

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

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE
AGREEMENT WITH CAPITAL ONE SERVICES,
INC.

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1
(POIR1 Q2 – Q5)

The United States Postal Service hereby provides responses to Presiding Officer's Information Request (POIR1) No. 1, questions 2 through 5. The POIR was issued on October 23, 2002, and requested responses by November 4, 2002. POIR1, question 1, is being answered by Capital One Services, Inc.

Each information request is stated verbatim, then followed by its response. The witness attesting to each response is identified in the header thereof.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 4, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE CHARLES L. CRUM
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 2

POIR1, Q2. Please refer to USPS-T-3, Attachment A, page 1. Please provide the same breakdown of First-Class volumes by rate category sent by Capital One in FY 2001 separately for customer mail and for solicitations.

RESPONSE:

The requested sheets are attached to this response.

ATTACHMENT 1 TO POIR NO. 1, QUESTION 2, CUSTOMER MAIL

Capital One First-Class Mail
By Rate Category
FY 2001 Presorted Letter Volumes at Current Rates (Eff. 6/30/2002)

	(1)	(2)	(3) = (1) * (2)
	FY 2001	Current	
	Volume	Rates	Revenue
Nonautomated Presorted Letters			
First Ounce	18,684,023	\$ 0.352	\$ 6,576,776
Additional Ounces	0	\$ 0.225	\$ -
Nonmachinable Pieces (a)	0	\$ 0.055	\$ -
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Total Nonautomated Presorted Letters	18,684,023		\$ 6,576,776
Revenue Adjustment Factor (1)			0.985164
Total Nonautomated Presorted Letters Revenue			\$ 6,479,205
Automation Presort Letters and Flats			
Letters			
Mixed AADC Letters (b)	15,241,279	\$ 0.309	\$ 4,709,555
AADC Letters (b)	16,314,164	\$ 0.301	\$ 4,910,563
3-Digit Letters	202,849,309	\$ 0.292	\$ 59,231,998
5-Digit Letters	152,631,767	\$ 0.278	\$ 42,431,631
Additional Ounces	12,178	\$ 0.225	\$ 2,740
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Flats	0		
Mixed ADC Flats (b)	0	\$ 0.341	\$ -
ADC Flats (b)	0	\$ 0.333	\$ -
3-Digit Flats (c)	0	\$ 0.322	\$ -
5-Digit Flats (c)	0	\$ 0.302	\$ 0
Additional Ounces	0	\$ 0.225	\$ -
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Nonmachinable Pieces (a)	0	\$ 0.055	\$ -
Total Automation Presort Letters and Flats	387,036,519		\$ 111,286,488
Revenue Adjustment Factor			1.000542
Total Automation Presort Letters and Flats Revenue			\$ 111,346,811
Automation Carrier Route Letters			
First Ounce	26,267	\$ 0.275	\$ 7,223
Additional Ounces	0	\$ 0.225	\$ -
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Automation Carrier Route Letters	26,267		\$ 7,223
Revenue Adjustment Factor			1.000972
Automation Carrier Route Letters Revenue			\$ 7,230
Total Capital One First-Class Presort Letters	405,746,809		\$ 117,833,247
Revenue per Piece			\$ 0.2904

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volumes times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system.

- a. Following the implementation of Docket No. R2001-1, the nonstandard surcharge was expanded and renamed to include nonmachinable mail. No additional Capital One volume is assumed to be subject to the nonmachinable surcharge.
- b. Following the implementation of Docket No. R2001-1, the basic automation letters and flats rate categories were split into Mixed AADC and AADC rate categories (ADC for flats). For Capital One, the 1997 Mail Characteristics Data shown below was used to allocate the basic automation volumes.

