

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

Postal Rate Commission
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Experimental Rate and Service Changes To
Implement Negotiated Service Agreement With
Capital One Services, Inc.

Docket No. MC2002-2

**ANSWER OF NEWSPAPER ASSOCIATION OF AMERICA
WITNESS CHRISTOPHER D. KENT TO
QUESTION POSED AT HEARING
February 21, 2003**

The Newspaper Association of America hereby provides the attached response of witness Christopher D. Kent to a question posed during his oral cross-examination at Tr. 6/1151-1152.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

By: _____

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CERTIFICATE OF SERVICE

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

February 21, 2003

William B. Baker

REQUEST: At this point in the transcript (Tr. 6/1151-1152), Mr. May asked, “By what percentage would the Postal Service have had to overstate the unit cost of physical and electronic returns for this NSA to generate no additional contribution?”

RESPONSE:

Under the assumption that both the physical and electronic returns unit costs are 64% less than those calculated in USPS LR-1, the net contribution from the NSA will be -\$102,000. I note that the assumption must be that not only do the carrier preparation and clerk handling (the two cost components common to both physical and electronic returns) change in both cases, but that the cost components not common between the two types of returns must change at the same rate. It is much more likely that the magnitude of any mistakes in witness Crum’s estimations differ between the two types of returns.

In fact, upon review of this issue, it appears that the electronic returns cost used in the justification of the proposed NSA may be too low. The source listed in USPS LR-1 for the eACS cost is Tab 3 of USPS LR-J-69, which shows two cost components of ACS notifications: ACS COA notification (\$0.0997/piece) and ACS nixie processing (\$0.2074/piece). These two cost components are then weighted by volume (COA notifications make up 58% of ACS notifications and nixie processing make up 42%) to develop the \$0.1450. Because ACS COA notification is the cost for notifications of forwards and ACS nixie processing is the cost for notifications of returns, the \$0.1450 cost is based primarily on the cost for notifications of forwards.

Because witness Crum is estimating the cost of electronic *returns* in LR-1, it would seem more appropriate to use the ACS nixie processing cost, rather than the weighted average of ACS COA notification (the cost for notifications of forwards) and ACS nixie processing (the cost for notifications of returns). In other words, the \$0.1450 would be replaced with \$0.2074 in the electronic returns cost and thus the total electronic returns cost would increase to \$0.3945.

By simply making this change to the electronic returns cost, the net contribution of the proposed NSA is reduced to \$4,122,000 (from \$8.2 million).

As I stated throughout my testimony, the justification for the proposed NSA is based on costs that have not been demonstrated to be applicable to COS and cost savings that are likely overstated. This is yet another example of the questionable nature of these costs.