

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

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-T1-50)

The United States Postal Service hereby provides its response to the
following follow-up interrogatory of the Office of Consumer Advocate:

OCA/USPS-T1-50, filed on August 16, 2004.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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OCA/USPS-T1-50. Please refer to your response to OCA/USPS-T1-31 and to the worksheet "BOC – JPMC" in the spreadsheet accompanying OCA/USPS-T1-31. Also, please refer to the attachment accompanying this follow-up interrogatory, which shows the worksheet "BOC – JPMC" based upon the volumes provided in OCA/BOC-T1-13 (revised August 9, 2004) and the weighted average return rate for Bank One and J.P. Morgan Chase provided in OCA/BOC-T1-17. Please confirm that the Year 1 stop-loss estimate for the BOC – JPMC merged entity is \$14,293,625. If you do not confirm, please explain.

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BANK ONE - J.P. MORGAN CHASE
Stop Loss Estimate Model

Attachment to Interrogatory
OCA/USPS-T1-50
Page 1 of 5

TABLE 1
Year 1 - ACS Related Savings

ASSUMPTIONS		
[1]	JPMC Total Additional Solicitation Volume	112,300,000
[2]	JPMC Total Additional Customer Volume	219,600,000
[3]	BOC - JPMC Return Rate - Solicitation Letters	6.0%
[4]	BOC - JPMC Solicitation Ltrs % Extra BR Ltr Vol.	100.0%
[5]	BOC BR Customer Mail Volume	506,650,000
[6]	BOC BR Solicitation Letter Volume	29,387,000
[7]	BOC BR Solicitation Flats Volume	35,043,000
[8]	BOC - JPMC Total Letter Volume	867,937,000
[9]	BOC - JPMC Customer Letter Volume	726,250,000
[10]	BOC - JPMC Solicitation Letter Volume	141,687,000
[11]	BOC - JPMC Solicitation Flats Volume	35,043,000
[12]	Manual Letter Returns Unit Cost	\$0.55
[13]	Manual Flat Returns Unit Cost	\$1.06
[14]	Electronic Letter Returns Unit Cost	\$0.34
[15]	Electronic Flat Returns Unit Cost	\$0.45
[16]	BOC Return Rate - Solicitation Flats	11%
[17]	Address Change Service (ACS) Success Rate	85%
[18]	BOC Solicitation Flats %	100%
[19]	BOC ACS Unit Cost Savings - Letters	\$0.01060800
[20]	BOC ACS Unit Cost Savings - Flats	\$0.05726308
[21]	BOC - JPMC BR Equilibrium Letter Volume	1,158,272,502
[22]	Total ASC Cost Savings - Letters	\$12,286,955
[23]	Total ASC Cost Savings - Flats	\$2,006,670
[24]	Total ASC Savings	\$14,293,625

TABLE 2
Year 1 - Discount Leakage

<u>Volume Block</u>	[1]	<u>Incremental Volume</u>	<u>Discount</u>	<u>Discount Leakage</u>
		[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
[a]	[b]			
866,900,001	to 891,900,000	24,999,999	\$0.025	\$625,000
891,900,001	to 916,900,000	24,999,999	\$0.030	\$750,000
916,900,001	to 941,900,000	24,999,999	\$0.035	\$875,000
941,900,001	to 976,900,000	34,999,999	\$0.040	\$1,400,000
976,900,001	to 1,011,900,000	34,999,999	\$0.045	\$1,575,000
1,011,900,001	to 1,193,272,502	181,372,501	\$0.050	\$9,068,625
Total				\$14,293,625

\$0

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RESPONSE:

Not confirmed for several reasons. First, the formula in row [22] in the attachment appears to be incorrect. Specifically, it applies the unit cost savings of an average First-Class Mail *solicitation* letter to *all* First-Class Mail letters -- whether the letter is a customer mailpiece or a solicitation. Even though the vast majority of any Before-Rates First-Class Mail letters over and above witness Rappaport's Before-Rates forecast -- if any were to exist -- would be solicitations (see my response to OCA/USPS-T1-35), Bank One and J. P. Morgan Chase will also mail a significant number of customer letters in Year 1 for which there will no ACS savings. To correct the formula in row [22], the customer mail volume figure in row [9] should be subtracted from total letter volume before multiplying by the cost savings per solicitation letter.

Second, the "JPMC Total Additional Customer Volume" figure in row [2] excludes the J. P. Morgan Chase retail financial service volume figures identified by witness Rappaport in his answer to OCA/BOC-T1-13(b)(iii).

Third, the "JPMC Total Additional Solicitation Volume" does not reflect the revision to OCA/BOC-T1-13(b)(ii) that was filed on August 27, 2004.

Fourth, it is unlikely that J. P. Morgan Chase volumes will be integrated in their entirety immediately. Hence, the merger will not affect the NSA until after the beginning of Year 1, and, in fact, may not affect the NSA until Year 1 has completely ended.

Fifth, the volumes specified in rows [1] and [2] are for 2003, not for Year 1 of the agreement.

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In addition to these technical points, the “stop-loss estimate” calculated in the interrogatory reflects a fundamental conceptual error. The calculations assume that the declining block rate discounts will cause no migration of solicitation letter volume whatsoever from Standard Mail to First-Class Mail, and that the Postal Service therefore will gain no net contribution from this inter-class migration. Bank One witness Rappaport has conservatively assumed, however, that at least 99 million Bank One solicitations will migrate from Standard Mail to First-Class Mail in 2005 and 2006. And Bank One witness Buc has calculated that more than 400 million pieces are likely to migrate from Standard Mail to First-Class Mail in response to the NSA.