	Pieces	Share of Basic Automation *	Pieces Allocated to Rate Categories
<u>COF Basic Automation Letter Volume</u>	31,555,443		
Mixed AADC		48.3%	15,241,279
AADC		51.7%	16,314,164
*Docket No. R97-1, USPS-LR-H-185, Table 3, p.8		100.0%	31,555,443
<u>COF Basic Automation Flat Volume</u>	-		
Mixed ADC		65.1%	-
ADC		34.9%	-
*Docket No. R97-1, USPS-LR-H-185, Table 10, p.17		100.0%	-

- c. Following the implementation of Docket No. R2000-1, the 3/5-Digit Flat rate category was split into 3-digit and 5-digit rate categories. For CapitalOne, the FY2001 volumes at the 3-digit and 5-digit level of sortation following the R2000-1 implementation was used to allocate the 3/5-digit volumes mailed prior to the Docket No. R2000-1 implementation.

	Pieces	3/5-digit Pieces Allocated to Rate Categories	Total Pieces
COF 3/5-digit flats (prior to rate change)	-		
3-digit flats (after rate change)	-	-	-
5-digit flats (after rate change)	0	-	0

ATTACHMENT 2 TO POIR NO. 1, QUESTION 2, SOLICITATION MAIL

Capital One First-Class Mail
By Rate Category
FY 2001 Presorted Letter Volumes at Current Rates (Eff. 6/30/2002)

	(1)		(2)		(3) = (1) * (2)
	FY 2001		Current		
	Volume		Rates		Revenue
Nonautomated Presorted Letters					
First Ounce	38,980,145	\$	0.352	\$	13,721,011
Additional Ounces	27,107	\$	0.225	\$	6,099
Nonmachinable Pieces (a)	17,338	\$	0.055	\$	954
Heavy Piece Deduction	3,992	\$	(0.041)	\$	(164)
Total Nonautomated Presorted Letters	38,980,145				\$ 13,727,900
Revenue Adjustment Factor (1)					0.985164
Total Nonautomated Presorted Letters Revenue					\$ 13,524,236
Automation Presort Letters and Flats					
Letters					
Mixed AADC Letters (b)	43,513,649	\$	0.309	\$	13,445,718
AADC Letters (b)	46,576,722	\$	0.301	\$	14,019,593
3-Digit Letters	335,556,743	\$	0.292	\$	97,982,569
5-Digit Letters	216,798,569	\$	0.278	\$	60,270,002
Additional Ounces	563,613	\$	0.225	\$	126,813
Heavy Piece Deduction	16,200	\$	(0.041)	\$	(664)
Flats	372,043				
Mixed ADC Flats (b)	31,247	\$	0.341	\$	10,655
ADC Flats (b)	16,737	\$	0.333	\$	5,573
3-Digit Flats (c)	318,683	\$	0.322	\$	102,616
5-Digit Flats (c)	5,376	\$	0.302	\$	1,624
Additional Ounces	121,071	\$	0.225	\$	27,241
Heavy Piece Deduction	26,595	\$	(0.041)	\$	(1,090)
Nonmachinable Pieces (a)	277,567	\$	0.055	\$	15,266
Total Automation Presort Letters and Flats	642,817,726				\$ 186,005,916
Revenue Adjustment Factor					1.000542
Total Automation Presort Letters and Flats Revenue					\$ 186,106,741
Automation Carrier Route Letters					
First Ounce	63,485,706	\$	0.275	\$	17,458,569
Additional Ounces	2,293	\$	0.225	\$	516
Heavy Piece Deduction	0	\$	(0.041)	\$	-
Automation Carrier Route Letters	63,485,706				\$ 17,459,085
Revenue Adjustment Factor					1.000972
Automation Carrier Route Letters Revenue					\$ 17,476,052
Total Capital One First-Class Presort Letters	745,283,577				\$ 217,107,029
	Revenue per Piece				\$ 0.2913

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volumes times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system.

- a. Following the implementation of Docket No. R2001-1, the nonstandard surcharge was expanded and renamed to include nonmachinable mail. No additional Capital One volume is assumed to be subject to the nonmachinable surcharge.
- b. Following the implementation of Docket No. R2001-1, the basic automation letters and flats rate categories were split into Mixed AADC and AADC rate categories (ADC for flats). For Capital One, the 1997 Mail Characteristics Data shown below was used to allocate the basic automation volumes.

