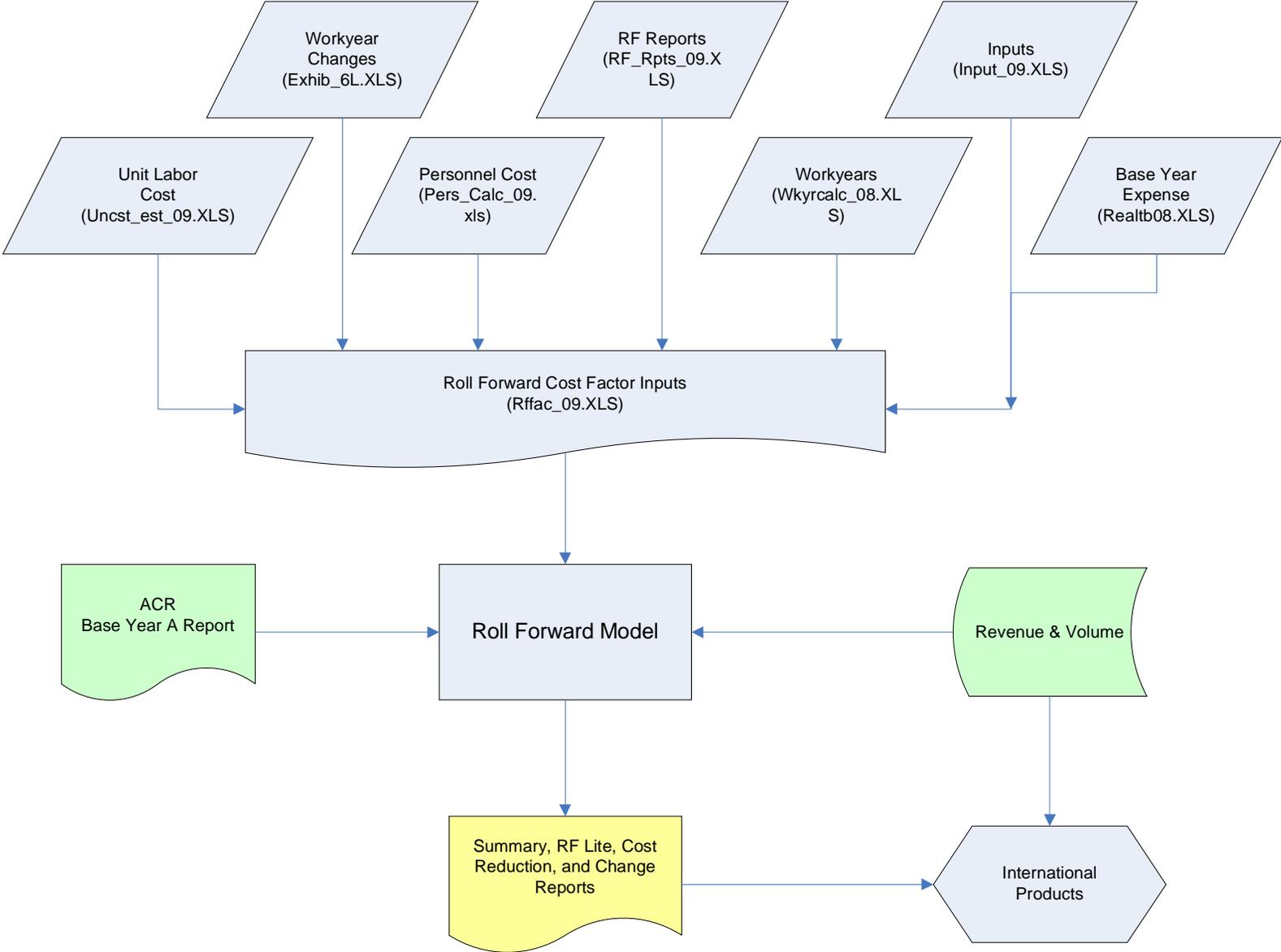
International Roll Forward & Contribution Reports

International RF Report	International 2011BR.xls	Contribution report
International RF Report	International 2011AR Oct.xls	Contribution report
International RF Report	International 2011AR Jan.xls	Contribution report

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



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2. Please refer to Governors' Decision No. 10-4. The Postal Service provides overall price increases for the following products: Express Mail 4.6 percent, Priority Mail 3.5 percent, Parcel Select 4.4 percent, Parcel Return Service 3.1 percent, Premium Forwarding Service 5.0 percent, Address Enhancement Service 5.0 percent, Global Express Guaranteed 3.7 percent, Express Mail International 3.1 percent, and Priority Mail International 3.8 percent, International Priority Airmail and International Surface Air Lift 4.4 percent, Airmail M-Bags 5.8 percent. Please describe the weights used to derive the Before Rates and After Rates indices relied upon to calculate the overall (average) percentage price increase for each product and service referenced above similar to the supplemental data filed in Docket No. CP2010-8. *Id.* Please show all calculations in Excel, and explain any adjustments made due to classification changes.

