Postal Regulatory Commission
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

COMPETITIVE PRODUCT PRICES PRIORITY MAIL PRIORITY MAIL CONTRACT 32	Docket No. MC2011-11
COMPETITIVE PRODUCT PRICES PRIORITY MAIL CONTRACT 32 (MC2011-11) NEGOTIATED SERVICE AGREEMENT	Docket No. CP2011-47

**REQUEST OF THE UNITED STATES POSTAL SERVICE
TO ADD PRIORITY MAIL CONTRACT 32
TO COMPETITIVE PRODUCT LIST
AND NOTICE OF FILING (UNDER SEAL)
OF CONTRACT AND SUPPORTING DATA**
(December 16, 2010)

In accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 et seq., the United States Postal Service hereby requests that Priority Mail Contract 32 be added to the competitive product list within the Mail Classification Schedule.[1] This is a competitive product not of general applicability within the meaning of 39 U.S.C. § 3632(b)(3).[2] The Governors' Decision establishing the prices and classification and a certification of the Governors' vote was filed in Docket No. MC2009-25.[3] Attachment A is a redacted version of that Governors' Decision.[4] Attachment B is a redacted version of the contract. Attachment C shows the requested changes in the Mail Classification product

[1] 39 C.F.R. § 3020.31(a), (c).
[2] *Id.* § 3020.31(d).
[3] *Id.* § 3020.31(b). *See* Docket No. MC2009-25, Request of the United States Postal Service to Add Priority Mail Contract Group to Competitive Product List, Attachment 1 (May 19, 2009). http://prc.gov/Docs/63/63188/Request%20PM%20Contract%20Group%20w5.pdf.
[4] Although filed in Docket No. MC2009-25, the redacted version of the Governors' Decision is being refiled in the instant docket in accordance with Order No. 265.

list with the addition underlined.[5] Attachment D provides a statement of supporting justification for this request, as specified in 39 C.F.R. § 3020.32.[6] Attachment E is the certification of compliance with 39 U.S.C. § (a)(1) and (3).[7] Attachment F provides the Application for Nonpublic Treatment of the materials filed under seal.[8] Those materials are the unredacted contract and the required cost and revenue data.[9]

As explained in the supporting justification, the Postal Service believes that it is appropriate to add this contract to the list of competitive products. The Commission should therefore approve this request as set forth in its rules. As required by 39 U.S.C. § 3642(d)(1), this Request is being published in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
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December 16, 2010

[5] *Id.* § 3020.31(f).
[6] *Id.* § 3020.31(e).
[7] *Id.* § 3015.5(c)(2).
[8] *Id.* § 3007.21.
[9] *Id.* § 3015.5(c)(1).

ATTACHMENT A TO REQUEST

REDACTED GOVERNORS' DECISION

DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON ESTABLISHMENT OF RATES AND CLASSES NOT OF GENERAL APPLICABILITY FOR PRIORITY MAIL CONTRACT GROUP (GOVERNORS' DECISION NO. 09–6)

April 27, 2009

STATEMENT OF EXPLANATION AND JUSTIFICATION

The Postal Service has entered into a number of domestic shipping services contracts over the past several months that provide for customized pricing and, in many cases, terms of service, for the contract partner's use of domestic competitive services. The services involved include expedited services (Express Mail® service and Priority Mail® service) and ground services (Parcel Select® service and Parcel Return Service®). Each existing contract has involved one or both of the expedited services, or one or both of the ground services.

Heretofore, we have established in a separate Governors' Decision the particular rates negotiated for each such contract and any changes in classification underlying those rates. The Postal Regulatory Commission has, at the request of the Postal Service in conjunction with receiving notice of our establishment of the rates and any classifications, added each of the contracts to the list of competitive products.

