

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

SEMI-PERMANENT EXCEPTIONS FROM  
PERIODIC REPORTING OF SERVICE  
PERFORMANCE MEASUREMENT

Docket No. RM2011-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 1 AND  
APPLICATION FOR NON-PUBLIC TREATMENT**  
(December 21, 2010)

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 13, 2010. Each question is stated verbatim and is followed by the response. In response to question 1, the Postal Service is also filing an additional Microsoft Excel-formatted document non-publicly, a redacted version of which is included with the electronic public filing. An application for non-public treatment related to this document is attached to these responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German  
Managing Counsel, Pricing & Product  
Development

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Jacob Howley

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-8917, Fax: -5628  
December 21, 2010

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 1  
DOCKET NO. RM2011-4**

1. The questions that follow concern the Postal Service's \$4 million dollar estimate for incorporating First-Class Mail Flats measurement into the EXFC measurement system. Request at 3. If appropriate, responses may be provided under seal.
  - a. What is the basis of the \$4 million estimate? Please disaggregate the estimate by each major contract element. Please provide all documentation provided by the EXFC vendor to the Postal Service used to justify the \$4 million estimate.
  - b. What is the most recent date on which the EXFC vendor provided the Postal Service with a written estimate of the cost for incorporating the measurement of First-Class Mail Flats into the EXFC measurement system?
  - c. Please explain whether the \$4 million estimate represents a one-time cost or a recurring cost. What are the recurring costs after the first year, and what is the basis of the estimate of recurring costs? Please provide all documentation provided by the EXFC vendor used to justify these costs.

**RESPONSE**

- a. The initial estimate is based on a "rough order of magnitude" estimate developed from inputs provided by the EXFC vendor, along with historical price estimates for components. The EXFC vendor calculated current levels of statistical precision achieved for single-piece flats district-service standard level performance estimates. The vendor also provided estimates of the number of additional test pieces, bundles, and reporters that would be required to achieve precision levels of +/- 3 percent at a 95 percent confidence level. The Postal Service used those estimates, along with historical pricing information and postage rate information to develop the initial estimate. A spreadsheet that disaggregates the estimate by cost element is filed non-publicly with this response.
- b. There has not been a formal request for proposal issued by the Postal Service or proposal submitted by the EXFC vendor. Rather, the estimate resulted from informal discussions between the Postal Service and the EXFC vendor beginning shortly after Order No. 465 was issued in May

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2010. The written estimate filed non-publicly in connection with this response is based on those informal discussions.

- c. The estimate includes the startup work and first year of expanded testing. There would be one-time costs associated with redesigning EXFC, developing new test mail characteristics, recruiting additional reporters, and revising the reports. However, the majority of the costs (87.94 percent of first-year costs, based on the estimate filed with this response) represents recurring costs because there are ongoing costs associated with producing, shipping, and mailing additional test pieces, inducting additional bundles of mail, maintaining additional reporters, and collecting additional data.

As shown on the spreadsheet filed non-publicly with this response, further analysis has resulted in refinement of the initial estimate. While the estimates are still rough and do not represent actual prices offered by or negotiated between the Postal Service and the EXFC vendor, it appears the first year of the requisite EXFC expansion could cost approximately \$3.801 million and each following year could cost approximately \$3.343 million. If the Commission declines the Postal Service's request and it is finally determined that EXFC expansion is necessary, the actual costs could be higher or lower depending on the contract's negotiation and performance.

One of the unknown factors that may impact the recurring costs is whether the single-piece flats results will continue to serve as the proxy for presort flats. If and when sufficient presort flats measurement data become available, analysis could be conducted to establish lower single-piece flats volumes for measurement. However, it is impossible to predict when or if this may be possible or, if so, the magnitude of the impact on EXFC measurement costs.

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2. Has the EXFC vendor provided the Postal Service with more than one option for incorporating the measurement of First-Class Mail Flats into the EXFC measurement system? If answered in the affirmative, please describe the options presented and their associated costs.