RESPONSE:

Please see the attached Excel files. The following contains the narrative discussion for each product:

Express Mail

The attached Excel file Express Mail_Q2 NP.xls shows the overall average price increase calculation for Express Mail in cell I9 on the "Control for Express Mail" worksheet (4.6 percent). This percentage is derived by calculating the percent change between After Rates/2011 Prices total revenue and Before Rates/Current Prices total revenue using the FY 2009 Express Mail billing determinants. (This is a "fixed-weight" calculation methodology.) In January 2011 the Legal Flat Rate Envelope (FRE) will be introduced for Express Mail Retail, Express Mail Commercial Base, and Express Mail Commercial Plus, and the prices for this product will be the same as the regular Flat Rate Envelope (FRE). Because of newness of this product, there are no corresponding volume data for the Legal Flat Rate Envelope (FRE) in the 2009 billing determinants.

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The 2009 volumes for each category of Express Mail are given in the worksheet, “2009 Volumes.” The end result shows that the overall average price increase for all categories of Express Mail is 4.6 percent for 2011.

Priority Mail

The overall average price increase calculation for Priority Mail, 3.5 percent, is demonstrated in Excel file Priority Mail_Q2 NP.xls. The final calculation is found in cell D6 on the “Total” tab. This percentage is derived by calculating the percent change between After Rates/2011 Prices total revenue and Before Rates/Current Prices total revenue using the FY 2009 Priority Mail billing determinants. (This is a “fixed-weight” calculation methodology.) This is a weighted average, by revenue, of three price components: Retail, Commercial Base and Commercial Plus. The revenue is based on FY09 volume at current prices. These weights are applied to separate average-price-increase calculations for Retail (cell Z91 on the “Retail” tab), Commercial Base (cell AA91 on the “Comm Base” tab) and Commercial Plus (cell AA93 on the “Comm Plus” tab). Those calculations, in turn, are weighted averages, by baseline (Before Rates) revenue, of the percent price change in each rate cell. Baseline revenue, in turn, is equal to the sum of all baseline prices multiplied by billing determinants volume. FY 2010 billing determinants were not yet available, nor had hybrid FY 2009 Q4 - FY 2010 Q3 billing determinants been constructed; therefore, FY 2009 billing determinants were used. Because of the newness of Critical Mail and the Regional Rate Box, there are no corresponding volume data in the FY 2009 billing determinants.

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Parcel Select

The attached Excel files PS_Q2_1 NP.xls for destination entry and PS_Q2_NP.xls for non-destination entry show the overall average price-increase calculation for Parcel Select in cell F15 on the “New Prices1” tab (4.3 percent) and in cell H9 on the “Totals” tab (7.8 percent), respectively. This percentage is derived by calculating the percent change between After Rates total revenue and Before Rates total revenue using the FY 2009 Parcel Select billing determinants. . (This is a “fixed-weight” calculation methodology.)

Parcel Return Service

The attached Excel file PRS_Q2 NP.xls shows the overall average price-increase calculation for Parcel Return Service (PRS) in cell K9 on the “After Rates” tab (3.1 percent). This percentage is derived by calculating the percent change between After Rates total revenue and Before Rates total revenue using the FY 2009 Parcel Return Service billing determinants. . (This is a “fixed-weight” calculation methodology.)

Premium Forwarding Service

The attached Excel file PFS_AES_Q2 NP.xls shows the overall average price-increase calculation for Premium Forwarding Service (PFS) in cell L13 on the “PFS” tab (5.0 percent). This percentage is derived by calculating the percent change between After Rates total revenue and Before Rates total revenue using the FY 2009 PFS billing determinants. . (This is a “fixed-weight” calculation methodology.)

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Address Enhancement Service

The 5 percent increase for Address Enhancement Service was estimated as there was not a full year of data available. The data in the attached Excel file, PFS_AES_Q2 NP.xls uses FY 2010 information, and results in an increase of 5.3 percent.

Global Express Guaranteed

The attached Excel file, CP2011-26-GXG.xls, shows the 4.1 percent weighted average price increase calculation for Global Express Guaranteed (GXG) in cell J79 of the “GXG PRICE INCREASE” tab. This percentage is derived by calculating the percent change between After Rates total revenue and Before Rates total revenue using the FY 2009 GXG billing determinants. (This is a “fixed-weight” calculation methodology.)

