

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE CONSUMER ADVOCATE


Experimental Changes to Implement)
Capital One NSA)

Docket No. MC2002-2

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT
(OCA/USPS-T2-1-14)
October 7, 2002

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-1-2 dated October 3, 2002, are hereby incorporated by reference.

Respectfully submitted,


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OCA/USPS-T2-1. Please refer to your testimony at page 1, lines 6-9, where you discuss “three distinct goals” accomplished by the Negotiated Service Agreement (NSA) with Capital One. Please confirm that the Postal Service would enter into a NSA with another company that “allows the Postal Service to reduce costs and increase revenue,” provides “an incentive for the company to maintain and increase its use of First-Class Mail,” and “reduces the overall burden on postal ratepayers” by generating additional contribution to institutional costs. If you do not confirm, please explain and identify and describe all other “distinct goals” that would have to be accomplished in order for the Postal Service to conclude a NSA with another company.

OCA/USPS-T2-2. Please refer to your testimony at page 1, lines 18-21, where it refers to NSAs between the Postal Service and its international mail customers, and the “three distinct goals” on lines 6-9.

- (a) Please confirm that the Postal Service has entered into NSAs with one or more international mail customers that accomplish one or more of the “three distinct goals” identified on lines 6-9. If you do not confirm, please explain.
- (b) Please identify the number of NSAs concluded between the Postal Service and its international mail customers that accomplish one or more of the “three distinct goals” identified on lines 6-9 by distinct goal.
- (c) Please identify the number of NSAs concluded between the Postal Service and its international mail customers that accomplish all “three distinct goals” identified on lines 6-9.

OCA/USPS-T2-3. Please refer to your testimony at page 3, lines 7-10. By concluding the NSA with Capital One, does the Postal Service anticipate that Capital One will be able to reduce the volume of First-Class Mail that is physically returned because it is undeliverable-as-addressed (UAA), as well as the number of electronic address correction notifications for UAA mail? Please explain.

OCA/USPS-T2-4. Please refer to your testimony at page 3, lines 12-14.

- (a) Please explain how the volume threshold of “more than 750 million pieces of qualified First-Class Mail annually” was derived. Provide citations to all figures used, and show all calculations.
- (b) Please explain the rationale for the volume threshold of “more than 750 million pieces of qualified First-Class Mail annually.”
- (c) Please confirm that a volume threshold between zero and 750 million pieces of qualified First-Class Mail annually would result in cost savings to the Postal Service. If you do not confirm, please explain.

OCA/USPS-T2-5. Please refer to your testimony at page 4, footnote 1. Please explain how the volume threshold of 1.025 billion pieces was derived. Provide citations to all figures used, and show all calculations.

OCA/USPS-T2-6. Please refer to your testimony at page 4, lines 3-6. Please explain how the volume threshold of 1.225 billion pieces was derived. Provide citations to all figures used, and show all calculations.

OCA/USPS-T2-7. Please refer to your testimony at page 14, Appendix 1, lines 6-18 (volume block/incremental discount table). Please confirm that in the second and third year of the agreement, Capital One will have access to the incremental discounts listed in the table at Appendix 1, lines 6-18, provided Capital One enters qualifying First-Class Mail volume exceeding 1.025 billion pieces. If you do not confirm, please explain.

OCA/USPS-T2-8. Please refer to your testimony at page 4, lines 7-15. Please confirm that in the first year of the agreement, if Capital One enters qualifying First-Class Mail volume of less than 1.225 billion pieces, Capital One will not have access to any of the discounts contained in Article III, paragraphs E and F of the agreement. If you do not confirm, please explain.

OCA/USPS-T2-9. Please turn to your testimony at page 6, lines 1-4. In setting the initial threshold at 1.225 billion pieces, when Capital One's projected volume is projected to be in excess of 1.4 billion pieces, you appear to be providing Capital One with an unneeded incentive for pieces that Capital One would mail regardless of the declining block discounts, based on its forecasts. This appears analogous to Capital One's obtaining a consumer surplus from the Postal Service.