	Pieces	Share of Basic Automation *	Pieces Allocated to Rate Categories
<u>COF Basic Automation Letter Volume</u>	90,090,371		
Mixed AADC		48.3%	43,513,649
AADC		51.7%	46,576,722
*Docket No. R97-1, USPS-LR-H-185, Table 3, p.8		100.0%	90,090,371
 <u>COF Basic Automation Flat Volume</u>	 47,984		
Mixed ADC		65.1%	31,247
ADC		34.9%	16,737
*Docket No. R97-1, USPS-LR-H-185, Table 10, p.17		100.0%	47,984

- c. Following the implementation of Docket No. R2000-1, the 3/5-Digit Flat rate category was split into 3-digit and 5-digit rate categories. For CapitalOne, the FY2001 volumes at the 3-digit and 5-digit level of sortation following the R2000-1 implementation was used to allocate the 3/5-digit volumes mailed prior to the Docket No. R2000-1 implementation.

	Pieces	3/5-digit Pieces Allocated to Rate Categories	Total Pieces
COF 3/5-digit flats (prior to rate change)	60,814		
3-digit flats (after rate change)	258,878	59,805	318,683
5-digit flats (after rate change)	4,367	1,009	5,376

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 1, QUESTION 3

POIR1, Q3. Under the terms of the agreement, the Postal Service will no longer return to Capital One First-Class mail pieces that cannot be delivered or forwarded. Please describe the means by which the Postal Service will dispose of this mail, and provide an estimate of any costs and/or revenues resulting from its disposal.

RESPONSE:

It is my understanding that this type of mail will be disposed of in the same way as all other disposed mail. Where available, the waste pieces will be picked up with the other waste mail of the facility and recycled. Where recycling is not available, it will be deposited in normal trash containers and taken away by trash haulers. On a national basis, I am aware of no data available to say whether there would be a net cost or a net revenue from such disposal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 4

POIR1, Q4. Witnesses Jean (COS-T-1) and Elliot (COS-T-2) present estimates of Capital One's First-Class volume for the test year before and after rates, respectively. Has the Postal Service independently estimated these volumes? If so, please provide the estimates, showing all calculations. If not, why not?

RESPONSE:

The Postal Service did not develop a parallel estimate of Capital One's mail volume using distinct data sources or methodologies. The Postal Service did, however, analyze and evaluate Capital One's estimates. With this objective, the Postal Service reconciled Capital One's volume information with data contained in the PERMIT system. See Response to Interrogatory OCA/USPS-T3-11. The Postal Service also reviewed witness Elliot's projections for the test year before and after rates. In these respects and overall, the Postal Service found the projections to be reasonable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 5

POIR1, Q5. Witness Crum (USPS-T-3) presents an estimate of the impact of the proposal on the Postal Service's FY 2003 finances. Has the Postal Service estimated the impact of the proposal on the Postal Service's finances over the full duration of the experiment? If so, please provide the estimate, showing all calculations. If not, why not?

RESPONSE:

The Postal Service only developed estimates, as required by the Commission's rules, for the test period that provides the foundation for the proposals: FY 2003. The Postal Service has, however, considered the continuing financial impact and implications of the NSA beyond FY 2003 through the end of the proposed experiment.

In this regard, the Postal Service considered a number of variables that could impact the financial analysis in Years 2 and 3 of the deal. Where possible, the terms of the Agreement minimize the potential effects. For example, if there is a change in postal regulations or the Domestic Mail Classification Schedule that materially alters the benefits of the deal, then either the Postal Service or Capital One can terminate the Agreement. Agreement, Article III, paragraph F(5), at page 9. Based on its consideration of the variables that may arise in Years 2 and 3 of the Agreement, the Postal Service has concluded that any impact would not be significant enough to affect the overall financial health of the deal.

The Postal Service has also considered that First-Class Mail finances will likely be evaluated and rates adjusted in the next omnibus rate case, before the end of the NSA term. Given the estimates projected for the test period, the Postal Service is confident that the terms of the NSA will coexist with the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 5

subsequent rate changes, and that the incentives for increased volume, if successful, will benefit the Postal Service financially in the remaining years of the agreement.

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.

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November 4, 2002