

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
)
EXPERIMENTAL RATE AND SERVICE) Docket No. MC2002-2
CHANGES TO IMPLEMENT)
NEGOTIATED SERVICE AGREEMENT)
WITH CAPITAL ONE SERVICES,)
INC.)

Volume 4

Pages: 668 through 853
Place: Washington, D.C.
Date: December 5, 2002

HERITAGE REPORTING CORPORATION

Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005-4018
(202) 628-4888
hrc@concentric.net

POSTAL RATE COMMISSION

In the Matter of:)
)
EXPERIMENTAL RATE AND SERVICE) Docket No. MC2002-2
CHANGES TO IMPLEMENT)
NEGOTIATED SERVICE AGREEMENT)
WITH CAPITAL ONE SERVICES,)
INC.)

Room No. 300
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C.

Volume 4
Thursday, December 5, 2002

The above-entitled matter came on for hearing,
pursuant to notice, at 1:01 p.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. DANA B. COVINGTON, VICE-CHAIRMAN
HON. RUTH Y. GOLDWAY, COMMISSIONER
HON. TONY HAMMOND, COMMISSIONER

APPEARANCES:

On behalf of the United States Postal Service:

SCOTT REITER, Esquire
NAN K. MCKENZIE, Esquire
KENNETH N. HOLLIES, Esquire
United States Postal Service
Law Department
475 L'Enfant Plaza, S.W.
Washington, D.C. 20260
(202) 268-2989

Heritage Reporting Corporation
(202) 628-4888

APPEARANCES: (cont'd.)

On behalf of the Office of the Consumer Advocate:

EMMETT RAND COSTICH, Esquire
SHELLY DREIFUSS, Esquire
Postal Rate Commission
Office of Consumer Advocate
1333 H Street, N.W.
Washington, D.C.
(202) 789-6833

On behalf of Capital One Services, Inc.:

TIMOTHY J. MAY, Esquire
Patton Boggs, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037
(202) 457-6050

On behalf of Newspaper Association of America:

WILLIAM B. BAKER, Esquire
Wiley, Rein & Fielding, L.L.P.
1776 K Street, N.W.
Washington, D.C. 20006
(202) 719-7255

On behalf of the American Postal Workers Union, AFL-CIO:

SUSAN L. CATLER, Esquire
O'Donnell, Schwartz & Anderson, P.C.
1300 L Street, N.W., Suite 1200
Washington, D.C. 20005
(202) 898-1707

On behalf of Val-Pak Direct Marketing Systems and Val-Pak
Dealers Association:

WILLIAM J. OLSON, Esquire
William J. Olson, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

Heritage Reporting Corporation
(202) 628-4888

APPEARANCES: (cont'd.)

On Behalf of American Bankers Association:

IRVING D. WARDEN
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 663-5027

Heritage Reporting Corporation
(202) 628-4888

C O N T E N T S

WITNESSES APPEARING:
MICHAEL K. PLUNKETT

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Michael K. Plunkett					
by Mr. Reiter	673	--	846	--	--
by Ms. Catler	--	771	--	850	--
by Mr. Baker	--	796	--	--	--

E X H I B I T S

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Designation of corrected written cross-examination of United States Postal Service Witness Michael K. Plunkett, USPS-T-2	675

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of Michael K. Plunkett on behalf of United States Postal Service, USPS-T-2	673	674
Designation of corrected written cross-examination of United States Postal Service Witness Michael K. Plunkett, USPS-T-2	675	675

P R O C E E D I N G S

(1:01 p.m.)

CHAIRMAN OMAS: Good afternoon. Today we will finish receiving into evidence the direct testimony filed in support of a proposed negotiated service agreement between the Postal Service and Capital One Services, Inc.

I want to congratulate each and every one of you here this afternoon for your dedication. I guess none of us really expected this to happen this afternoon, but, you know, they predicted this. They started last week.

Do any of the Petitioners have a procedural matter to raise at this point before we begin? Mr. Reiter?

MR. REITER: Mr. Chairman, yes. The Postal Service wanted to request a short extension of the time for Witness Crum to provide the information on forwarding and return costs. You had originally asked for that on Friday. We think we'll be able to have that for you on Monday if that's all right.

CHAIRMAN OMAS: Yes.

MR. REITER: Thank you.

CHAIRMAN OMAS: But we'd like it on Monday.

MR. REITER: Yes. Thank you.

CHAIRMAN OMAS: Thank you. Mr. Reiter, will you call your first witness?

MR. REITER: Yes. Our witness today is Michael

1 Plunkett.

2 CHAIRMAN OMAS: Mr. Plunkett, would you please
3 stand and raise your right hand?

4 Whereupon,

5 MICHAEL K. PLUNKETT

6 having been duly sworn, was called as a witness
7 and was examined and testified as follows:

8 CHAIRMAN OMAS: Please be seated.

9 (The document referred to was
10 marked for identification as
11 Exhibit No. USPS-T-2.)

12 DIRECT EXAMINATION

13 BY MR. REITER:

14 Q Mr. Plunkett, I'm handing you a copy of a document
15 entitled USPS-T-2, Direct Testimony of Michael K. Plunkett
16 on behalf of United States Postal Service. Was this
17 testimony prepared by you or under your direction?

18 A Yes, it was.

19 Q And if you were to testify orally here today,
20 would your testimony be the same?

21 A Yes, it would.

22 MR. REITER: Mr. Chairman, I ask that this
23 testimony be entered into the record of this proceeding as
24 evidence.

25 CHAIRMAN OMAS: Is there any objection?

1 (No response.)

2 CHAIRMAN OMAS: Hearing none, I will direct
3 counsel to provide the reporter with two copies of the
4 corrected direct testimony of Michael K. Plunkett. That
5 testimony is received and will not be transcribed into
6 evidence.

7 (The document referred to,
8 previously identified as
9 Exhibit No. USPS-T-2, was
10 received in evidence.)

11 CHAIRMAN OMAS: Mr. Plunkett, have you had the
12 opportunity to examine the packet of designated written
13 cross-examination that was made available to you this
14 afternoon in the hearing room?

15 THE WITNESS: Yes, I have.

16 CHAIRMAN OMAS: If the questions contained in that
17 packet were posed to you orally today, would your answers be
18 the same as those previously provided in writing?

19 THE WITNESS: I have one minor correction to make.
20 In my response to OCA Interrogatory No. OCA/USPS-T-2-9, Part
21 A, my response contains the phrase "declining block
22 discount." I have altered that to say "declining block
23 rates." Those corrections have been made on both copies in
24 the document.

25 CHAIRMAN OMAS: Are there any additional

1 corrections?

2 THE WITNESS: No.

3 (The document referred to was
4 marked for identification as
5 Exhibit No. USPS-T-2.)

6 CHAIRMAN OMAS: Counsel, would you please provide
7 two copies of the corrected designated written cross-
8 examination of Witness Plunkett to the reporter? That
9 material is received into evidence and, as is our practice,
10 will be transcribed into the record.

11 Is there any additional written cross-examination
12 for the Witness Plunkett?

13 (No response.)

14 CHAIRMAN OMAS: Without objection, they will be
15 admitted into evidence, and I direct that they be
16 transcribed.

17 (The document referred to,
18 previously identified as
19 Exhibit No. USPS-T-2, was
20 received in evidence.)

21 //

22 //

23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

676

Experimental Rate and Service Changes to
Implement Negotiated Service Agreement with
Capital One Services, Inc.

Docket No. MC2002-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT
(USPS-T-2)

Party

Interrogatories

American Postal Workers Union,
AFL-CIO

APWU/USPS-T2-1-3, 5-7, 10

APWU/USPS-T1-1, 4-5 redirected to T2
OCA/USPS-T2-9, 26-30

Newspaper Association of America

APWU/USPS-T2-1-3, 6-7
APWU/USPS-T1-1, 5 redirected to T2
NAA/USPS-T2-1, 5-8, 10-21
NAA/USPS-T1-3 redirected to T2
OCA/USPS-T2-1-8, 11-12, 14-17, 22-23, 25, 36
OCA/USPS-T3-1 redirected to T2
VP/USPS-T2-1-3, 6-7
POIR No. 1, Questions 4-5
POIR No. 2, Questions 4-6

Office of the Consumer Advocate

APWU/USPS-T2-12
APWU/USPS-T1-3-4 redirected to T2
NAA/USPS-T2-3
OCA/USPS-T2-9, 18b, 24, 26-30, 32-35
OCA/USPS-T1-6 redirected to T2

Val-Pak Direct Marketing Systems,
Inc. and Val-Pak Dealers'
Association Inc.

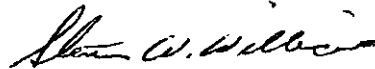
APWU/USPS-T2-6

677

OCA/USPS-T2-1

VP/USPS-T2-1-7

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Steven W. Williams".

Steven W. Williams
Secretary

678

<u>Interrogatory</u>	<u>Designating Parties</u>
APWU/USPS-T2-1	APWU, NAA
APWU/USPS-T2-2	APWU, NAA
APWU/USPS-T2-3	APWU, NAA
APWU/USPS-T2-5	APWU
APWU/USPS-T2-6	APWU, NAA, Val-Pak
APWU/USPS-T2-7	APWU, NAA
APWU/USPS-T2-10	APWU
APWU/USPS-T2-12	OCA
APWU/USPS-T1-1 redirected to T2	APWU, NAA
APWU/USPS-T1-3 redirected to T2	OCA
APWU/USPS-T1-4 redirected to T2	APWU, OCA
APWU/USPS-T1-5 redirected to T2	APWU, NAA
NAA/USPS-T2-1	NAA
NAA/USPS-T2-3	OCA
NAA/USPS-T2-5	NAA
NAA/USPS-T2-6	NAA
NAA/USPS-T2-7	NAA
NAA/USPS-T2-8	NAA
NAA/USPS-T2-10	NAA
NAA/USPS-T2-11	NAA
NAA/USPS-T2-12	NAA
NAA/USPS-T2-13	NAA
NAA/USPS-T2-14	NAA
NAA/USPS-T2-15	NAA
NAA/USPS-T2-16	NAA
NAA/USPS-T2-17	NAA
NAA/USPS-T2-18	NAA
NAA/USPS-T2-19	NAA
NAA/USPS-T2-20	NAA
NAA/USPS-T2-21	NAA
NAA/USPS-T1-3 redirected to T2	NAA
OCA/USPS-T2-1	NAA, Val-Pak
OCA/USPS-T2-2	NAA

OCA/USPS-T2-3	NAA
OCA/USPS-T2-4	NAA
OCA/USPS-T2-5	NAA
OCA/USPS-T2-6	NAA
OCA/USPS-T2-7	NAA
OCA/USPS-T2-8	NAA
OCA/USPS-T2-9	APWU, OCA
OCA/USPS-T2-11	NAA
OCA/USPS-T2-12	NAA
OCA/USPS-T2-14	NAA
OCA/USPS-T2-15	NAA
OCA/USPS-T2-16	NAA
OCA/USPS-T2-17	NAA
OCA/USPS-T2-18b	OCA
OCA/USPS-T2-22	NAA
OCA/USPS-T2-23	NAA
OCA/USPS-T2-24	OCA
OCA/USPS-T2-25	NAA
OCA/USPS-T2-26	APWU, OCA
OCA/USPS-T2-27	APWU, OCA
OCA/USPS-T2-28	APWU, OCA
OCA/USPS-T2-29	APWU, OCA
OCA/USPS-T2-30	APWU, OCA
OCA/USPS-T2-32	OCA
OCA/USPS-T2-33	OCA
OCA/USPS-T2-34	OCA
OCA/USPS-T2-35	OCA
OCA/USPS-T2-36	NAA
OCA/USPS-T1-6 redirected to T2	OCA
OCA/USPS-T3-1 redirected to T2	NAA
VP/USPS-T2-1	NAA, Val-Pak
VP/USPS-T2-2	NAA, Val-Pak
VP/USPS-T2-3	NAA, Val-Pak
VP/USPS-T2-4	Val-Pak
VP/USPS-T2-5	Val-Pak
VP/USPS-T2-6	NAA, Val-Pak
VP/USPS-T2-7	NAA, Val-Pak
POIR No. 1, Questions 4-5	NAA
POIR No. 2, Questions 4-6	NAA

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.

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.

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.

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 than 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.

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

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? 686

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.

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

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. 687

RESPONSE:

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

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

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. 688

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."

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

689

APWU/USPS-T1-1. Under the proposed Negotiated Service Agreement between Capital One and the USPS, what is your understanding of the actions that will be taken by Capital One to update their databases within two days of the receipt of electronic ACS information? Will these actions include mailing lists of Capital One and the lettershops it employs? Will it include both First Class and Standard mailing lists or only First Class Mailing lists? Does this mean that Capital One will endeavor to notify the owners of the mailing lists that Capital One has purchased or rented of [sic] incorrect information? What does the Postal Service expect Capital One to do with newly purchased or rented mailing lists in order to meet these requirements?

RESPONSE:

My understanding is that Capital One places the updated information into a database that it maintains for its returns. Any address that Capital One uses for its First-Class Mail solicitations is then run against the return database. Thus, even addresses for mail pieces prepared by vendors are run against the return database. However, downstream users of corrected address information would presumably benefit from the fact of address correction. As the agreement does not govern Capital One's use of Standard Mail, I do not know whether Capital One will use the updates for Standard Mail as well. Capital One's would presumably assess whether it is in their best interest to avoid sending Standard Mail to those addresses where the mail would be merely resent to the appropriate location for disposal. At the same time, I believe that the primary focus of the Postal Service is to assure that Capital One complies with the terms of the agreement. The Postal Service intends to do so.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO, 690
REDIRECTED FROM WITNESS BIZZOTTO

APWU/USPS-T1-3. Under the proposed Negotiated Service Agreement between Capital One and the USPS,

- (a) What is your understanding of key condition I., F. "Capital One's mail relates to its products and services, including but not limited to sales and other promotions run in conjunction with Capital One's strategic partners or as a part of strategic alliances with other entities."
- (b) How will this condition be monitored in order to prevent a violation of condition III, K " Capital One may not use the threshold permit to mail on behalf of any other company or entity."
- (c) Please identify Capital One's strategic partners and all strategic alliances Capital One has with other entities that could result in mailings covered by the Agreement.
- (d) Please identify Capital One's products and services that could result in mailings covered by the Agreement.

RESPONSE:

- a. This section defines the type of mail that Capital One currently mails.
- b. Please refer to section IV (A-B) of the agreement.
- c. I am unaware of Capital One's current strategic partners or alliances.
- d. Please refer to the testimony of witness Jean (COS-T-1, at 2-4) for a description of how Capital One will make use of the Agreement.

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

691

APWU/USPS-T1-4. Please confirm that the Postal Service does not intend for the mail volume of any entities merged with or acquired by Capital One during the course of this agreement be eligible for Capital One's block discounts. Thresholds for those discounts will be adjusted upward to exclude such mail from qualifying for those discounts during any period of this agreement. If this is not the intention of the Postal Service please explain, in detail, the exceptions.

RESPONSE:

Not confirmed. To the extent Capital One acquires, or merges with, another entity during the term of the Agreement, the mail volume of the acquired (or merged) entity would be counted toward attainment of relevant volume thresholds. However, such mergers and/or acquisitions would also result in thresholds being adjusted upwards as set forth in section III(I) of the Agreement. In other words, the Agreement attempts to neutralize the effect of mergers and acquisitions.

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

692

APWU/USPS-T1-5. When did the Postal Service begin serious discussions with Capital One on the details of this proposed Negotiated Service Agreement? When did Capital One know the approximate date of the filing of the NSA? When did Capital One know which time periods might be considered to be baseline volume measures for its mail for this proposed Negotiated Service Agreement?

RESPONSE:

The discussions between the Postal Service and Capital One took place over many months, and exactly when such discussions became "serious" is difficult to determine. By early summer of 2002, however, meaningful discussions on specific proposals were underway. Knowledge about the filing date was not possible before the Board of Governors vote approving the filing (September 2002), although an approximate date of filing was discussed as the Board vote drew closer. When Capital One knew what time periods would be considered, "baseline" is also difficult to specify. The facts of Capital One's steady increases in volume, as well as the post-9/11 bulge in volume, were known during early discussions. The actual timeframes identified in the Agreement, however, were determined only shortly before it was signed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

693

NAA/USPS-T2-1: Please refer to page 3, lines 12-14, of your testimony, where you state "If Capital One mails more than 750 million pieces of qualified First-class Mail annually, the fees for address correction will be waived." Please confirm that, assuming appropriate approvals were received, the Postal Service could similarly waive the fee for Electronic Address Correction for other mailers. If you are unable to confirm, please explain why not.

RESPONSE:

It is my understanding that if the Postal Service found it appropriate to include waiver of address correction fees as part of an agreement with another company, the same procedures applicable to the Capital One NSA could apply there as well.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

694

NAA/USPS-T2-3: Please confirm that, under the NSA, Capital One has agreed to forego its right to the physical return of a portion of its Undeliverable As Addressed mail in exchange for, *infer alia*, receiving electronic address correction for free instead of the \$0.20 regular fee.

RESPONSE:

Not confirmed. As a part of the NSA, Capital One has agreed to use electronic ACS and the Postal Service proposes waiving the fee for this service. Electronic ACS does not include the physical return of the UAA piece. The decision to propose waiving the fee for eACS is based on a comprehensive evaluation of all of the elements of the proposed NSA.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

695

NAA/USPS-T2-5: Please refer to page 7 of your testimony where you purport to identify unique aspects of Capital One's use of the mail. Is it your belief that Capital One's annual volume of solicitation mail is above average for First Class mailers?

RESPONSE:

Yes. Please see the testimony of witness Jean, COS-T-1, page 5, table 1, which shows a before rates FY 2003 forecast of 768 million pieces of solicitation mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

696

NAA/USPS-T2-6: Please refer to page 7, lines 22-25, of your testimony.
Please explain what you mean by "Capital One documents its return volume, and incorporates return information into its mail preparation operations."

RESPONSE:

Capital One measures the amount of mail that is returned, and has a process in place for capturing information from returned pieces that is used to improve addressing practices.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

697

NAA/USPS-T2-7: Please refer to page 9, line 41, through page 10, line 2 of your testimony, where you state that NSAs may enable the USPS to "more accurately present prices that represent the value that the user places on the service being provided."

- a. Is it your testimony that Capital One places a value of zero on ECS?
- b. Is it your testimony that the Capital One places less value on the First-Class mail volume that will receive a discount under the NSA?
- c. Will the volume discounts make First-class mail [sic] more desirable, or less so, for Capital One?
- d. Will the NSA increase the value of the First-class [sic] postal services provided to Capital One by the USPS?

RESPONSE:

- a. No.
- b. No.
- c. As my testimony suggests, the discounts included in this agreement are expected to provide an incentive – at the margin – for Capital One to use more First-Class Mail.
- d. Capital One's willingness to enter into this agreement suggests that Capital One believes this agreement, as a whole, provides a net benefit to Capital One.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

698

NAA/USPS-T2-8: Please refer to page 10, lines 7 through 9, of your testimony, where you state that the address improvement steps to which Capital One has agreed "will serve to lower costs currently borne by other customers." If Capital One is the largest, or nearly largest, First-class mailer, does it today bear more of the costs of its UAA than any other First Class mailer? If not, please explain why not.

RESPONSE:

If one accepts that the costs of forwarding and returns are covered by the per-piece price of First-Class Mail, then Capital One presumably pays a larger share of these costs (as measured in total dollars) than most users of First-Class Mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

699

NAA/USPS-T2-10: Please refer to page 12, lines 11 through 20 of your testimony. For each of the five categories of data listed in the bullet points, please explain how the Postal Service will collect the data.