Using Microsoft Excel’s “Goal Seek” function¹ and the “Combined Model” filed in response to OCA/BOC-T1-44 for Bank One and J.P. Morgan Chase combined, I have calculated “breakeven” Before-Rates volumes, After-Rates volumes and the corresponding discounts, based upon three alternative (and conservative) assumptions: that 100 million, 150 million, and 200 million solicitation letters will switch from Standard Mail to First-Class Mail in response to the NSA’s incentives. These calculations show how much actual Before Rates volume would have to exceed projected Before Rates volume to eliminate the positive net contribution received by the Postal Service from (1) cost savings and (2) the added contribution generated by the migration of Bank One/J.P. Morgan Chase solicitation mail from Standard Mail to higher-margin First-Class Mail as a result of the NSA rate incentives. For comparison, I also analyzed a fourth scenario that assumes that zero pieces migrate to First-Class Mail. This

¹ “Goal Seek” is a functionality of the Excel program which allows the user to find a specific result for a cell by adjusting the value of one other cell.

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particular scenario, which assumes that the NSA rate discounts will have no effect at all, corresponds to the “stop-loss estimate” to which the interrogatory refers.

For each of the three alternative migration scenarios (as well as the zero-migration scenario assumed by the interrogatory), I assumed that After-Rates First-Class Mail marketing letter volume would equal the sum of the Before-Rates volume projected by witness Rappaport *plus* the number of pieces (alternatively 0, 100 million, 150 million, and 200 million pieces) assumed to migrate from Standard Mail to First-Class Mail as a result of the declining-block discounts. I then used the “Goal Seek” function of the Microsoft Excel program to compute the amount by which actual Before-Rates volume would have to exceed witness Rappaport’s projections to offset completely the net contribution less discounts that the Postal Service would receive from cost savings plus the extra margins generated by the migration of solicitation letters from Standard Mail to First-Class Mail. As Tables 1, 2, and 3 below clearly show, actual Before-Rates First-Class Mail volume would need to exceed witness Rappaport’s forecast by a very large amount for the NSA to produce a net loss in USPS contribution.

Along with this interrogatory response, I am filing as Attachment OCA-USPS-T1-50 Model.xls the Excel spreadsheet that I used to perform my analysis. The spreadsheet builds from the model that I filed in my revised response to OCA/USPS-T1-44. The major difference is that this spreadsheet includes a worksheet “Breakeven Analysis” (Page 2a) that performs the analysis discussed above. This worksheet varies the volume figures in Page 2 to calculate breakeven volumes for the scenarios discussed above. To replicate my analysis,

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populate the “ENTER -- Switched Marketing Mail Letter Volume” row and press
the “GOAL SEEK” button.

Table 1
How Much Would Actual Before Rates Volume Need To Exceed
Projected Before Rates Volume To Produce A Net Loss In Contribution?
(Bank One—2004)

If the NSA rate discounts induced this many Standard pieces to migrate to First-Class Mail . . .	Actual Before Rates volume would have to reach this level to wipe out the net gain to the USPS from the NSA:	After Rates volume at this “break even” point would equal:	Discounts paid at this “break even” point would equal:
0	646,928,903	646,928,903	\$3,736,801
100,000,000	718,565,454	818,565,454	\$12,153,273
150,000,000	751,923,861	901,923,861	\$16,321,193
200,000,000	785,282,268	985,282,268	\$20,489,113

Table 2
How Much Would Actual Before Rates Volume Need To Exceed
Projected Before Rates Volume To Produce A Net Loss In Contribution?
(Bank One/JPMorgan Chase Combined—2005)

If the NSA rate discounts induced this many Standard pieces to migrate to First-Class Mail . . .	Actual Before Rates volume would have to reach this level to wipe out the net gain to the USPS from the NSA:	After Rates volume at this “break even” point would equal:	Discounts paid at this “break even” point would equal:
0	1,136,566,765	1,136,566,765	\$4,598,004
100,000,000	1,203,980,467	1,303,980,467	\$12,899,023
150,000,000	1,236,778,007	1,386,778,007	\$17,038,900
200,000,000	1,269,575,548	1,469,575,548	\$21,178,777

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Table 3
How Much Would Actual Before Rates Volume Need To Exceed
Projected Before Rates Volume To Produce A Net Loss In Contribution?
(Bank One/JPMorgan Chase Combined—2006)

If the NSA rate discounts induced this many Standard pieces to migrate to First-Class Mail . . .	Actual Before Rates volume would have to reach this level to wipe out the net gain to the USPS from the NSA:	After Rates volume at this “break even” point would equal:	Discounts paid at this “break even” point would equal:
0	1,132,484,109	1,132,484,109	\$4,414,285
100,000,000	1,197,234,551	1,297,234,551	\$12,561,728
150,000,000	1,228,424,088	1,378,424,088	\$16,621,204
200,000,000	1,259,613,625	1,459,613,625	\$20,680,681

So large an understatement of Before Rates volume is highly implausible. Bank One’s First-Class volumes, unlike those of Capital One during the years of record in Docket No. MC2002-2, have been highly stable in recent years—ranging from 583 million pieces in 2001 to 600 million pieces in 2002 to 596 million pieces in 2003.² The same is true of J.P. Morgan Chase’s recent First-Class volumes which were 475.2 million pieces in 2002 and 461.7 million pieces in 2003.³

Moreover, most of Bank One’s First-Class Mail (unlike Capital One’s First-Class Mail) consists of operational (or “customer”) mail—*i.e.*, monthly account statements and the like—not solicitation or marketing mail. In 2003, for example, solicitation letters represented only 60 million pieces—or *11 percent* of Bank One’s total First-Class letters in that year.⁴ Likewise, in 2003 solicitation letters

² Rappaport Direct (BOC-T-1) at 5. By contrast, Capital One’s First-Class mail volume was highly volatile during the three years of historical record in Docket No. MC2002-2. See Docket No. MC2002-2, 2 Tr. 207, 209-210.

