

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 INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE REDIRECTED FROM WITNESS WILSON  
(OCA/USPS-T4-14 and 19)

The United States Postal Service hereby provides the responses of witness  
Wilson to the following interrogatories of Office of the Consumer Advocate:  
OCA/USPS-T4-14 and 19, filed on November 5, 2002 and redirected from witness  
Wilson.

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 21, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE  
REDIRECTED FROM WITNESS WILSON

**OCA/USPS-T4-14.** Please refer to your response to OCA/USPS-T2-18(a). Please state whether a net savings/loss results to the Postal Service from the following types of handling of UAA First-Class machinable letter mailpieces that cannot be forwarded (and thus must be returned; assume a percentage figure for forwarding equal to the First-Class average):

- (a) Change Service Requested, Option 2, offered at no charge to a First-Class mailer that *is currently* an ACS/**CSR** participant, and whose return volumes *exceed* the average percentage of First-Class returns. Please display all calculations and cite all sources to provide this answer.
  - i. Discuss specifically how the \$15 cost for setting up ACS service with a participant (your response to interrogatory OCA/USPS-T4-9.d.) affects the Postal Service's net savings/loss position.
  - ii. Discuss specifically how the "85 percent" figure presented at page 7, line 4, of your testimony affects the Postal Service's net savings/loss position.
  - iii. Give a hypothetical example of such a participant, using specific assumed volume and percentage return figures for the hypothetical participant.
- (b) Change Service Requested, Option 2, offered at no charge to a First-Class mailer that *is currently* an ACS/**CSR** participant, and whose return volumes are *equal to* the average percentage of First-Class returns. Please display all calculations and cite all sources to provide this answer.
  - i. Discuss specifically how the \$15 cost for setting up ACS service with a participant (your response to interrogatory OCA/USPS-T4-9.d.) affects the Postal Service's net savings/loss position.
  - ii. Discuss specifically how the "85 percent" figure presented at page 7, line 4, of your testimony affects the Postal Service's net savings/loss position.
  - iii. Give a hypothetical example of such a participant, using specific assumed volume and percentage return figures for the hypothetical participant.
- (c) Change Service Requested, Option 2, offered at no charge to a First-Class mailer that *is currently* an ACS/**CSR** participant, and whose return volumes are *below* the average percentage of First-Class returns. Please display all calculations and cite all sources to provide this answer.
  - i. Discuss specifically how the \$15 cost for setting up ACS service with a participant (your response to interrogatory OCA/USPS-T4-9.d.) affects the Postal Service's net savings/loss position.
  - ii. Discuss specifically how the "85 percent" figure presented at page 7, line 4, of your testimony affects the Postal Service's net savings/loss position.
  - iii. Give a hypothetical example of such a participant, using specific assumed volume and percentage return figures for the hypothetical participant.
- (d) Change Service Requested, Option 2, offered at no charge to a First-Class mailer that is *not* currently an ACS/**CSR** participant but subsequently could become such a participant, and whose return volumes *exceed* the average percentage of First-Class returns. Please display all calculations and cite all sources to provide this answer.

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- i. Discuss specifically how the \$15 cost for setting up ACS service with a participant (your response to interrogatory OCA/USPS-T4-9.d.) affects the Postal Service's net savings/loss position.
  - ii. Discuss specifically how the "85 percent" figure presented at page 7, line 4, of your testimony affects the Postal Service's net savings/loss position.
  - iii. Give a hypothetical example of such a participant, using specific assumed volume and percentage return figures for the hypothetical participant.
- (e) Change Service Requested, Option 2, offered at no charge to a First-Class mailer that is *not* currently an ACS/CSR participant but subsequently could become such a participant, and whose return volumes are *equal to* the average percentage of First-Class returns. Please display all calculations and cite all sources to provide this answer.
- i. Discuss specifically how the \$15 cost for setting up ACS service with a participant (your response to interrogatory OCA/USPS-T4-9.d.) affects the Postal Service's net savings/loss position.
  - ii. Discuss specifically how the "85 percent" figure presented at page 7, line 4, of your testimony affects the Postal Service's net savings/loss position.
  - iii. Give a hypothetical example of such a participant, using specific assumed volume and percentage return figures for the hypothetical participant.
- (f) Change Service Requested, Option 2, offered at no charge to a First-Class mailer that is currently an ACS/CSR participant but subsequently could become such a participant, and whose return volumes are *below* the average percentage of First-Class returns. Please display all calculations and cite all sources to provide this answer.
- i. Discuss specifically how the \$15 cost for setting up ACS service with a participant (your response to interrogatory OCA/USPS-T4-9.d.) affects the Postal Service's net savings/loss position.
  - ii. Discuss specifically how the "85 percent" figure presented at page 7, line 4, of your testimony affects the Postal Service's net savings/loss position.
  - iii. Give a hypothetical example of such a participant, using specific assumed volume and percentage return figures for the hypothetical participant.