Based on our experience with these contracts, we have concluded that it would be appropriate to begin to streamline our process, beginning with Priority Mail contracts. Rather than establishing the particular rates for each Priority Mail contract in a separate decision, we are establishing in this decision a classification and rate formula that can be used by management to negotiate contracts for Priority Mail service. The classification would consist of contracts for the Postal Service to provide Priority Mail service to an individual customer at customized rates, as described in the draft language for the Mail Classification Schedule in Attachment A. Each individual contract will specify the applicable rates, any postage payment methods required, whether any volume

minimums apply, whether packaging is provided by the Postal Service, the length of the contract and any price adjustment mechanism, and any other customized terms or conditions applicable to the provision of Priority Mail service at the negotiated rates. The contracts are either to acquire new volume or when necessary to retain existing volume. The rates negotiated by management for each contract in the classification must result in a cost coverage between [redacted] and [redacted] percent, as calculated using the appropriate formulas in the analysis from management, which is contained in Attachment B. As explained in that analysis, such rates and classifications are consistent with the applicable statutory criteria set forth in 39 U.S.C. §§ 3632-3633.

ORDER

We direct management, in accordance with 39 U.S.C. § 3632(b)(3), to give notice to the Postal Regulatory Commission of, and to have published in the Federal Register, the rate and class not of general applicability which we establish herein. We also direct management to request that the Commission add the classification to the competitive product list in accordance with 39 U.S.C. § 3642. The rate formula and class set forth herein shall be effective on the day that the Commission issues necessary approval. As individual contracts are negotiated, management is directed to file appropriate notice and materials with the Postal Regulatory Commission in accordance with its rules of practice.

By The Governors:

Carolyn Lewis Gallagher
Chairman

MAIL CLASSIFICATION SCHEDULE

PART B—COMPETITIVE PRODUCTS

2000 COMPETITIVE PRODUCT LIST

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NEGOTIATED SERVICE AGREEMENTS

Domestic

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Priority Mail Contract Group 1 – This group consists of contracts for the Postal Service to provide Priority Mail service to an individual customer at customized rates. Each individual contract will specify the applicable rates, any postage payment methods required, whether any volume minimums apply, whether packaging is provided by the Postal Service, the length of the contract and any price adjustment mechanism, and any other customized terms or conditions applicable to the provision of Priority Mail service at the negotiated rates.

Analysis of Pricing Formulas for Priority Mail Contract Group

The implicit cost coverage for each contract will be at least [redacted] percent and will not exceed [redacted] percent:

$$\text{Cost Coverage} \geq [redacted] \text{ and Cost Coverage} \leq [redacted]$$

The cost coverage for the contract equals the contract's total revenues divided by its total costs, as follows:

$$\text{Cost Coverage} = \frac{\text{Total Contract Revenue}}{\text{Total Contract Cost}}$$

Each contract may have multiple price categories and negotiated components within Priority Mail. Examples of such categories or components would be Flat-Rate Boxes, Flat-Rate Envelopes, or Priority Mail Open and Distribute, whereby Priority Mail sacks containing other classes of mail are opened for further distribution at the destination facility. For contracts that include more than one category or component, the contract revenues and costs are weighted by the proportion of volume in each category or component, as follows:

$$\text{Total Contract Revenue} = \text{SUM of } (\text{Volume}(cat_i) * (\text{Unit Revenue}(cat_i))$$

$$\text{Total Contract Cost} = \text{SUM of } (\text{Volume}(cat_i) * \text{Unit Cost}(cat_i))$$

where cat_i is the ith category or component covered by the contract, Unit Revenue(cat_i) is the average revenue per piece and Unit Cost(cat_i) is the average cost per piece for that category or component.

The revenue per piece for each category or component included depends on the negotiated price schedule and on the specific profile of pieces from the partner. The cost per piece similarly depends on the partner's profile. It is calculated as:

Unit Cost = [redacted]

[redacted]

Each cost element is inflated to reflect the appropriate time period.

So long as the estimated revenue from the contract equals or exceeds the total costs of the contract multiplied by the minimum factor of , the attributable costs will be covered (39 U.S.C.§ 3633(a)(2)) and competitive products as a whole will comply with 39 U.S.C.§ 3633(a)(3), which, as implemented by (39 C.F.R.§ 3015.7(c)) requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products should arise (39 U.S.C.§ 3633(a)(1)).

CERTIFICATION OF GOVERNORS' VOTE
IN THE
GOVERNORS' DECISION NO. 09-6

I hereby certify that the Governors voted on adopting Governors' Decision No. 09-6, and that, consistent with 39 USC 3632(a), a majority of the Governors then holding office concurred in the Decision.