RESPONSE:

Volume and revenue information (including the amount of discounts earned) will be captured by the Postal Service's permit system according to the terms stipulated in its agreement with Capital One. The Postal Service's address management systems identify individual permit holders using a unique identifier, which will enable automated measurement of Capital One's address correction activity, since the agreement requires Capital One to inform the Postal Service of the permit numbers it will be using for purposes of the agreement. Physical returns are sent to post office box addresses in Richmond, Virginia, thus facilitating estimation of total physical returns.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

700

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-T2-11 Response:

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

701

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-T2-12 Response:

See my responses to OCA/USPS-T2-2 and OCA/USPS-T2-16

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

702

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-T2-13 Response:

As is described in the testimony of witness Elliot (COS-T-2 , at 2-3), Capital One's FY 2002 volume was driven by some anomalous events, and during the period of time that the Agreement was being negotiated, volumes remained well above historical levels.

Given the structure of declining block discounts, the Postal Service was concerned that if the growth described in witness Elliot's testimony were to be sustained indefinitely, the block discount tiers would have been set lower than necessary to sustain and promote higher volume levels.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

703

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?

NAA/USPS-T2-14 Response:

This provision is intended to ensure that Capital One continues its existing addressing practices, else the volume of forwarded and/or returned mail would tend to increase, all else being equal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

704

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-T2-15 Response:

The Postal Service will not be instituting any specific measures to capture this information. During the course of the Agreement, the Postal Service will of course monitor Capital One's volume, but as witness Jean (COS-T1, p.3) points out, the Agreement is not expected to result in switching of mail from Standard to First-Class Mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

705

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.
- 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-T2-16 Response:

- a. I am not personally aware of any attempt to isolate the specific features of First-Class Mail for the purposes of the justification implied here. First-Class Mail rates are set in accordance with the pricing criteria in the Act, but the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

706

application of specific criteria is at the rate level, not at the level of product features.

- b-c Whatever is implied by the designations "large", "small", and "moderate," it would be difficult to apply any of these terms to all First-Class Mail rates. There are a number of different subclasses within First-Class Mail, each characterized by differing amounts of averaging. I would confirm that the single piece First-Class Mail rate, being required by law to be uniform and universally available suggests that a high degree of averaging is a goal for that specific rate.
- d. I would agree that variation is inevitable. It is unclear what is meant by the term substantially.
- e. In such a case, the mailer clearly benefits from averaging with respect to the particular characteristic involved.
- f. I believe that customers should be given the opportunity to negotiate specific business terms with the Postal Service to the extent such terms can be demonstrated to be in compliance with the Act.
- g. My understanding is that one of the conditions under which NSAs are considered to be legal is their availability to all similarly situated customers. Thus, to the extent other customers can meet the qualifying criteria embodied in an agreement they are entitled to the same terms. To the extent customers wish to negotiate with the Postal Service regarding terms of service, they should be free to do so as I replied in response to part f.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

707

- h. I have not studied the hypothetical suggestion in this question enough to provide an informed response as to its merits. Nor do I have the information necessary to do so. As far as I know the Postal Service has no plans to institute a per-piece charge for forwarding as this question seems to suggest.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

708

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-T2-17 Response:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

709

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 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-T2-18 Response:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

710

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-T2-19 Response:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

711

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.

NAA/USPS-T2-20 Response:

I would agree to the extent Capital One has agreed to these terms they appear to view electronic ACS as a substitute for physical return of mail pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

712

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.

a. I agree.

b. I agree.

c. I agree that the cost of providing a physical return exceeds the fee for electronic ACS, but disagree that waiving the fee would result in a net savings on every piece as suggested here. See also my response to VP/USPS-T2-7.

d. The tradeoff is neither as simple nor as obvious as is suggested by the interrogatory. For a mailer like Capital One, with a large volume of mail and a large stream of returned pieces, it may be advantageous to develop an efficient means of dealing with returned pieces, such that it is a relatively

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

713

simple trade off. Other customers – particularly smaller customers – may view the service considerations very differently. For example, if returns are in smaller quantities or are received sporadically, the customer may prefer the convenience of receiving the information electronically and consider electronic ACS a superior alternative even at the \$0.20 cent fee. Also, subscription to electronic ACS is, as I understand it, a low cost way for many smaller customers to meet MOVE update requirements and thereby qualify for automation rates. In this case the fees associated with returns may be dwarfed by postage savings resulting from access to automation discounts.

- e. The 20-cent fee provides an adequate cost coverage given the 14.5 cents average cost, and is therefore consistent with the Act.
- f. See my response to parts d and e.

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

714

NAA/USPS-T1-3: At any point during the negotiations with Capital One, did Capital One state that, in the event no deal were negotiated, that it would either:

- a. stop using the mail for solicitation;
- b. reduce its use of First-class Mail for solicitations below previously projected levels;
- c. reduce its use of Standard mail for solicitations below previously projected levels;
- d. shift solicitations from First-class Mail to Standard Mail.

Please explain your answers.

RESPONSE:

Your question implies that the agreement may have been premised on a threat by Capital One to reduce its value as a customer to the Postal Service. This was not the case. Both Capital One and the Postal Service are aware of alternatives to, and options for, use of the mail for solicitation purposes. During the course of negotiations, Capital One's options were a subject for discussion, and our agreement with Capital One is designed – in part – to ensure that Capital One continues to use First-Class Mail for customer acquisition and communications. Capital One made no predictions regarding its future use of various mail or nonmail services.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

715

OCA/USPS-T2-1. Please refer to your testimony at page 1, lines 6-9, where you discuss "three distinct goals" accomplished by the Negotiated Service Agreement (NSA) with Capital One. Please confirm that the Postal Service would enter into a NSA with another company that "allows the Postal Service to reduce costs and increase revenue," provides "an incentive for the company to maintain and increase its use of First-Class Mail," and "reduces the overall burden on postal ratepayers" by generating additional contribution to institutional costs. If you do not confirm, please explain and identify and describe all other "distinct goals" that would have to be accomplished in order for the Postal Service to conclude a NSA with another company.

RESPONSE:

Confirmed that these goals, and possibly others, would need to be met in order for the Postal Service to consider entering into a Negotiated Service Agreement with another company. Please note another NSA would not necessarily relate to First-Class Mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

716

OCA/USPS-T2-2. Please refer to your testimony at page 1, lines 18-21, where it refers to NSAs between the Postal Service and its international mail customers, and the "three distinct goals" on lines 6-9.

- (a) Please confirm that the Postal Service has entered into NSAs with one or more international mail customers that accomplish one or more of the "three distinct goals" identified on lines 6-9. If you do not confirm, please explain.
- (b) Please identify the number of NSAs concluded between the Postal Service and its international mail customers that accomplish one or more of the "three distinct goals" identified on lines 6-9 by distinct goal.
- (c) Please identify the number of NSAs concluded between the Postal Service and its international mail customers that accomplish all "three distinct goals" identified on lines 6-9.

RESPONSE:

Not confirmed. Please note that my testimony states that "customer-specific pricing arrangements have been used ... by the Postal Service with its international customers." These are not NSAs, in the sense that that term is being used to refer to an agreement involving domestic mail, the implementation of which requires implementation of changes in rates, fees, and/or classifications through the Postal Rate Commission process. The goals I discuss are based in part on the requirements of that process, which does not apply to international rates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

717

OCA/USPS-T2-3. Please refer to your testimony at page 3, lines 7-10. By concluding the NSA with Capital One, does the Postal Service anticipate that Capital One will be able to reduce the volume of First-Class Mail that is physically returned because it is undeliverable-as-addressed (UAA), as well as the number of electronic address correction notifications for UAA mail? Please explain.

RESPONSE:

The Postal Service expects that this agreement will result in fewer pieces having to be returned physically to Capital One. Capital One is not currently receiving electronic notifications for UAA mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

718

OCA/USPS-T2-4. Please refer to your testimony at page 3, lines 12-14.

- (a) Please explain how the volume threshold of "more than 750 million pieces of qualified First-Class Mail annually" was derived. Provide citations to all figures used, and show all calculations.
- (b) Please explain the rationale for the volume threshold of "more than 750 million pieces of qualified First-Class Mail annually."
- (c) Please confirm that a volume threshold between zero and 750 million pieces of qualified First-Class Mail annually would result in cost savings to the Postal Service. If you do not confirm, please explain.

RESPONSE:

As described in my testimony (p 5, lines 11-13), the thresholds in this agreement represent the outcome of negotiations between the Postal Service and Capital One, and consequently represent a balancing of benefits rather than mathematical derivation.

The agreement is intended, in part, to provide incentives for Capital One to continue to mail very large volumes of First-Class Mail. Balances of benefits at lower volume levels were not considered.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

719

OCA/USPS-T2-5. Please refer to your testimony at page 4, footnote 1. Please explain how the volume threshold of 1.025 billion pieces was derived. Provide citations to all figures used, and show all calculations.

RESPONSE: See my response to OCA/USPS-T2-4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

720

OCA/USPS-T2-6. Please refer to your testimony at page 4, lines 3-6. Please explain how the volume threshold of 1.225 billion pieces was derived. Provide citations to all figures used, and show all calculations.

RESPONSE: See my response to OCA/USPS-T2-4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

721

OCA/USPS-T2-7. Please refer to your testimony at page 14, Appendix 1, lines 6-18 (volume block/incremental discount table). Please confirm that in the second and third year of the agreement, Capital One will have access to the incremental discounts listed in the table at Appendix 1, lines 6-18, provided Capital One enters qualifying First-Class Mail volume exceeding 1.025 billion pieces. If you do not confirm, please explain.

RESPONSE:

Not confirmed. The discount tiers described in appendix 1 are not activated unless Capital One's volume falls below 1.025 billion pieces in the first year of the agreement.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

722

OCA/USPS-T2-8. Please refer to your testimony at page 4, lines 7-15. Please confirm that in the first year of the agreement, if Capital One enters qualifying First-Class Mail volume of less than 1.225 billion pieces, Capital One will not have access to any of the discounts contained in Article III, paragraphs E and F of the agreement. If you do not confirm, please explain.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

723

OCA/USPS-T2-9. Please turn to your testimony at page 6, lines 1-4. In setting the initial threshold at 1.225 billion pieces, when Capital One's projected volume is projected to be in excess of 1.4 billion pieces, you appear to be providing Capital One with an unneeded incentive for pieces that Capital One would mail regardless of the declining block discounts, based on its forecasts. This appears analogous to Capital One's obtaining a consumer surplus from the Postal Service.

- (a) Have you explored the appropriateness of the declining block discount schedule in terms of economic efficiency? Please explain.
- (b) Why would it not be more economically efficient to provide the same level, or possibly even an increased level, of per piece discount for volumes exceeding the projected 1.4 billion pieces? Please explain.

RESPONSE:

- (a) Not directly. The appropriate way to consider the value of the Postal Service's agreement with Capital One, in terms of economic efficiency or anything else, is to consider the effects of the entire agreement as a whole. It would be inappropriate to attempt to isolate a single component of the agreement; such as the declining block ^{cases} ~~discount~~, for the type of evaluation suggested by this question. Moreover, I view the expected effect on economic efficiency of the overall agreement to be positive, since it was negotiated between both parties and therefore must be believed by each to benefit its own interests, and since it is also projected to increase volume, lower costs, and increase overall contribution from Capital One, and thereby lower the institutional cost burden on all other mailers.
- (b) Any fixed price results in some users capturing consumer surplus, to the extent that that the price is set at a point below the maximum that some customers would have been willing to pay for some or all of the units they consume. As I indicate in my testimony, the thresholds and discounts specified in the instant agreement are negotiation outcomes that reflect many different considerations. Potential further

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

724

gains in economic efficiency are not relevant if the other party to a negotiated agreement is unwilling to accept the terms associated with those potential gains, presumably because of a belief that the overall agreement with such terms would not achieve as much benefit from its perspective as the agreement with the terms to which it has agreed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

725

OCA/USPS-T2-11. Please refer to your testimony at page 7, lines 6-9.

- (a) Please confirm that the offering of Change Service Requested, Option 2, at no charge to any First-Class mailer whose return or forwarding volumes exceeded the average would produce net cost savings to the Postal Service. If you do not confirm, please explain.
- (b) Please confirm that the offering of Change Service Requested, Option 2, at no charge to any First-Class mailer whose return or forwarding volumes are below the average would produce net cost savings to the Postal Service. If you do not confirm, please explain.
- (c) Please confirm that the Postal Service is aware of other First-Class mailers in addition to Capital One whose return or forwarding volumes exceed the average. If you do not confirm, please explain.
- (d) For Fiscal Years 2000 and 2001, please provide the return volume of First-Class permit system mailers whose UAA volumes exceed the average. (NOTE: OCA is not asking for the specific identification of any permit system mailers.)

Response

- (a) Not confirmed. While the average cost of handling undeliverable-as-addressed pieces physically is greater than the cost of providing returns electronically, it is not necessarily true that waiving fees would – in every case – result in net cost savings, even in the event that a particular customer's percentage of returned pieces exceeds the average rate.
- (b) Not confirmed. See response to part (a).
- (c) Not confirmed. I'm not aware of any study of individual customer returns that would confirm this supposition, however, by definition, it is fair to assume that more than one customer is above average.
- (d) Please see the response of the Postal Service to OCA/USPS-2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

726

OCA/USPS-T2-12. Please refer to your testimony at page 7, lines 11-12. Please confirm that Capital One was the largest originator of First-Class Mail in Fiscal Years 2000, 2001 and 2002. If you do not confirm, please explain.

RESPONSE:

Confirmed.

OCA/USPS-T2-14. Please refer to your testimony at page 6, lines 2-4.

- (a) Please confirm that the initial volume threshold is less than Capital One's projected volume for FY 2003. If you do not confirm, please explain.
- (b) Please confirm that one of the Postal Service's objectives in concluding the NSA with Capital One is to promote the growth of First-Class Mail volume. If you do not confirm, please explain.
- (c) Given that Capital One's estimate of the growth in volume ranges from 15-53 million pieces, with a total projected volume of 1,423,458,969 pieces in FY 2003, why does the declining block discount schedule establish a volume threshold at less than 1.4 billion—the quantity Capital One would have produced absent the discounted rates?
- (d) Why should access to the declining block discounts for volume of less than 1.4 billion pieces cause Capital One to mail more pieces of mail if, in fact, Capital One's projected mail volume is based on factors other than the proposed declining block discounts?
- (e) What factors would cause Capital One to mail fewer than 1.4 billion pieces in FY 2003?

RESPONSE:

- (a) Confirmed
- (b) Confirmed
- (c) See response to OCA/USPS-T2-4.
- (d) My understanding is that Capital One's volume is based on many variables including postage costs. It is not unreasonable to conclude that lower postage rates would – all other things being equal – result in increased volumes.
- (e) I have no information that would allow me to answer this question specifically. As I stated in response to part (d), my understanding is that Capital One's volume is based on many variables, of which postage is only one.

OCA/USPS-T2-15. Please refer to your response to OCA/USPS-T2-1, where you state that "Confirmed that these goals, *and possibly others*, would need to be met in order for the Postal Service to consider entering into a Negotiated Service Agreement with another company." (emphasis added) Please identify and describe the "possibly" other goals that would need to be met.

RESPONSE:

As implied – I think – by the word "possibly", the Postal Service has not developed an exhaustive list of possible goals that might be satisfied through NSAs. This is quite consistent with two areas of uncertainty: additional or alternate goals might emerge through discussions with other companies or as a consequence of this docket.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

729

OCA/USPS-T2-16. Please refer to your testimony at page 1, lines 18-21, where it refers to "customer-specific pricing arrangements" between the Postal Service and its international mail customers, and the "three distinct goals" on lines 6-9.

- (a) Please confirm that the Postal Service has entered into "customer-specific pricing arrangements" with one or more international mail customers that accomplish one or more of the "three distinct goals" identified on lines 6-9. If you do not confirm, please explain.
- (b) Please identify the number of "customer-specific pricing arrangements" concluded between the Postal Service and its international mail customers that accomplish one or more of the "three distinct goals" identified on lines 6-9 by distinct goal.
- (c) Please identify the number of "customer-specific pricing arrangements" concluded between the Postal Service and its international mail customers that accomplish all "three distinct goals" identified on lines 6-9.

RESPONSE:

- a-c. Unable to confirm. My testimony does not state, nor does it imply, that the goals accomplished by the Capital One NSA are the same as those served by agreements between the Postal Service and its international customers. I have not studied agreements with international customers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-17. Please refer to your response to OCA/USPS-T2-4.

730

- (a) Please confirm that a cost-basis was determined by the Postal Service to justify the volume threshold of "more than 750 million pieces of qualified First-Class Mail annually" to provide electronic Address Correction Service (ACS) notifications at no charge. If you do not confirm, please explain.
- (b) Please confirm that the \$13.1 million in cost savings to the Postal Service of providing electronic ACS to Capital One at no charge would not change if the volume threshold of "more than 750 million pieces of qualified First-Class Mail annually" were set to zero. If you do not confirm, please explain.
- (c) Please confirm that the volume threshold of "more than 750 million pieces of qualified First-Class Mail annually" is arbitrary. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. As explained in my response to OCA/USPS-T2-4, these thresholds were arrived at through negotiations between the Postal Service and Capital One and not through isolated study of each term in the agreement by itself.
- b. The \$13.1 figure represents an estimate based on the volumes projected for Capital One and therefore bears no relationship to the 750 million piece threshold. If, on the other hand, Capital One mails less than 750 million, there would be a substantial reduction in the cost savings.
- c. Not confirmed. Whether used technically or colloquially, "arbitrary" is an inappropriate label for any one term in a multi-term agreement all of which resulted from one series of negotiations. As I have stated on several occasions (including the response to part (a) of this interrogatory) this threshold represents the outcome of lengthy negotiations between the Postal Service and Capital One, and as such constitutes a balance of interests that each party concluded was appropriate for it.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-18. Please refer to your response to OCA/USPS-T2-11(a).

731

- (a) Please confirm that the offering of Change Service Requested, Option 2, at no charge to any First-Class mailer *that is not an ACS participant* and whose return or forwarding volumes exceeded the average would produce net cost savings to the Postal Service. If you do not confirm, please explain.
- (b) Please provide an example of a mailer whose "average cost of handling undeliverable-as-addressed pieces physically is greater than the cost of providing returns electronically" but does not result in net cost savings to the Postal Service.

RESPONSE:

- a. Redirected to witness Wilson.
- b. I am not aware of any specific examples. My response to OCA/USPS-T2-11(a) was based on the fact that the savings estimates employed in the instant filing are based on average per-piece costs. By definition a significant number of returned pieces costs less than the average, and it is therefore plausible that a given mailer's characteristics are such that conversion to CRS Option 2 would not produce a net savings.

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-22. Please refer to your responses to OCA/USPS-T2-7 and OCA/USPS-T2-8. Please confirm that in the first year of the Negotiated Service Agreement (NSA), if Capital One enters qualifying First-Class Mail volume of 1.025 billion pieces up to 1.225 billion pieces, Capital One will have access to the discounts contained in Article III, paragraphs E and F during the second and third years of the agreement. If you do not confirm, please explain.

732

RESPONSE:

Not confirmed. The alternative discount tiers that are referred to above are not invoked unless Capital One's volumes are below 1.025 billion pieces during a given year (see Agreement section III(H)).

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

733

OCA/USPS-T2-23. Please refer to your testimony at page 12, lines 8-20.

- (a) Please confirm that the Postal Service will collect data on the number of electronic address correction notices sent for First-Class Mail solicitations. If you do not confirm, please explain.
- (b) Please confirm that the Postal Service will separately collect and report data on the number of electronic address correction notices sent for First-Class Mail solicitations pieces that are forwarded and solicitations pieces that would otherwise be physically returned. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-24. Please refer to page 12, "C. Data Collection," of your prefiled testimony. Please describe any effort by the USPS to obtain data applicable to mailers beyond Capital One during the course of the proposed NSA. 734

RESPONSE:

The description of data collection is specific to Capital One's data. It does not include collecting data from other mailers because the experiment sought by the Postal Service relates to an agreement involving only Capital One and the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-25. Please refer to your testimony at page 3, lines 7-10.