**RESPONSE:**

The attempt of this interrogatory to quantify the effect of eliminating the address correction service fee for pieces bearing the Change Service Requested (CSR) endorsement is not without merit. The question endeavors to isolate the impact of important variables such as a mailer's return rate and whether the mailer is a current or prospective participant. However, the net impact of eliminating the fee cannot be determined as the question suggests because of the unknown impact from additional

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key variables. In particular, the Postal Service does not know the effect on mailers' address hygiene practices of the hypothetical waiver of the fee. Therefore, a precise net contribution analysis is not possible, although the Postal Service will provide a qualitative analysis.

**Current ACS Participant**

For a current ACS participant, as posited in parts (a)-(c) of this interrogatory, the address correction fee creates an economic incentive for a mailer to update its address database so that it does not mail to the UAA address again, lest it be charged for a subsequent notice. If the fee is waived and, as a result, there is a degradation of the address hygiene practices, then the mailer's amount of UAA mail would increase, both in the amount of mail that is forwarded as well as in the amount of mail that is physically returned. This would raise the overall cost of handling the mailer's mail. For example, if the amount of UAA mail were to double, then the Postal Service would not only lose the current revenue from the address correction fees, it would also experience higher UAA costs from that mailer. Thus a net loss for the Postal Service would result.

The \$15 cost to activate a participant and the 85 percent figure (i.e., that 85 percent of UAA mail would receive an electronic notice) mentioned in the interrogatory would have no effect on the analysis, for a current ACS participant. The Postal Service would have already incurred the activation cost before the fee waiver. The 85 percent figure is already part of a current ACS mailer's UAA costs. Thus, if the amount of UAA mail doubled, then the UAA costs would likely double as well.

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**Prospective ACS Mailer**

For a prospective ACS mailer, as posited in interrogatory parts (d)-(f), the elimination of the address correction fee for CSR-endorsed mail may not only result in failure to update as described above, but may also drive mailer behavior away from more productive address management practices. ACS is one of the ways mailers can comply with the Move Update requirement for First-Class Mail automation letters. Other options for Move Update compliance include pre-mailing address hygiene through NCOA or FastForward processing, which often cost tens of thousands of dollars a year. By eliminating the fee for providing electronic notices for CSR-endorsed mail, a mailer may well have an incentive to shift from premailing to post mailing address hygiene, resulting in a sharp increase of UAA costs.

If the fee is eliminated and, as a result, a mailer stops processing its addresses through NCOA or FastForward, and instead opts for ACS, then the mailer's amount of move-related UAA mail would increase, both in the amount of mail that is forwarded as well as in the amount of mail that is physically returned because the forwarding order has expired. If the mailer then did not update its address database with the move-related and non-move-related address correction information, UAA costs would increase even further. Accordingly, if the fee were eliminated for a prospective ACS user and the amount of UAA mail triples, the Postal Service would experience substantially higher UAA costs from that mailer.

