Postal Rate Commission
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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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORIES OF THE AMERICAN POSTAL WORKERS UNION
(APWU/USPS–T2–1-7, 10, 12)

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of the American Postal Workers Union, AFL-CIO: APWU/USPS–T2–1-7, 10, and 12, filed on October 31, 2002. Interrogatory 8 was redirected to witness Wilson and interrogatories 9 and 11 were redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 12, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO,

APWU/USPS-T2-1. Of what benefit is it to the Postal Service to include an incentive for Capital One to reduce its mail volume in the first year of the proposed Negotiated Service Agreement in order to qualify for additional discounts on even lower volumes the next year, as is done in III. F. of the proposed Negotiated Service Agreement?

RESPONSE:

The clause noted is not expected to function as an incentive for Capital One to mail less. It is expected to provide an incentive for Capital One to continue pursuit of the goals embodied in the Agreement in the unlikely event that external factors lead to a dramatic change in Capital One's mailing behavior. See also, Response to OCA/USPS-T3-14 (November 4, 2002). If there is a change in circumstances, the Postal Service believes that there will still be value in having a mechanism that encourages volume increases, even if they build on a lower base. In the context of negotiations, both parties were concerned about potential significant changes in volume. In particular, the Postal Service was concerned about higher volumes during FY 2002. Capital One was concerned about their ability to maintain similar levels of volumes in FY 2002 following their phenomenal growth in FY 2002. In that context, this provision was beneficial as an assurance that helped induce successful agreement between both parties on all the elements of the NSA.

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APWU/USPS-T2-2. Why are block discounts considered to be a necessary part of this proposed Negotiated Service Agreement since the changes proposed to undelivered mail handling seem to benefit both the Postal Service and Capital One?

RESPONSE:

See my response to OCA/USPS-T2-9 and the Postal Service response to OCA/USPS-T3-14.

APWU/USPS-T2-3. In your response to OCA/USPS-T2-14 (b), you indicate the Postal Services' objective in concluding this proposed Negotiated Service Agreement is to promote the growth of mail volume. What specific clauses in this proposed Negotiated Service Agreement spell out Capital One's intention of increasing its First Class mail volume beyond the levels that it had already planned? Has Capital One provided the Postal Service with any assurances that it will mail the same or a larger portion or number of pieces of its solicitation mail by First Class mail rather than Standard mail? If so, what assurances has Capital One made that it will mail the same or a larger portion or number of pieces of its solicitation mail by First Class mail rather than Standard mail? Has Capital One provided the Postal Service with any assurances that it will reduce its efforts to achieve electronic delivery of twenty five percent (25%) of customer statements by 2005? If so, what assurances has Capital One made that it will reduce its efforts to achieve electronic delivery of twenty five percent (25%) of customer statements by 2005?

RESPONSE:

The NSA represents a balance of incentives and contingencies designed to influence Capital One’s mailing behavior favorably in the fluid business environment where it must operate. As such, it provides no greater assurances than any other discounts incorporated in postal rate schedules which generate increased volume only if mailers conclude that their economic interests are served by mailing more. However, by tying volume discounts to trade-offs associated with real cost benefits to both parties derived from address correction and return operations at specified levels of volume, the NSA does create a greater expectation that Capital One will find higher volumes to be in its economic interests, and that the Postal Service will not experience an overall revenue decrease. And as opposed to rebates for the savings, it encourages Capital One to use the savings to create more mail as opposed to investing those savings in other aspects of its operations. Moreover, the testimony of Capital One witness Elliott does project a range of after-rates volume increases in First-Class Mail.. While the Agreement contains no clause specifically addressing any planned migration to electronic presentment of customer statements, the volume thresholds included in the agreement provide a disincentive in that statements diverted to electronic presentment will not be counted toward the thresholds needed to attain the proposed discount thresholds. See also, Response to OCA/USPS-T3-14.

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APWU/USPS-T2-4. If meeting MPTQM certification standards is important to the Postal Service, why did it not require that Capital One's lettershops and strategic partners, who will also be generating mail under this proposed Negotiated Service Agreement, meet those standards?