735

- (a) Please confirm that by concluding the NSA with Capital One, the Postal Service expects that Capital One's access to electronic Address Change Service (ACS) will reduce the volume of undeliverable-as-addressed (UAA) First-Class solicitation mail that is forwarded. If you do not confirm, please explain. If you do confirm, please provide an estimate of the reduction in volume of UAA First-Class Mail that is forwarded, showing all calculations and stating all assumptions.
- (b) Please confirm that by concluding the NSA with Capital One, the Postal Service expects that, during the course of the experiment, the number of electronic ACS notifications provided to Capital One for UAA First-Class solicitation mail that is forwarded will decline. If you do not confirm, please explain. If you do confirm, please provide an estimate of the reduction in the number of electronic notifications for pieces that are forwarded, showing all calculations and stating all assumptions.
- (c) Please confirm that by concluding the NSA with Capital One, the Postal Service expects that, during the course of the experiment, the number of electronic ACS notifications provided to Capital One for UAA First-Class solicitation mail that would otherwise be physically returned will decline. If you do not confirm, please explain. If you do confirm, please provide an estimate of the reduction in number of electronic notifications for pieces that would otherwise be physically returned, showing all calculations and stating all assumptions.
- (d) Since Capital One has no affirmative obligation imposed upon it (by either the NSA or the proposed DMCS language) to download the electronic ACS information, isn't it correct that the "receipt" referred to at line 10 of page 3 may or may not take place?
 - (i) Please explain.
 - (ii) Please explain how you take this uncertainty into account in developing estimates for parts (a) – (c) of this interrogatory (if estimates are provided).

RESPONSE:

- a. Confirmed. With respect to volume estimation, see the response to (b-c), below.
- b. As Capital One witness Jean testifies (at 6, lines 9-18), Capital One expects to reduce undeliverable-as-addressed (UAA) mail volume although it does not know by what percentage. I have no reason to doubt that the reduction will occur in UAA mail that is forwarded as well as the mail that currently is returned to Capital One. Similarly, the Postal Service does not have enough information to estimate the reduction of UAA mail. This is precisely the type of data the Postal Service

RESPONSE OF UNITED STATES POSTAL SERVICE PLUNKETT TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

hopes to develop during the term of the Negotiated Service Agreement. It is also the type of data the Postal Service may find useful in developing new policies.

- c. Unable to confirm. Though my response to part (a) suggests that – all other things being equal – an eventual reduction in the number of electronic ACS notifications would ensue, other factors are and will be at work that could counteract that tendency. For example, any significant increase in Capital One's volume would tend to increase the number of undeliverable pieces.
- d. See Agreement, section II(C). Electronic ACS information is furnished via an electronic format chosen by the subscriber. See response to NAA/USPS-T4-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

737

OCA/USPS-T2-26. Please refer to your testimony at page 12, "C. Data Collection."

- (a) Please confirm that, during the course of the experiment, the Postal Service will collect data on Capital One's volume of undeliverable-as-addressed (UAA) First-Class solicitation mail that is forwarded. If you do not confirm, please explain.
- (b) Please confirm that, during the course of the experiment, the Postal Service will collect data on the number of electronic ACS notifications provided to Capital One for UAA First-Class solicitation mail that is forwarded. If you do not confirm, please explain.
- (c) Please confirm that, during the course of the experiment, the Postal Service will collect data on the number of electronic ACS notifications provided to Capital One for UAA First-Class solicitation mail that would otherwise be physically returned. If you do not confirm, please explain.
- (d) For each of the five types of data (marked by "bullets," at lines 11-18), identify which data will be obtained from (1) the permit system; (2) the address management system; and, (3) a special study.
 - (i) Explain the suitability of the permit and address management system to provide each of the five types of data.
 - (ii) Describe in detail every special study that will be conducted, including frequency of collection and whether data will be census or sample type. Also describe how Capital One will need to cooperate in order for the data to be collected.
- (e) Answer all questions posed in part (d) of this interrogatory with respect to the data listed in parts (a), (b), and (c) of this interrogatory.

RESPONSE:

- a-b. Not confirmed. This is not part of the current data collection plan.
- c. Confirmed.
- d-e. Information relating to volumes and revenues will be collected from the Permit system. Information regarding electronic address information will be collected from the address management system. Manual returns of solicitations will be measured by monitoring the number of pieces returned to relevant PO Box addresses. The precise means by which this data will be collected is still under consideration.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

738

OCA/USPS-T2-27. Please refer to your testimony at page 3, lines 7-9, and Article II, Paragraph C of the Agreement. Please define and explain what is meant by the phrase "update its address lists."

RESPONSE:

This phrase means to incorporate new address information into existing address databases.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

739

OCA/USPS-T2-28. Please refer to your testimony at page 12, "C. Data Collection." Please confirm that for each year of the agreement the Postal Service will collect for itself or from Capital One data on the number of

- (a) address lists and/or databases used by Capital One;
- (b) address lists and/or databases referred to in part (a) of this interrogatory that are updated pursuant to Article II, Paragraph C of the agreement;
- (c) corrections made to each address list and/or database referred to in part (b) of this interrogatory;
- (d) address lists and/or databases referred to in part (a) of this interrogatory that are updated pursuant to Article II, Paragraph C of the agreement and reused; and,
- (e) corrections made to each of the address lists and/or databases referred to in part (d) of this interrogatory.
- (f) For parts (a) through (e) of this interrogatory, describe in detail the method of data collection.

RESPONSE:

- a. Not confirmed.
- b. Not confirmed.
- c. Confirmed to the extent such information is required to ensure compliance with the Agreement.
- d. Not confirmed.
- e. Confirmed to the extent such information is required to ensure compliance with the Agreement.
- f. Section II (C) of the Agreement provides the Postal Service with the opportunity to audit Capital One's addressing practices. To the extent the Postal Service finds it necessary to perform such audits, it will seek the necessary information from Capital One.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T2-29. Please refer to your testimony at page 12, "C. Data Collection." 740
Please confirm that the Postal Service will develop and report an annual estimate of the physical returns eliminated and forwards avoided as a result of updates to Capital One's address lists and/or databases. If you do not confirm, please explain. Describe in detail the method of data collection.

RESPONSE:

Not confirmed. The number of avoided physical returns can be estimated based on the number of ACS records processed. As I indicated my testimony, our intention was to collect and report these data.

With regard to forwarding, see my response to OCA/USPS-T2-26(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-30. Please refer to the Agreement between the Postal Service and Capital One, Attachment G to the Request. Under the section, Address and Other Quality Issues, Article II, Paragraph C, "Capital One agrees to update its databases within 2 business days and use the information in all future marketing campaigns."

741

- (a) Within 2 business days of what? Please confirm that since the agreement does not specify what triggers the requirement to update the database, under the agreement, Capital One is not subject to a 2-day update requirement.
- (b) How will Capital One "use the information in all future marketing campaigns?" Does this mean that every Capital One mailing, whether or not from an affected database (or mailing list), must be screened to see if it contains an address identified as UAA from an earlier electronic notification? Please explain.

RESPONSE:

- a. Not confirmed. The agreement requires Capital One to update its databases within 2 business days of receiving the change information.
- b. I expect that Capital One will use the address change information when it prepares its addresses lists for its marketing campaigns.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

742

OCA/USPS-T2-32. Please refer to the Agreement between the Postal Service and Capital One, Attachment G to the Request, and the Address and Other Quality Issues, Article II, Paragraph G. What are the "published Postal Service Move Update requirements for automation compatible mail?" Please present the full text of these requirements and citations for them.

RESPONSE:

Move Update requirements for First-Class Mail are contained in DMM Section E140.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-33. Please refer to the Negotiated Service Agreements Classification Schedule, Capital One Negotiated Service Agreement, section 610.2: ⁷⁴³

The fees for address correction in Fee Schedule 911 are waived for those First-Class Mail solicitations on which Capital One uses the endorsement specified by the Postal Service, if:

...

[Capital One] updates its databases within 2 days after receipt of address correction information and uses the information in all future First-Class Mail marketing campaigns.

- (a) Please confirm that the DMCS does not impose a requirement on Capital One to receive address correction information.
- (b) Please confirm that the DMCS does not impose a requirement on Capital One to endorse its First-Class Mail solicitation pieces.
- (c) Please confirm the following: given that there is neither a requirement for Capital One to endorse its First-Class Mail solicitation pieces nor to receive address correction information, Capital One may opt to omit the (CSR) endorsement from its First-Class Mail solicitation pieces, thereby receiving no address correction notices, and avoiding any address correction fees.

RESPONSE:

- a.-b. Confirmed. The requirement applies only if Capital One wishes to have address correction fees waived and pieces counted toward the discount thresholds. One could readily conclude that, regardless of any other benefits, it would be in Capital One's interests to mail its solicitations to the most accurate addresses available.
- c. Confirmed, although if Capital One were to omit all CSR endorsements and waive electronic address notification, there would be no solicitation mail counted toward the volume thresholds necessary to attain discounts. The practical effect in this scenario is the same as if the Agreement did not exist.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-34. Please explain why the following specifications of the Agreement⁷⁴⁴ were omitted from the classification schedule requirements:

- (a) Agreement, Attachment G, Key Condition I.B. "Capital One agrees to receive electronic information about its undeliverable-as-addressed solicitations sent as First-Class Mail, instead of physical return of the pieces."
- (b) Address and Other Quality Issues, II.A. "Capital One will apply the endorsement 'Change Service Requested' (CSR) to all First-Class Mail solicitations"

RESPONSE:

Although Capital One's intentions are to receive electronic address information and to use the specified endorsement, the NSA recognizes that the Postal Service has no desire to force Capital One to take these actions unless Capital One is seeking the benefits set forth in the NSA, in which case the conditions of the DMCS become applicable, as do any provisions of the NSA that provide further specifications regarding those conditions.

In the event Capital One were to "opt out," the waived address correction fee and the First-Class Mail discounts would not be provided to Capital One and the situation would be the status quo, as indicated in my response to OCA/USPS-T2-33. The Postal Service is not in the business of forcing mailers to use services or seek discounts if they are unwilling to perform the prerequisites of eligibility. Similarly, the NSA does not seek to force Capital One to do anything, but rather embodies Capital One's stated intentions to take certain actions and, if it does, the Agreement sets forth the relative obligations of the parties.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-35. Why are the Classification Schedule and Agreement silent on key⁷⁴⁵ details of transmission and receipt of address correction information, thereby raising doubts whether Capital One will ever "receive" electronic address corrections and update its databases?

RESPONSE:

Please see my responses to OCA/USPS-T2-33 and 34 as well as to 30(b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

746

OCA/USPS-T2-36. Please refer to your response to APWU/USPS-T1-1, redirected from witness Bizzotto, which states, in part:

My understanding is that Capital One places the updated information into a database that it maintains for its returns. Any address that Capital One uses for its First-Class Mail solicitations is then run against the return database.

- (a) What specific changes are made to address lists that are "run against the return database"?
- (b) Please provide documentation to support the statement quoted above.
- (c) If documentation is not available, please describe the basis for your understanding.
- (d) If documentation is not available, what information was provided to you, and who was the source of such information, upon which you based your understanding?

RESPONSE:

- a-c. My understanding is that, in the event a piece of mail is returned as undeliverable, that information is used to identify the address as having generated a piece of UAA mail, and that that information is then retained for as long as the list is in active use.
- d. This information was provided verbally by Capital One during the course of negotiations and case preparation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS BIZZOTTO

747

OCA/USPS -T1-6. Please refer to Section V. of your testimony at pages 5-6, The Agreement With Capital One. Please explain why the USPS has agreed, in the NSA, to freeze the rate during the third year of the NSA's term.

RESPONSE:

As with all of the other features of this agreement, the outcome is the result of bargaining between the Postal Service and Capital One. Issues were generally not treated as separable in the way that this question implies. In any event, the "rate" is not frozen; instead, even if postage rates change as the result of an omnibus rate case or other Commission action, the Capital One NSA discounts stay the same. The Postal Service and Capital One concluded that freezing the discounts was an acceptable means of minimizing the impact of future economic uncertainty and the pressures that may serve to increase or decrease mail volume.

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

748

OCA/USPS-T3-1. Please refer to your testimony at page 1, lines 19-21, which references the declining block discounts.

- (a) What is the economic justification for these discounts? Are these discounts cost-based? If these discounts are cost-based, please provide the supporting analysis.
- (b) Alternatively, are the discounts based on any type of research on possible promotional rates? If so, please provide the relevant research materials.
- (c) Conversely, are these discounts simply arbitrary, being based on supposition, intuition, or speculations? Please explain.

RESPONSE:

- (a) The reason for the discounts is described in my testimony at pages 4-6.
- (b) The Postal Service does not consider these rates to be promotional, and did not base its agreement on any research on such pricing techniques.
- (c) The basis for the discounts, and the relationship of those discounts to the other elements in the instant agreement, is explained throughout my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

749

VP/USPS-T2-1.

Your testimony (at p. 1, l. 4) states that "Capital One's use of the mail creates unique opportunities," and you refer to "opportunities that arise from Capital One's unique and innovative use of First-Class Mail in its business model" (at p. 2, ll. 3-5).

- a. Do you consider the fact that Capital One heavily uses First-Class Mail for solicitations instead of Standard Mail to be a factor in its unique and innovative use of First-Class Mail? Please explain.
- b. Do you consider the fact that Capital One would be willing to have its nonforwardable solicitation First-Class Mail destroyed if Address Change Service ("ACS") notification would be free to be a factor in Capital One's unique and innovative use of First-Class Mail? Please explain.
- c. Do you consider the fact that the proportion of Capital One's solicitation First-Class Mail that is undeliverable as addressed and cannot be forwarded is about eight times the national average to be a factor in Capital One's unique and innovative use of First-Class Mail? Please explain.
- d. Please explain the extent to which you believe Capital One's capability and willingness to accept and use computerized ACS notices to be unique and innovative.
- e. Do you believe Capital One's preference for physical returns, instead of the Postal Service's computerized ACS, to be unique and innovative? Please explain.
- f. Please list any other characteristics of Capital One's use of First-Class Mail that you consider unique and innovative. If it is some particular combination of characteristics that makes it unique, please specify the characteristics and their interaction that make them unique.

VP/USPS-T2-1 Response:

- a. Yes.
- b. No. Presumably many companies would convert to Address Change Service if it were made available for free, all other things being equal.
- c. I have not studied other companies to the extent necessary to determine whether there are many, or some, or few that have proportions of returned mail comparable to Capital One. I would also maintain that the amount or proportion of return mail that Capital One generates is more a byproduct of its use of the mail, than a characteristic of the same.
- d. See response to part b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

750

- e. No. As the number of subscribers to computerized ACS is less than the total number of First-Class Mail users, Capital One's election of the same alternative could hardly be called unique.
- f. In addition to my response in part a, see witness Jean's testimony (COS-T1, pp. 2-3).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

751

VP/USPS-T2-2.

Your testimony (at p. 3, ll. 5-7) states: "The proposed agreement would allow Capital One access to declining block rates for First-Class Mail in exchange for the receipt of address change information electronically, rather than the physical return of the mail piece."

- a. Do you consider the absolute size of Capital One's First-Class Mail volume to be a factor in concluding that Capital One's use of the mail is unique and warrants a Negotiated Service Agreement ("NSA")? Please explain the role of size in your deliberations, being sure to distinguish between absolute size per se and size relative to other mailers of the same subclass. For example, would the top three users of a subclass be unique or would it be only the largest user in each subclass?
- b. Is the above statement from your testimony intended to mean that you consider the receipt of address change information electronically to be an essential condition for any other mailer to have access to declining block rates in First-Class Mail? Please explain fully any answer that is not an unqualified affirmative.
- c. Is it your testimony that declining block discounts for First-Class Mail should be linked to electronic receipt of address change information? Please explain all reasons why the Postal Service believes the two should be linked.

VP/USPS-T2-2 Response:

- a. I do not consider size to be a factor in determining "uniqueness". However, in this case, Capital One's size is a relevant factor in determining the appropriate form of the Agreement. For example, I consider the thresholds embedded in the declining block discount structure to be appropriate given Capital One's size. Those same thresholds might not be appropriate for the next largest customer in the same subclass.
- b. No. The Postal Service considers Capital One's willingness to receive address information electronically to be an essential element of the Agreement, but it is not necessarily a prerequisite for other agreements.
- c. No. In another agreement, linking the two may not be appropriate and depends on the circumstances of a given mailer.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

752

VP/USPS-T2-3.

Your testimony (at p. 4, ll. 20-23) discusses the size of the Capital One discounts relative to their total postage bill. You say: "Because of Capital One's size, discounts that are large at the margin ... are relatively small when considered relative to Capital One's total First-Class Mail revenue."

- a. Please explain whether it is your contention that the merits of the proposed Negotiated Service Agreement ("NSA") depend on the absolute size of Capital One's postage bill for First-Class Mail.
- b. According to the testimony of Capital One witness Stuart Elliott, COS-T-2, the before-rates First-Class volume of Capital One is 1.408 billion pieces. You indicate on page 4, line 21, of your testimony that the maximum discount, on a declining block basis, is "just above 20 percent." Witness Elliott pegs the after rates volume at between 1.423 and 1.461 billion pieces. For purposes of this question, assume the after-rates volume is 1.450 billion, which is an increase in volume of approximately 3 percent. If the discounts began at 1.408 billion pieces (instead of 1.225 billion pieces), the total discount amount would equal 1.450 — 1.408 billion times the average per-piece discount. This amount could easily be divided by the total postage bill to obtain what may be called a discount proportion.
 - (1) Please explain any extent to which you disagree that the discount proportion as just defined is a meaningful way to compare the total discount amount to the total postage bill of the mailer.
 - (2) Except for the fact that the proposed discounts take effect below the projected before-rates volume level, please explain the extent to which the discount proportion as just defined is similar in nature to the "one percent" figure you provide on page 5, line 1, of your testimony.
 - (3) Assume a mailer one-tenth the size of Capital One which has a before rates volume of 0.1408 billion pieces (i.e., 140.8 million pieces). Assume this mailer is given declining-block discounts similar to those proposed, and the volume increases to 0.1450 billion pieces. Please explain whether the discount proportion for this mailer would be larger, smaller, or the same size as the "one percent" figure you provide for Capital One.
 - (4) If your response to part (3) above is "the same size," please explain the references in your testimony to the importance of the absolute size of Capital One's postage bill and to the smallness of the discount proportion.

VP/USPS-T2-3 Response:

- a. I don't believe the merits of this proposal depend at all on the total size of Capital One's postage bill.
- b. The hypothetical example presented in this question is conceptually similar to my characterization as referenced, and may be an appropriate basis for

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

753

comparing proposals. If the per piece discounts were identical, then the total discounts would be one tenth the size, and if the postage bills were proportionally similar, then the percentage discounts are the same. As indicated in my response to part a, I do not consider the size of the total postage bill relevant in determining the soundness of the Agreement. Because the Postal Service is proposing discounts that are – when expressed in absolute terms – much larger than typical discounts, I included the instant language for illustrative purposes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

754

VP/USPS-T2-4.

Your testimony (p. 8, ll. 17-19) refers to the size of the Capital One discounts relative to overall Postal Service revenue as "barely measurable."

- a. Please explain the extent to which it is your testimony that the smaller in absolute terms a discount is, the more justifiable it is.
- b. Please explain whether you would agree that since Capital One is such a large mailer, similar discounts for almost any other mailer would be even less measurable than the discounts for Capital One.
- c. If you do not see the absolute size of discounts relative to the overall Postal Service budget to be an important factor in assessing the extent to which a particular NSA is meritorious, please explain why you emphasize such size in your testimony.