Express Mail International

The attached Excel file, CP2011-26-EMI.xls, shows the 3.1 percent weighted average price increase calculation for Express Mail International (EMI) in cell L79 of the “EMI PRICE INCREASE” tab. This percentage is derived by calculating the percent change between After Rates total revenue and Before Rates total revenue using the FY 2009 EMI billing determinants. (This is a “fixed-weight” calculation methodology.)

International Priority Airmail and International Surface Airlift

The attached file ISAL-IPA Rate Increase Analysis_Q2 NP.xls demonstrates the overall average increase of 4.4 percent in Excel cell E22 of the “Summary” tab. This is a

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weighted average of the change in revenue of all IPA and ISAL products offered, as detailed on the same tab.

These changes were calculated by comparing Gross 2010 Revenue with Gross 2011 Revenue. Total Projected 2011 Volume, based on 12 months of PostalOne data from July 2009- June 2010 and shown in tab "Inputs", was applied against 2010 Published Rates and against 2011 Proposed Published Rates to provide an accurate basis of comparison.

The attached file ISAL-IPA Rate Increase Analysis_Q2 NP.xls shows that all else remaining equal, the proposed 2011 Published Rates represent a 4.4 percent increase in Total Revenue and Cost Coverage for all ISAL and IPA Products.

Airmail M-Bags

The attached Excel file, CP2011-26-MBAG.xls, shows the 5.8 percent weighted average price increase calculation for Airmail M-Bags in cell N14 of the "AIRMAIL M-BAGS PRICE INCREASE" tab. This percentage is derived by calculating the percent change between After Rates total revenue and Before Rates total revenue using the FY 2009 Air M-Bag total weight from the FY 2009 International Cost and Revenue Analysis Report.

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3. Please refer to the Draft Mail Classification Schedule (MCS) in the Attachment to Governors' Decision No. 10-4 sections 2115.2 and 2115.3. Please confirm that "Lightweight" Parcel Select size and volume thresholds should not be included in the Draft MCS. If not confirmed, please explain.

RESPONSE:

Confirmed at this time. Docket No. MC2010-36, Transferring Commercial Standard Mail Parcels to the Competitive Product List, is still under review by the Commission.

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4. The Postal Service's request includes two new Priority Mail price categories: Critical Mail and Regional Rate Boxes. Please provide a detailed description of Critical Mail and Regional Rate Boxes. The response should include a discussion of how the proposed price categories differ from the existing Priority Mail price categories.

RESPONSE:

Critical Mail

Critical Mail is an innovative extension of Priority Mail and will be offered as a new price category under Priority Mail. With Critical Mail, the Postal Service will provide free delivery confirmation and packaging, and each piece will require a barcode. It is similar to current Priority Mail Flat Rate offerings in that the pieces will be unzoned, will utilize postal-provided packaging, and free electronic delivery confirmation will be provided. It is different from the current Priority Mail Flat Rate offerings in that these pieces will travel in the outgoing and incoming automated mail streams, which necessitates automation compatibility. This offering will also have a unique design on each Critical Mail letter-sized and flat-sized piece, which will make Critical Mail not only stand out in the mail stream and in the Postal Service's current product line, but also within the overall expedited shipping market as an attractive new option offered by the Postal Service. Please see below for an image of the Critical Mail letter and flat designs:

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Critical Mail Designs:



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Regional Rate Box

The Regional Rate Box (RRB) is similar in concept to the existing Commercial Plus Cubic pricing. The only differences are: (a) the Postal Service provides a branded RRB to the customer; (b) the boxes are limited by weight to either 15 or 20 pounds, contain an alpha box identifier of either "A" or "B", and are either front- or side-loaded; (c) there are two cubic "sizes" for the RRB, whereas the existing Commercial Plus Cubic pricing has five ranges of cubic dimensions; (d) the RRB is available to both Commercial Base and Commercial Plus customers, whereas the existing Cubic pricing is only available to Commercial Plus customers; and (e) the annual account volume thresholds do not apply for Commercial Plus mailers for RRBs.

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. 225,¹ 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 spreadsheets that contain calculations to determine the weighted average price increase for each competitive product within the scope of Docket No. CP2011-26. The Postal Service is concurrently filing a redacted version of the documents responsive to the Commission's request for supplemental information.

(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) 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

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

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.

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 no third parties have a proprietary interest in the redacted 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;

In connection with this application, the Postal Service has filed information concerning the calculations used to develop the weighted average price increase by product. Protected information in the spreadsheets includes volume and revenue by price cell (weight increment and zone or country group). Such information for competitive product categories is commercially sensitive at the disaggregated, cell-specific level shown in the spreadsheets.

(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 disaggregated revenue and volume information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those

rate cells where the Postal Service has considerable traffic, to the detriment of the Postal Service.

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

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

Hypothetical: Disaggregated revenue and volume 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 the lucrativeness of certain services by weight increment and zone or country group, 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.

(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

(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.