Julie S. Moore

Date: 4-30-09

Julie S. Moore
Secretary of the Board of Governors

ATTACHMENT B TO REQUEST

REDACTED SHIPPING SERVICES CONTRACT

SHIPPING SERVICES CONTRACT
BETWEEN
THE UNITED STATES POSTAL SERVICE
AND
[redacted]
REGARDING PRIORITY MAIL SERVICE

This contract for shipping services is made by and between [redacted] ("Customer"), a corporation organized and existing under the laws of [redacted] with its principal office at [redacted] and the United States Postal Service ("the Postal Service"), an independent establishment of the Executive Branch of the United States Government established by the Postal Reorganization Act, Public Law 91-375, with its principal office at 475 L'Enfant Plaza, SW, Washington, DC 20260. The Postal Service and Customer are referred to herein collectively as the "Parties" and each as a "Party."

WHEREAS, it is the intention of the Parties to enter into a shipping services contract that will benefit the Postal Service, the postal system as a whole, and Customer, and that will comply with the requirements of Title 39 United States Code, as amended by the Postal Accountability and Enhancement Act of 2006,

NOW, THEREFORE, the Parties agree as follows:

I. Terms

The following terms apply as of the implementation date, as defined below:

A. Except to the extent different terms or prices are specified in this contract, applicable provisions of the Domestic Mail Manual (as may be regularly updated by the Postal Service and posted at http://pe.usps.com/text/dmm300/dmm300_landing.htm) and of other postal laws and standards apply to mail tendered under this contract.

B. This contract applies only to Customer's Priority Mail packages [redacted] ("Contract Packages").

C. Customer will use e-VS or PC Postage to pay for Contract Packages. Customer will have the PC Postage vendor establish a unique Mailer ID to be used only for Customer's Contract Packages.

D. The Postal Service will provide Customer with Priority Mail packaging.

E. [redacted]

F. Origin Sites. Customer is required to meet the operational conditions in Attachment A before the Postal Service can provide any of the service benefits detailed in this Contract. Customer's Contract Packages also must originate from the following locations. If the Customer makes any changes, including additions or deletions, to the list of origin sites below, it must provide the Postal Service with 30 days' notice for non-eVS compliant sites and 15 days' notice for eVS compliant sites and follow the procedures set out in Attachment A within the same time periods prescribed for notice above.

[redacted]

G. Customized Priority Mail Prices. For the term of this contract, beginning on the contract's effective date, Customer will pay the applicable prices shown in the tables below, provided that the volume commitment in Paragraph E is met. Customer is also eligible for the additional tiered incentives set forth in Paragraph H.

[redacted]

H. Additional Tiered Incentives. At the end of each quarter in a contract year, the Postal Service will determine if the Customer's volume of Contract Packages meets one of the

additional tiered incentive thresholds below. If the Postal Service determines the Customer is eligible for an additional incentive, it will credit the Customer's CAPS debit account the difference between the price paid and the applicable tiered volume-based prices below. At the start of each new quarter, however, Customer will pay the applicable prices under Paragraph G, until one of the following thresholds is again met.

[redacted]

I. Annual Adjustment

1. For the second year of the contract, beginning on the first anniversary of the contract's effective date, customized prices under this contract will be the first year's prices set forth in Paragraphs G and H, plus the most recent (as of the anniversary date) average increase in prices of general applicability, as calculated by the Postal Service, for Priority Mail Retail.

2. For the third year of the contract, beginning on the second anniversary of the contract's effective date, customized prices under this contract will be the second year's prices plus the most recent (as of the anniversary date) average increase in prices of general applicability, as calculated by the Postal Service, for Priority Mail Retail.

3. Customized prices for the second and third years will be calculated by the Postal Service and rounded up to the nearest whole cent.

II. Regulatory Review and Effective Date

This contract is subject to approval by Postal Service senior management and/or the Governors of the Postal Service Governors as well as by the Postal Regulatory Commission ("the Commission"). In accordance with Title 39 and the Commission's Rules of Practice and Procedure, and upon approval of the Postal Service Governors, the Postal Service will make required filings with the Commission. The effective date of this contract shall be the day on which the Commission issues all necessary regulatory approval.

III. Expiration Date

This contract shall expire three (3) years from the effective date, unless (1) terminated by either Party with 30 days notice to the other Party in writing, (2) renewed by mutual agreement in writing, (3) superseded by a subsequent contract between the Parties, (4) ordered by the Commission or a court, or (5) required to comply with subsequently enacted legislation.