³ Derived from Attachment OCA/BOC-T1-19, corrected Aug. 27, 2004

⁴ Rappaport Direct (BOC-T-1) at 5.

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represented only about 25 percent of J. P. Morgan Chase's total First-Class letters in that year.⁵ Because the volume of operational or customer mail is largely nondiscretionary, an underestimate of this magnitude necessarily implies a veritable explosion in the volume of Bank One's First-Class Before Rates solicitation letter volume:

I am unaware of any reason to explain why the Before Rates solicitation volumes of Bank One (and J.P. Morgan Chase) might surge so dramatically if existing First-Class rates remained unchanged. For this reason, a cap on total discounts would only serve to reduce the value of the agreement to the Postal Service and Bank One by choking off additional First-Class Mail volumes.

⁵ Corrected response of witness Rappaport to OCA/BOC-T-13

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 1

(13)

(14)

Year 1

Year 2

Year 3

Return Forecast

(1) Operational Mail (Ops)	0.34%	0.45%	0.46%
(1a) Bank One	0.34%	0.34%	0.34%
(1b) JPM Chase	0.60%	0.60%	0.60%
(2) Marketing Mail - Letters (Mktg)	9.00%	6.17%	6.10%
(2a) Bank One	9.00%	9.00%	9.00%
(2b) JPM Chase	4.00%	4.00%	4.00%
(3) Marketing Mail - Flats (Bank One)	11.00%	11.00%	11.00%
(4) USPS FCM average return rates	1.23%	1.23%	1.23%

Unit cost assumptions

(5) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(6) Manual Flat Returns Unit Cost	\$ 1.04	\$ 1.09	\$ 1.13
(7) Manual Letter Returns Unit Cost	\$ 0.55	\$ 0.57	\$ 0.60
(8) Electronic Flat Returns Unit Cost	\$ 0.45	\$ 0.47	\$ 0.48
(9) Electronic Letter Returns Unit Cost	\$ 0.34	\$ 0.36	\$ 0.37
(10) Address Change Service (ACS) Success Rate	85.0%	85.0%	85.0%
(11) Percent of new marketing mail switched from Standard Mail (SM)	100.0%	100.0%	100.0%
(12) Contingency Factor	1.030		

- (1) Weighted average of (1a) and (1b)
(1a) BOC-T-1
(1b) OCA/BOC-T1-17
(2) Weighted average of 2(a) and 2(b)
(2a) BOC-T-1
(2b) OCA/BOC-T1-17
(3) BOC-T-1
(4) USPS-LR-1/MC2002-2
(5) MC 2004-3 USPS T-1 at page 13
(6) Manual Return Costs (\$1.0190) * (1 + (5))
(7) USPS-LR-1/MC2002-2 * (1 + (5))
(8) Electronic Returns Costs (\$0.4301) * (1 + (5))
(9) USPS-LR-1/MC2002-2 * (1 + (5))
(10) USPS witness Wilson, T4/MC2002-2
(11) BOC-T-1
(12) USPS-LR-1/MC2002-2
(13) Year 1 * (5)
(14) Year 2 * (5)

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION
 Negotiated Service Agreement
 Page 2

	2001	2002	2003	Year 1	Year 2	Year 3
(1) Volume calculations -- Combined Bank One and JPM Chase						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	887,250,000	911,150,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	243,589,268	347,282,548	313,420,625
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	583,054,991	600,179,615	595,955,531	785,282,268	1,269,575,548	1,259,613,625
After rates						
Operational mail				506,650,000	887,250,000	911,150,000
Marketing mail letter				443,589,268	547,282,548	513,420,625
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total				985,282,268	1,469,575,548	1,459,613,625
(2) Volume calculations -- Bank One						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	243,589,268	150,999,338	131,602,896
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	583,054,991	600,179,615	595,955,531	785,282,268	692,692,338	673,295,896
After rates						
Operational mail				506,650,000	506,650,000	506,650,000
Marketing mail letter				443,589,268	311,667,295	284,930,012
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total	-	-	-	985,282,268	853,360,295	826,623,012
(3) Volume calculations -- JPM Chase						
Before rates						
Operational mail		317,000,000	346,000,000	Not Integrated 358,100,000	380,600,000	404,500,000
Marketing mail letter		158,200,000	115,700,000	112,400,000	196,283,210	181,817,729
Marketing mail flat					-	-
Total	-	475,200,000	461,700,000	470,500,000	576,883,210	586,317,729
After rates						
Operational mail				---	380,600,000	404,500,000
Marketing mail letter				---	235,615,253	228,490,613
Marketing mail flat					-	-
Total	-	-	-	---	616,215,253	632,990,613

- (1) MC 2004-3 BOC T-1 at page 5 - 6
- (2) MC 2004-3 BOC T-1 at page 5 - 6
- (3) OCA/BOC-T1-13,19; OCA/USPS-T1-44 (Rappaport)

Assumes start of YEAR 2 is date of integration of mail streams. YEAR 1 only applies to Bank One

- (1) YEAR 1 only includes Bank One BR and AR forecasts
YEAR 2 and YEAR 3 Before Rates and After Rates volume is sum of Chase and Bank One BR and AR forecasts
- (2) Year 1 and Year 2 marketing mail letter volume calculated using constant ratio.
- (3) Year 1 and Year 2 marketing mail letter volume calculated using constant ratio.