VP/USPS-T2-4 Response:

- a. One of the purposes of my testimony is to explain why a proposal that would be considered novel is consistent with the Act. In doing so I thought it appropriate to mention that the possible effects that this agreement would have on other customers. Arguably, agreements that are larger in absolute terms would present larger risks to other customers, and the Commission would no doubt take this into account in making its Recommended Decision.
- b. All other things being equal, smaller discounts would – by definition – have smaller effects.
- c. See my response to part a.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

755

VP/USPS-T2-5.

Within the framework of a traditional linear-demand curve, of the kind commonly used to think about economic situations, with price on the vertical axis and quantity demanded per unit of time on the horizontal axis, please respond to the following questions.

- a. If a particular price is selected and the demand curve indicates the quantity purchased by the market or by a particular customer at that price, do you agree that the revenue collected by the Postal Service is represented by the two dimensional area of a rectangle with height equal to the price and width equal to the quantity demanded, and that the upper right corner of the rectangle touches the demand curve at one point? If you disagree (or have difficulty with the framework of the question), please so state, and explain your disagreement or difficulty.
- b. If, for a given quantity, the Postal Service were able to perfectly segment the market and extract all of the value that mailers receive from having the mail sent, do you agree that the revenue of the Postal Service would be equal to the entire area under the demand curve up to the given quantity? If you disagree, please explain your disagreement.
- c. If there are a market price and a market quantity, or a price and quantity for a specific customer, do you agree that progressively declining block discounts from the given price could be viewed as a way to extract in revenue a greater part of the area under the curve than could be obtained from a simple rectangle as described in part a above? Please explain any negative answer.
- d. When a firm uses declining block discounts to obtain revenue equal to more of the area under the demand curve (so long as the price is above the firm's marginal cost), do you agree that both the customers and the firm gain and that there are no losers? Please explain any disagreement.
- e. If declining block discounts can be used to obtain additional net revenue as just described, and the welfare of customers can be improved, please explain whether you believe this means that declining block discounts can make economic sense in and of themselves, without being used in combination with other contract features.
- f. If declining block discounts are justified according to the logic suggested in this question, please explain whether you believe that the strength of this justification depends in any way on the absolute volume or the relative volume of the mailer.

VP/USPS-T2-5 Response

- a. I agree.
- b. I agree.
- c. I agree.
- d. Not necessarily. In order to agree that all parties gain and no party loses, it is necessary to establish the basis for comparison more precisely. For

example, if we start at a given price and quantity, with no declining block rates, and then implement declining block rates starting only at quantities in excess of the initial quantity, I agree that both the customers and the firm stand to gain under the conditions specified. On the other hand, if the declining block rates are used by the firm only to obtain more revenue from some of the units that were already being purchased (i.e., the original given price is now the lowest price charged in the declining block structure, rather than the highest), the firm stands to gain, but the customers do not. Under this scenario, the firm would be attempting to "segment" the market (as described above in subpart b.) to obtain more of the area under the demand curve as revenue, purely for its own benefit.

- e. I agree that declining block discounts can make economic sense in and of themselves, just as the venerable maxim "buy low and sell high" makes economic sense. The true hurdle to be overcome in each instance, however, is not in grasping the underlying economic theory, but in applying that theory to the real world. The theoretical framework upon which all of these questions have been premised (e.g., a known demand curve) is a useful analytic construct, but we must not fail to appreciate that our understanding of demand curves (particularly for individual customers) encompasses many of the same volatilities as our understanding of stock markets and stock prices.
- f. While there is a justification for declining block rates in terms of consumer welfare, I'm not prepared to say that justification would hold regardless of

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

757

— volume. For instance, declining block rates at significantly lower volume levels may create practical difficulties that would not necessarily be offset by any benefits of the arrangement.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

758

VP/USPS-T2-6

OCA/USPS-T2-11(a) asked you: Please confirm that the offering of Change Service Requested, Option 2, at no charge to any First-Class mailer whose return or forwarding volumes exceeded the average would produce net cost savings to the Postal Service. If you do not confirm, please explain.

You responded: Not confirmed.

While the average cost of handling undeliverable-as-addressed pieces physically is greater than the cost of providing returns electronically, it is not necessarily true that waiving fees would – in every case – result in net cost savings, even in the event that a particular customer's percentage of returned pieces exceeds the average rate. Please answer the following questions.

- a. Have you assumed that the "at no charge" service being provided is ACS service and that it is provided to all undeliverable-as-addressed (UAA) pieces (as opposed to those that are returned)? Please explain any negative answer.
- b. Please state whether you have made any assumptions about the ratio of UAA pieces that are successfully forwarded, to UAA pieces that are returned, both (i) on average, and (ii) for Capital One, and explain these assumptions.
- c. You state that "the average cost of handling undeliverable-as-addressed pieces physically is greater than the cost of providing returns electronically...." Please state whether this is true for UAA pieces that are forwarded or for UAA pieces that are returned, or both. Please also state whether the cost of handling UAA pieces physically depends on whether the piece is forwarded or returned. Please explain each answer in detail.
- d. Proceeding from the last phrase in the last sentence of your response quoted above, please assume that a particular customer's percentage of returned pieces exceeds the average rate. Under this assumption, if the average cost of returning UAA pieces physically for this customer is greater than the cost of providing returns electronically, please explain how waiving the fees would not result in a net cost savings for the Postal Service.
- e. Proceeding again from the last phrase in the same last sentence, please assume that a particular customer's percentage of returned pieces is equal to the average rate of returned pieces. Under this assumption, if the average cost of returning UAA pieces physically for this customer is greater than the cost of providing returns electronically, please explain how waiving the fees would not result in a net cost savings for the Postal Service.
- f. Proceeding once more from the last phrase in the same last sentence, please assume that a particular customer's percentage of returned pieces is less than the average rate of returned pieces. Under this assumption, if the average cost of returning UAA pieces physically for this customer is greater than the cost of providing returns electronically, please explain how waiving the fees would not result in a net cost savings for the Postal Service.
- g. Please explain how the qualitative relation (greater than, equal, or less than) of a particular customer's returns to the average rate of returns bears on whether waiving the fees would result in a net cost savings for the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

759

VP/USPS-T2-6 Response:

- a. Yes.
- b. I did not make any specific assumptions in drafting my response.
- c. In general, my response is true irrespective of whether the pieces being handled physically are returned or forwarded.
- d-f. On average, a net cost savings would result if all users converted to electronic receipt of CSR if one ignores the impact that waiver of the fee has on the mailer's address hygiene practices (see response to OCA/USPS-T4-14). In my response I was making a distinction between this general point, and the extreme notion implied in the interrogatory: that in every case, provision of ACS for free produces a net cost savings
- g. In no way did I intend that an individual customer's proportion of returned mail bears on this issue. I was acknowledging that the costs of handling UAA mail might vary by customer, and that in some cases a net cost savings may not result.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

760

VP/USPS-T2-7

OCA/USPS-T2-18(b) asked you: Please provide an example of a mailer whose "average cost of handling undeliverable-as-addressed pieces physically is greater than the cost of providing returns electronically" but does not result in net cost savings to the Postal Service.

Your responded:

I am not aware of any specific examples. My response to OCA/USPS-T2-11(a) was based on the fact that the savings estimates employed in the instant filing are based on average per-piece costs. By definition a significant number of returned pieces costs less than the average, and it is therefore plausible that a given mailer's characteristics are such that conversion to CRS Option 2 would not produce a net savings.

Please answer the following questions.

- a. Please state whether you assumed in your answer that the undeliverable-as-addressed (UAA) pieces being handled physically were all being returned instead of being forwarded. Please explain any negative answer.
- b. In your answer you state: "By definition a significant number of returned pieces costs less than the average . . ."
 - (i) Do you have an opinion as to the characteristics of the pieces that, or the nature of the mailers whose pieces, "cost[] less than the average"? If so, what is that opinion?
 - (ii) To what extent would you expect that the return costs for unusually large mailers might be lower than, or otherwise different from, return costs on average? Please explain your answer.
 - (iii) Would you expect the costs for mailers who send predominately lettersize pieces would be lower than the return costs on average? Please explain your answer.
- c. Have you analyzed whether the physical return costs caused by Capital One's First-Class Mail solicitation pieces are below average, and therefore that Capital One might be one of those mailers whose "characteristics are such that conversion to CRS Option 2 would not produce a net savings?" If so, please provide that analysis.
- d. Since the average mail processing cost of physically returning mailpieces is 29.95 cents, would you agree that the plausibility "that a given mailer's characteristics might be such that conversion to CRS Option 2 would not produce a net savings" would depend in large part on the on the dispersion (e.g., standard deviation) of cost around the mean figure of 29.95 cents? Please explain any disagreement.
- e. Since the average cost of ACS is 14.5 cents, would you agree that the plausibility "that a given mailer's characteristics might be such that conversion to CRS Option 2 would not produce a net savings" would depend to some degree on the on the dispersion (e.g., standard deviation) of cost around the mean figure of 14.5 cents? Please explain any disagreement.
- f. Have you seen, or are you aware of, any data that bear on the dispersion of the unit cost of physically returning mailpieces around the mean of 29.95 cents? If so, please explain the full extent of your knowledge, and provide any data of which you are aware that bear on the dispersion of unit costs around the mean.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.

- g. Have you seen, or are you aware of, any data that bear on the dispersion of the unit⁷⁶¹ cost of ACS around the mean of 14.5 cents? If so, please explain the full extent of your knowledge, and provide any data of which you are aware that bear on the dispersion of unit costs around the mean.

VP/USPS-T2-7 Response:

- a. I didn't make any such assumptions.
- b. I didn't perform the analysis suggested by this interrogatory. My point was more general; that there are and will be deviations from the average such that some pieces would have characteristics that would cause a net increase in costs if that mailer were to convert to CSR.
- c-g. In witness Crum's testimony, he implicitly assumes that the cost of handling Capital One's undeliverable solicitations are appropriately represented by the average cost. I am not aware of any analysis that would measure the true costs of Capital One's UAA mail or compare such a measurement to an estimated average. I would point out two factors that support the implicit assumption that Capital One's mail is adequately represented by an average. First, Capital One accounts for a significant proportion of return volume. Consequently, their mail determines what average is more than any other mail. Second, Capital One is a national mailer that sends solicitation mail all over the US. As a result, this mail is likely to represent a wide range of local operating conditions, and therefore less likely to reflect unusual conditions.

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? 762

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? 763

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.

764

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

765

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.

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

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.

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

767

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

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

768

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.

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

769

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

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

up costs and with a prolonged period of adoption during which customers slowly start to⁷⁷⁰
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.

1 CHAIRMAN OMAS: This brings us to oral cross-
2 examination. Four parties have requested oral cross-
3 examination, the American Postal Workers Union, AFL-CIO, Ms.
4 Catler; the Newspaper Association of America, Mr. Baker;
5 Office of Consumer Advocate, Mr. Costich; and Val-Pak
6 Marketing Systems, Inc. and Val-Pak Dealers Association,
7 Inc., Mr. Olson.

8 Is there any other party that wants to cross-
9 examine this witness today?

10 (No response.)

11 CHAIRMAN OMAS: There being none, Ms. Catler,
12 would you begin?

13 MS. CATLER: Thank you, Mr. Chairman.

14 CROSS-EXAMINATION

15 BY MS. CATLER:

16 Q Good afternoon.

17 A Good afternoon.

18 Q Mr. Plunkett, you're currently the manager of the
19 pricing innovations group. Is that correct?

20 A My title is manager of pricing strategy. The name
21 of our department was changed subsequent to the filing of
22 testimony, and I think that came up in someone's cross-
23 examination of Witness Crum the other day.

24 Q So you're now the manager of pricing strategy?

25 A That's correct.

1 Q Okay. Were you directly involved in the
2 negotiations of this proposed negotiated service agreement
3 between the United States Postal Service and Capital One
4 Services, Inc.?

5 A Yes, I was.

6 Q Could you tell me when negotiations started for
7 this negotiated services agreement?

8 A Well, not really. I assumed the position of
9 manager of pricing innovation I believe in January of 2002,
10 and soon, if not immediately thereafter, became involved in
11 discussions with Capital One. However, I think some
12 discussions, although of a very preliminary nature, had
13 taken place prior to my arriving in that position.

14 Q Okay. Could you tell me who initiated discussions
15 between Capital One Services, Inc. and the Postal Service
16 that ultimately led to this proposed negotiated services
17 agreement between the United States Postal Service and
18 Capital One Services, Inc.?

19 A Well, as I said, I became involved very early in
20 the process, but perhaps not at the actual genesis of this
21 agreement. I think Witness Bizzotto the other day referred
22 to the fact that with customers such as Capital One the
23 Postal Service has ongoing discussions all of the time, and
24 very often things develop out of those discussions.

25 My belief is that it would be very difficult to

1 actually identify who first came up with the notion that we
2 should negotiate an agreement because I believe it arose out
3 of one such discussion.

4 Q Okay. When you began as the manager of pricing
5 innovation in January 2002 and shortly thereafter began to
6 be involved in discussions with Capital One Services, Inc.,
7 were those discussions at that point talking about a
8 proposed negotiated service agreement?

9 A Yes, they were. That was clearly the -- by that
10 time there was an intention to move in that direction
11 already established.

12 Q Were you the only one that was involved with these
13 negotiations, or were other people representing the Postal
14 Service involved?

15 A There were many people involved.

16 Q Were you the lead negotiator once you became
17 manager of pricing innovation in January of 2002?

18 A I'm somewhat uncomfortable using the term lead
19 negotiator. Any time we envision filing a rate or
20 classification change, and that was clearly understood from
21 the outset, it's a very collaborative effort involving many
22 departments within the Postal Service.

23 I would say that I probably in terms of quantity
24 had as much as or more direct involvement than any other
25 individual that I'm aware of.

1 Q You know, I obviously have not been involved in
2 negotiations for the Postal Service for putting together a
3 negotiated services agreement, but I have been involved in
4 labor negotiations, and it's my experience that the Postal
5 Service does usually designate someone to take the lead in
6 negotiations with another party.

7 Were you the party that was designated to take the
8 lead in the negotiations with Capital One leading to this
9 proposed negotiated service agreement?

10 A Well, a formal designation of that kind did not
11 take place. I would mention that this is the first time
12 we've done this, and there is not a longstanding,
13 established procedure for entering into this type of
14 negotiation so it's perhaps not surprising that such a
15 designation did not take place.

16 As I've indicated, I would say that I had as much
17 as or more involvement than probably any other specific
18 individual in the Postal Service in negotiating this
19 agreement.

20 Q All right. If you were not de facto the lead
21 negotiator for this agreement for the Postal Service, could
22 you identify who was?

23 A Again, as I tried to indicate, I don't think you
24 could say that such a designation was made in any official
25 way. I certainly had a lead role on a number of issues

1 pertaining to negotiation, but I'll cite a specific example
2 on this case, because it was expected to establish
3 precedent, gave rise to a number of legal issues.

4 As I am not an attorney, it would not have been
5 appropriate for me to take the lead on helping to manage any
6 of those issues, so, as I referred to, this is a
7 collaborative effort. It involves a number of different
8 organizations and disciplines within the Postal Service.

9 I would say that on issues relating to the
10 business features or components of the agreement you could
11 probably safely say that I had probably a leadership role in
12 that.

13 Q Thank you. Speaking of the business features of
14 the agreement, was there any financial analysis done for
15 years two and three of the agreement as part of the process
16 of deciding whether or not to enter into this agreement?

17 A Yes, there was.

18 Q Has that financial analysis been presented in this
19 proceeding?

20 A It has, and I'll describe what form it took. I
21 believe Witness Crum responded with a type of sensitivity
22 analysis intended to show that under a reasonable set of
23 assumptions about what will happen in the future.

24 If you change some of the variables necessary to
25 evaluate the agreement, Witness Crum's analysis demonstrates

1 that under those different kinds of assumptions this is
2 still an agreement that produces net contribution gains for
3 the Postal Service.

4 Throughout the process of presenting this
5 agreement to the executive committee and ultimately to the
6 Board of Governors, we were focused primarily on the test
7 year and consider that test year to be representative of the
8 subsequent years of the agreement, meaning years two and
9 three.

10 In the course of explaining and describing the
11 agreement to members of senior management, we, of course,
12 conducted this kind of sensitivity analysis that Witness
13 Crum has presented in this case to demonstrate that under
14 any reasonable set of assumptions about the future the
15 benefits to the Postal Service still accrue as a result of
16 this agreement.

17 MR. REITER: Mr. Chairman? Excuse me a second,
18 Ms. Catler. Just for the record, I think the response that
19 the witness is referring to was a response of the Postal
20 Service to APWU's Question 2.

21 THE WITNESS: Right.

22 MS. CATLER: Thank you.

23 BY MS. CATLER:

24 Q So when you say that there was some financial
25 analysis done for years two and three, what was done was

1 what has been reported in response to APWU/USPS-2. Is that
2 correct?

3 A Subject to check on the specific interrogatory,
4 that's correct.

5 Q Okay. Now, did that financial analysis take into
6 account the implementation of the PARS program in the out
7 years of this agreement?

8 A Well, the implications of the PARS program were
9 considered, but I'm not sure they were considered
10 specifically within that context.

11 Again, the analysis presented in response to that
12 interrogatory essentially is a form of sensitivity analysis
13 where we attempt to describe a range of outcomes assuming
14 some changes in variables, but we do not go to that level of
15 specificity to develop specific changes that would be likely
16 to arise because of the implementation of PARS, although the
17 implications of PARS were considered throughout the
18 consideration of this agreement as a whole.

19 Q Okay. The financial analysis that you presented
20 in this interrogatory response, which we believe is
21 APWU/USPS-2, that's not the same financial analysis that you
22 actually did while you were considering the agreement, is
23 it?

24 A Could you repeat that question, please?

25 Q Well, you just said to me that while you were

1 considering the agreement you did think about and consider
2 how the PARS program would affect the out years of this
3 agreement. Wasn't that part of your financial analysis?

4 A It was an element that was considered. We did not
5 attempt to develop any specific or precise estimates of the
6 impact of PARS.

7 When we considered the implementation of PARS
8 during this agreement, we looked at a number of the things
9 discussed by Witness Wilson yesterday and reached the
10 conclusion that the effects of PARS, to the extent they
11 could be related to this agreement, were likely to have a
12 relatively small impact.

13 It was not clear whether that impact would be
14 positive as it relates to the agreement or negative as it
15 relates to the agreement, so because of the insignificance,
16 as it were, of the effect of PARS on this agreement, it was
17 excluded from creating the precise financial analysis used
18 to develop test year estimates.

19 Q Did you have any analysis of the financial effects
20 of PARS that you were basing this conclusion that PARS would
21 be insignificant to the situation covered by this negotiated
22 service agreement?

23 A Could you repeat that question again, please?

24 Q I'm asking you what you based your conclusion that
25 PARS would have an insignificant effect on the situation

1 covered by the negotiated service agreement.

2 A I can tell you the two things we gave some
3 consideration to. As I believe Witness Wilson described
4 yesterday, the primary benefit of PARS, as I understand it,
5 arises from the ability to capture affordable mail at the
6 point of origin and avoiding many of the costs associated
7 with handling that mail in the absence of PARS.

8 One main feature of Capital One's mail, of course,
9 is that it is presorted and is sent to destination and
10 opened at destination before it is run across any of our
11 automated equipment, which negates the ability of the PARS
12 system to capture that mail at origin and so that primary
13 benefit of PARS would not obtain in the case of Capital
14 One's mail for the most part.

15 The other element that I would say we gave some
16 consideration to was something also mentioned by Witness
17 Wilson yesterday. He talked about the ability of the PARS
18 system to enable the capture of additional savings when
19 returned mail bears an ACS participant code or a key line.