IV. Appeals

Customer may appeal a Postal Service decision regarding the calculation of prices, the amount of postage paid, or other implementation or operational issues under this contract by submitting a written appeal within 30 days of receipt of notification of the determination giving rise to the appeal to: Manager, Pricing and Classification Service Center, 90 Church St. Ste. 3100, New York, NY 10007-2951 ((212) 330-5300 / Fax: (212) 330-5320). The decision of the PCSC Manager will be administratively final. Any decision that is not appealed as prescribed becomes the final Postal Service decision.

V. Confidentiality

Customer acknowledges that as part of securing approval of this contract, the contract and supporting documentation will be filed with the Postal Regulatory Commission in a docketed proceeding. The Postal Service shall request from the Commission non-public treatment of information that the Postal Service deems to be eligible for protection from public disclosure when it files such material with the Commission, including Customer's identity, the terms of this contract, and supporting data relating to postal costs, prices, and Customer's shipping profile. The Postal Service will redact such information from its public filing. Customer authorizes the Postal Service to determine the scope of information that must be made publicly available in the Commission's docketed proceeding. Customer further understands that any unredacted portion of this contract or supporting information will be available on the Commission's public website, www.prc.gov. At the request of Customer, the Postal Service will notify Customer of the docket number of the Commission proceeding once assigned. Customer has the right, in accordance with the Commission's rules, to address its confidentiality concerns directly with the Commission. Customer agrees to treat as confidential and not disclose to third parties absent express written consent by the Postal Service any information related to this contract that is determined by the Commission to be non-public.

VI. Amendments

This contract shall not be amended except expressly, in writing, by authorized representatives of the Parties.

VII. Assignment

Neither Party may, or shall have the power to, assign its rights under the contract or, delegate its obligations hereunder, without the prior consent of the other; such consent is not to be unreasonably withheld. In addition, in the event that Customer is merged with or into or acquires another entity, pricing under this contract following such merger or acquisition shall apply only to mail sent by the entity existing prior to the merger or acquisition. Following any such merger or acquisition, the parties may negotiate in good faith to extend, modify or enter into a new contract applicable to the merged or acquired entity.

VIII. Waiver

Any waiver by a party shall not constitute a waiver for any future occurrence. No waiver shall be valid unless set forth in a writing executed by the party waiving such provision.

IN WITNESS WHEREOF, the Parties hereto have caused this contract to be duly executed as of the later date below:

UNITED STATES POSTAL SERVICE

Signed by: Gary C. Reblin

Printed Name: Gary C. Reblin

Title: Vice President, Shipping Services

Date: August 24, 2010

[redacted]

Attachment A

UNITED STATES POSTAL SERVICE
And
[redacted]

This Attachment, as referenced in section I.F of the Contract, contains the operational conditions for service to [redacted] by the Postal Service for package shipments (the "Services") under this Contract. All capitalized terms used and not defined herein shall have the same meanings given them in the Contract.

1. **Origin Site Set-up Procedures**

   A. **Permit:** For eVS mailings, [redacted] will be required to open and maintain one permit account, applicable to all of its origin sites, for all packages tendered via this method. For each origin site where packages will be tendered for traditional manifest presentation (non-eVS sites), [redacted] will be required to open and maintain a separate permit account for each location.

   B. **CAPS Account:** [redacted] will be required to maintain a Centralized Account Processing System (CAPS) debit account and will ensure sufficient funds are available to pay the postage charges described in this Contract. [redacted] will provide the Postal Service with the mailer identification number for each origin site associated with the Contract so that it can be linked with the appropriate [redacted] CAPS debit account.

   C. **Label Design and Approval:** All label designs will be developed mutually by [redacted] and the Postal Service, and must be approved by the Postal Service prior to implementation.

   D. **Label Barcodes:** The Postal Service will provide [redacted] with a range of barcodes for labels printed for packages shipped under this Contract. [redacted] will determine the sequence range of the label barcodes for each location and advise the Postal Service of its determination prior to implementation.

   E. **Mailer Identification (MID):** [redacted] will be assigned a unique mailer identification number to distinguish between their different entities. These unique identification numbers will be imbedded in the barcode to identify the piece, and to which unique entity it belongs.

