Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268B0001

RATE AND SERVICE CHANGES TO IMPLEMENT FUNCTIONALLY EQUIVALENT NEGOTIATED SERVICE AGREEMENT WITH BANK ONE CORPORATION	Docket No. MC2004-3

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-T1-35)
(August 12, 2004)

The United States Postal Service hereby provides its response to the following interrogatory of the Office of Consumer Advocate: OCA/USPS-T1-35, filed on August 2, 2004.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3089 Fax –5402
August 12, 2004

OCA/USPS-T1-35. Please refer to the table in your response to POIR No. 1, Question 7, and to Table 4 below. (An Excel file, containing Table 4 and Tables 1 – 3, has been filed on-line to accompany this interrogatory.) Please explain the differences between the "downside" risk presented in the table to your response to Question 7, and Table 4 below.

BANK ONE NSA

TABLE 4
Net Gain (Loss) at Various Assumed Before Rates Volumes

Scenario	Year	Total Volume [1]	Discount Leakage [2]	Return Cost Savings [3]	Net Gain (Loss) [4] = [3] - [2]
Plunkett	Year 1	590,135,000	$1,554,725	$2,474,276	$919,551
Plunkett	Year 2	670,135,000	$4,781,075	$2,573,247	($2,207,828)
Plunkett	Year 3	670,135,000	$4,781,075	$2,676,177	($2,104,898)
					($3,393,175)
Equilibrium	Year 1	616,600,577	$2,514,023	$2,514,023	$0
Equilibrium	Year 2	619,172,944	$2,616,918	$2,616,918	$0
Equilibrium	Year 3	621,853,081	$2,724,123	$2,724,123	$0
					$0
1	Year 1	645,000,000	$3,650,000	$2,538,797	($1,111,203)
1	Year 2	645,000,000	$3,650,000	$2,640,349	($1,009,651)
1	Year 3	645,000,000	$3,650,000	$2,745,963	($904,037)
					($3,024,891)
2	Year 1	680,000,000	$5,225,000	$2,569,329	($2,655,671)
2	Year 2	680,000,000	$5,225,000	$2,672,102	($2,552,898)
2	Year 3	680,000,000	$5,225,000	$2,778,986	($2,446,014)
					($7,654,583)
3	Year 1	715,000,000	$6,975,000	$2,599,861	($4,375,139)
3	Year 2	715,000,000	$6,975,000	$2,703,855	($4,271,145)
3	Year 3	715,000,000	$6,975,000	$2,812,009	($4,162,990)
					($12,809,274)
4	Year 1	750,000,000	$8,725,000	$2,630,393	($6,094,607)
4	Year 2	750,000,000	$8,725,000	$2,735,608	($5,989,392)
4	Year 3	750,000,000	$8,725,000	$2,845,033	($5,879,967)
					($17,963,966)

RESPONSE:

Before responding to your question, I would note that your Return Cost Savings figures for the "Plunkett" scenario misinterpret Page 7 of Appendix A of my testimony. Your table suggests that the ACS Savings figures on Page 7 correspond to Before-Rates volumes of 590,135,000 in 2004, 670,135,000 in 2005, and 670,135,000 in 2006. This is incorrect. These savings correspond to a Before-Rates volume of 571,080,000 in each of these years, rather than to the After-Rates volumes you cite.

There are two major differences between your Table 4 and the table that I provided in response to Presiding Officer's Information Request (POIR) No. 1, Question 7. First, the table I provided in response to POIR No. 1, Question 7 analyzes the impact of Before-Rates First-Class Mail *marketing* letter volumes being higher than projected by Mr. Rappaport. In contrast, your Table 4 assumes that if Before Rates volumes were higher than projected by Mr. Rappaport (BOC-T-1), operational (or customer) mail would comprise approximately 95 percent of the difference. This is an unrealistic assumption: There is no reason why Bank One would increase the frequency of the statements and other customer mail it sends to existing accounts in response to a decline in the price of First-Class postage. Stated otherwise, operational (or customer) mail is largely nondiscretionary. Use of this unrealistic assumption overstates the reduction in contribution resulting from the assumed increase in Before Rates volume.

Second, the Before Rate volume levels assumed in your Table 4 are significantly higher than the volume levels examined in my table. Given Bank One's historical volumes, the volume levels examined in your Table 4 are quite unlikely to occur in the absence of the NSA.

Finally, *both* tables, by focusing solely on potential downside risk, completely ignore the upside potential of the NSA—specifically, the significant increase in contribution to USPS institutional costs that will result from Bank One increasing its use of First-Class Mail marketing letters in response to the NSA. For the reasons explained in my testimony and discovery responses, and those of Bank One witnesses Rappaport and Buc, the proposed discounts are likely to increase the volume of First-Class Mail marketing letters entered by Bank One. OCA has not seriously disputed this. As OCA itself noted on page 8 of its August 5 reply comments on the scope of issues in this proceeding, it is a "well known axiom that reducing the price of a product tends to spur consumers of the product to buy more of it." Reasonable people may differ over the precise magnitude of the response. It is not reasonable, however, simply to assume that there will be no response at all. Hence, a risk analysis of the NSA that ignores the likely increase in contribution resulting from an increase in the volume of First-Class Mail entered by Bank One is one-sided and incomplete.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie

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Washington, D.C. 20260-1137
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