20 One of the elements of this agreement, of course,
21 is that Capital One's solicitation mail will now start to
22 bear a key line and an ACS participant code, so in effect
23 this agreement creates a new pool of mail that creates
24 savings possibilities for the PARS system that would not
25 have existed in the absence of agreement.

1 We did not have a precise way to estimate what
2 those effects might be. We considered them to be positive,
3 but again all in all we did not consider them to have a
4 significant effect on the overall value of the agreement and
5 for the sake of conservatism elected not to include those in
6 the analysis.

7 Q Okay. All right. For presorted mail then, PARS
8 won't save the transportation costs from the point of origin
9 to the mail processing facility near the place of delivery,
10 but it will save all of the costs associated with it going
11 out to the letter carrier and the letter carrier having to
12 identify it as mail that should be forwarded and bringing it
13 back and all those costs, won't it?

14 A I have not studied the PARS system enough to know
15 what savings are captureable or not for presorted mail.
16 Again, we considered in a broad sense the effect of PARS,
17 but did not perform that kind of exhaustive analysis that
18 would have allowed us to reach that conclusion.

19 Q On page 1 of your testimony at lines 5 through 9
20 you list the three main goals of this negotiated service
21 agreement. They are that it allows the Postal Service to
22 reduce cost and increase revenue, it creates an incentive
23 for Capital One to maintain and increase its use of first
24 class mail, and it reduces the overall burden on postal rate
25 payors by creating incremental contribution gains.

1 Which of these do you consider to be the most
2 important business consideration?

3 A I never really applied any kind of rank order to
4 those three specific goals. I think they all have merit.
5 If you're asking if I have a personal favorite, I really
6 don't.

7 What I was trying to do here is identify what I
8 think the salient benefits of this agreement are, but I've
9 not necessarily formed an opinion as to which dominates the
10 other two.

11 Q Now, if one of the goals is to increase the
12 revenue of the Postal Service, why are you and the Postal
13 Service willing to take a \$6.7 million discount leakage
14 loss?

15 A Well, I think I would refer back to a point that
16 has been made several times, which is that the thresholds
17 were a result of negotiations that took place between the
18 Postal Service and Capital One, and I would point out that
19 before Capital One is going to be in a position to earn a
20 cent in discounts the Postal Service will be in a position
21 to save approximately \$12 million in costs now associated
22 with handling returned mail.

23 The Postal Service will not be able to achieve
24 those cost savings in the absence of this agreement, so when
25 considered in total in attempting to negotiate acceptable

1 terms the Postal Service considered the thresholds we
2 arrived at to be fair and to in total produce a very
3 beneficial agreement for the Postal Service.

4 Q Isn't it true that the net benefit for the Postal
5 Service comes from the ACS change savings rather than from
6 growing revenue or increased contribution gain?

7 A Well, I think the term net suggests that it's a
8 combination of all of those different elements. As I've
9 said on a couple of occasions, it's not really -- I don't
10 think it's possible to separate the specific elements of the
11 agreement for that kind of analysis.

12 The savings that accrued to the Postal Service as
13 a result of not having to handle those undeliverable mail
14 pieces will not arise in the absence of this agreement, and
15 so it's not appropriate, from my point of view, to consider
16 the leakage in isolation without also considering the
17 savings opportunities that those discounts create.

18 Q Do you think it's appropriate to consider the fees
19 that the Postal Service is waiving that other people would
20 have to pay? By this I mean the 20 cents per piece
21 notification fee that other users of CSR Option 2 will have
22 to pay.

23 A Consider in what way?

24 Q Well, say that's approximately \$14 million.
25 Shouldn't that be considered as a cost of doing this deal?

1 A Capital One is not paying any fees right now.
2 They don't use ACS service. As Witness Wilson testified
3 yesterday, I don't know of anybody who believes that they
4 would under any other circumstances.

5 Q I understand that, but I also understand that
6 you're providing them a benefit that would cost anybody
7 else, according to the calculations that Mr. Baker walked
8 through the other day, approximately \$14 million. Shouldn't
9 that be factored in as a cost of doing this deal?

10 A But it's not a cost. Capital One is not paying
11 those fees now. There's no loss of revenue in any way.

12 Q Okay. What about now maybe the 20 cents per piece
13 is not a reflection of the actual cost to the Postal Service
14 of providing that electronic notification, but there is some
15 cost to the Postal Service of providing that electronic
16 notification. You will be providing that. There's a cost
17 of providing that.

18 Have you included that in your calculus of whether
19 this is a good deal?

20 A I believe those costs are included in Witness
21 Crum's estimate of the cost and benefits of the agreement.

22 Q So it's not the fee, but the actual costs that
23 you've included, --

24 A Yes. I believe that --

25 Q -- of the electronic notification?

1 A Again, that's in Witness Crum's testimony, but I
2 believe that to be correct.

3 Q Okay. In response to OCA/USPS-T-2-4, you indicate
4 that there was no mathematical derivations of the threshold
5 amounts in this agreement. You indicate that they were the
6 outcome of negotiations.

7 In your response to NAA/USPS-T-1-8(i) --

8 A Could you repeat that? I'm leafing through my
9 documents.

10 Q All right. This is one of the ones redirected
11 from Ms. Bizzotto.

12 A Okay.

13 Q It was her question, T-1. It's NAA/USPS-T-1, and
14 then it was Question 8(i).

15 A I'm having trouble locating that, but you can go
16 ahead and ask the question.

17 Q Okay. In that one you state that during the
18 discussions with Capital One the Postal Service used a
19 variety of information to determine that Capital One had
20 "growth potential."

21 A Yes.

22 Q I am presuming you mean mail volume growth
23 potential, as well as general growth potential here.

24 Can you explain the rationale for the Postal
25 Service negotiating a starting point for the block discounts

1 that is lower than Capital One's first class volume not only
2 in 2002, but also in 2001?

3 A I don't have Capital One's volume numbers in front
4 of me for 2001. As I pointed out in my testimony, Capital
5 One's volume in calendar year 2002 was considered by the
6 Postal Service and by Capital One to be anomalous in that it
7 reflected an unusual series of events that took place after
8 September 2001 where Capital One saw an opportunity to
9 greatly increase their use of first class mail and to shift
10 all volume out of standard mail for a period of time.

11 We certainly do not expect that same set of
12 circumstances to occur in future years, so we sort of
13 discounted that effect in the historical volume. For that
14 reason, we considered those historical volumes to be
15 somewhat anomalous.

16 I would point out also that in comparing the 1.225
17 initial threshold to the 1.4 billion piece projection that
18 Capital One has provided that that 1.4 billion number is an
19 estimate. If economic conditions were to change in such a
20 way that their volume were well below that, in the absence
21 of a threshold that allowed Capital One some ability to
22 attain it they might have cause to vacate the agreement, and
23 the Postal Service would not be in a position to capture the
24 cost savings associated with this agreement.

25 There is, I believe, some considerable risk

1 associated with that number, and it is quite possible that
2 Capital One's volume in the test year will be well below the
3 1.4 billion pieces.

4 Q Now, I refer back to you having made the
5 determination that Capital One had growth potential. If
6 your goal is to maintain and grow Capital One's first class
7 volume and increase revenues for the Postal Service, what is
8 the logic for giving discounts for mail volumes that are
9 already being mailed at current rates, especially if you
10 think the company, meaning Capital One Services, is likely
11 to increase mail volume anyway?

12 A I don't know that I said we thought they were
13 likely to increase mail volume anyway.

14 Q Well, you said that they felt that they had growth
15 potential.

16 A Well, the potential that's especially in the
17 presence in this agreement is that they could continue to
18 grow mail volume. I would make a distinction between that
19 and saying that their mail would have grown anyway, which I
20 don't think I said.

21 We looked at to the extent possible the
22 information that was available to us and concluded that in
23 the presence of this agreement Capital One would have an
24 incentive to grow mail volume, and it is important not only
25 to have an incentive to grow volume, but that that incentive

1 could actually be carried out, and that is why having the
2 potential for additional volume growth was important.

3 Q Are you trying to say that you wanted to insure
4 that they hit the threshold so you set it low --

5 A No.

6 Q -- below their current one so they would for sure
7 get there?

8 A No. No. I guess maybe I misunderstood the
9 intention of your question. I clearly did not say that we
10 expected their volume would have grown anyway.

11 What I did say is that we thought there was some
12 potential for volume growth beyond what is projected, and we
13 believe strongly that the declining block rates provide an
14 incentive for Capital One to actually continue to grow their
15 volume and to maintain their volume levels. That's the
16 point I was attempting to make.

17 Q Okay. As the manager of pricing strategy, are you
18 familiar with the plans to implement CSR Option 2?

19 A Somewhat. I mean, its implementation has
20 implications for this agreement, so I'm familiar with it
21 from that point of view.

22 Q Do you know if the regulatory changes are in place
23 for the Postal Service to begin providing this service to
24 any of its other users that request it as of January, 2003?

25 A I'm not aware of any regulatory changes that need

1 to take place for that to happen. I think Witness Bizzotto
2 and Witness Wilson testified to the fact that all of the
3 necessary technical changes were expected to be complete and
4 that it was anticipated that availability of CSR Option 2
5 would take place as scheduled in early calendar year 2003.

6 Q All right. As manager of pricing strategy, are
7 you responsible for making sure that whatever regulatory
8 things that need to be done to get new prices into effect
9 actually take place?

10 A I have no direct responsibility for any changes in
11 regulations.

12 Q Does it require a change in regulations to have
13 CSR Option 2 go into effect in January of 2003?

14 A I don't know the answer to that question.

15 Q Is it your understanding that CSR Option 2 will go
16 into effect in January of 2003 no matter what happens in
17 this current Rate Commission case?

18 A Yes. The provision and the availability of CSR
19 Option 2 was decided long before any discussions with
20 Capital One began. From my point of view, the provision and
21 availability of that option to first class mailers is
22 completely independent of this agreement.

23 Q And somehow it is just going to appear in January
24 of 2003? I mean, normally when the Postal Service offers a
25 new service or changes rates there is some kind of a

1 proceeding that occurs to allow that to happen.

2 MR. REITER: Mr. Chairman, I believe Ms. Bizzotto
3 addressed this issue yesterday as to the --

4 MS. CATLER: Well, she --

5 MR. REITER: I'm sorry.

6 MS. CATLER: She claimed she didn't know.

7 MR. REITER: Well, we can check the record and see
8 that. My recollection is that she said that people on her
9 staff were working on doing what needed to be done to
10 implement it on the time schedule that we indicated, but
11 perhaps my recollection is faulty.

12 MS. CATLER: That's possible. I'm just
13 interested. It's December now, and January is coming --

14 CHAIRMAN OMAS: Mr. Plunkett, if you can answer
15 the question?

16 MS. CATLER: -- so I was wondering what you were
17 planning on doing.

18 THE WITNESS: I can.

19 CHAIRMAN OMAS: Excuse me. Mr. Plunkett, if you
20 could answer, we'd appreciate it.

21 THE WITNESS: I mean, I'll express my
22 understanding of the issue as I heard it. There is in place
23 already a CSR service available to users of first class
24 mail. It's not designated Option 1 because today it's the
25 only version of CSR that exists. There is in place already

1 a fee for that service, and it's available to all users of
2 first class mail.

3 My understanding of the changes needed for CSR
4 Option 2 is that they are part of an ongoing effort by the
5 address management group to improve those services. It
6 creates a new way for customers to receive address change
7 service, but it does not necessarily require any change in
8 regulations in order to implement that. It's essentially
9 just a new way to receive an existing product.

10 BY MS. CATLER:

11 Q Except doesn't CSR Option 2 have the mail that is
12 forwardable will now be forwarded, unlike under the current
13 CSR option?

14 A I believe yesterday Witness Wilson said mailers
15 who want to avail themselves of that capability can do so
16 today under something he I believe called address service
17 requested or something like that.

18 Q Right, but it's not CSR, the current CSR option,
19 so you're adding more to the CSR than just a new delivery
20 option.

21 A That I don't know.

22 Q Now, we have a couple of questions about the
23 agreement which perhaps you can clarify.

24 A Okay.

25 Q On page 3 at lines 11 and 12 of your testimony --

1 A All right.

2 Q -- you state that Capital One agrees to continue
3 monthly NCOA and CAS updates.

4 The agreement, as I read it, states that Capital
5 One agrees to continue monthly NCOA and CAS updates for its
6 customer mail, but agrees to 60 day updates for its
7 solicitation mail. I would refer you to page 3 of the
8 agreement, Roman numeral II(H).

9 A Could you repeat the citation to the agreement?

10 Q Yes. It's on page 3 of the agreement, Roman
11 numeral II(H).

12 A Yes. I see it.

13 Q Okay. So in your testimony you said they're going
14 to do it monthly. In the agreement it says they're going to
15 do it monthly for first class customer mail, but 60 days for
16 the larger category of first class mail, their solicitation
17 mail.

18 Is there an additional promise to do everything in
19 30 days that's not reflected in the agreement, or --

20 A No.

21 Q -- was your testimony only referring to the
22 customer mail?

23 A The obligations of Capital One are those as listed
24 in the agreement. My testimony wasn't intended to be an
25 exhaustive replication of what's in the agreement. I'm

1 essentially just summarizing one of the terms of the
2 agreement in my testimony.

3 Q Okay. And so when you talk about them continuing
4 to do it every 30 days, you were only referring to the
5 customer mail? You were not referring to the solicitation
6 mail, which will in fact be every 60 days?

7 A Yes.

8 Q Okay. Moving on, given the frequency with which
9 the banks seem to change their name and merge, et cetera,
10 we'd like to clarify some of the merger and acquisition
11 aspects of this agreement.

12 In your response to a question redirected from Ms.
13 Bizzotto, APWU/USPS-T-1-4, you discuss some of the
14 expectations that the Postal Service has about mergers that
15 take place during this agreement. You state that the
16 agreement attempts to neutralize the effect of mergers and
17 acquisitions.

18 Now, if Capital One merges with or acquires
19 another firm that produced an annual mail volume in excess
20 of 10 million pieces per year in the year prior to this
21 acquisition, it appears as though Capital One notifies the
22 Postal Service immediately, and the thresholds are adjusted
23 upward in the next fiscal quarter by the number of pieces of
24 mail the acquired firm produced during the previous year.
25 Is that a correct understanding?

1 A That sounds correct, yes.

2 Q Now, when we talk about the previous year would it
3 be the previous 12 months or the previous fiscal year?

4 A It would be I believe that's the previous 12 month
5 period.

6 Q So it would be the 12 months immediately preceding
7 the acquisition?

8 A Yes.

9 Q Okay. Now, if Capital One acquires multiple
10 companies with a combined mail volume of 25 million pieces,
11 again it notifies the Postal Service, but this time at the
12 end of the fiscal year during which these acquisitions took
13 place.

14 Am I right in assuming that the thresholds are
15 then adjusted upward by the amount of their combined
16 previous year's mail volume?

17 A Are you referring to a specific section of the
18 agreement? If so, could you point me to where that is?

19 Q Let's see. I read this part a while ago. All
20 right. The merger part is over there. Try page 5 at the
21 bottom.

22 A Okay. I see it.

23 Q What I'm trying to find out is if Capital One
24 acquires multiple companies with a combined total of at
25 least 25 million pieces in the 12 months prior to the

1 acquisition of each, when would the adjustment to the
2 thresholds take place under this circumstance?

3 A As I understand it, it would take place in the
4 next subsequent postal quarter.

5 Q Okay. And there wouldn't be any adjustment for --
6 I mean, they could have picked them all up in the very
7 beginning of their fiscal year. They're only required to
8 notify you at the end of the fiscal year. There wouldn't be
9 any retroactive adjustment for when you're doing the
10 balancing at the end of the year, the annual adjustments?

11 A Could you repeat that again?

12 Q If all these mergers -- say they merge with, and
13 I'm going to try to do the math right, four companies, each
14 of which generates nine million pieces in the previous 12
15 months, and they do it in the first month of their fiscal
16 year.

17 A Okay.

18 Q So nine times four is 36 million pieces, okay?

19 A Right.

20 Q They've had that additional volume throughout
21 basically the entire fiscal year covered by this agreement,
22 but they don't have to report to you about them because
23 they're under 10 million until the end of the fiscal year.
24 Is there any adjustment for the fiscal year that has
25 concluded?

1 A Well, no. I think to the extent it can be made
2 clear, I think it's made clear in the agreement.

3 I'd point out a couple of things. Acquisitions of
4 that kind don't take place in a day, and even if they did
5 Capital One's ability to convert that company's volume over
6 to their operations would probably also take some period of
7 time, so if it's being suggested that on day one of the
8 fiscal year Capital One is going to go on an acquisition
9 binge to increase their discounts, I think that's a very
10 remote possibility.

11 Q I'm not going to speculate on Capital One's
12 ability to merge and acquire different companies, but I
13 would note that the adjustment, if it's 10 million or more,
14 is the immediately following quarter, but you're saying if
15 it's nine million they get the benefit of it through perhaps
16 the full fiscal year.

17 A Hypothetically that's a possibility, but again
18 acquisitions of that kind aren't instantaneous. They take
19 some time to develop, and inevitably there will be some
20 transition period. It is extremely unlikely that what is
21 being supposed here could take place in fact.

22 Q All right. Well, let me try one more other
23 hypothetical. What happens if Capital One acquires multiple
24 entities that together produced 20 million pieces of mail in
25 the previous year? None of them produced over 10 million,

1 but together they produced 20 million, less than 25 million,
2 pieces of mail.

3 Is it required to report to the Postal Service
4 these acquisitions at all?

5 A I mean, as I read the agreement I don't think that
6 is specified by the agreement.

7 Q And also it's not specified in the agreement, is
8 it, that any adjustment be made to the thresholds for these
9 acquisitions, correct?

10 A I don't believe so, no.

11 MS. CATLER: Okay. I have no further questions at
12 this time.

13 CHAIRMAN OMAS: Mr. Baker?

14 CROSS-EXAMINATION

15 BY MR. BAKER:

16 Q Mr. Plunkett, my name is Bill Baker, and I'll be
17 asking questions on behalf of the Newspaper Association of
18 America this afternoon. How are you today?

19 A Very good. How are you?

20 Q Fine, thank you. I will say that the questions I
21 was working on late last night that seemed so brilliant when
22 looked at this morning in the light of day didn't look
23 nearly as good, and as a result this will be a lot shorter
24 than it would have been if we had done this yesterday.

25 A That happens to me all the time.

1 Q I want to start and pick up on a couple points
2 that counsel for APWU just asked. She asked at the
3 beginning a couple of questions having to do with the
4 financial analyses performed by the Postal Service.

5 Let me state my understanding. Tell me if I'm
6 right. The Postal Service performed an internal financial
7 analysis during the negotiation of the NSA that was
8 presented to the Governor, and that is the basis for what
9 became Mr. Crum's testimony. Is that correct?

10 A Yes, that's correct.

11 Q Okay. And the response to the interrogatory -- I
12 believe it was APWU/USPS-2 -- and the information contained
13 in that, and I think you used the phrase sensitivity
14 analysis, was prepared in response to the interrogatory, or
15 was that prepared earlier?

16 A It was conducted earlier and, as I understand it,
17 first documented and explained in that interrogatory
18 response.

19 Q Was it presented to the Board of Governors?

20 A My understanding of the events that took place is
21 that when the agreement was taken to the Board of Governors
22 what was required of the Board of Governors was a vote to
23 approve the filing of the classification request and focused
24 primarily -- exclusively, in fact -- on the test year
25 financial implications of the agreement.

1 Prior to being presented to the Board of
2 Governors, the agreement and the contract were presented to
3 the Postal Service's executive committee, and at that
4 presentation the sensitivity analysis we've been discussing
5 was discussed with members of the executive committee.

6 Q Okay. Thank you. I'd like to also turn to page 1
7 of your testimony, that first paragraph that you discussed
8 previously.

9 A Just a minute, please. Okay.

10 Q You describe three distinct goals, and you
11 described them to counsel as what you saw as the salient
12 benefits of this agreement.