2. **Payment**

   A. **All Shipments:** The [redacted] CAPS account will be debited at the contract price per piece as determined by the eVS manifest file and set out in section I.G of the Contract. The Postal Service and/or its agent will maintain a manifest record of the number of pieces as identified by the unique Postal Service tracking number on the box.

   B. **Quarterly Business Reviews (QBR's):** The Postal Service and [redacted] will review operations under the Contract, ideally within the first three weeks following the quarter's close.

MAIL CLASSIFICATION SCHEDULE

PART B—COMPETITIVE PRODUCTS

2000 COMPETITIVE PRODUCT LIST

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NEGOTIATED SERVICE AGREEMENTS

Domestic

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Priority Mail Contract 32

Statement of Supporting Justification

I, Josen Punnoose, Manager, Shipping Support (A), Shipping Services, am sponsoring this request that the Commission add Priority Mail Contract 32 to the list of competitive products. This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32. I attest to the accuracy of the information contained herein.

(a) Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.

As demonstrated below, the change complies with the applicable statutory provisions.

(b) Explain why, as to the market dominant products, the change is not inconsistent with each requirement of 39 U.S.C.§ 3622(d), and that it advances the objectives of 39 U.S. C. § 3622(b), taking into account the factors of 39 U.S. C. § 3622(c).

Not applicable. The Postal Service is proposing that this Priority Mail contract be added to the competitive products list.

(c) Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633.

The service to be provided under the contract will cover its attributable costs and make a positive contribution to coverage of institutional costs. The contract will increase contribution toward the requisite 5.5 percent of the Postal Service's total institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products arises (39 U.S.C. § 3633(a)(1)).

(d) Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.

The contract sets specific terms and conditions for providing Priority Mail service to the customer. Priority Mail service is provided in a highly competitive market. The Postal Service is unable to set prices substantially above costs, raise prices significantly, decrease quality, or decrease output, without losing this business to private competitors in the expedited shipping market.

In negotiating this contract, the Postal Service's bargaining position was constrained by the existence of other providers of services similar to the Postal Service's. As such, the market precludes the Postal Service from taking unilateral action to increase prices or decrease service. As with Priority Mail services in general, the Postal Service may not decrease quality or output without risking the loss of business to competitors that offer similar expedited delivery services. The market does not allow the Postal Service to raise prices or offer prices substantially above costs; rather, the contract is premised on prices and terms that provide sufficient incentive for the customer to ship with the Postal Service rather than a competitor.

(e) Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 189 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.

I am advised that merchandise sent by Priority Mail services and this contract are not covered by these provisions. See part (d) above.

(f) Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.

See part (d) above. Expedited shipping, similar to Priority Mail service, is widely available from well-known and successful private firms at both published and contract prices.

(g) Provide any available information of the views of those who use the product on the appropriateness of the proposed modification.

Having entered into this contract with the Postal Service, the customer supports the addition of the contract to the product list so that the contractual terms can be effectuated.

(h) Provide a description of the likely impact of the proposed modification on small business concerns.

The market for expedited delivery services is highly competitive and requires a substantial infrastructure to support a national network. Large shipping companies serve this market. The Postal Service is unaware of any small business concerns that could offer comparable service for this customer.

(i) Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.

Additional details regarding the terms of the contract have been provided to the Commission under seal due to the sensitivity of the contract to both the customer and the Postal Service.

Certification of Prices for Priority Mail Contract 32

I, Joseph D. Moeller, Manager, Regulatory Reporting and Cost Analysis, Finance Department, am familiar with the prices and terms for Priority Mail Contract 32. The prices and terms contained in this Contract were established by the Decision of the Governors of the United States Postal Service on Establishment of Rate and Class Not of General Applicability for Priority Mail Contract Group, dated April 27, 2009 (Governors' Decision No. 09-6).

I hereby certify, based on in the financial analysis provided herewith, that the prices are in compliance with 39 U.S.C § 3633 (a)(1), (2), and (3). They are expected to cover attributable costs. There should therefore be no subsidization of competitive products by market dominant products. The contract should not impair the ability of competitive products on the whole to cover an appropriate share of institutional costs.

