

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

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS MICHAEL K. PLUNKETT
(NAA/USPS-T2-11-21)
November 15, 2002**

The Newspaper Association of America hereby submits the attached
interrogatories to United States Postal Service witness Michael K. Plunkett (USPS-T-2)
and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

By: _____

William B. Baker
WILEY REIN & FIELDING LLP
1776 K Street, N.W.
Washington, DC 20006-2304
(202) 719-7255

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all
participants requesting such service in this proceeding in accordance with section 12 of
the Rules of Practice and the Presiding Officer's Rulings.

November 15, 2002

William B. Baker

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS MICHAEL K. PLUNKETT
(NAA/USPS-T2-11-21)**

NAA/USPS-T2-11: Please refer to your response to NAA/USPS-T2-5. To your knowledge, does any other mailer annually mail more than 750 million pieces of solicitation mail via First-Class Mail?

NAA/USPS-T2-12: Please refer to your response to OCA/USPS-T2-2, in which you distinguish between NSAs, which you appear to limit to domestic mail, and “customer-specific pricing arrangements” used by the UPS with certain international customers. Please state the differences, if any, between the “three distinct goals” for NSAs for domestic mail and the purposes of “customer-specific pricing arrangements” for international mailers.

NAA/USPS-T2-13: Please refer to your response to APWU/USPS-T2-1, and in particular to the passage where you state that the Postal Service “was concerned about higher volumes during FY2002.” Please elaborate on the nature of that concern, and why the Postal Service would be “concerned” about higher volumes.

NAA/USPS-T2-14: Please refer to Section II.G of the NSA, which provides that Capital One “agrees that it cannot use the CSR endorsement as a means to comply with the published Postal Service Move Update requirements for automation compatible mail. Capital One will continue to comply with Move Update through either NCOA match or FastForward.” What is the purpose of this provision?

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS MICHAEL K. PLUNKETT
(NAA/USPS-T2-11-21)**

NAA/USPS-T2-15: The NSA agreement attached to the Request in this proceeding does not appear to prohibit Capital One from satisfying the various volume thresholds by shifting solicitation mail from Standard to First-Class Mail. Please describe what measures, if any, the Postal Service has in place, or intends to implement, that would enable it to know whether Capital One is, during the NSA, shifting Standard to First-Class Mail rather than originating “new” First-Class Mail?

NAA/USPS-T2-16: Please refer to your testimony at page 7, lines 19-22, where you state:

“Because First-Class Mail service includes forwarding and return, the cost of handling forwarded and returned solicitations is included in First-Class Mail-related forwarding and return costs and included in the cost basis used in the development of First-Class Mail rates.”

As an economist familiar with postal ratesetting, please answer the following:

- a. What are the principal justifications for making “free” forwarding a basic characteristic of First-Class Mail?
- b. Do you believe that First-Class Mail rates are characterized by a large, small, or moderate amount of rate averaging?
- c. Do you agree that the rate averaging in First-Class Mail is intentional (*i.e.*, the rate averaging is understood and was purposeful)? Please explain any disagreement.
- d. When rate averaging occurs, do you agree that Postal Service costs can vary substantially among mailers or among mailings while the rates are the same? Please explain any disagreement.

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS MICHAEL K. PLUNKETT
(NAA/USPS-T2-11-21)**

- e. Consider a situation where, because of a particular characteristic of a mailing, a mailer in fact imposes unusually high costs on the Postal Service while paying the same rates as other mailers. Do you agree that, in common parlance, the mailer is receiving a subsidy, or perhaps an implicit subsidy or a “free ride” from the other mailers with respect to the particular characteristic involved?
- f. When a mailer receives the kind of implicit subsidy explained in part e, do you believe the mailer should be able to negotiate with the Postal Service in the following way: “I will stop doing that which is costing you extra money, so that my rate relates more equitably to the costs I cause just like most other rate payers, if you will use the money you save to give me other services free of charge or to give me discounts from the rates I pay”? Please explain your response.
- g. If a mailer is allowed to negotiate with the Postal Service in the manner suggested by part f, would this provide mailers with an incentive to say, in effect, “If you do not give us a special discount, we will begin doing something that will cost you extra money but not change our rates”? Please explain any negative answer.
- h. From a rate-design perspective, please explain whether it would be your preference to charge each First-Class bulk mailer according to the services used by that mailer. For example, with respect to forwarding, each bulk mailer could place a simple barcode on the piece and be charged according to the forwarding or return service actually provided.