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 2A

Year 1

Year 2

Year 3

(1) Breakeven Analysis -- Combined Bank One and JPM Chase

Before rates

Marketing mail letter -- Original	29,387,000	67,587,000	69,987,000
SOLVE -- Marketing mail letter -- Increase Where USPS Value Equals \$0	214,202,268	279,695,548	243,433,625
Total	243,589,268	347,282,548	313,420,625

ENTER -- Switched Marketing Mail Letter Volume

200,000,000 200,000,000 200,000,000

After rates

Marketing mail letter -- Original	48,442,000	225,542,000	231,442,000
Marketing mail letter -- Solution Where USPS Value Equals \$0	443,589,268	547,282,548	513,420,625

(2) USPS Value -- Combined Bank One and JPM Chase

\$ - \$ - \$ -

(3) Discount Earned -- Combined Bank One and JPM Chase

\$ 20,489,113 \$ 21,178,777 \$ 20,680,681

(4) Solve for BR Increase Where USPS Value Equals \$0

<----- CLICK BUTTON TO SOLVE

(5) Volume calculations -- Combined Bank One and JPM Chase

Before rates -- Total	785,282,268	1,269,575,548	1,259,613,625
After rates -- Total	985,282,268	1,469,575,548	1,459,613,625

(1) Page 2

(2) Page 11 Revised

(3) Page 6

(5) Page 2

Combined Bank One / Chase Model YEAR 2

Page 3	Bank One Ops			Bank One Marketing			JPM Chase Ops			JPM Chase Marketing		
	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue									
Rate Category												
Single-Piece Letters												
First Ounces, except QBRM	-	0.370	\$ -	-	0.370	\$ -	-	0.370	\$ -	-	0.370	\$ -
Qualified Business Reply Mail	-	0.340	-	-	0.340	-	-	0.340	-	-	0.340	-
Additional Ounces	-	0.230	-	-	0.230	-	-	0.230	-	-	0.230	-
Nonmachinable Pieces	-	0.120	-	-	0.120	-	-	0.120	-	-	0.120	-
Single-Piece revenue	-	-	-	-	-	-	-	-	-	-	-	-
Revenue Adjustment Factor (a)	-	-	1.000	-	-	1.000	-	-	1.000	-	-	1.000
(4) Total Single-Piece Postage Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Nonautomated Presorted Letters												
First Ounce	16,896,034	0.352	5,947,404	5,469	0.352	1,925	8,946,611	0.352	3,149,207	3,457,992	0.352	1,217,213
Additional Ounces	152,925	0.225	34,408	57,088	0.225	12,845	144,098	0.225	32,422	1,879	0.225	423
Nonmachinable Pieces	16,555	0.055	911	8,044	0.055	442	1,574	0.055	87	881	0.055	48
Heavy Piece Deduction	3,950	(0.041)	(162)	117	(0.041)	(5)	1,657	(0.041)	(68)	209	(0.041)	(9)
Nonautomated Presorted revenue	-	-	5,982,561	-	-	15,208	-	-	3,181,648	-	-	1,217,676
Revenue Adjustment Factor (a)	-	-	1.000	-	-	1.000	-	-	1.000	-	-	1.000
(5) Total Nonautomated Presorted Letters Revenue	-	-	5,982,561	-	-	15,208	-	-	3,181,648	-	-	1,217,676
Automation Presort Letters												
Mixed AADC Letters	3,462,228	0.309	1,069,828	159,789	0.309	49,375	10,984,696	0.309	3,394,271	4,408,533	0.309	1,362,237
AADC Letters	5,935,849	0.301	1,786,691	157,854	0.301	47,514	6,296,102	0.301	1,895,127	2,801,011	0.301	843,104
3-Digit Letters	321,218,301	0.292	93,795,744	20,459,211	0.292	5,974,090	234,204,476	0.292	68,387,707	70,473,036	0.292	20,578,127
5-Digit Letters	150,886,728	0.278	41,946,510	38,358,545	0.278	10,663,676	84,306,169	0.278	23,437,115	30,711,496	0.278	8,537,796
Additional Ounces	3,822,232	0.225	860,002	2,490,380	0.225	560,336	3,554,768	0.225	799,823	57,448	0.225	12,926
Heavy Piece Deduction	51,555	(0.041)	(2,114)	20,081	(0.041)	(823)	10,419	(0.041)	(427)	844	(0.041)	(35)
Automation Presort Letters	-	-	139,456,662	-	-	17,294,166	-	-	97,913,615	-	-	31,334,155
Revenue Adjustment Factor (a)	-	-	1.000	-	-	1.000	-	-	1.000	-	-	1.000
(6) Total Automation Presort Letters Revenue	-	-	139,456,662	-	-	17,294,166	-	-	97,913,615	-	-	31,334,155
Automation Carrier Route Letters												
First Ounce	115,591	0.275	31,787	462,363	0.275	127,150	-	0.275	-	237,934	0.275	65,432
Additional Ounces	-	0.225	-	-	0.225	-	-	0.225	-	-	0.225	-
Heavy Piece Deduction	-	(0.041)	-	-	(0.041)	-	-	(0.041)	-	-	(0.041)	-
Automation Carrier Route Revenue	-	-	31,787	-	-	127,150	-	-	-	-	-	65,432
Revenue Adjustment Factor (a)	-	-	1.000	-	-	1.000	-	-	1.000	-	-	1.000
(7) Automation Carrier Route Letters Revenue	-	-	31,787	-	-	127,150	-	-	-	-	-	65,432
(8) Total Company Letters Subclass			\$ 145,471,010			\$ 17,436,524			\$ 101,095,263			\$ 32,617,262
Total pieces			498,514,731			59,603,231			344,738,054			112,090,002
(9) Revenue per piece			0.292			0.293			0.293			0.291

