

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

RATE AND SERVICE CHANGES TO) Docket No. MC2004-3
IMPLEMENT FUNCTIONALLY EQUIVALENT)
NEGOTIATED SERVICE AGREEMENT WITH)
BANK ONE CORPORATION)

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
SECOND INTERROGATORIES AND REQUESTS FOR PRODUCTION OF
DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT (VP/USPS-T1-17-22)
(July 16, 2004)

Pursuant to sections 25 through 27 of the Rules of Practice of the Postal Rate
Commission, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
hereby submit the following interrogatories and requests for production of documents.

Respectfully submitted,

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

Counsel for:
Valpak Direct Marketing Systems, Inc. and
Valpak Dealers' Association, Inc.

VP/USPS-T1-17.

- a. Please confirm that Bank One Corporation witness Brad Rappaport (BOC-T-1) states at page 3, lines 9-11, that “Bank One typically uses Standard Mail for about 90 percent of its approximately one billion solicitations each year.” Please explain any non-confirmation.
- b. Please confirm that 90 percent of approximately one billion is approximately 900,000,000.
- c. Please refer to Appendix A, page 9, of your testimony (USPS-T-1), which indicates that Bank One’s 2003 Standard Mail volume was as follows:

Regular	464,277,517
ECR	<u>26,721,961</u>
Total	490,999,478

Please reconcile the above total in your Appendix A with Bank One’s Standard Mail volume of approximately 900,000,000 derived from witness Rappaport’s testimony, and account for the difference of approximately 400,000,000 pieces.

VP/USPS-T1-18.

Please refer to Appendix A, pages 3 and 4, of your testimony. Please compare the FY 2003 First-Class Mail volume shown on page 3, in column 1, with the FY 2003 First-Class Mail volume shown on page 4, in column 11, and provide a full explanation for the following differences in the volumes shown there.

	App. A Page 3 <u>Col. 1</u>	App. A Page 4 <u>Col. 11</u>
Non-automation presort letters	16,901,503	16,896,034
Automation presort:		
Mixed AADC Letters	3,622,017	3,462,228
AADC Letters	6,093,703	5,935,849
3-Digit Letters	361,677,512	321,218,301
5-Digit Letters	189,245,273	150,886,728
Automation Carrier Route Letters	<u>577,594</u>	<u>115,591</u>
Total	558,117,962	498,514,731

VP/USPS-T1-19.

- a. Please refer to Appendix A, page 7, of your testimony, and confirm that the “Return Forecast” shown on lines 10-12 is the volume of returns expected Before Rates. If you do not confirm, please explain fully what the data shown on these lines represent.
- b. Please refer to Appendix A, page 7, of your testimony, and confirm that the “Return Costs” shown on lines 13-16 is the cost of manually handling the volume of the Before Rates returns shown on lines 10-12. If you do not confirm, please explain fully what the costs shown on these lines represent.
- c. Please refer to Appendix A, page 7, of your testimony, and confirm that the “After Rates Return Costs” shown on lines 17-20 is the cost of returning the volume of Before Rates returns shown on lines 10-12, when Address Correction Service (“ACS”) is used for 85 percent of the marketing letters and flats. If you do not confirm, please explain fully what the costs shown on these lines represent.

VP/USPS-T1-20.

- a. Please confirm that the total volume of Bank One's returns After Rates will be as shown below. If you do not confirm, please provide what you believe to be the correct figures for the volume of Bank One's returns After Rates.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Operational Mail	1,722,610	1,722,610	1,722,610
Marketing Mail Letter	4,359,780	11,559,780	11,559,780
Marketing Mail Flat	<u>3,854,730</u>	<u>3,854,730</u>	<u>3,854,730</u>
Total	9,937,120	17,137,120	17,137,120

- b. Would you agree that in years 2 and 3 After Rates (i) the total volume of Bank One's Undeliverable as Addressed ("UAA") First-Class Mail requiring returns will be more than 100 percent greater than Before Rates, and (ii) the total volume of Bank One's UAA First-Class Marketing Mail will be more than 130 percent greater than Before Rates? If you do not agree, please provide what you believe to be the correct figures, and show their derivation.
- c. Do you consider the Bank One Negotiated Service Agreement ("NSA") to be a step in the direction of reducing the volume of UAA First-Class Mail that the Postal Service must handle each year? Please explain any answer that is not an unqualified negative.

VP/USPS-T1-21.

- a. Please confirm that, with the assumptions used to compute the costs shown in Appendix A, page 7, lines 17-19, of your testimony, the Postal Service's total cost to handle the total volume of Bank One's returns After Rates will be as shown below. If you do not

confirm, please provide what you believe to be the correct costs for the Postal Service to handle the total volume of Bank One's returns After Rates.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Operational Mail	\$ 949,503	\$ 987,483	\$ 1,026,982
Marketing Mail Letter	\$ 1,632,302	\$ 4,126,009	\$ 4,291,050
Marketing Mail Flat	\$ <u>2,078,536</u>	\$ <u>2,161,677</u>	\$ <u>2,248,145</u>
Total	\$ 4,660,340	\$ 7,650,261	\$ 7,956,272

- b. Would you agree that in years 2 and 3 After Rates, the Postal Service's total cost to handle Bank One's returns will exceed the Before Rates return costs of \$6,752,241 and \$7,022,330, respectively? If you do not agree, please explain fully.
- c. Would you agree that in years 2 and 3 After Rates, the Postal Service will incur incremental costs of \$3,471,268 and \$3,610,119 over your After Rates return costs (Appendix A, p. 7, l. 20) to handle the predictable increase in UAA returns? If you do not agree with these figures, please provide what you believe to be the correct incremental costs.
- d. Would you agree that the incremental volume of letter mail in years 2 and 3 is 99,055,000 pieces (*i.e.*, 128,442,000 less 29,387,000)? If you do not agree, please explain and provide what you believe to be the incremental volume in years 2 and 3.
- e. Would you agree that in years 2 and 3 the incremental costs of the incremental volume on account of UAA returns is \$0.035 and \$0.036 per piece, respectively? If you do not agree, please explain and provide what you believe to be the incremental costs in years 2 and 3.
- f. Please assume that an NSA, such as the one proposed for Bank One, induces an incremental volume of First-Class Mail that will contain UAA mail that is predictably

and substantially higher than the systemwide average. As a general proposition, should the unit profitability of this incremental volume be based solely on the sender's mail mix and the systemwide average unit costs, or should there be an adjustment in the unit profitability to reflect the higher costs imposed by the higher percentage of UAA mail? Please explain your answer.

VP/USPS-T1-22.

- a. Would it be reasonable to assume that a sharp increase in the volume of Bank One's First-Class marketing mail that is UAA and non-forwardable (and which is therefore eligible for some kind of return service) would be accompanied by a predictable increase in the volume of UAA First-Class Mail that is forwardable, and which the Postal Service therefore will have to forward? Please explain fully any answer that is not an unqualified affirmative.
- b. If the Postal Service has any estimate of the statistical relationship between the volume of UAA mail that is forwardable versus that which is non-forwardable (and returned), please (i) provide this estimate, and (ii) provide your best estimate of the likely increase in the volume of Bank One's First-Class Mail that the Postal Service will have to forward during years 2 and 3 as a direct result of implementing the proposed NSA.
- c. Did your analysis of the Postal Service's costs and benefits from the proposed NSA include the predictable increase in the cost of forwarding Bank One's UAA marketing mail? If so, please (i) provide the amount which you computed for the incremental cost

of **forwarding** UAA mail, and (ii) indicate where in your Appendix A this figure appears.