

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

MARKET TEST OF EXPERIMENTAL PRODUCT-
METRO POST

Docket No. MT2013-1

NOTICE OF THE UNITED STATES POSTAL SERVICE OF
MARKET TEST OF EXPERIMENTAL PRODUCT – METRO POST –
AND NOTICE OF FILING MATERIAL UNDER SEAL
(October 12, 2012)

Pursuant to 39 U.S.C. 3641, the United States Postal Service hereby gives notice that it intends to conduct a test of an experimental competitive product, named Metro Post™. The Postal Service also hereby gives notice that it is today filing certain portions of this document under seal, pertaining to the Postal Service's pricing plans for this market test. The protected material has been redacted from the public filing document. An application for non-public treatment of the material is attached.

Metro Post™ is a package delivery service offering that will provide customers with same-day delivery from participating locations within a defined metropolitan area. The market test, which will begin on or shortly after November 12, 2012, is specifically designed for online e-commerce companies and their associated retailers to deliver products to buyers in a unique and timely manner, provided that the buyers live within the specified metropolitan area in the vicinity of the participating locations. In addition to testing the operational feasibility of same-day delivery of packages to/from multiple

locations, the market test will also assist the Postal Service in determining the optimal pricing structure for this type of service.

Subchapter III of Chapter 36, Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. This notice provides the information required by 39 U.S.C. 3641(c).¹ Pursuant to that provision, the Postal Service is also filing notice of this market test in the Federal Register.

Description of Nature and Scope of Experimental Product

Online e-commerce companies and top retailers have realized the power of online shipping platforms. These developments have created an opportunity for the Postal Service to explore the feasibility of providing same-day local delivery within a defined metropolitan area. As part of the Metro Post™ market test, the Postal Service will enter into relationships with qualifying online e-commerce companies to offer same-day local delivery. Each online e-commerce company that wishes to participate in this market test must have at least ten (10) physical locations nationally, one or more of which must be within the defined metropolitan area of the market test. The Postal Service anticipates entering into relationships with up to, but no more than, ten online e-commerce companies over the course of this market test.

For the initial period of the market test (until January 2013), each test participant may only receive same-day delivery for a maximum of ten of its participating locations within the defined metropolitan area of the test. In total, only 200 packages per day may receive same-day delivery from the Postal Service during the initial period of the

¹ As of this filing, the Commission has not established regulations creating specific procedures to implement Section 3641.

market test. These restrictions could be lifted after the Postal Service has been able to further test its operational capabilities to provide same-day service during the initial period of the test.

Through this market test, buyers can request same-day delivery in one of three ways: 1) utilizing a qualifying online e-commerce platform to purchase items online; 2) purchasing items at the retail stores that have partnered with test participants; or 3) visiting a test participant's website to purchase items. Eligible buyers must live in a specified area within a selected major metropolitan area. The daily cut-off times for making any purchases of items delivered via Metro Post™ service will occur between 2:00pm and 3:00pm. Package pick-up will then be scheduled to take place at participating locations after 3:00pm, by Postal Service-uniformed delivery personnel. The Metro Post™ packages may be exchanged between agents, and dynamic routing tools will be used, in order to ensure efficient delivery; at this time, the logistics have not been finalized. Same-day delivery will occur between approximately 4:00pm and 8:00pm, as determined by the Postal Service.

Pricing

[REDACTED]

Consistency with Section 3641 Criteria

Section 3641 provides the criteria that a market test must meet. As explained below, the Postal Service has determined that the Metro Post™ market test would satisfy these requirements:

- The product is significantly different from all products offered by the Postal Service within the two-year period preceding the start of the test (Section 3641(b)(1)).
- The introduction or continued offering of the product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns (Section 3641(b)(2)).
- The Postal Service correctly identifies the product as competitive (Section 3641(b)(3)).

- The duration of the market test will not exceed 24 months, unless the Postal Service requests an extension from the Commission (Section 3641(d)(1)).
- The annual revenues received by the Postal Service from this market test are not anticipated to exceed \$10,000,000 (as adjusted for inflation) in any fiscal year (Sections 3641(e), (g)), unless the Commission has granted exemption authority to the Postal Service (Section 3641(e)(2)).

Significantly Different Product

The Postal Service has not offered a same-day, local delivery product in the past two years. Additionally, the Metro Post™ delivery service will feature a unique relationship with qualifying online e-commerce companies and their associated retailers, which is unlike any other service offering currently provided by the Postal Service. The Postal Service believes these differences to be significant and worthy of testing in the marketplace.