13 I'd like to focus on the third one; that is,
14 reduces the overall burden on postal rate payors by creating
15 incremental contribution gains. You start that by saying,
16 "Perhaps most importantly..." I was wondering if I could
17 persuade you to delete the word perhaps?

18 A Well, it's a long time ago that I wrote this piece
19 of testimony. Perhaps is generally intended to allow for
20 the fact that different people who look at this agreement or
21 read this testimony will form their own opinion about what
22 is the best important feature of it or the primary benefit
23 to the Postal Service.

24 As I indicated in my response to counsel from
25 APWU, I don't particularly rank them in any particular

1 order, but I'm acknowledging the fact that other people may
2 look at this and conclude that that is the most important
3 feature of the agreement, an essential feature of the
4 agreement.

5 It's difficult for me to imagine an agreement that
6 did not produce such results having much of a chance of
7 success. Again, it's not as though we've done a thousand of
8 these. This is the first one. I'm sure there are many
9 different possible types of agreements to which we've not
10 given any consideration whatsoever.

11 I'm wary of declaring anything essentially because
12 there's very likely something I haven't considered that
13 might be eminently supportable. I've just not thought of
14 that yet.

15 Q So are you able today, based on what you know at
16 this point, to say that you would internally in the internal
17 decision making process of the Postal Service, that you
18 would not support an NSA that had no net positive or
19 negative contribution change effect?

20 A That question had a lot of negatives in it.

21 Q Okay. Would you support one that Mr. Crum
22 calculates to have a net contribution effect of zero?

23 A Hypothetically that may be supportable, but it
24 implies a level of precision that would be awfully difficult
25 to attain. If you look at what we've presented in this

1 case, I believe Witness Crum's testimony estimates a net
2 benefit of approximately \$8 million in the test year. We've
3 heard from a number of parties reasons why they think that
4 number should be higher and lower.

5 An agreement that purported to estimate benefits
6 exactly at zero in the test year would presumably also get
7 the same kind of scrutiny, and you would have a number of
8 people arguing, at least in theory, that the agreement
9 produces a net loss in the test year.

10 That's why unless we can be much more precise or
11 the issues are much more simple than they are in this case,
12 it's hard for me to envision. That's why I said it's hard
13 for me to envision an agreement of that kind withstanding
14 this process.

15 Q Well, the reason I ask was were you here yesterday
16 when Ms. Bizzotto testified?

17 A Yes, I was.

18 Q I asked her a line of questions having to do with
19 a contribution of half a million, a million, various
20 numbers, and her general attitude was she'd consider
21 anything. I wondered if, you know, there is some point
22 where to you it just isn't worth it?

23 A I'll try to give an answer that will cover as many
24 possible outcomes as possible. I'd say the smaller the sort
25 of value that is created out of the agreement probably the

1 harder it gets, but I would say we are actually in active
2 discussions right now concerning an agreement that is,
3 relative to the one we're discussing today, minuscule.

4 We have not established a floor, if that's what
5 you're asking. We've certainly not, as far as I'm aware,
6 exhausted all possible agreements for the purposes of
7 consideration. I just don't know how low that floor can go.

8 As I said, the issue with agreements that have
9 estimated benefits of zero, my primary source of discomfort
10 is the level of precision that applies and what would happen
11 during litigation of such an agreement.

12 Q Counsel for APWU also discussed your role in the
13 negotiations. Did you accompany Mr. Crum on his trip to the
14 warehouse in Richmond?

15 A No, I did not.

16 Q Did you go there on any other occasion?

17 A No, I did not.

18 Q Okay. Did you go to the Richmond ADC?

19 A I've been there before. Not for anything having
20 to do with this agreement, no.

21 Q When you were there, did you observe how Capital
22 One returns are handled there?

23 A No. I was not there for any reason having to do
24 with Capital One mail.

25 Q All right. Could you turn to your testimony at

1 page 10? I'm looking at lines 7 through 9.

2 A Yes.

3 Q Here you're summarizing the NSA and state in a
4 sentence following one where you refer to Witness Crum, "In
5 fact, the address improvements steps that Capital One has
6 agreed to will serve to lower costs currently borne by other
7 customers."

8 My question is by that do you mean that other
9 first class customers bear some of the cost of the physical
10 return of Capital One's pieces?

11 A Well, I mean, the provision for returns for first
12 class mail is an embedded feature of the first class
13 product, and, as such, the costs of providing that aspect of
14 the service are averaged and, therefore, borne by all users
15 of first class.

16 Q Of the millions of first class users, there are
17 probably some that impose very low cost for physical
18 returns. My wife, for example.

19 A I don't know your wife, but I'd be willing to
20 accept that.

21 Q Okay. And some, and particularly Capital One,
22 impose comparatively higher costs for physical returns?

23 A Well, Capital One also contributes an extremely
24 large amount to the coverage of the Postal Service's
25 institutional cost.

1 Q Do you know if Capital One's proportion of the
2 first class volume is the same as or larger or smaller than
3 its proportion of the physical returns?

4 A I do not know with certainty.

5 Q Do you have any uncertain sense?

6 A I would assume and guess that their proportion of
7 total first class volume is lower than their proportion of
8 return volume by virtue of the use they make of first class
9 mail, which is fundamentally different from most users of
10 first class mail.

11 I think that actually can be calculated based on
12 volume figures in the record, but I believe you're right.
13 Yes.

14 Q Now, in the case of physical returns, if that is
15 the case, would you agree that we could characterize Capital
16 One as a beneficiary of the cost averaging within first
17 class mail in this respect?

18 There was resistance to the term cost subsidy when
19 we used it in interrogatories, but I thought you used the
20 term beneficiary.

21 A And I also think I qualified my response by saying
22 that that's only true if one is willing to consider that
23 specific aspect of first class mail in isolation.

24 The fact is, Capital One, by virtue of the fact
25 that it mails one point whatever billion pieces of first

1 class presort mail, which has an extremely high cost
2 coverage, arguably produces as much as or more contribution
3 to the Postal Service's institutional cost than any other
4 customer.

5 Q Might there be other features of first class mail
6 in which Capital One is maybe the victim of averaging rather
7 than the beneficiary? There are many features of first
8 class.

9 A It's hard for me to think of Capital One as a
10 victim, but I think I understand what you're saying. It's
11 quite possible. We just have not studied that exhaustively.

12 Q If they, for example, and I don't know this, but
13 if they were mailing only flats and there's some averaging
14 between letters and flats, of course, in first class mail.

15 A That's certainly possible. I don't know.

16 Q Right now today, physical returns of first class
17 mail are free as a service feature of the product, and there
18 is a fee or two fees actually for address correction
19 service. Is that correct?

20 A I believe that's correct, yes.

21 Q And if the situation were reversed where returns
22 were charged and ACS were free, Capital One would probably
23 be behaving differently, and we wouldn't be here. Is that
24 right?

25 A We may be here for a completely different reason,

1 but I assume they would behave very differently.

2 Q Let's see. Isn't what this NSA essentially --
3 strike that. Let's start over.

4 Is the effect of this NSA to deaverage Capital
5 One's rates to the volume, the declining block, the volume
6 discounts, in exchange for its taking certain steps that
7 would reduce its level of returns closer to the average
8 level?

9 A I wouldn't characterize it that way. I point out
10 that before Capital One received any discounts from the
11 declining block rates they will have mailed 1.225 billion
12 pieces at the tariff rates that exist today, so it's hard
13 for me to think of them as being deaveraged for first class.

14 I think if I heard correctly, the second part of
15 your question referred to getting their return rate to be
16 more like other customers'. The primary benefit accrues to
17 the Postal Service from not having to handle those pieces
18 physically irrespective of the rate at which those pieces
19 have to be returned, reducing its return cost.

20 Q Capital One is also being granted a waiver of the
21 20 cent fee for electronic ACS. Do you regard that as
22 deaveraging of it from the other mailers who must pay that
23 fee?

24 A Well, as I indicated earlier, they're not
25 currently paying the fee so the revenues associated with

1 that product will not in any way be changed by this
2 agreement, so I wouldn't consider to be deaveraging.

3 Q Well, I understand that. I'm suggesting it is
4 being deaveraged because they will not face, if they comply
5 with the NSA, a fee of zero, whereas every other mailer will
6 face a fee of 20 cents. Is that not deaveraging?

7 A I wouldn't consider that definition of deaveraging
8 consistent with my understanding of the term, and here I'll
9 confess it may be a somewhat limited perspective.

10 When I consider the term deaveraging, I think
11 primarily of customers who are currently considered to be --
12 and this could be more than one customer. It could be a
13 group of customers who are currently participating in a
14 specific subclass and paying rates associated with that
15 subclass and then as a result of a rate or classification
16 change no longer pay the rates associated with that subclass
17 such that the rates paid by other customers are affected.

18 Q Is not now the Commission being asked to consider
19 a classification change that would result in Capital One
20 paying rates that are different from other mailers that are
21 currently in the same subclass with it?

22 A But because Capital One is not currently paying
23 any fees or participating in that I guess it's not a
24 subclass. A special service, I suppose. Therefore, there
25 will be no effect on the prices paid by other users of that

1 special service. I don't consider that to be deaveraging as
2 I understand the term to apply.

3 Q In answer to a question of mine a couple minutes
4 ago, you pointed out that Capital One is different because
5 before they get to take advantage of the declining block
6 structure they must mail well over a billion pieces of
7 qualified mail.

8 Does that suggest then that a mailer whose volume
9 is about half of that would probably not be eligible for the
10 same kind of waiver of the ACS fee?

11 A I don't know that I cited that as a reason why
12 Capital One is different. I pointed out that before they
13 receive any discounts they must mail 1.225 billion pieces.

14 We've certainly not ruled out. There's nothing in
15 this agreement that eliminates the possibility of other
16 customers negotiating agreements that are somehow comparable
17 with the Postal Service. I'm not aware of any that exist,
18 and I think I would be. We've certainly not ruled out that
19 possibility.

20 Q Now, you're a pricing witness, and I believe your
21 testimony addresses the factors of the Act. You're familiar
22 with them, are you not?

23 A (Non-verbal response.)

24 Q Yesterday I asked Ms. Bizzotto about Capital Two,
25 and I want to ask a different hypothetical today, being

1 Capital Three. Capital Three is a smaller mailer. It's a
2 first class mailer, but it's a smaller mailer than Capital
3 One. It's participating currently in the ACS program. It
4 uses the NCOA frequently, more frequently than required. It
5 practices good hygiene.

6 It receives no volume discounts because it takes
7 in the tariff rates, and it is going to sit here and watch
8 Capital One, which has the highest volume of physical
9 returns, be given both a declining block rate structure of a
10 certain volume and a waiver of a fee. Do you regard that as
11 fair and equitable?

12 A Is that your question?

13 Q Yes.

14 A Do I regard this agreement as fair and equitable?

15 Q To Capital Three.

16 A I'm not sure, and I understand it's a hypothetical
17 company. To really answer that question I presumably need
18 to know much more about Capital Three. I would say that as
19 the agreement is written, it certainly could apply to
20 Capital One because it has specific volume thresholds
21 embedded in it.

22 Now, I would say that Capital Three is certainly
23 in a position to negotiate with the Postal Service, and in
24 fact I've not heard from anyone named Capital Three, but we
25 have heard from a number of credit card companies since this

1 agreement has been filed, and, as I think Witness Bizzotto
2 mentioned, the Postal Service is certainly not limiting its
3 discussions to companies mailing over a billion pieces of
4 mail.

5 We're in discussions with a lot of companies with
6 varying sizes, and in each case we would attempt to take
7 into account the specific characteristics of that customer
8 and its use of our services and attempt to craft an
9 agreement that provides value to both sides.

10 I point out that for certain kinds of customers in
11 first class mail, declining block discounts may not have
12 very much utility. I mean, declining block discounts are
13 unlikely, in the absence of other considerations, to induce
14 companies to send more bills.

15 Q Maybe let me ask it in a different manner. Under
16 this NSA, Capital One engages in an activity that produces
17 high cost to the Postal Service; that is, insists on its
18 right to physical return of the pieces, which is its
19 prerogative.

20 Now it is being presented an NSA that -- let me
21 back up a second. Does the NSA here that tells Capital One
22 that -- strike that. Let me start over.

23 Does this NSA send a signal to other mailers that
24 they really don't need to engage in good mailing hygiene
25 practices because if they engage in an activity that imposes

1 high enough costs, even while legitimate under the mailing
2 regulations, that may increase their chance of getting an
3 NSA?

4 A I certainly don't think so. I'll try to give a
5 reason why. I'll use my hypothetical first class mailer
6 now, and I'll call them Capital Four.

7 Let's assume that this company uses first class
8 mail to send bills exclusively, and they don't use it for
9 solicitation mail. I don't need to know what industry
10 Capital Four is in. If they're getting ten percent of their
11 bills returned, they will be out of business in no time at
12 all.

13 That's why Capital One's use of the mail gives
14 rise to the situation. They happen to use it for a purpose
15 that is distinct from most other users and is the purpose
16 that in effect allows them to tolerate a rate of return that
17 other companies most typically using first class mail would
18 not be likely to be able to tolerate.

19 It has nothing to do with giving them incentive.
20 If they were to cause most of their bills to be returned in
21 the hope of capturing a small amount of savings on postage,
22 that would be, in my point of view, a foolish business
23 decision.

24 Q So you're saying Capital Four is likely to have
25 very good address hygiene and may well participate in ACS

1 for its own business reasons? Is that correct?

2 A Well, their decisions to use ACS are driven by a
3 number of factors, and I guess it would depend on their
4 absolute size and their rate of returns more than anything
5 else.

6 Q But if Capital Four doesn't have a high rate of
7 return for its own business reasons, it has perhaps I would
8 say one less bargaining chip to bring to the table with you,
9 doesn't it?

10 A Well, as I believe I said somewhere else, the
11 Postal Service certainly doesn't consider avoided costs
12 associated with handling undeliverable mail to be a
13 prerequisite for any company who wants to or believes they
14 ought to be able to negotiate an agreement of this kind.

15 I alluded in general terms to a company we're in
16 discussions with. That particular agreement has nothing
17 whatsoever to do with undeliverable mail and so it's not as
18 though the fact that a company doesn't have that pool of
19 potential cost savings available somehow disqualifies them
20 from consideration for an agreement, so I'd be reluctant to
21 use the term bargaining chip. It's not in any way a
22 prerequisite.

23 Q Did you understand my question to equate
24 prerequisite to bargaining chip?

25 A Well, I guess it appears to me to imply that it

1 would somehow make them a less appealing candidate for a
2 negotiated service agreement if that situation did not
3 exist.

4 I guess the point I was trying to make is that
5 while they may not have that particular element associated
6 with their business, there may be something else that is
7 completely absent from the Postal Service's dealings with
8 Capital One that may be appealing from a different
9 perspective.

10 The absence or presence of specific bargaining
11 chips as it were doesn't appear to me to be particularly
12 relevant because each customer would be evaluated on the
13 individual characteristics inherent in its use of the mail.

14 Q If Capital Four sent the same volume of mail as
15 Capital One, only it's a really big credit card company and
16 its mail is all account mail, then the Postal Service would
17 not be negotiating the same NSA with it because it wouldn't
18 have the return problems, would it?

19 A Well, it would certainly have to look different,
20 but, on the other hand, if they're sending 1.4 billion
21 statements a year analysis is likely to reveal some
22 possibility for us to identify ways in which the Postal
23 Service's net contribution could be increased and they could
24 somehow be made better off.

25 It certainly wouldn't arise out of avoided cost of

1 handling returned mail, but there might be something else
2 entirely.

3 Q I'm going to change to a difference subject and I
4 think that may be correct.

5 A I remember that being submitted.

6 Q And do you know why that's the case?

7 A Well, forwarding costs were not a part of our
8 testimony in this case.

9 Q I understand that.

10 A We had made any plans to collect that information.

11 Q Okay. So, whether there were possible cost
12 savings out there or not is not something the Postal Service
13 intends to monitor, to find out?

14 A I didn't say that.

15 Q I know. But, I'm asking it. I mean, that's the
16 gist of it, isn't it?

17 A Well, not necessarily. The fact that we have not
18 presented plans to collect that information in the context
19 of this case does not rule out the possibility that in the
20 future, people in some part of the organization may conclude
21 that, well, gee, we really want to measure that and
22 understand those costs.

23 Q But right now, there is no current plan to do
24 that?

25 A That was not part of our case.

1 Q Okay. I believe you sponsored the response to
2 question six to presiding officer's inquiry two, which I
3 think had to do with the use of -- the test year data and
4 the three-year period of the agreement.

5 A What was the --

6 Q I think it was POIR two, question six.

7 A Yes, I did.

8 Q Okay. And in that statement answer, you offered
9 several explanations or justifications for the position the
10 Postal Service is taking in the case.

11 A Right.

12 Q And the first paragraph of that was the defense of
13 the use of FY-03 data, and I don't take issue with that,
14 because, presumably, the NSA will be in effect, at least a
15 part of that year. And in the second paragraph, you,
16 basically, said, well, things are ready to go. It would
17 start up pretty quickly, so there's no really need to ramp
18 up over a period of time.

19 A Uh-huh.

20 Q Okay. In your capacity at the Postal Service,
21 have you ever been involved in labor negotiations on the
22 Postal Service's behalf?

23 A No, I have not.

24 Q Okay. Do you happen to know whether, when the
25 Postal Service negotiates or attempts to negotiate a labor

1 contract with one of its unions for covering a several year
2 period, that it looks only at the financial implications of
3 the first year of the agreement?

4 A I don't know.

5 MR. BAKER: No more questions, Mr. Chairman.

6 CHAIRMAN OMAS: Thank you. Mr. Costich?

7 MR. COSTICH: Thank you, Mr. Chairman.

8 BY MR. COSTICH:

9 Q Good afternoon, Mr. Plunkett.

10 A Good afternoon.

11 Q There has been some discussion of PARS this
12 afternoon. Is it correct that phase one of PARS will be in
13 effect for at least two-and-a-half years of the NSA?

14 A Well, I believe that's correct. In part, that
15 depends on when litigation is concluded and how quickly the
16 NSA can be implemented and whether or not the PARS will
17 proceed on schedule. But, that sounds correct.

18 Q A significant portion?

19 A Sounds correct, yes.

20 Q In your discussions with counsel for APWU, you
21 indicated that there was some consideration of the effect of
22 PARS during the negotiations of the NSA; is that right?

23 A Yes.

24 Q Was there any attempt to estimate what proportion
25 of Capital One's volume would be captured by PARS?

1 A Not that I'm aware of, no.

2 Q Do you know if any attempt to estimate that since
3 the contract was signed?

4 A By contract, you mean the agreement with Capital
5 One?

6 Q Yes.

7 A No, not that I'm aware of.

8 Q Could you look at page 12 of your testimony?

9 A Yes.

10 Q Most of this concerns the data collection plan.

11 A Uh-huh.

12 Q You've got, I think, five bulleted items there; is
13 that correct?

14 A Yes.

15 Q Now, do these volume and discount items relate to
16 first class as a whole, or to Capital One?

17 A To Capital One. I believe most of -- to the
18 extent any of that information relates to first-class mail
19 as a whole, it's probably already provided in some other
20 form.

21 Q And I believe you were just discussing with
22 counsel for NAA that there's no provision here for
23 collection of volume of forwards?

24 A That's correct.

25 Q Other than the reason you gave for not having it

1 here, is there some problem with attempting to obtain such
2 data?

3 A Well, I believe Witness Wilson testified to the
4 fact that the Postal Service does not currently collect
5 information on the amount of mail forwarded by specific
6 customers. And in his description of how mail is forwarded,
7 using the automated processes and CFS units or mechanized
8 processes and the CFS units, there's no attempt to capture
9 information about the originator of a mail piece, when a
10 piece of mail is forwarded typically.

