

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

COMPETITIVE PRODUCT PRICES
PRIORITY MAIL CONTRACTS
PRIORITY MAIL--NON-PUBLISHED RATES

Docket No. CP2011-51

Docket No. MC2011-15

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**
(January 7, 2011)

The United States Postal Service hereby provides its response to Chairman's Information Request No. 1, which was filed on December 30, 2010. Responses were requested by January 7, 2011. Attached are the Postal Service's responses to Questions 1-5. Each question is reprinted verbatim and is followed by the response. The Postal Service's response to Question 6 (under seal) is being filed today with the Commission under seal.

Respectfully submitted,

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1. Would any previous Priority Mail NSA Partners qualify for service under the Priority Mail—Non-published Rate classification? Please explain why previous NSA Partners would qualify or would not qualify.

RESPONSE:

It is certainly possible that previous Priority Mail NSA partners could qualify under the Priority Mail—Non-Published Rates classification, depending on if their package characteristics and mailing profile fits in the classification, and if the partner prefers not to extend their existing contract (which may have unique terms and conditions not available in the instant classification). The Postal Service envisions that most cases under the Priority Mail—Non-Published Rates classifications will involve new customers where the Postal Service is able to bring in new business. In those instances, specific package characteristics and the customer's mailing profile would determine qualification.

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2. Does the Postal Service anticipate that all expiring Priority Mail agreements will be renewed as Priority Mail—Non-published Rates agreements, to the extent the shipper desires to continue such service and provided that service fits with the Priority Mail—Non-published Rates classification? If not, please elaborate.

RESPONSE:

Yes, this would be the anticipated process for mailers who fit within this classification and choose to continue their Priority Mail service.

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3. Please refer to the Postal Service's Request:

“This approach is modeled after the Global Expedited Package Services—Non-Published Rates product that the Commission recently approved in Order No. 593 (November 22, 2010).”

- a. Except for differences in variable inputs (such as inflation), is it possible for two identical mailers to be offered different prices under the proposed Priority Mail-Non-published Rates product? If it is possible, please explain how the Postal Service plans to guard against undue discrimination. See Docket No. CP2010-72, Response to CHIR No. 3, question 1.a.
- b. GEPS-NPR contracts only differ in regards to revenue tiers, entry points, country groups, and weight cells. Please explain how contracts within Priority Mail—Non-Published Rates product could differ.

RESPONSE:

a. In a competitive environment, particularly like the one for commercial parcel services, it is difficult to pinpoint exactly what would constitute “undue and unreasonable discrimination” among users of competitive products. The Postal Service's ability to discriminate between customers and still retain their business is fairly limited. List prices and contract discounts offered by multiple carriers have created expectations within the marketplace about what price levels customers should pay; if the Postal Service chose to thwart those expectations by offering a smaller discount than a customer felt they were entitled to, it is likely that customer could find another carrier to serve them. On the other hand, it is not in the Postal Service's interest to substantially undercut the market in isolated cases either; such an action simply results in lost contribution.

That being said, it is to be expected that different negotiations, conducted at different times, with different mailers, with different mailing profiles, under different market conditions – and reflecting a multitude of other factors – will often

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result in different contract prices, just as the mailer-specific prices in existing Shipping Services contracts differ. Congress recognized this reality by utilizing different language in the Postal Act of 2006 to govern contract pricing in the market-dominant sector as compared to the competitive sector.

Finally, it is worth noting that the multiple variable inputs used to determine pricing require a variety of elements unique to each specific customer, and therefore, there is little likelihood that any two customers would have identical characteristics. And even if the multitude of mailer-specific inputs happened to be identical, the timing of negotiations and the conditions in the market among the Postal Service's competitors at the time of negotiations would affect the outcome of the Postal Service's contract negotiations and determine the contract prices that one given customer may agree to.

- b. Priority Mail—Non-Published Rates contracts may differ based on the multiple variable inputs used to determine pricing qualification, including but not limited to:
1. Package size/cube
 2. Weight and zone distribution
 3. Customer type (business/residential, urban/rural)
 4. Payment method(s)
 5. Packaging (Customer or Postal provided)
 6. Volume commitment
 7. Specific weight/zone cells competitiveness

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4. Attachment B to the Postal Service's Request states, "This process involves the establishment of a set of tiered discounts for Priority Mail". Please provide a table displaying the tiered discounts, and the requirements a mailer must to satisfy to qualify for the discounts.

RESPONSE:

This classification does not involve "tiers" in the same sense as that term may have been used in the GEPS—Non-Published Rates classification filing. In the Priority Mail—Non-Published Rates classification, the "tiers" are simply one-cent increments between the established price floor and ceiling. There are no specific requirements that distinguish between each one-cent increment between the price floor and ceiling.

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5. Please explain under what circumstances management will update the Priority Mail—Non-Published Rates price schedule as described in Attachment B on page 4.

RESPONSE:

The Postal service will update the price schedule annually, based on the establishment of new published Priority Mail prices. While the individual price charts will not change throughout the course of the year, the Postal Service models used to calculate the discount level for which an individual customer may qualify can change as costing and pricing variables change over time. The Postal Service will notify the Commission of any methodological changes to the Postal Service's cost models for this classification.