Joseph D. Moeller

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 unredacted shipping services contract;[10] and the supporting documents establishing compliance with 39 U.S.C. § 3633 and 39 C.F.R. § 3015.5. 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. The Postal Service further requests that the Commission order that the duration of such treatment of customer identifying information be extended indefinitely.

(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), (b)(4).[11] 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

[10] The Postal Service informed the customer prior to filing its notice that it would be seeking non-public treatment of the redacted portions of the contract. The Postal Service also informed the customer that it could file its own application for non-public treatment of these materials in accordance with 39 C.F.R. § 3007.22.

[11] 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.

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 believes that the customer with whom the contract is made has a proprietary interest in the non-public materials and that customer-identifying information should be withheld from public disclosure. Therefore, rather than identifying the customer, the Postal Service gives notice that it has already informed the customer, in compliance with 39 C.F.R. § 3007.20(b), of the nature and scope of this filing and its ability to address its confidentiality concerns directly with the Commission. The Postal Service employee responsible for providing notice to the third party with proprietary interest in the materials filed in this docket is Elizabeth Reed, Attorney, 475 L'Enfant Plaza SW, Washington, D.C. 20260-1137, whose email address is elizabeth.a.reed@usps.gov and whose telephone number is 202-268-3179.

(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 contract identifying the customer and containing the prices, terms and conditions of the contract, and the financial workpapers supporting the contract are being filed under seal in this docket. A redacted copy of the contract is being filed publicly in this docket. The Postal Service maintains that the redacted portions of the contract, name of the customer, and related financial information should remain confidential.

With regard to the contract, the redactions are of the name, address, signature block, and other information that could identify the customer; such identifying information of a postal patron may be withheld from mandatory public disclosure by virtue of 39 U.S.C. § 504(g)(1) and 39 U.S.C. § 410(c). Also redacted are the

negotiated price structure and the terms directly related to implementation of the price structure.

The redactions applied to the financial work papers protect commercially sensitive information such as underlying costs and assumptions, pricing formulas, information relevant to the mailing profile of the customer, and cost coverage projections. To the extent practicable, the Postal Service has limited its redactions in the workpapers to the actual information it determined to be exempt from disclosure under 5 U.S.C. § 552(b). However, in a limited number of cases, narrative passages or notes were redacted in their entirety due to the practical difficulties of redacting particular words or numbers within the text as presented in a spreadsheet format.

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

If the redacted information were to be disclosed publicly, the Postal Service considers that it is quite likely that it would suffer commercial harm. First, revealing customer-identifying information would enable competitors to focus marketing efforts on current postal customers, undermining the effort and resources that the Postal Service has invested in cultivating business relationships with those customers. The Postal Service considers that it is highly probable that if this information were made public, its competitors would take immediate advantage of it. The contract includes a provision allowing the customer to terminate the contract without cause by providing at least 30 days' notice. Therefore, there is a substantial likelihood of losing the customer to a competitor that offers it lower pricing.

Other redacted information concerning the prices and related terms of the contract is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. Revealing such information would provide a competitive advantage to competitors of the Postal Service. The Postal Service considers that it is highly probable that if this information were made public, such entities would take immediate advantage of it and there is a substantial risk that the Postal Service would lose business as a result. Competitors could use the information to assess the offers made by the Postal Service to its customers for any possible

comparative vulnerabilities and focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Additionally, other postal customers could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service and other businesses could use the information to their advantage in negotiating with the customer. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

The financial work papers include specific information such as costs, negotiated prices and pricing structure, assumptions used in developing costs and prices, mailer profile information, and projections of variables. All of this information is highly confidential in the business world. If this information were made public, the Postal Service's and the customer's competitors would likely take great advantage of this information. Unlike its competitors, the Postal Service is required to meet the standards of 39 U.S.C. § 3633 with each negotiated service agreement that it asks to have added to the competitive products list. Competitors are not so constrained and could use the redacted information to their advantage in gaining customers. The formulas shown in the spreadsheets in their native format provide additional sensitive information. In addition, revealing the Postal Service's profit margin information could also be used by the customer to attempt to renegotiate its own prices. Finally, public disclosure of the information in the spreadsheets also presents a serious risk of commercial harm to the customer. Disclosure of such information could be used by competitors of the customer to acquire market intelligence about the customer's underlying costs, mailing patterns, and customer base.

