

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. 2
(POIR2 Q4 – Q6, Q8)

The United States Postal Service hereby provides responses to Presiding Officer's Information Request (POIR) No. 2, questions 4, 5, 6 and 8. Questions 1 through 3 are being answered by Capital One. The response to question 7 will be provided shortly.

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 18, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Question 4.

In the response to POIR 1, question 4, witness Plunkett states that the Postal Service analyzed and evaluated Capital One's test year volume estimates.

- (a) Please describe the methods and data the Postal Service used to evaluate the estimates of TYBR customer and solicitation mail provided by witness Jean (COS-T-1).
- (b) Please provide a copy of any quantitative and/or qualitative analysis, reports or briefings prepared to facilitate the Postal Service's evaluation of witness Jean's TYBR estimates.

RESPONSE:

As I indicated in my earlier response, the Postal Service did not develop a parallel estimate of Capital One's mail volume using distinct data sources or methodologies. We did, however, consult with Capital One's analysts and discussed at length the assumptions, sources, and data used in developing Capital One's estimates. Our analysis included reconciling the volume information used by Capital One with the PERMIT system. This involved comparing Capital One's data with comparable PERMIT data and judgmentally assessing the magnitude and likely reasons for any differences. We also reviewed Capital One's forecasting model with witness Elliot and verified and evaluated the methodology and assumptions used. We then replicated his calculations. I note that witness Jean's TYBR estimates relied on assumptions about the relationship between customer and solicitation mail developed and employed by witness Elliot.

In conducting this review of both Capital One's before- and after-rates estimates, we concluded that they were developed according to a logical methodology, employed reasonable assumptions, used reliable data, and were based on accurate calculations.

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The Postal Service did not prepare any written quantitative or qualitative analyses or reports to document its review. Witness Crum's testimony contains the Postal Service's written analysis and evaluation of witness Jean's estimates and their effect on the Agreement.

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Question 5.

Witness Plunkett explains that the Postal Service plans to use data from the experiment to evaluate the benefits of the NSA. USPS-T-2, page 12, lines 5-7. In order to evaluate the success of the discounts, the benefits (including contribution from new mail) and the costs (including discounts given to mail that would have been sent in the absence of discounts) must be calculated. At the conclusion of the experiment, how does the Postal Service plan to distinguish volume that was generated in response to the discounts from volume that would have been mailed in the absence of the discounts?

RESPONSE:

For purposes of any retrospective evaluation of the NSA, it undoubtedly would be useful to have some basis to suggest what portion of the actual level of volume observed over the relevant time period was "new," and what portion was "existing" (in the sense that it would have been tendered even in the absence of the NSA). At the outset, however, it must be acknowledged that, as a practical matter, this exercise can never be expected to result in anything more than an estimate based partially on judgment. It is not as if "existing" volume will be tendered in red envelopes, and "new" volume in blue. Once discounts intended to influence mailer behavior are established, it is not possible to "observe" what mailer behavior would have been without such discounts. This is true regardless of whether the discounts in question are conventional worksharing discounts, or less conventional (in the postal context) declining block rates.

By the same token, however, it is not as if we would be totally bereft of useful information that could be brought to bear to shed some light on this issue. Data regarding potential factors such as movements in interest rates, GDP, unemployment rates, bankruptcy rates, and other macroeconomic variables which might help explain

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deviations from the baseline are always readily available. Trends specific to the broader credit card industry can be gleaned from trade press reports, and similar research sources. Certainly the Postal Service will be closely monitoring potential factors such as the overall rates of adoption of electronic bill presentation and payment. Highly importantly, over the course of the experiment, Cap One will also be available to provide its own insights into how developments exogenous to the NSA might have affected its observed levels of mailing. While evaluation of such information may not necessarily allow precise separation of "new" and "existing" volume, it could go a long way towards suggesting whether observed deviations from expectations are more plausibly explained by exogenous factors, or by mailer price response to the discounts of greater or lesser intensity than anticipated.

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Question 6.

Please refer to the response to POIR 1, question 5. Please explain the rationale behind the Postal Service's assertion that a single fiscal year, 2003, is the appropriate test period, as opposed to the duration of the experiment.

RESPONSE:

From a policy perspective, our selection of a FY 2003 test year made sense for the following reasons. First, FY 2003 was the test year in the most recent omnibus rate proceeding, Docket No. R2001-1. Consequently, a complete panoply of both general and specific volume, cost, and revenue information, in the form used in Commission proceedings, already existed for that year. Not only was this information available to the Postal Service, but potential intervenors were also likely to be familiar with the content and structure of that information, the means by which it was developed, and where it appeared in the record of the previous case. Relying on previously produced information for FY 2003 avoided the need to embark on the daunting task of producing similar information for subsequent years, which would have greatly complicated both the preparation and litigation of the NSA proposal. Beyond mere convenience, focusing the NSA on FY 2003 was likewise appealing on the grounds of fairness and equity, as it results in rates for Cap One being based on data of the same vintage as the data upon which are premised the rates currently being charged all other mailers. Additional discussion along this line is included in my earlier response to POIR No. 1, question 5.

Second, relying on a FY 2003 test year appropriately reflects the nature of the proposed NSA. This is not a situation in which a new product would be offered, with unique start

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up costs and with a prolonged period of adoption during which customers slowly start to become aware of the product and adjust their behavior accordingly. The mechanics of this NSA are such that the responses of the parties to its implementation will be virtually immediate, and there will be no predictable trend of financial effects from one year to the next. Accordingly, the first year of the agreement is likely to constitute just as representative a test period as would one consisting of the entire duration of the experiment. In contrast, forecasts for the near term FY 2003 are undoubtedly likely to be more accurate than those of the longer time horizon that would be necessary to model the entire duration of the proposal. The prospect of obtaining greater accuracy with little or no loss in representativeness strongly supported the conclusion to use a single period test year, FY 2003.

Beyond those compelling policy reasons, I might also add that I have been informed that a single year test period clearly complies with the applicable rules of procedure, whereas the case for possible use of a multiyear test period (such as the duration of the proposed NSA) is less clear.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Question 8.

Please confirm that the \$0.5347 estimated cost of a physical return presented in USPS-LR-1 does not include any costs for a carrier delivering returned mail to the sender. Please also confirm that Capital One's returned mail is not delivered to Capital One by a carrier.

RESPONSE:

Confirmed as to both questions.

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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