RESPONSE:

Ensuring the highest possible adherence to MPTQM certification standards would admittedly be a worthwhile objective. In the context of negotiating the Capital One NSA, however, imposing that condition was neither feasible nor realistic. On one hand, such a condition could not bind lettershops and business partners, who would not be signatories to the Agreement. On the other hand, Capital One's influence over these entities to comply voluntarily would be limited, since they likely have other customers and do not depend exclusively upon Capital One's business. On balance, insisting on compliance by businesses that Capital One could not control was not deemed to be an essential component of the NSA, and might have impeded successful conclusion of an agreement.

APWU/USPS-T2-5. On page 3 of your testimony you indicate that Capital One agrees under the proposed Negotiated Service Agreement to continue monthly NCOA and CASS updates. Please identify where in the proposed Negotiated Service Agreement Capital One agrees to do that for all its mailing lists.

RESPONSE:

Please refer to section II (H) of the Agreement.

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APWU/USPS-T2-6. On page 3 of your testimony you state, referring to ACS fees, that "In the case of Capital One, however, these fees would total to an amount ten times larger than for a typical mailer." Is this because Capital One mails ten times more that the typical mailer or are Capital One's return rates substantially higher than a typical mailer of First Class solicitation mail? If Capital One's return rates are higher than those of a typical First Class mailer, has the Postal Service attempted to determine why such a disparity exists? If the Postal Service has reviewed Capital One's return rates, what are the specific causes and their relative significance in driving Capital One's return rates?

RESPONSE:

Capital One's ACS costs would be higher both because of the total First-Class Mail volume that it produces, and because its return rates are higher – on average – than First-Class Mail as a whole. One reason for the higher rate is Capital One's unique use of the class as an advertising medium. Much First-Class Mail consists of bills, statements, personal correspondence and payments: where a commercial or personal relationship between the sender and recipient ensures a high probability that pieces will be delivered as addressed. For solicitation mailings – where no relationship yet exists – return rates are higher. As has been presented in witness Elliot's testimony, Capital One relies heavily on First-Class Mail as a solicitation medium.

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APWU/USPS-T2-7. On page 7 of your testimony, you state that Capital One documents its return volume of mail. Does the Postal Service currently have any method of independently determining the volume of Capital One's returned mail? Is the Postal Service developing any method of determining the volume of returned mail?

RESPONSE:

The Postal Service currently has no way of measuring physically returned mail by originating customer. Under the terms of the proposed agreement, Capital One will be receiving information about its undeliverable-as-addressed mail electronically, at which time the volume of UAA mail that would have been returned can be collected.

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APWU/USPS-T2-10. How were the sizes of the discounts in the proposed block discounts determined? Did the Postal Service use a cost avoided concept to generate them? If so, please explain in detail the assumptions and calculations used to do so.

RESPONSE:

See my response to OCA/USPS-T2-9.

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APWU/USPS-T2-12. NAA/USPS-T2-5 referred you to page 7 of your testimony and asked you whether you believed Capital One's annual volume of solicitation mail is above average for First Class mailers. Your answer merely referred to the projected FY 2003 mail volume of Capital One in witness Jean's testimony, COS-T-1, page 5, table 1. In order to determine whether Capital One's projected FY 2003 annual volume of solicitation mail is above average for First Class mailers, please provide the total amount of First Class solicitation mail that the Postal Service expects to be mailed in FY 2003, broken down in any and all ways that the Postal Service uses to make its forecast (such as by industry or size of mailer) and the number of mailers it expects to provide that mail in each category so that the average can be compared to the Capital One's forecast.

RESPONSE:

The Postal Service does not have a breakdown of First-Class Mail that consists solely of solicitations. See, however, the response to OCA/USPS-3, which identifies the number of First-Class Mailers in various volume strata, and shows that in 2001 only three mailers entered more than 50 million pieces of First-Class Mail. Witness Jean projects that 768 million pieces of advertising mail will be sent via First-Class Mail by Capital One in FY 2003. These estimates demonstrate that a comprehensive analysis as posited by this question is unnecessary to support a conclusion that 768 million is "above average."

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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