No Inappropriate Market Disruption

There is no reasonable expectation that the Postal Service's Metro Post™ service offering would create an "unfair or otherwise inappropriate" competitive advantage for the Postal Service or any mailer, with regard to any other party (including small businesses). The Metro Post™ service offering is designed to improve the shopping and delivery experience for customers, and therefore generate more package deliveries that do not currently move within the postal system. Several prominent companies are currently offering some form of same-day delivery, or are actively

exploring offering this service in the near future. Many of the existing same-day services currently utilize local couriers, but are more limited in scope to legal or document delivery. The prices offered by competitors for same-day delivery typically fall within the price range that the Postal Service intends to test. Therefore, the prices offered by the Postal Service would not create an inappropriate market disruption. The Postal Service does not expect this market test to have a significant impact on small businesses, as same-day delivery already exists in the marketplace.

Correct Characterization as Competitive

The Postal Service considers this experimental product to be competitive, as it is designed for packages that do not fall under the Private Express statutes. Metro Post™ service will charge a price greater than six times basic tariff rates (currently \$0.45). The Postal Service submits that same-day delivery of packages is yet another component of the highly-competitive package services market.

Duration of Market Test

The market test will begin on or shortly after November 12, 2012. The test will run for one calendar year, unless the Postal Service decides to request an extension for an additional year, establish Metro Post™ as a permanent product on a quicker timeline, or terminate the test early.

Total Revenues from Market Test

Based on current projections, the total revenue received by the Postal Service may exceed the \$10,000,000 threshold in any fiscal year, as adjusted for inflation pursuant to Section 3641(g). As such, the Postal Service hereby applies for an exemption of this statutory requirement pursuant to Section 3641(e)(2). The exact revenue and volume is difficult to predict, as the success of this market test depends on the number of test participants, the scope of the participants' e-commerce business, and ultimately, the demand for same-day delivery among consumers in the marketplace. Nevertheless, it is possible that the \$10,000,000 statutory threshold may be reached if adoption of Metro Post™ same-day delivery proves to be particularly strong. However, the Postal Service has taken steps to ensure that anticipated revenues will not exceed \$50,000,000 in any year (Section 3641(e)(2)), by providing some qualifying criteria and limitations for prospective test participants.

As discussed above, the Metro Post™ market test is likely to benefit the public and meet an expected demand. Moreover, the product is likely to contribute to the financial stability of the Postal Service, by generating more package deliveries that do not currently move within the postal system. Therefore, the Postal Service submits that there is sufficient justification for the Commission to exempt the Postal Service from the statutory requirement in Section 3641(e)(2) for the Metro Post™ market test.

Data Collection Plan

The Postal Service will monitor market demand for the Metro Post™ product, and will track the costs of providing same-day local delivery. Volume, revenue, and cost data will be available through existing reporting systems. The Postal Service is prepared to report on the results of its research to the Commission.

To better understand this experimental product, the Postal Service plans to collect:

- volume of packages delivered via same-day service
- total revenue generated
- work hours, travel times, and other cost data

Respectfully submitted,

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October 12, 2012

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 portion of the attached pleading that addresses the Postal Service's pricing plans for the Metro Post™ market test. 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 has redacted this material from its public pleading.

(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 redacted information consists of a paragraph describing the Postal Service's pricing plans for the Metro Post™ market test. The paragraph contains a price range that the Postal Service intends to test in the marketplace, as well as specific price points that will be implemented initially.

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

If competitors of the Postal Service were to have access to this information, they would be able to focus their marketing and price cutting efforts for same-day delivery service throughout the course of the Metro Post™ market test. The Postal Service intends to test different price points in order to examine the demand for same-day delivery in the marketplace. The effectiveness of the market test would be negatively affected if competitors were able to undercut the Postal Service's prices in a given metropolitan area, or for selected test participants. Additionally, test participants' ability to compete effectively with other, non-participating firms offering same-day delivery would be impaired, if the Postal Service were to make its test prices public. The price charged by the Postal Service would represent a key cost element of participating firms' shipping and handling charges, and competitors in the emerging market for retail and other e-commerce transactions frequently use a variety of pricing strategies to compete for the purchasing choices of customers. Publication of the Postal Service's pricing could diminish the willingness of qualifying e-commerce companies to participate in the Metro Post™ market test, which would further erode the effectiveness of the market test as a whole.

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

Identified harm: Competitors could use the Postal Service's pricing plans to focus pricing and marketing efforts to the Postal Service's detriment.

Hypothetical: The Postal Service's initial price point and planned pricing ranges are disclosed to the public and available to a competitor. The competitor assesses the profitability of offering same-day delivery service at or below the Postal Service's current price point, or at or below the bottom end of the Postal Service's price range. The competitor then targets its pricing and marketing efforts at actual or potential test participants in the specific metropolitan area(s) that the Postal Service intends to test. These activities could deprive the Postal Service of qualifying test participants before it has been able to adequately test Metro Post™ same-day delivery in the marketplace.

(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.

(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.