

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE AGREEMENT
WITH CAPITAL ONE SERVICES, INC.

Docket No. MC2002-2

SECOND REVISED RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO
(ERRATA)
(APWU/USPS-7)

The United States Postal Service hereby files a second revision to its response to the following interrogatory of the American Postal Workers Union, AFL-CIO: APWU/USPS-7, filed on December 12, 2002 and revised yesterday. Apparently, the undersigned counsel has failed to accept that a new year has dawned: the revision filed yesterday consistently employed a February 4, 2002 date. This revision lies squarely in the present and corrects the date.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Revised 2/5/03

APWU/USPS-7. In reference to the USPS response to Oral Request of Chairman Omas at Tr. 2/342, filed December 9, 2002:

- a) Please describe, in detail, which procedures for returned mail are expected to change with the implementation of PARS, Phase I.
- b) Please estimate for the three years of this proposed Negotiated Service Agreement, the percentage of returned mail that will be handled with automation equipment versus handled manually throughout the system, given the implementation of PARS Phase I.

RESPONSE:

a-b) It would be wrong to assume that PARS will materially decrease the cost savings projected in this case because it will reduce the cost of handling return-to-sender mail. It bears repeating that PARS Phase I will not impact the test year, FY2003, which is the relevant measure of net contribution in this case, because PARS will not begin deployment until close to the end of FY2003. See response to APWU/USPS-T4-13 (d). Even if the Commission were to consider the impact of PARS on the cost savings in the second and third year of the agreement, PARS will most likely not materially reduce the per-piece cost savings calculated by witness Crum (see Attachment B, page 2 to USPS-T-3). It is possible that PARS may even increase the cost savings.

The impact of PARS on the cost savings in this case is expected to be minimal because of both the implementation schedule and offsetting cost reductions. Assuming deployment is on schedule, Phase I of PARS will not be fully implemented until FY2005, when it will process only about one-third of Undeliverable-as-Addressed letter mail. See response to APWU/USPS-T4-13 (f). It is assumed, therefore, that PARS will handle one-third of return-to-sender and ACS mail as well. The Postal Service has no estimate of the number of pieces of mail that will be handled by PARS during the ramp-

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up year of FY2004. Id. Thus, at best, PARS could only impact a relatively small part of Capital One's non-forwardable UAA mail.

Part (b) of this interrogatory focuses on PARS' impact on only one aspect of witness Crum's cost savings: the cost of physically returning mail. That cost is only part of the equation. In calculating the cost savings, witness Crum calculated the difference between the cost of physically returning mail and the cost of providing ACS notices in lieu of physical returns. He then adjusted the savings by the ACS success rate to reflect that only 85% of mail pieces bearing an ACS endorsement will receive an electronic notice and thereby contribute to savings. See testimony of witness Crum, USPS-T-3, at 5 ln. 15-21. Witness Crum's calculation of per piece savings can be set forth as follows: $((\text{Cost of physical returns}) - (\text{cost of ACS notification})) * 85 \text{ percent ACS success rate} = \text{per piece cost savings}$.

PARS will most likely impact each of these factors by automating many of the manual and mechanical tasks currently performed, as explained further below. PARS is expected to reduce the cost of physical returns. It similarly is expected to reduce the cost of electronic "returns," i.e. the cost of providing electronic correction notices in lieu of physical returns. See USPS-LR-1/MC2002-2. Finally, because PARS standardizes the way ACS mail is handled, the Postal Service anticipates that the ACS success rate will improve above the current estimate of 85%. These impacts are generally offsetting: if PARS reduces the costs of both physical returns and "electronic" returns by equal amounts, for example, 5 cents, the cost savings remain unchanged, assuming no improvement in the ACS success rate. Even if the cost savings were reduced

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because of a greater reduction in the cost of physical return, that reduction would be offset to the extent the ACS success rate improves.

At this point, the reduction in costs or the improvement in the ACS success rate cannot be pinpointed. That task must await the development of reliable data after PARS has been deployed. It would be possible to compute an array of permutations where reductions in one factor are not fully set off by another. But the result remains the same: it is highly improbable that PARS, which will only at best affect a third of the return and ACS mail in the final year of the agreement, will drive the cost savings low enough to yield a negative net contribution for the NSA.

A description of the manual and mechanized tasks and processes that will be automated under PARS provides qualitative support for the conclusion that overall, the cost savings will not be materially altered. As discussed below, PARS is likely to reduce costs for both physical returns and electronic notices.

In a change from today's environment, where return-to-sender mail is first identified at the delivery unit, PARS is designed to have the ability to intercept at the originating P&DC some move-related mail that should be returned (such as when a post office box has been closed, or there is a valid change of address is between 13 and 18 months old). PARS will be able to locate the return address, whether on the front or the back of the envelope, and apply a label with a barcode that identifies the return address and the reason for the return. As discussed further below, PARS will also be able to identify any Address Change Service endorsements, the ACS participant code and the mailpiece's keyline number.

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The PARS intercept of non-forwardable UAA letter mail removes a number of manual and mechanical tasks from the delivery unit: neither the carrier nor the nixie clerk at the delivery unit will have to identify the mail as return to sender and identify and mark the reason for return on the mail piece. Additionally, for ACS mail, neither the carrier nor the nixie clerk will have to identify the mail as ACS and separate it from non-ACS mail.

PARS will not catch most of the non-forwardable UAA mail at the originating plant and this is true for Capital One's mail as well. It can only intercept move-related mail and only when there is an exact match between the address on the mailpiece and one in the PARS Change of Address database. As a result, a significant percentage of return-to-sender mail will still flow to the delivery unit.

PARS will also affect how this mail is handled. At a delivery unit covered by PARS, carriers will continue to identify return-to-sender mail and the reason for the return. The reason for the return will, in most cases, no longer need to be handstamped on the envelopes. Instead the mail will be separated by reason for the return through the use of special mail processing cards ("trigger cards"), placed in trays, and sent to the plant. Also, when a mail piece has an ACS endorsement, it will no longer need to be identified as such and separated from non-ACS mail.

At the plant, the mail is then run on a PARS processing machine, which can lift the image of the return address, whether on the front or back of the envelope, and in many cases, identify the delivery point barcode. When the full barcode is not identified, the machine sends the image to a Remote Encoding Center operator who will key in the

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data necessary to identify the delivery point barcode. The machine will also be able to detect the reason a mail piece is being returned through the use of the trigger card, any endorsements, ACS participant codes, and keylines. For pieces that will be physically returned it will apply a label with the barcode of the return address and the reason for the return. It should also eliminate the need to place a label over the delivery address barcode and to use grease pencils to block out secondary delivery barcodes in the address.

For ACS mail, PARS will store the data needed to provide the electronic correction notice and then label the piece as waste mail. Where PARS is available, ACS letter mail will no longer be sent to a CFS unit for an operator to manually key on a mechanized terminal, the ACS participant code, the keyline and the reason code for why the piece was not deliverable. Moreover, PARS will process mail at a rate far faster than possible on the CFS mechanized terminals. PARS also reduces the chance for human error in the identification, separation, and manual keying of ACS mail. Consequently, the number of ACS pieces that will receive electronic notice should improve to greater than 85%.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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