- (a) Revenue Adjustment factor not required because customer specific revenue presented
- (1) CBCIS 2003 Bank One and JPM Chase Volume Data
- (2) Rate Schedule
- (3) (1) * (2)
- (4) Single Piece Revenue * Revenue Adjustment Factor
- (5) Nonautomated Presorted Revenue * Revenue Adjustment Factor
- (6) Automation Presort Letter Revenue * Revenue Adjustment Factor
- (7) Automation Carrier Route Revenue * Revenue Adjustment Factor
- (8) (4) + (5) + (6) + (7)
- (9) (8) / Total pieces

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

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Year 1

Year 2

Year 3

Agreement Structure

** Threshold adjusted in YEAR 2 and 3 per contract stipulation 612.34 of the NSA contract (535+358.1+112.4)

Year 1		Year 2				Year 3					
Threshold		Discount		Threshold		Discount		Threshold		Discount	
535,000,000	560,000,000	\$	0.025	1,005,500,000	1,030,500,000	\$	0.025	1,005,500,000	1,030,500,000	\$	0.025
560,000,000	585,000,000	\$	0.030	1,030,500,000	1,055,500,000	\$	0.030	1,030,500,000	1,055,500,000	\$	0.030
585,000,000	610,000,000	\$	0.035	1,055,500,000	1,080,500,000	\$	0.035	1,055,500,000	1,080,500,000	\$	0.035
610,000,000	645,000,000	\$	0.040	1,080,500,000	1,115,500,000	\$	0.040	1,080,500,000	1,115,500,000	\$	0.040
645,000,000	680,000,000	\$	0.045	1,115,500,000	1,150,500,000	\$	0.045	1,115,500,000	1,150,500,000	\$	0.045
680,000,000		\$	0.050	1,150,500,000		\$	0.050	1,150,500,000		\$	0.050

Discount on volume above threshold

(1) Before Rates Forecast	785,282,268	1,269,575,548	1,259,613,625
(2) After Rates Forecast	985,282,268	1,469,575,548	1,459,613,625
Discount in first tier	\$ 625,000	\$ 625,000	\$ 625,000
Discount in second tier	\$ 750,000	\$ 750,000	\$ 750,000
Discount in third tier	\$ 875,000	\$ 875,000	\$ 875,000
Discount in fourth tier	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Discount in fifth tier	\$ 1,575,000	\$ 1,575,000	\$ 1,575,000
Discount in sixth tier	\$ 15,264,113	\$ 15,953,777	\$ 15,455,681
(3) Discount Earned	\$ 20,489,113	\$ 21,178,777	\$ 20,680,681

Exposure on volume above threshold

(4) Threshold	535,000,000	1,005,500,000	1,005,500,000
(5) Before Rates Rorecast	785,282,268	1,269,575,548	1,259,613,625
(6) Exposed Pieces	250,282,268	264,075,548	254,113,625
(7) After Rates Forecast	985,282,268	1,469,575,548	1,459,613,625
Exposure in first tier	\$ 625,000	\$ 625,000	\$ 625,000
Exposure in second tier	\$ 750,000	\$ 750,000	\$ 750,000
Exposure in third tier	\$ 875,000	\$ 875,000	\$ 875,000
Exposure in fourth tier	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Exposure in fifth tier	\$ 1,575,000	\$ 1,575,000	\$ 1,575,000
Exposure in sixth tier	\$ 5,264,113	\$ 5,953,777	\$ 5,455,681
(8) Total Exposure	\$ 10,489,113	\$ 11,178,777	\$ 10,680,681

- (1) Before Rates Total Volume (Volume calcs)
- (2) After Rates Total Volume (Volume calcs)
- (3) Sum of discounts earned in first tier to sixth tier
- (4) Agreement Structure Beginning Threshold
- (5) (1)
- (6) Before rates - Threshold: The number of total pieces on which leakage occurs
- (7) (2)
- (8) Sum of leakage in first tier to sixth tier

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Year 1

Year 2

Year 3

Return Costs

UAA Rate

(1)	Operational Mail	0.3%	0.5%	0.5%
(2)	Marketing mail letter	9.0%	6.2%	6.1%
(3)	Marketing mail flat	11.0%	11.0%	11.0%

Before Rates Forecast

(4)	Operational Mail	506,650,000	887,250,000	911,150,000
(5)	Marketing mail letter	243,589,268	347,282,548	313,420,625
(6)	Marketing mail flat	35,043,000	35,043,000	35,043,000