These higher UAA costs result even though the conversion to ACS would save UAA costs on the amount of return-to-sender UAA mail that existed before the fee elimination. See witness Crum's testimony, USPS-T-3 at 4-5. The much higher costs

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arise on the additional UAA volume caused by the deterioration of address hygiene practices. For the pieces that must be forwarded, the Postal Service incurs a cost of a cost of 30.5 cents per piece plus 6.6 cents per piece to send an electronic notice. Table 5.1.1 of USPS-LR-J-69/R2001-1 and Response to NAA/USPS-T3-11. For pieces that cannot be forwarded and would in the absence of ACS be returned-to-sender, the costs for such UAA mail identified by witness Crum in his testimony would apply. Id. The “85 percent figure” noted in the interrogatory is relevant here because 85 percent of the additional UAA volume would incur a cost of 33.2 cents per piece when an electronic notice is given, and the remaining 15 percent would incur a cost of 53.5 cents per piece. See T-3, Attachment A, p. 2. Thus, a net loss for the Postal Service would result.

The \$15 cost for activating a prospective ACS would have little or no effect on the analysis. The \$15 cost would be insignificant as compared to the higher UAA costs.

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**OCA/USPS-T4-19.** Please refer to your testimony at page 5, lines 2-4, where it refers to the "CFS processing center."

- (a) How many CFS processing centers does the Postal Service operate?
- (b) What types of postal employees (i.e., craft, full-time, part-time, temporary, etc.) staff the postal-operated CFS processing centers?
- (c) How many CFS processing centers do contractors of the Postal Service operate?
- (d) What types of employees (i.e., unionized or non-unionized, full-time, part-time, temporary, etc.) staff the contractor-operated CFS processing centers? see
- (e) Please provide the locations of the CFS processing centers identified in parts (a) and (c) of this interrogatory.
- (f) Please confirm that every carrier delivery unit sends its undeliverable-as-addressed (UAA) CSR-endorsed First-Class Mail to a CFS processing center. If you do not confirm, please explain, and provide an estimate of the number of carrier delivery units that do not send UAA CSR-endorsed First-Class Mail to a CFS processing center and the number of delivery points affected. Also, please provide the reasons that UAA CSR-endorsed First-Class Mail may not be sent to a CFS processing center
- (g) Please confirm that every carrier delivery unit sends its UAA ASR-endorsed First-Class Mail to a CFS processing center. If you do not confirm, please explain, and provide an estimate of the number of carrier delivery units that do not send UAA ASR-endorsed First-Class Mail to a CFS processing center and the number of delivery points affected. Also, please provide the reasons that UAA ASR-endorsed First-Class Mail may not be sent to a CFS processing center.
- (h) Please confirm that every carrier delivery unit sends its UAA First-Class Mail without any endorsement to a CFS processing center. If you do not confirm, please explain, and provide an estimate of the number of carrier delivery units that do not send UAA First-Class Mail without any endorsement to a CFS processing center and the number of delivery points affected. Also, please provide the reasons that UAA First-Class Mail without any endorsement may not be sent to a CFS processing center.

**RESPONSE:**

- (a) There are 219 CFS centers.
- (b) At the CFS centers, the craft employees can be full-time, part-time, casual or transitional employees. Each center has a supervisor and some also have a manager.
- (c) – (d) There are no contractors operating the CFS centers.
- (e) This information will be provided shortly.
- (f) Confirmed. Every Delivery Destination Unit with a carrier delivery unit sends its ACS/CSR endorsed mail to a CFS center. If the DDU does not have a carrier delivery

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unit, then it does not send its mail to the CFS center. Also, see response to OCA/USPS-T4-17(e).

(g) Confirmed in part. The only UAA mail with the ASR endorsement that a carrier delivery unit sends to a CFS center is move-related mail. All carrier delivery units send such mail to CFS center. The non-move related mail is placed back in the mail stream. If a destination delivery unit does not have a carrier delivery unit, then ASR endorsed UAA mail is not sent to the CFS center. Also, see response to OCA/USPS-T4-17(e).

(h) Confirmed in part. For mail without an endorsement, only move-related mail is sent to the CFS center. Otherwise the UAA mail is marked with the reason for non-delivery and placed back in the mail stream to be returned to sender. See USPS-T4, at pp. 1-2.



## 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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Nan K. McKenzie

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November 21, 2002