NAA/USPS-T2-17: Please confirm your understanding that the Postal Service’s average total cost to return a piece of Capital One First-Class Mail is approximately 53.5 cents (USPS-LR-1/MC2002-2, page 1)? If you cannot confirm, please provide your understanding of the correct number.

NAA/USPS-T2-18: Please confirm your understanding that the average mailstream processing cost to return a piece of Capital One First-Class Mail from the

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS MICHAEL K. PLUNKETT
(NAA/USPS-T2-11-21)**

CFS back to the mailer is 29.95 cents (USPS-LR-1/MC2002-2, page 1). If you cannot confirm, please provide your understanding of the correct number.

NAA/USPS-T2-19: Please confirm your understanding that the Postal Service's average cost of providing electronic Address Change Service ("ACS") to Capital One for a piece of non-forwardable First-Class Mail is approximately 14.5 cents (USPS-LR-1/MC2002-2, page 2). Please also confirm that this 14.5 cent cost also supports the current 20 cent charge for eACS. If you do not confirm either of these, please provide your understanding of the correct number.

NAA/USPS-T2-20: Under the forwarding option that Capital One will place on its envelopes, and under terms of the NSA between the Postal Service and Capital One, would you agree that for Capital One electronic ACS becomes a substitute for physical return of the First-Class Mail that is Undeliverable As Addressed ("UAA") and cannot be forwarded? Unless your answer is an unqualified affirmative, please explain how, from an economic perspective, you would regard the relationship in the NSA between electronic ACS and physical return of First-Class Mail that cannot be forwarded.

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS MICHAEL K. PLUNKETT
(NAA/USPS-T2-11-21)**

NAA/USPS-T2-21: Please refer to your testimony at page 3, lines 14-15), where you state: “[T]he Postal Service currently charges 20 cents for each electronic address correction” and at page 7, lines 19-20, where you state “First-Class Mail service includes forwarding and return.” Please compare the average unit costs for Capital One mail that you confirmed or provided in preceding questions NAA/USPS-T2-18 and NAA/USPS-T2-19 and for each of the following statements, please (i) state whether you agree or disagree, and (ii) explain fully any disagreement.

- a. The Postal Service currently charges 20 cents for a service (*i.e.*, electronic ACS) that would cost 14.5 cents to provide to Capital One, while providing the mailer free of additional charge – *i.e.*, presenting mailers with an implicit price of 0 cents (*i.e.*, ZERO cents) -- for a substitute service (mailstream processing for the physical return of the mail piece) that costs 29.95 cents to provide to Capital One.
- b. The relationship of fees and costs described in (a) applies to Capital One’s First-Class Mail in the absence of the NSA.
- c. Even if the Postal Service charged 0 cents (*i.e.*, ZERO cents) for electronic ACS, it would on average save money on every piece of First-Class Mail that used electronic ACS in lieu of physical return of pieces that cannot be forwarded.
- d. Charging 20 cents for a service with an average cost of 14.5 cents, while charging an implicit price of 0 cents for a substitute service with an average cost of 29.95 cents, is good economics.
- e. Charging 20 cents for a service with an average cost of 14.5 cents, while charging an implicit price of 0 cents for a substitute service with an average cost of 29.95 cents, is a good illustration of cost-based pricing.
- f. The relationship of prices and costs described in (a) above provides First-Class Mailers with appropriate economic incentives to engage in behavior that, on average, will result in lowest combined costs for mailers and the Postal Service.