After Rates Forecast

(7)	Operational Mail	506,650,000	887,250,000	911,150,000
(8)	Marketing mail letter	443,589,268	547,282,548	513,420,625
(9)	Marketing mail flat	35,043,000	35,043,000	35,043,000

Return Forecast

(10)	Operational Mail	1,722,610	4,006,210	4,149,610
(11)	Marketing mail letter	21,923,034	21,441,269	19,116,970
(12)	Marketing mail flat	3,854,730	3,854,730	3,854,730

Return Costs

(13)	Operational Mail	\$ 949,503	\$ 2,296,552	\$ 2,473,906
(14)	Marketing mail letter	\$ 12,083,976	\$ 12,291,164	\$ 11,397,115
(15)	Marketing mail flat	\$ 4,022,592	\$ 4,183,496	\$ 4,350,835
(16)	Total	\$ 17,056,071	\$ 18,771,212	\$ 18,221,857

After Rates Return Costs

(17)	Operational Mail	\$ 949,503	\$ 2,296,552	\$ 2,473,906
(18)	Marketing mail letter	\$ 8,207,984	\$ 8,348,715	\$ 7,741,437
(19)	Marketing mail flat	\$ 2,069,144	\$ 2,151,910	\$ 2,237,986
(20)	Total	\$ 11,226,630	\$ 12,797,177	\$ 12,453,329

(21) Return Cost Savings

	\$ 5,829,441	\$ 5,974,035	\$ 5,768,528
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- (1) Page 1, (1)
- (2) Page 1, (2)
- (3) Page 1, (3)
- (4) Page 2, (1)
- (5) Page 2, (1)
- (6) Page 2, (1)
- (7) Page 2, (1)
- (8) Page 2, (1)
- (9) Page 2, (1)
- (10) (1) * (4)
- (11) (2) * (5)
- (12) (3) * (6)
- (13) (10) * Manual Letter Returns Unit Cost (Assumptions)
- (14) (11) * Manual Letter Returns Unit Cost (Assumptions)
- (15) (12) * Manual Flats Returns Unit Cost (Assumptions)
- (16) (13) + (14) + (15)
- (17) (10) * Manual Letter Returns Unit Cost (Assumptions)
- (18) ((11) * ACS Success Rate * Electronic Letter Returns Unit Cost) + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost * (1
- (19) ((12) * (1 - ACS Success Rate) * Manual Flat Returns Unit Cost) + ((12) * ACS Success Rate * Electronic Flat Returns Unit Cos
- (20) (17) + (18) + (19)
- (21) (16) - (20)

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(1) Standard Mail Regular Revenue per piece

Mail Category	Revenue per piece	Volume	Weighted Avg.
Mixed AADC Auto	\$ 0.211	14,909,235	3,152,805
AADC Auto	\$ 0.199	54,590,401	10,890,478
3-Digit Auto	\$ 0.183	449,527,587	82,432,060
5-Digit Auto	\$ 0.166	404,644,679	67,231,338
Basic Nonauto	\$ 0.259	9,140,988	2,367,494
3/5 Digit Nonauto	\$ 0.237	7,037,907	1,667,561
Total Volume		939,850,797	167,741,737
Revenue per piece			\$ 0.178

(2) Standard Mail ECR Revenue per piece

Mail Category	Revenue per piece	Volume	Weighted Avg.
Basic Nonauto Letters	\$ 0.182	11,093,337	2,015,552
Basic Auto Letters	\$ 0.148	25,699,949	3,805,740
High-Density Letters	\$ 0.164	25,764	4,225
Saturation Letters	\$ 0.152	727,170	110,530
W Total Volume		37,546,220	5,936,047
Revenue per piece			\$ 0.158

(3) Average Revenue per piece

\$ 0.178

- (1) Rate Schedule
- (2) Rate Schedule
- (3) $(\text{Standard Mail Regular Revenue} + \text{Standard Mail ECR Revenue}) / (\text{Standard Mail Regular Total Volume} + \text{Standard Mail ECR Total Volume})$

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Standard Regular Unit Cost

	From Docket No. R2001-1									BANK ONE/JPM Chase		
	TYBR 2003 Total Unit Cost (Dollars) (1)	TYBR 2003 Mail Proc Unit Cost (Dollars) (2)	TYBR 2003 Delivery Unit Cost (Dollars) (3)	TYBR 2003 Other Unit Cost (Dollars) (4)	TYBR 2003 Total Unit Cost (Dollars) (5)	FY 2004 Total Unit Cost (Dollars) (6)	BY 2000 Mail Volume (Pieces) (7)	FY 2003 Mail Volume (Pieces) (8)	FY 2003 Mail Volume (Percent) (9)	TY 2004 Total Unit Cost (Dollars) (10)	FY 2003 Mail Volume (Pieces) (11)	FY 2003 Mail Volume (Percent) (12)
LETTERS												
Nonauto Basic		0.130	0.042	0.01	0.18	0.19	1,322,401,662	1,411,242,831	3.2%	0.19	9,140,988	1.0%
Nonauto 3/5-Digit		0.121	0.044	0.01	0.17	0.18	4,476,247,838	2,481,782,907	5.7%	0.18	7,037,907	0.7%
Auto Mixed AADC		0.050	0.039	0.01	0.10	0.10	2,354,963,527	2,687,599,740	6.1%	0.10	14,909,235	1.6%
Auto AADC		0.043	0.038	0.01	0.09	0.09	2,875,476,520	2,848,636,910	6.5%	0.09	54,590,401	5.8%
Auto 3-digit		0.040	0.038	0.01	0.08	0.09	15,600,801,986	17,815,958,778	40.6%	0.09	449,527,587	47.8%
Auto 5-digit		0.031	0.037	0.01	0.07	0.08	11,222,413,732	16,604,952,264	37.9%	0.08	404,644,679	43.1%
Total/average	0.10	0.05	0.04	0.01	0.10	0.09	37,852,305,265	43,850,172,430	100.0%	0.09	939,850,797	100.0%
Company average letter cost 2003		0.09										