11 Q Okay. You've indicated here, though, that you
12 will conduct special studies where necessary to collect data
13 about Capital One; correct?

14 A Well, I don't specify that any special studies
15 will be conducted in any of my testimony. If it's needed,
16 I'm not -- it's not clear yet if any is needed.

17 Q But, it would be needed, if you wanted information
18 about Capital One's forwards under the agreement?

19 A Well, my understanding is information about
20 forwarded pieces that are processed, for which an ACS record
21 is produced and transmitted back to Capital One, may be
22 available. I don't know that, in the absence of a special
23 study, information about pieces that are forwarded for which
24 an ACS record is not generated could be collected.

25 Q Absent a special study?

1 A Yes.

2 Q Now, did your data collection plan account for the
3 effects of PARS?

4 A Not directly.

5 Q And it certainly doesn't isolate the effect of
6 PARS on Capital One?

7 A No, it does not.

8 Q There's been a good deal of discussion about the
9 negotiations between the Postal Service and Capital One.

10 A Yes.

11 Q Do you know if prior to the negotiations, there
12 had been discussions with Capital One concerning the high
13 proportion of its returns for solicitation mailing?

14 A There are none that I'm aware of.

15 Q Would you agree that it would be possible for the
16 Postal Service to craft qualification requirements for pre-
17 sort discounts that would prohibit a mailer with a high
18 degree of returns from even participating in pre-sort
19 discounts?

20 A I do not believe the -- that would appear to
21 suggest a reliable and existing way of ascertaining that a
22 customer has complied with those limits, and I'm not aware
23 that one exists today. In fact, I would argue that one
24 could think of an indirect benefit of this agreement is that
25 it has highlighted this issue, because in the absence of the

1 negotiations that took place between the Postal Service and
2 Capital One, it is very possible that we would not be aware
3 of this issue today. So, I think there would be a
4 significant effort required to put in place an apparatus
5 that could provide the assurances necessary to implement the
6 kind of feature that you're talking about.

7 Q And then there was one or two interrogatory
8 responses, and I want to attribute them to you today, that
9 indicated that the Postal Service engaged in some attempts
10 to verify Capital One's proportion of returns for
11 advertising mail. Do you recall that?

12 A Yes.

13 Q And I believe that one of the first efforts the
14 Postal Service made was to contact Postal workers in
15 Richmond and inquire as to whether they had any sense of the
16 proportion of returns. Does that ring a bell with you?

17 A I don't know if that was one of the first. That
18 was certainly done.

19 Q And I believe that the interrogatory response
20 indicated that the two Postal workers, who were queries,
21 both offered 10 percent as an estimate of the returns.

22 A Yes.

23 Q Doesn't that suggest that at least some parts of
24 the Postal Service are aware of what you might call problem
25 return mailers?

1 A Well, I wouldn't call them that. I would say, one
2 should keep in mind the size of Capital One, not just
3 relative to the entire Postal Service, but relative to the
4 Richmond ADC. They are far away the largest mailer in the
5 Richmond district and if they were not aware of the
6 magnitude of the number of pieces being forwarded, I would
7 be surprise. For customers that are much smaller and do not
8 so dominate a particular ADC, it might not be nearly so easy
9 to capture that information.

10 Q If at least the two Postal workers in Richmond,
11 who were queried, were aware that Capital One was
12 experiencing approximately 10 percent returns, would that
13 suggest that perhaps at least folks in Richmond had
14 attempted to broach the subject with Capital One, in an
15 attempt to reduce the number of returns?

16 A It's possible. I don't know that that took place,
17 though. And I would point out that at a local level, there
18 is, of course, a lot of interaction between customers and
19 employees of the Postal Service, and much of it centers
20 around issues like address hygiene and mail preparation.
21 So, it wouldn't be surprising if discussions of that kind
22 took place.

23 Q But, you don't think anyone in Richmond might have
24 attempted to contact anyone higher up, to see if something
25 could be done?

1 A Not that I'm aware of.

2 MR. COSTICH: Thank you. I have no further
3 questions, Mr. Chairman.

4 CHAIRMAN OMAS: Thank you, Mr. Costich. Any
5 follow up, Ms. Catler?

6 MS. CATLER: Thank you, Chairman Omas. Yes.

7 BY MS. CATLER:

8 Q As a follow up to the OCA questions, you've often
9 spoken of the rate of undeliverable as addressed mail for
10 solicitation mail for Cap One being higher than average. Do
11 you happen to know the rate of UAA mail and standard mail?

12 A I don't. And since much of that mail is discarded
13 or disposed of, unless it bears an endorsement requesting
14 some kind of return service, I'm not sure that data exists.

15 Q Do you know if the undeliverable as address mail
16 and standard mail rate is higher or lower than first class?

17 A I don't know. I really don't know the answer to
18 that question.

19 Q Would you expect it to be higher, because it
20 contains more solicitation mail?

21 A I wouldn't call that an unreasonable assumption.
22 I don't know of any data that either confirms it or refutes
23 it. But, it seems like a reasonable supposition.

24 Q When you were involved in the negotiation of this
25 negotiated service agreement -- yesterday, Witness Bizzotto

1 indicated that often these things that had begun as
2 negotiated service agreement had turned into niche
3 classifications. Were there any discussions about turning
4 this into a niche classification, so that the Postal Service
5 might be able to encourage other mailers to send
6 solicitations by first-class mail?

7 A Well, there were discussions about whether or not
8 this should be filed as a negotiated service agreement or
9 whether it would be possible to extend this agreement to a
10 broader or a larger number of known entities, but nothing
11 having to do with that specific issue. And I would point
12 out that, I believe it's Witness Jean, who testified the
13 fact that Capital One does not anticipate any significant
14 shift of standard mail into first class, as a result of this
15 agreement. So, that was really not a goal either stated or
16 implicit of this agreement. So, there would have been no
17 reason to attempt to produce that effect by turning it into
18 a classification.

19 Q I wasn't talking about Capital One shifting from
20 standard to first class, but other mailers shifting from
21 standard to first class. I mean, the advantage of this CSR
22 option two is that the mail gets forwarded and they, also,
23 will be getting address update information, two very things
24 that could tip the balance for somebody using standard mail
25 to first class. Cap One is going to get it free. Everybody

1 else will get it for 20 cents a piece. It would seem to me
2 that if the Postal Service were interested in increasing
3 first-class volumes, that that would have been something
4 that might have been considered.

5 A Well, I will say that the issue of switching never
6 arose. But, I'll try to explain why the Postal Service
7 doesn't consider that to be either a goal or something
8 that's likely to happen, because of the considerations that
9 Capital One has to give.

10 Even at the maximum discounts that Capital One can
11 earn from this agreement, every piece of first-class mail is
12 much, much more expensive than a comparable piece of
13 standard mail. It's very unlikely, based on anything I've
14 been told about solicitations in general, credit card
15 companies in particular, that would indicate that response
16 rates would increase enough to warrant a customer being
17 willing to spend a premium associated with first-class mail,
18 if they're currently using standard mail to achieve that
19 purpose.

20 Q Okay. When you became involved in the
21 negotiations, were the block discounts already part of the
22 package that was being negotiated?

23 A No, they were not.

24 Q Could you tell me which side suggested these block
25 discounts?

1 A The use of declining block rates was first
2 proposed by the Postal Service.

3 Q And why were volume discounts added to this
4 agreement?

5 A Well, it probably will not come as much of a shock
6 to anybody, but every customer that approaches us with a
7 proposal for a negotiated service agreement wants a
8 discount. And when Capital One -- again, I was not present
9 when the initial discussions took place, but by the time I
10 became involved, Capital One was looking for a discount
11 beyond what was available.

12 Q So beyond free address correction service, they
13 wanted an additional discount as an inducement to
14 participate in the ACS program?

15 A Could you repeat that?

16 Q Beyond free -- I guess it's actually CSR option
17 two service, they wanted an additional inducement to
18 participate in the address correction program?

19 A It's hard for me to answer that question, because
20 it implies all of those other elements were present when the
21 issue of discounts first arose, but I'm not sure that's the
22 case. As you might expect, I mean, this took place over a
23 number of months. There were many, many iterations back and
24 forth and many, many changes to the components and the
25 entirety of this agreement throughout that process. So,

1 it's hard for me to say -- to characterize Capital One's
2 position in that way, at any specific point in time.

3 Q I'm not sure you answered the question.

4 A I'm having trouble answering the question,
5 because, again, the way it's asked it suggested to me that -
6 - it appeared to suggest that the Postal Service was
7 attempting to induce Capital One's conversion into ACS and
8 offer it up declining block discounts has a form of
9 inducement. I wouldn't characterize the discussions as
10 having taken place in that way.

11 Capital One certainly wanted a discount, as every
12 customer, who approaches the Postal Service for an NSA
13 wants. And in the course of discussions, the
14 representatives from the Postal Service proposed use of
15 declining block rates.

16 But, it's hard for me to describe with any
17 certainty how that related to any of the other specific
18 components of the agreement at the time that declining block
19 rates were first introduced to discussion. Does that help
20 at all?

21 Q Somewhat. I'm just having a little difficulty
22 understanding this. I mean, I understand that Capital One
23 has, and various other witnesses have said, this is an
24 integrated deal. It's all parts of one. But, it looks a
25 whole lot to me like there's this address correction part

1 and then there's this volume discount part. And it would
2 seem to me that the address correction part is really can
3 stand on its own without the volume discount. And that's
4 why I was asking why the volume discounts were proposed. Of
5 course, everybody always want a discount. But, you don't
6 always give it to them.

7 A Well -- and that's why the two components can't be
8 separated. I mean, if you try to treat them in isolation,
9 one could clearly suppose that Capital One would have no
10 interest whatsoever in CSR option two, in the absence of the
11 discounts. They aren't using it now. The Postal Service,
12 if it presented the declining block rate structure in the
13 absence of the expected cost savings associated with their
14 conversion to CSR option two, would really not have much of
15 a case. So, it is very difficult to unbundle those
16 components and have something that can stand as separate
17 agreements.

18 Q Wait a second. I find it hard to see that the
19 fact that Capital One is not currently using CSR option two
20 is relevant, because CSR option two doesn't exist. And the
21 current CSR option is very different from what CSR option
22 two will be, because CSR option two includes forwarding. In
23 addition, the current CSR option would cost them 20 cents
24 per return piece, which would be approximately \$14 million a
25 year. And you are instead going to give it to them for

1 free.

2 So, I mean, I'm not at all convinced that CSR
3 option two for free, in exchange for continuing to do the
4 NCOA stuff that they're already doing and a little bit more
5 auditing and reporting requirement wouldn't have been a
6 doable deal. This, to me, just -- I'm having a hard time
7 seeing why the Postal Service would have proposed volume
8 discounts on top of this, while you're already in
9 negotiations with Capital One on the address correction
10 stuff.

11 A Are you asking if we would have considered
12 offering them conversion to an electronic address correction
13 service, whether option one or option two, in exchange for
14 waiving the requirement of the -- do the level of address
15 cleansing that they currently do?

16 Q No, no, no, no, no. I'm saying that they're
17 already doing that.

18 A Well, but I'll go back to the way you've just
19 described what transpired. I believe you made it sound as
20 though we were discussing address -- changing their
21 addressing practices and we came up with the idea of
22 offering them a discount as an inducement. That's really
23 not what happened.

24 The discussions were always taking place
25 simultaneously. As I said, every customer that approaches

1 the Postal Service comes in with some idea for obtaining a
2 discount. So, the idea of discounts, as far as I
3 understand, existed from day one.

4 The specific idea of using declining block rates
5 was introduced later, after sort of the -- I mean, I guess
6 broad issues were identified, but they weren't offered up in
7 a vacuum in the absence of previous discussions about
8 discounts. Those discussions had been present from the
9 outset, as far as I understand it.

10 Q Were the discussions about reducing Capital One's
11 -- the cost of the Postal Service's Capital One returns, was
12 that part of the discussion from the outset?

13 A It was by the time I became involved. Again, I
14 was not -- to be clear, I was not present whenever these
15 discussions began. I believe I became involved very early
16 and, at that time, that issue had already been broached.
17 But, again, I was not present at the very origin of the
18 discussion.

19 MS. CATLER: Thank you. I have no more questions.

20 CHAIRMAN OMAS: Any additional follow-up?

21 (No response.)

22 CHAIRMAN OMAS: Mr. Reiter, would you like some
23 time with your witness?

24 MR. REITER: Yes, Mr. Chairman.

25 CHAIRMAN OMAS: About 10 minutes.

1 MR. REITER: How about 15 and we'll call him after
2 the break?

3 CHAIRMAN OMAS: Oh, excuse me. I'm sorry. I'm
4 getting carried away. Commissioner Goldway?

5 MR. REITER: Mr. Chairman, could we take an
6 afternoon break before the Commission questions?

7 CHAIRMAN OMAS: Yes, if you'd like to.

8 MR. REITER: Thank you.

9 CHAIRMAN OMAS: Let's take about a 10-minute
10 break.

11 (Whereupon, a brief recess was taken.)

12 CHAIRMAN OMAS: We will start again. Commissioner
13 Goldway has a question. And I do apologize, Mr. Reiter,
14 that I was looking at the clock and I thought things were
15 going fairly well and that you would go to redirect. But, I
16 forgot about the bench. So, my apologies.

17 COMMISSIONER GOLDWAY: That's a message for me to
18 ask brief questions, I think, but they may not be. First of
19 all, Mr. Plunkett, do you agree that the Postal Service has
20 been operating at a deficit for the last several years?

21 THE WITNESS: I believe that to be the case, yes.

22 COMMISSIONER GOLDWAY: So, do you think it's in
23 the interest of the Postal Service to increase volume at the
24 same time that you are reducing the institutional
25 contribution that that volume can make to the Postal

1 Service, while the Postal Service is operating at a deficit?

2 THE WITNESS: I think I'm going to make a
3 distinction here. Any volume growth that arises as a result
4 to this contribution on a per piece basis --

5 COMMISSIONER GOLDWAY: Less positive contribution
6 than other volume.

7 THE WITNESS: But, if that volume were not have
8 arisen except as a result of this NSA, any contribution
9 gains that raise from that volume would be considered
10 positive.

11 COMMISSIONER GOLDWAY: But, we don't know if the
12 volume arises from this NSA. There's no way to measure that
13 or guarantee that.

14 THE WITNESS: Well, I'd point out a few things.
15 We have the testimony of Witness Elliott and we have the
16 testimony of -- well, I guess it's the testimony of Witness
17 Elliott, where he describes why this agreement is expected
18 to result in additional volume. And I'd point out --

19 COMMISSIONER GOLDWAY: Witness Jean's testimony,
20 do you recall him saying there are no guarantees; they have
21 not guaranteed to do anything with volume.

22 THE WITNESS: There are no guarantees written
23 explicitly into the contract. But, I'd also point out that
24 Capital One doesn't necessarily send mail for the sake of
25 sending mail. They send mail as a way to create additional

1 credit card accounts. And I fully expect the declining
2 block rate structure to provide an incentive for them to be
3 able to do more of that, than they would be able to in the
4 absence of the agreement.

5 COMMISSIONER GOLDWAY: You expect that, but the
6 witness said no guarantees.

7 THE WITNESS: Well, I took that to mean that he --
8 that there are no explicit guarantees of any specific volume
9 levels written into the agreement.

10 COMMISSIONER GOLDWAY: Right. Would an agreement
11 with a mailer that allowed a discount for mail, but included
12 a guaranteed volume or a penalty, if the guaranteed volume
13 didn't result, be a more likely way to assure that there
14 would be increased volume with contributions to
15 institutional overhead?

16 THE WITNESS: It would really depend, I think, on
17 what other additional features existed within the agreement.
18 I understand some foreign posts have entered into agreements
19 of that nature. But, generally, those apply strictly to
20 volume discount agreements, where the discount is applied to
21 all volumes for which the customer account. In this case,
22 Capital One must mail volumes in excess of 1.225 billion
23 pieces before any discounts arise and that affords a level
24 of protection generally not offered in pure volume discount
25 agreements.

1 COMMISSIONER GOLDWAY: But, they only have to mail
2 750 million pieces before they have to begin paying for this
3 ACS, which is -- so, they're getting this \$14 million
4 service from free forwarding.

5 THE WITNESS: Well --

6 COMMISSIONER GOLDWAY: And there is no guarantee
7 that they have to perform at 1.25, whatever it is, to get
8 that. They have to do one-half of that to get the ACS free
9 service.

10 THE WITNESS: It's true that the threshold for the
11 waiver of the ACS fee is set at 750 million pieces. I'd
12 point out a couple of things about that. As I discussed in
13 my response to counsel of APWU, they're not currently paying
14 the fees, so there's no direct cost even in the form of
15 foregone revenue on the part of the Postal Service. And if
16 Capital One would only mail 750 million pieces of first-
17 class mail in any year of the agreement, given the statement
18 volumes that Capital One is projecting in the test year,
19 it's probable that only about 200 million of those pieces
20 would be solicitations and, therefore, generating returns at
21 the rate of 9.6 percent. So, I don't think we're talking
22 about those kinds of massive ACS transactions, at that
23 volume level.

24 COMMISSIONER GOLDWAY: You have many requirements
25 for bulk mailers at various levels to get discounts, in

1 terms of how they have to handle the mail and process the
2 mail, before they get the discounts?

3 THE WITNESS: Yes, I'd say that's fair to say.

4 COMMISSIONER GOLDWAY: And procedures to permits,
5 et cetera?

6 THE WITNESS: Yes.

7 COMMISSIONER GOLDWAY: Have you considered
8 requiring large mailers, who do solicitation mail or who
9 have mail that has a return rate of over five percent, to
10 participate in the ACS program, at some level or another?

11 THE WITNESS: I don't --

12 COMMISSIONER GOLDWAY: There are lots of
13 requirements the Postal Service has for ensuring that large
14 mailers meet the additional cost of the mail that they
15 present to the Postal Service. Have you considered that,
16 since you have clearly identified returned mail as a very
17 high cost portion of first-class mail for solicitation
18 mailers?

19 THE WITNESS: I don't know that that specific idea
20 has been considered. I'm not aware of any considerations of
21 that kind. I think yesterday, Witness Wilson mentioned the
22 fact that in designing the requirements for receiving
23 automation discounts. There is a desire on the part of the
24 Postal Service to present the customer with a set of traces
25 as to how they may do that, and that is why they can opt

1 for, for example, NCOA cleansing or subscription to ACS
2 service.

3 I did talk a little bit in my colloquy with OCA
4 about some of the practical difficulties associated with
5 measuring return rates and the fact that it doesn't exist.
6 And I'd sort of reiterate what I said at the time, which is
7 that I consider that to be perhaps another form of benefit
8 from the Postal Service engaging in these kinds of
9 discussions, and that we help to identify some of these
10 issues. And I think as a result of having identified this
11 issue in the course of negotiating this agreement, the
12 Postal Service is likely to reevaluate many of these issues
13 and try to construct ways of dealing with them. But, again,
14 this is relatively new and we've not yet made decisions
15 about how that might happen.

16 COMMISSIONER GOLDWAY: Whether or not standard
17 mail would choose to migrate to first-class mail, if you
18 were to have a niche classification for large mailers with a
19 high return rate and offered them the free service, you
20 think you would find out who those mailers are with a large
21 return rate, because they would get this free service.

22 THE WITNESS: Do you mean large mailers of
23 standard mail?

24 COMMISSIONER GOLDWAY: No, large mailers of first-
25 class mail. There are other mailers of first-class mail,

1 that they are -- if it's not this large, there's certainly
2 non-profit mailers. There are people, who mail with
3 solicitation --

4 THE WITNESS: Right.

5 COMMISSIONER GOLDWAY: -- and with prospect lists
6 in first-class mail volume. And if there was a niche
7 classification that offered them this free service, you
8 would find out, I think, rather quickly who those are,
9 because they know what their return rates are.