- (a) Have you explored the appropriateness of the declining block discount schedule in terms of economic efficiency? Please explain.

- (b) Why would it not be more economically efficient to provide the same level, or possibly even an increased level, of per piece discount for volumes exceeding the projected 1.4 billion pieces? Please explain.

OCA/USPS-T2-10. Please turn to your testimony at page 7, lines 4-7, where you state that “much of the value to the Postal Service of this agreement arises from the avoidance of costs incurred by handling undeliverable-as-addressed (UAA) mail.” Please provide a detailed description of all of the operations involved in handling UAA mail. Also, please provide a detailed statement of all of the costs associated with UAA mail, thereby showing all costs per piece for undeliverable mail.

OCA/USPS-T2-11. Please refer to your testimony at page 7, lines 6-9.

- (a) Please confirm that the offering of Change Service Requested, Option 2, at no charge to any First-Class mailer whose return or forwarding volumes exceeded the average would produce net cost savings to the Postal Service. If you do not confirm, please explain.
- (b) Please confirm that the offering of Change Service Requested, Option 2, at no charge to any First-Class mailer whose return or forwarding volumes are below the average would produce net cost savings to the Postal Service. If you do not confirm, please explain.
- (c) Please confirm that the Postal Service is aware of other First-Class mailers in addition to Capital One whose return or forwarding volumes exceed the average. If you do not confirm, please explain.

- (d) For Fiscal Years 2000 and 2001, please provide the return volume of First-Class permit system mailers whose UAA volumes exceed the average. (NOTE: OCA is not asking for the specific identification of any permit system mailers.)

OCA/USPS-T2-12. Please refer to your testimony at page 7, lines 11-12. Please confirm that Capital One was the largest originator of First-Class Mail in Fiscal Years 2000, 2001 and 2002. If you do not confirm, please explain.

OCA/USPS-T2-13. Please turn to your testimony at page 11, lines 4-8 and footnote 3, where you state that the First-Class presort elasticity used is not specific to Capital One but, rather, is developed from all First-Class presort mailers. In the case of Capital One, the need to send bills is a function of the number of accounts. Accordingly, for price elasticity to have an effect on volume, it would appear that the elasticity and price change have to cause the introduction of new mail, prompt Standard Mail to migrate to First-Class Mail, or cause electronic other billing options to convert to physical mail. In the case of customer account mail, please explain why elasticity is relevant to the estimate of mail volume. Also, please provide an estimate of the quantity of mail shifted for each of the various alternatives discussed above.

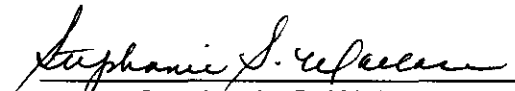
OCA/USPS-T2-14. Please refer to your testimony at page 6, lines 2-4.

- (a) Please confirm that the initial volume threshold is less than Capital One's projected volume for FY 2003. If you do not confirm, please explain.

- (b) Please confirm that one of the Postal Service's objectives in concluding the NSA with Capital One is to promote the growth of First-Class Mail volume. If you do not confirm, please explain.
- (c) Given that Capital One's estimate of the growth in volume ranges from 15-53 million pieces, with a total projected volume of 1,423,458,969 pieces in FY 2003, why does the declining block discount schedule establish a volume threshold at less than 1.4 billion—the quantity Capital One would have produced absent the discounted rates?
- (d) Why should access to the declining block discounts for volume of less than 1.4 billion pieces cause Capital One to mail more pieces of mail if, in fact, Capital One's projected mail volume is based on factors other than the proposed declining block discounts?
- (e) What factors would cause Capital One to mail fewer than 1.4 billion pieces in FY 2003?

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Rule 12 of the rules of practice.


Stephanie S. Wallace

Washington, D.C. 20268-0001
October 7, 2002