Standard ECR Unit Cost

	TY 2004 Unit Costs (cents) (13)		TY 2004 Delivery Unit Costs (cents) (16)	FY 2003 Mail Volume (Pieces) (17)	FY 2003 Mail Volume (Percent) (18)
Total ECR letter unit cost	0.070	(14)			
Total ECR letter delivery unit cost	0.052	(15)			
ECR Basic Auto Letters	0.048		25,699,949		68.4%
ECR Basic Letters	0.066		11,093,337		29.5%
ECR High Density Letters	0.049		25,764		0.1%
ECR Saturation Letters	0.035		727,170		1.9%
Total			37,546,220		
Company Average letter ECR Unit Delivery Cos:			0.053	(19)	
Company Delivery Cost Adjustmen:			0.001	(20)	
Company ECR total letter unit cost:			0.071	(21)	

(22) Average Cost per piece 0.085 (22)

(23) Average Cost per piece, Including Contingenc: 0.088 (23)

- (1) Docket No. R2001-1, LR-J-58, LR58AREG.xls, total unit letter costs
- (2) Docket R2001-1, LR-J-60 Revised 11/15/01
- (3) Docket R2001-1, LR-J-60 Revised 11/15/01
- (4) (1) - average from (2) - average from (3)
- (5) (2) + (3) + (4)
- (6) (5) * (1 + inflation cost adjustment factor)
- (7) Docket No. R2001, PRC, LR-4, SM base year volumes from SM letter model.
- (8) Revenue, Pieces, and Weight (RPW) Report.
- (9) Each row in (8) divided by total in (8)
- (10) (6)
- (11) CBCIS 2003 Standard Mail Volume Data
- (12) Each row in columnn (11) divided by total in column (11)
- (13) Weighted average costs calculated by multiplying column (10) by column (12)
- (14) Docket No. R2001-1, LR-J-58, LR58AECE.xls, total TY2003 ECR unit letter costs
- (15) Docket No. R2001-1, LR-J-58, LR58AECE.xls, sum of TY2003 ECR unit letter delivery costs
(Cost segments 6, 7 and 10) * inflationary cost adjustment factor (Assumptions)
- (16) Docket No. R2001-1, LR-J-117, Revised 1/22/02, TY2003 unit delivery costs * inflationary cost adjustment factor (Assumptions)
- (17) CBCIS 2003 Standard Mail Volume Data
- (18) Percent of volume in each row of (17) divided by total in (17)
- (19) Weighted average of the unit costs in (16) weighted by the volume percents in (18)
- (20) (15) - (19)
- (21) (14) + (20)
- (22) ((13 * 11) + (21 * 17)) / (11 + 17)
- (23) (22) * Contingency Factor (Assumptions)

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Year 1 Year 2 Year 3

First Class Letter

(1)a First-Class Operational Letter revenue per piece	0.292	0.292	0.292
(1)b First-Class Marketing Letter revenue per piece	0.293	0.292	0.292
(2) First-Class Operational Letter cost per Piece Before Rates	0.107	0.112	0.116
(3) First-Class Operational Letter cost per Piece After Rates	0.107	0.112	0.116
(4) First-Class Operational Letter avg. Contribution Before Rates	0.185	0.180	0.176
(5) First-Class Operational Letter avg. Contribution After Rates	0.185	0.180	0.176
(6) First-Class Marketing Letter cost per Piece Before Rates	0.146	0.142	0.147
(7) First-Class Marketing Letter cost per Piece After Rates	0.130	0.130	0.135
(8) First-Class Marketing Letter avg. Contribution Before Rates	0.145	0.150	0.145
(9) First-Class Marketing Letter avg. Contribution After Rates	0.163	0.162	0.157

Standard Mail

(10) Standard Revenue per Piece	0.178	0.178	0.178
(11) Standard Cost per Piece	0.088	0.091	0.095
(12) Standard Letter Contribution per Piece	0.090	0.087	0.083

- (1)a Weighted average of Bank One and JPM Chase revenue per piece
- (1)b Weighted average of Bank One and JPM Chase revenue per piece
- (2) Weighted average of Bank One and JPM Chase cost per piece
- (3) Weighted average of Bank One and JPM Chase cost per piece
- (4) (1a) - (2)
- (5) (1a) - (3)
- (6) Weighted average of Bank One and JPM Chase cost per piece
- (7) Weighted average of Bank One and JPM Chase cost per piece
- (8) (1b) - (6)
- (9) (1b) - (7)
- (10) Average Revenue per Piece (SM rev calcs)
- (11) Average Cost per Piece, Including Contingency (SM cost calcs)
- (12) (10) - (11)