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

Identified harm: Revealing customer identifying information would enable competitors to target the customers for sales and marketing purposes.

Hypothetical: The identity of the customer in this contract is revealed to the public. A competitor's sales representatives contact the Postal Service's customer and offer the customer lower prices or other incentives, taking away the business anticipated by the Postal Service.

Identified harm: Public disclosure of negotiated terms of the agreement could be used by competitors and potential customers to the detriment of the Postal Service and its customer.

Hypothetical: A competitor obtains a copy of the unredacted version of Customer A's contract and workpapers to the detriment of the Postal Service's customer. Company B discovers proprietary business strategies and changes its business practices to minimize differentiation, identify their key customer base and cause defection of Customer A's customers. Customer A cancels the contract and withdraws their business from the Postal Service. Other companies would then refuse to share critical details of their business or to participate in negotiated prices with the Postal Service, harming the Postal Service's ability to compete in the marketplace for additional volume and revenue.

Hypothetical: The competitor could leverage multiple services to offer deeper discounts than provided by the Postal Service's contract as a loss leader, using profits on other products profits to make up for the temporary loss.

Identified harm: Public disclosure of information in the financial work papers would be used by competitors and customers to the detriment of the Postal Service.

Hypothetical: A competing package delivery service or its representative obtains a copy of the unredacted version of the financial work papers. It analyzes the work papers to determine what the Postal Service would have to charge its customers in order to meet its minimum statutory obligations for cost coverage and contribution to institutional costs. It then sets its own rates for products similar to what the Postal Service offers its customers under that threshold and markets its ability to guarantee to beat the Postal Service on price for similar delivery services.

Hypothetical: Competitors constantly monitor "cost to serve" scenarios to combine and alter facilities to lower costs. A competitor could add satellite pickup stations closer to the Postal Service's customer in order to underbid the Postal Service's prices.

Identified harm: Public disclosure of the prices and related terms would provide potential customers extraordinary negotiating power.

Hypothetical: Customer B obtains the contract showing Customer A's negotiated prices and the underlying workpapers. Customer B can determine that there is additional profit margin between the prices provided to Customer A and the statutory cost coverage that the Postal Service must produce in order for the agreement to be added to the competitive products list. Although Customer B was offered prices identical to Customer A's, Customer B uses the publicly available information to insist that it unless the Postal Service offers it even lower prices than Customer A's, it will not use the Postal Service but will give its business to a competitor of the Postal Service.

Alternatively, Customer B attempts to negotiate lower rates only for those destinations for which it believes the Postal Service is the low-cost provider among all service providers. The Postal Service may agree to this demand in order to keep the customer's business overall, which it believes will still satisfy total cost coverage for the agreement. Then, Customer B uses other providers for destinations other than those for which it negotiated lower rates. This impacts the Postal Service's overall projected cost coverage for the agreement. Although the Postal Service can terminate the contract when it sees that the mailer's practice and projected profile are at variance, the costs associated with establishing the contract, including filing it with the Postal Regulatory Commission, would be sunk costs that would have a negative impact on postal finances.

Harm: Public disclosure of information in the financial work papers would be used by the customer's competitors to its detriment.

Hypothetical: A business in competition with the customer obtains a copy of the unredacted version of the financial work papers. The customer's competitor analyzes the work papers to assess the customer's underlying shipping costs. The customer's competitor uses that information as a baseline to negotiate with shipping companies and other suppliers to develop lower-cost alternatives and thereby to undercut the customer.

(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, the Postal Service believes that actual or potential customers of the Postal Service for such products should not be provided access to the non-public materials. This includes all competitors of the relevant customer, whether or not they are currently actual Postal Service customers.

(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, other than customer identifying information. The Postal Service believes that customer-identifying information should be protected permanently and asks the Commission to extend the duration of non-public status of that information indefinitely. Disclosure of customer identifying information leaves the Postal Service vulnerable to competitive "cherry-picking." Customers may seek to extend or renew their contracts, but the implementation of a new 10-year period of non-public treatment with each renewed contract does not affect the expiration of non-public treatment of the same information under the original contract. Therefore, the Postal Service seeks indefinite non-public treatment of the customer's name, address and other identifying information in the non-public materials.

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

None.