10 THE WITNESS: I don't really know the answer to
11 that. I'm not sure all mailers really do understand their
12 return volume in the way that Capital One does.

13 COMMISSIONER GOLDWAY: They might not; but, if it
14 was a chance to get 20 cents off each return piece, you
15 don't think they'd figure it out?

16 THE WITNESS: To be honest, we've not really --
17 I'm not aware that we've studied that issue or attempted to
18 understand what the magnitude of interest in that would be.

19 COMMISSIONER GOLDWAY: Okay. As a manager of
20 pricing strategy, have you considered whether offering
21 discounts of all the mail, such as they do in Europe, for a
22 biller, for instance, so that the per piece price of mailing
23 bills was lower than it is now, in return for a guarantee or
24 a penalty, might encourage those mailers to continue using
25 mail, instead of switching to electronic substitution?

1 THE WITNESS: When you say "consider," could you
2 clarify a little bit what you mean?

3 COMMISSIONER GOLDWAY: Well, as I asked yesterday,
4 I'm concerned about the kind of arrangement that has been
5 made in this negotiation versus other negotiated agreements
6 that we've learned about from other mailers around the
7 world, that seem to have a more direct correlation with
8 using the mail and guaranteeing volume.

9 THE WITNESS: I guess I can say in a general way,
10 we're aware of those kinds of agreements and, in fact, we
11 had interest expressed by some customers in exploring those.
12 But, none have really gone beyond very preliminary form of
13 consideration, that I'm aware of.

14 COMMISSIONER GOLDWAY: Do you think that charging
15 some mailers 20 cents per piece for the return service and
16 other mailers nothing at all is consistent with the
17 requirements of the Postal Act?

18 THE WITNESS: In this case, I do think what we've
19 proposed is consistent with the Act and I've attempted to
20 describe why in my testimony.

21 COMMISSIONER GOLDWAY: You have an honor's degree
22 in economics; is that correct?

23 THE WITNESS: That's correct.

24 COMMISSIONER GOLDWAY: And do you have a
25 definition for the term "price discrimination," as a result

1 of your study?

2 THE WITNESS: I'm aware of ways in which that term
3 can be defined, yes.

4 COMMISSIONER GOLDWAY: Could you define it for me,
5 as you understand it?

6 THE WITNESS: Well, in general, it -- I mean,
7 price discrimination exists any time prices are not applied
8 uniformly for a given good or service to all users of that
9 good and/or service, all other things being equal. I
10 generally would tend to shy away from the use of the term
11 "price discrimination," because I think it, also, has a
12 pejorative connotation, in that suggests that such decisions
13 are made arbitrary and work to the detriment of specific
14 customers. And I don't believe that situation pertains in
15 this case.

16 COMMISSIONER GOLDWAY: Do you agree that because
17 the Postal Service is a monopoly on first-class mail, those
18 mailers, who aren't happy with the fact that they have to
19 pay 20 cents for address correction or do not get the block
20 discounts that you're offering in the NSA, don't have any
21 choice but to continue using first-class mail at the rates
22 that you've established -- we, together, have established?

23 THE WITNESS: Well, I think this issue came up
24 when Witness Bizzotto was here and she talked about a couple
25 of forms of recourse that customers have, one of which, I

1 think, arose was the course of access to the complaint
2 procedures that exist with the Rate Commission. I'd also
3 point out, though, that in this case, Capital One has
4 clearly identified for the purposes of soliciting customers
5 to acquire new accounts, that they have what they consider
6 to be a number of available substitutes for first-class
7 mail: telemarketing, Internet-based solicitations, and
8 other media. For example, when you call into their help
9 centers, you're asked to buy products.

10 So, even though first class is considered a
11 monopoly product, clearly, in this case, there are available
12 substitutes. And if Capital One, for example, was not able
13 to consummate an agreement with the Postal Service, my
14 expectation is they would have availed themselves of some of
15 those substitutes more readily than they do now. And I
16 think it's also quite probable that they would have
17 accelerated their intended migration of some of their
18 statements from first-class mail into electronic
19 presentment. So, there are recourses beyond the complaint
20 mechanism that exists for many users of first-class mail,
21 and they're particularly relevant in this case.

22 COMMISSIONER GOLDWAY: I've completed my set of
23 questions. Thank you.

24 CHAIRMAN OMAS: Thanks, Commissioner Goldway.
25 Commissioner Hammond?

1 COMMISSIONER HAMMOND: Thank you. Mr. Plunkett,
2 I'm so glad you could make it today.

3 THE WITNESS: Thank you.

4 COMMISSIONER HAMMOND: Would you agree that the
5 average postage per piece for Capital One would decline, if
6 this proposal is approved?

7 THE WITNESS: That's difficult to say. And the
8 reason is, I think it depends very much on what you compare
9 it against. And the timing will be important, because it is
10 possible that implementation of this agreement will take
11 place in a time that would allow comparison between
12 discounted rates that went into effect in June of 2002 with
13 rates that existed prior to the most recent change in first-
14 class rates. And so, if you're doing year-to-year
15 comparison, it's possible that even with discounts, Capital
16 One's revenue per piece will increase.

17 It's hard to give a definitive answer to that. I
18 mean, you would expect that if discounts are available at
19 the margin, that that would tend to have that effect; but,
20 on the other hand, there will be a number of other factors
21 at work, as well.

22 COMMISSIONER HAMMOND: Okay. Let's go into some
23 of your testimony. Your testimony analyzes the
24 applicability of the statutory rate and classification
25 criteria. So, I hope you will elaborate on certain specific

1 aspects of that. That's the 3622(b) criteria, which is on
2 page nine of your testimony.

3 THE WITNESS: Yes.

4 COMMISSIONER HAMMOND: Okay. First, if we focus
5 on B2, would you talk about whether your proposal would
6 change the value of first-class mail service received by
7 Capital One?

8 THE WITNESS: Did you ask will it change the
9 value?

10 COMMISSIONER HAMMOND: Well, whether the proposal
11 would change the value.

12 THE WITNESS: To Capital One?

13 COMMISSIONER HAMMOND: Received by Capital One
14 Services, yes.

15 THE WITNESS: I would have to say, given their
16 willingness to enter into -- I would say that their
17 willingness to enter into the agreement implies that they
18 perceive that their value -- the value they derive from
19 first-class mail increases, as a result of this agreement.

20 COMMISSIONER HAMMOND: Okay. So, you're saying
21 Capital One thinks so?

22 THE WITNESS: Yes.

23 COMMISSIONER HAMMOND: And that's all you're
24 saying?

25 THE WITNESS: Well, I think the Postal Service

1 believes so and that's reflected in Witness Crum's
2 testimony, in his estimate of a net gain in contribution of
3 approximately eight million dollars in the past year.

4 COMMISSIONER HAMMOND: What about the effect of
5 the lower rates for Capital One on the -- and we'll still
6 talking about B2 here, on its value, the effect of lower
7 rates for Capital One on the value of first-class mail
8 service as used by other financial services mailers?

9 THE WITNESS: I'm not sure if there's a direct
10 effect. As I've said in my testimony, I think the net
11 contribution gains that this agreement allows the Postal
12 Service to achieve in the test year ultimately benefit all
13 users of first-class mail and all users of Postal services
14 more generally, by increasing the contribution to
15 institutional costs. The effect any specific company is
16 likely to perceive from that may not be significant.

17 COMMISSIONER HAMMOND: Okay. And if we went down
18 to 4B, would you comment on the effect of the proposed
19 discounts on business mail users also in the financial
20 services industry?

21 THE WITNESS: Well, again, I think there is some
22 overall benefit to all users, as a result of this agreement,
23 because of the increased contribution in the test year.
24 But, I would acknowledge that since that is spread among all
25 users of first-class mail and the Postal Service, it's

1 unlikely any specific customer will be able to directly
2 perceive that benefit.

3 COMMISSIONER HAMMOND: Okay. Now, with regard to
4 B6, your proposal would require Capital One to update its
5 mailing list more often than it's required now, and this
6 could improve the preparation of the mail. Are there any
7 other ways in which Capital One will improve its mail
8 preparation, if this proposal is approved?

9 THE WITNESS: Well, I think the most obvious ways
10 the requirement that Capital One update its mailing list
11 within two days of receipt of electronic address records, as
12 a consequence of this agreement, I think will have a
13 significant beneficial effect on their preparation of mail.

14 COMMISSIONER HAMMOND: So, that's mostly the
15 improvement that we're --

16 THE WITNESS: I think that is certainly the most
17 important.

18 COMMISSIONER HAMMOND: Okay. Now, if I could
19 focus on B7, which is the simplicity of structure. Ms.
20 Bizzotto testified here yesterday that the Postal Service
21 was prepared to negotiate individual NSAs with mailers.

22 THE WITNESS: Yes.

23 COMMISSIONER HAMMOND: So what kind of effect do
24 you think 40 or 50 individual rate designs will have on
25 simplicity of the structure on the rate schedule?

1 THE WITNESS: Well, I'll qualify my answer
2 somewhat by saying, it somewhat depends on the nature of the
3 agreements, themselves, and the number of different features
4 that they add to the rate schedule. And I don't know the
5 precise number, but I believe the Postal Service currently
6 has somewhere in the neighborhood of 4,000 rates in its
7 pricing classification schedule, such that it is possible to
8 add a number of negotiated service agreements without having
9 a meaningful effect on the overall simplicity or
10 complicatedness of the rate structure.

11 I'd also point out that there's been over time, a
12 general tendency to increase the number of prices and the
13 complexity inherent in the Postal Service's rate structure.
14 Bu, on the other hand, certainly, technological changes have
15 enabled customers to deal with a level of complexity well
16 beyond that, that is contained in the Postal Service's rate
17 and classification schedule, such that I don't think a
18 moderate number of negotiated service agreements would have
19 an undue effect on the simplicity of the rate structure.

20 COMMISSIONER HAMMOND: So, we've already got like
21 4,000 rates. Another 40 or 50 is handleable?

22 THE WITNESS: It certainly appears so to me, yes.

23 COMMISSIONER HAMMOND: Okay. Now, Ms. Bizzotto
24 explained yesterday that an important reason for choosing
25 Capital One for this NSA was very use of first-class mail

1 for solicitation mailing. Do you believe that lower rates
2 for Capital One solicitations than the rates paid by mailers
3 of other business and personal correspondence would be
4 consistent with our section 3622(b)(8)? That's the
5 education, cultural, scientific, and informational value.

6 THE WITNESS: I haven't necessarily considered --
7 I won't say I explicitly considered that specific criterion
8 in that way. But, I would point out that recipients of
9 these solicitations clearly perceive value in the
10 information that they provide, else they would not be
11 responding and Capital One would not be successful in
12 capturing new accounts, as a result of those solicitations.
13 So, I do think that customers do perceive value in the
14 information content of those solicitations.

15 Will it change appreciably as a result of this?
16 My guess is that to many of the recipients, they will not
17 even be aware of the presence of this agreement.

18 COMMISSIONER HAMMOND: Okay. Now, your testimony
19 states that the Postal Service believes the proposal would
20 establish fair and equitable rates. Would you expect
21 customers, whose NSA requests are denied by the Postal
22 Service, agree?

23 THE WITNESS: Well, I guess it would depend --
24 since those requests would not pertain to this agreement,
25 but to an agreement that hypothetically we were negotiating

1 with that customer, I don't think that those hypothetical
2 discussions would have any bearing on how those customers
3 perceive this agreement.

4 COMMISSIONER HAMMOND: Okay. And I know this is
5 somewhat open ended, but are there any other factors you
6 think the Commission should take into account when we're
7 evaluating this proposal?

8 THE WITNESS: Well, I think we've attempted to
9 identify the benefits in the testimony presented by myself
10 and the other Postal Service's witnesses. I guess I'd
11 simplify it once again, what I consider to be a non-trivial,
12 but indirect benefit of this agreement, is that they do
13 allow the Postal Service to learn a considerable amount
14 about individual customers and that will, in many cases, as
15 I think it does here, have implications for other customers
16 and that it allows us to identify issues that can make the
17 Postal Service more efficient, in ways that benefit all
18 users, whether they participate within this particular
19 classification or not. And I think that's inherent in the
20 attempt to understand customer economics at a granular
21 level, and I'm not sure that same ability to understand such
22 issues would exist in the absence of negotiated service
23 agreement discussion.

24 COMMISSIONER HAMMOND: I believe that covers all
25 my questions. Thanks a lot, Mr. Plunkett. Thank you, Mr.

1 Chairman.

2 COMMISSIONER COVINGTON: Mr. Reiter, would you
3 like an opportunity to discuss the need for redirect with
4 your witness here, Mr. Plunkett?

5 MR. REITER: Yes, I'd appreciate that,
6 Commissioner.

7 COMMISSIONER COVINGTON: How much time do you
8 think you need? Ten minutes?

9 MR. REITER: Ten to 15.

10 COMMISSIONER COVINGTON: Okay. We'll be back at
11 3:45.

12 (Whereupon, a brief recess was taken.)

13 CHAIRMAN OMAS: Mr. Reiter?

14 MR. REITER: Thank you, Mr. Chairman. We do have
15 a few questions.

16 REDIRECT EXAMINATION

17 BY MR. REITER:

18 Q Mr. Plunkett, have you become aware of another
19 correction that you'd like to make to a written
20 interrogatory response for the record?

21 A Yes. I believe --

22 Q This was in APWU/USPS-T2-12. And I believe the
23 correction is 50 million there?

24 A It says, "50 million pieces of first-class mail."
25 It should say, "500 million pieces of first-class mail."

1 Q Thank you. Earlier during your cross-examination,
2 you were asked about the relationship between Capital One
3 fiscal year 2001 first-class mail volume, that's shown in
4 Witness Crum's testimony, and the initial threshold in the
5 discount. Would you like to clarify your answer on that?

6 A Yes. I found out that Capital One fiscal year
7 2001 volume was 1.152 billion pieces, below the initial
8 threshold of 1.225 billion pieces, as presented in the
9 agreement.

10 Q Commissioner Goldway presented you with a
11 hypothetical question about a classification, in which
12 first-class mail solicitation would be required to use ACS
13 and pay the 20 cent fee. Do you have some understanding of
14 --

15 COMMISSIONER GOLDWAY: And not pay the fee.

16 BY MR. REITER:

17 Q And not pay the fee, sorry. Do you have some
18 understanding as to whether Capital One would likely be
19 interested in such a classification?

20 A I think not. I think the likely outcome would be,
21 they would accelerate their conversion of solicitations into
22 standard mail and, as a result, produce a significant
23 decline in the Postal Service's net contribution to
24 institutional costs that it currently receives from Capital
25 One.

1 Q Would the Postal Service be able to enforce such a
2 distinction?

3 A Not as I understand it. Well, by law, first-class
4 mail is sealed against inspection and it would be difficult,
5 it not impossible, to enforce any kind of content
6 restrictions of that kind. However, I would point out that
7 the agreement the Postal Service has with Capital One allows
8 the Postal Service to open Capital One's mail, as necessary,
9 to enforce the agreement.

10 Q If the negotiated service agreement had consisted
11 simply of a waiver of ACS fees, but still contain the other
12 address hygiene requirement, but no declining block rates
13 along the lines of that initial classification that was
14 suggested earlier, do you know what the likely reaction
15 would have been to that on Capital One?

16 A In fact, we presented that as an option to Capital
17 One. They were not interested. And, as I recall, their
18 perspective, they have in place a process that allows them
19 to capture the information they need through their
20 relationship with a contractor. And they saw a change of
21 that kind as producing, at best, limited benefits, such that
22 they were not interested in pursuing or undertaking the
23 effort required to execute a negotiated service agreement
24 for what they consider to be marginal benefits.

25 Q There were a lot of questions that you were asked

1 earlier seeking some explanation of why the two seemingly
2 unrelated parts of the NSA, for those who view it that way,
3 the declining block rates and the ACS issue ended up
4 together. Could you provide some more information on that,
5 to clarify the record?

6 A I'll try to do better, at this time. As I believe
7 I indicated, Capital One, of course, approached the Postal
8 Service first with the idea that, because of their size,
9 that we ought to discount their volume, not in the form of
10 declining block rates, but just in the form of pure volume
11 discounting. The Postal Service was interested in pursuing
12 or testing the idea of using pricing incentives to increase
13 and retain volume in first-class mail, but wanted to
14 supplement that with a way to avoid reduced costs; in this
15 case, in the form of eliminating the physical return of
16 undeliverable as addressed pieces.

17 Once those two issues were raised in that way,
18 they became joined and both sides agreed that combining them
19 allowed both parties to mitigate risks. From the
20 perspective of Capital One, they were willing to undertake
21 the addressing changes we requested, because they were
22 satisfied that the discount incentives were sufficient to
23 warrant that. From the Postal Service perspective, it made
24 it possible to pursue volume incentives in the form of
25 declining block rates with the protection afforded by some

1 significant cost savings that accrued to the Postal Service
2 before any discounts are activated.

3 MR. REITER: That's all I have, Mr. Chairman.

4 CHAIRMAN OMAS: Thank you. Do you have any re-
5 cross on questions that were raised during the redirect?

6 MS. CATLER: Yes.

7 RE-CROSS EXAMINATION

8 BY MS. CATLER:

9 Q During your redirect, you talked some more about
10 the give and take of -- you were trying to clarify how this
11 came up. What I want to know, I think in your earlier
12 testimony today, you indicated that the pricing innovations
13 group was not -- which I believe what was negotiating with
14 Capital One at the outset here, or maybe the pricing
15 strategy group, I'm not really sure, that you really didn't
16 know about the high level of return mail that was
17 characteristic of Capital One solicitation mail, at the
18 outset of these negotiations; is that right?

19 A I don't believe I said that. I thought what I
20 said, that by the time I became involved, that issue had
21 already been identified and was a subject of discussion.

22 Q Do you know how the return experience of Capital
23 One got into those discussions?

24 A I don't know what your question means. I mean,
25 who was responsible for bringing it up?

1 Q Yes.

2 A I don't know. I couldn't identify an individual
3 per se.

4 Q Was it Capital One or was it the Postal Service?

5 A Even that -- again, that issue was already in
6 play, as it were, by the time I became involved in the
7 negotiations.

8 MS. CATLER: No, I have no further questions.

9 CHAIRMAN OMAS: Mr. Baker?

10 (No response.)

11 CHAIRMAN OMAS: Mr. Costich?

12 MR. COSTICH: No response.

13 CHAIRMAN OMAS: Mr. Plunkett, that seems to
14 conclude your testimony here today. Thank you for your
15 appearance and for your contribution to our record. You are
16 now excused.

17 THE WITNESS: Thank you, Mr. Chairman.

18 (Witness excused.)

19 CHAIRMAN OMAS: That concludes today's hearing.
20 As provided in the presiding officer's ruling number four,
21 further procedural dates will depend on whether any
22 participant decides to file evidence in opposition to this
23 request. The date for filing notice of intent to file
24 evidence is tomorrow, December 6th.

25 Good evening, good luck in getting home. Drive

1 carefully. And we thank you all for being here today.

2 (Whereupon, at 3:55 p.m., the hearing was
3 concluded.)

4 //

5 //

6 //

7 //

8 //

9 //

10 //

11 //

12 //

13 ///

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

REPORTER'S CERTIFICATE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

DOCKET NO.: MC2002-2
CASE TITLE: Experimental Rate and Service Changes to
Implement Negotiated Service Agreement with
Capital One Services, Inc.
HEARING DATE: December 5, 2002
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are
contained fully and accurately on the tapes and notes
reported by me at the hearing in the above case before the
Postal Rate Commission.

Date: December 5, 2002


Beth Roots

Official Reporter
Heritage Reporting Corporation
Suite 600
1220 L Street, N.W.
Washington, D.C. 20005-4018

Heritage Reporting Corporation
(202) 628-4888