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	Year 1	Year 2	Year 3	Total
ACS Savings				
(1) Operational Mail	\$ -	\$ -	\$ -	\$ -
(2) Marketing Mail Letter	\$ 3,992,272	\$ 4,060,722	\$ 3,765,349	\$ 11,818,344
(3) Marketing Mail Flat	\$ 2,012,052	\$ 2,092,534	\$ 2,176,235	\$ 6,280,820
Contribution from New Volume				
(4) Operational Mail	-	\$ -	\$ -	\$ -
(5) Marketing Mail Letter	\$ 14,484,790	\$ 15,025,521	\$ 14,739,097	\$ 44,249,408
(6) Total Exposure	\$ 10,489,113	\$ 11,178,777	\$ 10,680,681	\$ 32,348,572
(7) Total Incremental Discounts	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 30,000,000
(8) Total USPS Value	\$ -	\$ -	\$ -	\$ -

(1) UAA Calcs, ((13)-(17))*1.03

(2) UAA Calcs, ((14)-(18))*1.03

(3) UAA Calcs, ((15)-(19))*1.03

(4) (Operational Mail After Rates - Operational Mail Before Rates) * FCM Operational Letter avg. Contribution After Rates

(5) (Marketing Mail Letter After Rates - Marketing Mail Letter Before Rates) * (FCM Marketing Letter avg. Contribution After Rates - SM Contribution)

(6) Disc&Exp, (8)

(7) Disc&Exp, (3)-(8)

(8) (1) + (2) + (3) + (4) + (5) - (6) - (7)

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Special Services Update Address Change Service (ACS Flats)

	Total cost/piece		Frequency		Weighted Cost/Piece	
ACS COA Notification						
Mechanized Terminal	\$0.0660	[1]	0.00	[7]	\$0.0000	[14]
Non-Mechanized Terminal	\$0.2691	[2]	1.00	[8]	\$0.2691	[15]
					\$0.2691	[16]
ACS Nixie Processing						
Nixie Clerk handling	\$0.0000	[3]	1.00	[9]	\$0.0000	[17]
ACS Nixie Keying	\$0.2074	[4]	1.00	[10]	\$0.2074	[18]
					\$0.2074	[19]

			% of ACS Volume		Volume Weighted Cost per Piece	
ACS COA notification	\$0.2691	[5]	58.03%	[11]	\$0.1561	[20]
ACS Nixie processing	\$0.2074	[6]	41.97%	[12]	\$0.0870	[21]
TOTAL COST PER PIECE			100.00%	[13]	\$0.243	[22]

- | | |
|---|------------------------------------|
| [1] USPS LR-I-110, Table 5.2.2, cell J31 | [12] Nixie Pieces/Total ACS Volume |
| [2] USPS LR-I-110, Table 5.2.2, cell J32 | [13] [11]+[12] |
| [3] These costs are treated as institutional. | [14] [1]*[7] |
| [4] USPS LR-I-110, Table 5.2.2, cell J29 | [15] [2]*[8] |
| [5] [16] | [16] [14]+[15] |
| [6] [3]+[4] | [17] [3]*[9] |
| [7] USPS LR-I-110, Table 5.2.2, cell L31 | [18] [4]*[10] |
| [8] USPS LR-I-110, Table 5.2.2, cell L32 | [19] [17]+[18] |
| [9] All nixies subject to clerk processing. | [20] [5]*[11] |
| [10] All nixies subject to keying. | [21] [6]*[12] |
| [11] ACS "keyed only" pieces/Total ACS Volume | [22] [20]+[21] |

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Physical Return Costs

Cost for UAA Mail Being Returned to Sender
Physical Flat Mailpieces Returned

	A Annual Volume (Thousands)		B Cost/Piece		C Annual Cost (Thousands)		D Frequency		E Weighted Cost/Piece
1.	69,209 (1)		\$0.0545 (2)		\$3,771		1.00		\$0.0545
2.	33,866 (3)		\$0.2711 (4)		\$9,181		0.49 (5)		\$0.1327
3.	24,021 (6)		\$0.5381 (7)		\$12,926		0.35 (8)		\$0.1868
4.	69,209 (1)		\$0.6295 (9)		\$43,567		1.00		\$0.6295
5. Total									\$1.0034

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).

(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).

(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.

(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).

(5) This is the portion of return to sender mail that is returned by the Nixie clerk at the delivery unit, along with the portion of ACS Nixie that is returned at the CFS unit. This is the ratio of Rows 2 and 1, Column A.

(6) Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", Total Returned.

(7) Refer to Table 5.2.2, Column G, (Non-ACS) Total. Non Mach terminal cost/piece is used.

(8) This is the portion of return to sender mail returned from the CFS unit, along with the portion of ACS Nixie that is returned from the CFS unit. This is the ratio of Rows 3 and 1, Column A, Table 5.2.2.

(9) Refer to Table 5.2.4.1, Row 2, Column F. This Number was calculated based on data obtained from USPS Cost Attribution

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Electronic "Return" Costs

Cost of UAA Mail Being Returned to Sender
Bank One Accepts ACS Flats

	A	B	C	D	E
	Annual Volume (Thousands)	Cost/Piece (1)	Annual Cost (Thousands)	Frequency	Weighted Cost/Piece
1.	69,209 (1)	\$0.0545 (2)	\$3,771	1.00	\$0.0545
2.	33,866 (3)	\$0.2711 (4)	\$9,181	0.49 (5)	\$0.1327
3. eACS					\$0.2430 (6)
4. Total					\$0.4301

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).

(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).

(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.

(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).

(5) This is the cost of the Nixie clerk preparing mail for the CFS unit (USPS-LR-1/MC2002-2, page 1, row 2 as proxie).

(6) From Tab 3 of USPS LR-J-69.

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 1, 2004