

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

COMPETITIVE PRODUCTS PRICE CHANGES
RATES OF GENERAL APPLICABILITY

Docket No. CP2011-60

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
AND NOTICE OF FILING MATERIALS UNDER SEAL**
(March 8, 2011)

The United States Postal Service hereby responds to Chairman's Information Request No. 1, filed on March 2, 2011. Responses were due today, March 8. Attached is the request verbatim, followed by the Postal Service's response. Also attached is an application for non-public treatment for the accompanying workbooks that have been provided under seal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

Elizabeth A. Reed

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3179, Fax -6187
Elizabeth.A.Reed@usps.gov
March 8, 2011

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

REQUEST:

Please provide an analysis that demonstrates that Parcel Select will remain in compliance with 39 U.S.C. § 3633(a)(2) with the addition of the new, lower price, rate category Regional Ground Service. Please include expected cost, revenue, and volume data for Regional Ground Service as well as the entire Parcel Select product.

RESPONSE:

Material for the calculation of cost coverage for Regional Ground Service has been filed under seal. Mail processing and transportation costs are based on the preliminary models proposed in Docket No. RM2011-6 and filed in USPS-FY10-NP15 and USPS-FY10-NP16. Since the maximum size for Regional Ground is much smaller than the average Parcel Select piece, these costs have been adjusted to the smaller size.

Delivery costs are equal to the delivery costs for Priority Mail parcels that more closely match the size of Regional Ground pieces. These demonstrate that the cost coverage for all but one rate cell is expected to be at least as great as that for Parcel Select as a whole in FY2010.

The workbook also addresses the issue of potential cannibalization of existing volume. Existing products that may migrate to Regional Ground are listed together with their FY2010 volumes. However, pieces from these categories that exceed 0.35 cubic feet or that are destined outside of the service area of the NDC are not eligible for Regional Ground prices. Thus, the loss in contribution is unlikely to reach even the level calculated here, which is much less than one percent of FY2010 Parcel Select revenue.

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

Total volume and revenue projections are not available for Regional Ground Service, so the Postal Service is unable to estimate the totals for the entire Parcel Select product after the introduction of this new price category.

The Public Representative, in comments filed March 3, 2011, “concludes that the Postal Service’s contribution from Parcel Select as a whole would be lower as a result of the planned rate adjustment.”¹ However, the Public Representative’s analysis is based on “the following [...] well known test indicating the requirement for a contribution increase from a rate reduction.”² That test assumes that volume sold at the new price cannibalizes volume from the old higher price. In the case of Regional Ground Service, as demonstrated in the accompanying materials, there is very little volume available to be directly cannibalized. Since the cost coverage for Regional Ground generally exceeds that of Parcel Select as a whole, indirect migration of other products such as DDU-entry will generally add to the total Parcel Select contribution.

¹ Comments of the Public Representative, March 3, 2011, p. 7

² Ibid, p. 6

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 underlying workbooks provided in response to Chairman's Information Request No. 1. 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.

(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).¹ 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 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;

None.

¹ 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.

- (3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;**

The materials consist of work papers that contain commercially sensitive information such as underlying costs and assumptions, and cost coverage projections, for Regional Ground and Parcel Select service.

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

The financial work papers include specific information such as costs, assumptions used in developing costs and prices, 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 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. Competitors are not so constrained and could use the 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 current and prospective customers to attempt to renegotiate their own prices. Although the extent of the commercial harm is difficult to quantify, given that Shipping Services is a multi-billion dollar enterprise, providing this advantage to the Postal Service's competitors could lead to millions of dollars in lost revenue, higher costs, and lower contribution margins for the Postal Service. It is highly likely that if this information were made public, the Postal Service's competitors and suppliers would take advantage of it almost immediately.

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

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 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.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that 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, suppliers of transportation or other services to the Postal Service that affect costs for competitive services should not have access to these materials; this restriction should include their consultants and attorneys.

(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.