**RESPONSE**

EXFC already measures flats as part of the measurement of single-piece First-Class Mail: therefore, flats are already incorporated into this system. However, the current level of testing is not designed to produce statistically meaningful estimates of flats performance at the district level on a quarterly basis. After examining the reporting requirement, the vendor provided two options for district-level measurement:

- Limiting reporting to area- and national-level results on a quarterly basis and providing the district-level results annually. As indicated at pages 4 and 6 of the Postal Service's initial Request in this proceeding, this would be possible for no additional cost, but it might be at variance from 39 C.F.R. § 3055.45 and therefore require regulatory accommodation as requested by the Postal Service.
- Redesigning EXFC to expand the volume of flats measured to achieve ranges of +/- 3 percent at the 95 percent confidence level and enable reliable quarterly reporting of First-Class Mail flats at the district level. This option would comply with 39 C.F.R. § 3055.45 as currently written, but it raises the cost challenge discussed in the Postal Service's Request and this response.

**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 materials filed with the Commission in this docket. Cost estimate documentation responsive to question 1 of Chairman's Information Request No. 1 is being filed separately under seal with the Commission. A redacted version of the documentation is included with this public filing as a separate Excel file.

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 would not be publicly disclosed under good business practice. 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).<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 Commission to support its

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<sup>1</sup> PRC Order No. 225, Final Rule 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.

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 e-mail 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;**

In the case of the instant documentation, the Postal Service believes that the only third party with a proprietary interest in the materials is the EXFC vendor. The Postal Service has already informed the EXFC vendor, in compliance with 39 C.F.R. § 3007.20(b), of the nature and scope of this filing and the vendor's ability to address its confidentiality concerns directly with the Commission. The Postal Service identifies as an appropriate contact person Maryanne Manzi, Contracts Manager, IBM Corporation. Ms. Manzi's phone number is (720) 396-7301, and her email address is Manzi1@us.ibm.com.

**(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 its response to Chairman's Information Request No. 1 in this proceeding, the Postal Service filed a Microsoft Excel spreadsheet that shows the detailed basis for the Postal Service's estimate of the cost for expanding EXFC measurement of First-Class Mail Flats, as described in the Postal Service's initial Request in this proceeding. These materials were filed under seal, with redacted copies filed publicly, after notice to EXFC vendor. The Postal Service maintains that the redacted portions of the spreadsheet should remain confidential.

The redactions to the spreadsheet cover pricing estimates and the vendor's analysis about pricing factors. These pricing factors include commercially sensitive information such as underlying costs, projections, assumptions, and negotiated pricing elements. To the extent practicable, the Postal Service has limited its redactions in the work papers to the actual information it has determined to be exempt from disclosure under 5 U.S.C. § 552(b).

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

If the portions of the documentation that the Postal Service determined to be protected from disclosure due to their commercially sensitive nature were to be disclosed publicly, the Postal Service considers that it is quite likely that it would suffer commercial harm. Information about negotiated pricing projections is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. If disclosed, the documentation would reveal to the EXFC vendor's competitors certain proprietary process elements of its contracted services, its potential pricing strategy, and the vendor's costs for each element. This would give competitors an unfair advantage in developing competing offerings, and this risk to the EXFC vendor would have a chilling effect on the EXFC vendor's collaboration with the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

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

**Harm:** Public disclosure of information related to a contract vendor's pricing estimates would be used by that vendor's competitors to its detriment and, consequently, chill the vendor's relationship with the Postal Service.

**Hypothetical:** A competitor of the EXFC vendor obtains information contained in the non-public version of the spreadsheet. The competitor analyzes the information to assess the nature of the EXFC vendor's service costs and the amounts charged by the EXFC vendor for specific cost elements. The competitor uses that information to develop competing services and undermine the EXFC vendor's negotiated offerings. This access to the EXFC vendor's proprietary cost estimates therefore gives the vendor's competitor an unfair advantage. The EXFC vendor's cost of doing business with the Postal Service increases, as does its reluctance to share similar preliminary estimates in the future.

**(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 supply chain performance measurement and consultancy services, 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 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.