

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

RATE AND SERVICE CHANGES TO IMPLEMENT  
FUNCTIONALLY EQUIVALENT NEGOTIATED  
SERVICE AGREEMENT WITH BANK ONE  
CORPORATION

Docket No. MC2004-3

RESPONSES OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T1-1-11)

The United States Postal Service hereby provides its responses to the following interrogatories the Office of Consumer Advocate: OCA/USPS-T1-11, filed on July 7, 2004.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

OCA/USPS-T1-1. Please refer to 612.1 of Attachment A to the Request containing proposed DMCS language implementing the Bank One NSA. Please confirm that the number of First-Class Mail flat-shaped pieces eligible for discounts is fixed at 35 million for each year of the Bank One NSA. If you do not confirm, please explain.

**RESPONSE:**

Not confirmed. While no more than 35 million pieces of flat mail will be counted toward the attainment of thresholds in each year of the agreement, it is possible that no flat mail will be eligible for discounts, if Bank One's First-Class Mail volume does not exceed the discount threshold.

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

OCA/USPS-T1-2. Please refer to 612.2 of Attachment A to the Request containing proposed DMCS language implementing the Bank One NSA, and 610.2 of the DMCS language implementing the Capital One NSA.

- (a) Please explain how the 25 million-piece minimum was determined.
- (b) Do you see any circumstances under which Bank One would mail less than 25 million pieces of eligible First-Class Mail during the first year after implementation?
- (c) Please explain the purpose of the 25 million-piece minimum, given that it constitutes such a small portion (4.7 percent) of the first-year discount threshold of 535 million.
- (d) Please confirm that the analogous provision applicable to Capital One was 750 million pieces, or 61.2 percent of the first-year discount threshold of 1.225 billion. If you do not confirm, please explain.

**RESPONSE:**

- a. This number was determined through direct negotiation between Bank One and the Postal Service.
- b. Yes. As used in this section of the agreement the mail counted toward the 25 million piece threshold is limited to solicitation mail that bears the appropriate ACS endorsement and complies with associated postal rules and regulations. As witness Rappaport describes, credit card advertising is subject to increasing cost pressure, and is affected by a number of different variables. It is quite possible Bank One's First-Class Mail advertising could fall below this number.
- c. While the threshold is a small proportion of Bank One's total First-Class Mail, it is almost 40% of its First-Class Mail used for acquiring customers.
- d. Not confirmed. In the Capital One NSA, both customer account mail and eligible solicitation mail were counted toward the 750 million piece threshold. See Capital One NSA, Article II, Section C. In the Bank One NSA, only eligible solicitation mail is counted toward the 25 million piece threshold.

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

OCA/USPS-T1-3. Please refer to 612.2 of Attachment A to the Request containing proposed DMCS language implementing the Bank One NSA, and 610.2 of the DMCS language implementing the Capital One NSA.

- (a) The DMCS language implementing the Capital One NSA required that Capital One “pay the greater of either (1) all address correction service fees under Fee Schedule 911, as specified by the Postal Service, for pieces receiving address correction service.” No similar requirement is imposed on Bank One. Please explain the rationale for not imposing a similar requirement on Bank One.
- (b) Please explain how the \$200,000 figure was determined.

**RESPONSE:**

- a. DMM G911.2.1.f provides that agreements comparable to the Capital One agreement must have a transactional penalty or minimum payment. The parties negotiated a minimum payment in the Bank One agreement.
- b. The figure was arrived at through negotiations between Bank One and the Postal Service.

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

OCA/USPS-T1-4. Please refer to 612.33 to Attachment A of the Request, which states "if the percentage change is an increase or a decrease of greater than 5%, the threshold shall be adjusted upward or downward by the difference between the percentage change and 3%."

(a) Please explain how this formula was determined, and its rationale.

(b) Please explain the rationale for adjusting the Discount Threshold, consisting of number of pieces, based upon percentage change from year to year in the sum of the number of Bank One's credit card and checking accounts.

**RESPONSE:**

- a. The precise formula was negotiated between Bank One and the Postal Service.
- b. The rationale for adjusting thresholds is to ensure that the negotiated thresholds remain at an appropriate level over the term of the agreement in the event that exogenous factors cause a significant change in the size and scope of Bank One's activity.

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

OCA/USPS-T1-5. Please refer to 612.34, Subparts (a), (b) and (c), to Attachment A of the Request.

- (a) Please define the term “portfolio” as that term is used in Subparts (a) and (c).
- (b) Subpart (a) refers to “annual First-Class Mail volume in excess of 10 million pieces but less than 300 million pieces,” while Subpart (b) refers to “annual First-Class Mail volume of over 300 million pieces.” Other than these two quoted phrases, please explain the significance of the differences in wording between Subpart (a) and Subpart (b).
- (c) Please explain how the 300 million figure was determined, and its rationale.
- (d) Please define the phrase “active accounts” as that term is used in Subpart (c).
- (e) For Bank One, please provide the total number of credit card and checking accounts, and the number of “active” credit card and checking accounts.
- (f) For Bank One,
  - (i) What is the average annual number of customer account pieces sent to one “active account?”
  - (ii) What is the average annual number of First-Class solicitation mail pieces sent to one “active account?”
  - (iii) What is the average annual number of customer account pieces sent to an account that is not “active?”
  - (iv) What is the average annual number of First-Class solicitation mail pieces sent to an account that is not “active?”
- (g) Please explain how the formula in Subpart (c), quoted below, was determined, and its rationale: “the discount threshold will be adjusted downward by the product of the number of active accounts lost or sold multiplied by 12.”
- (h) Please cite the source(s) relied upon for your response(s) to (d) – (f), above.
- (i) Please provide all documentation consulted in your response(s) to (d) – (f), above.

**RESPONSE:**

- a.) As used in Section 614.34 (a) and (c), a "portfolio" is a group of established credit card or financial accounts with a 12 month history of mailings, which Bank One may buy from or sell to another entity.
- b.) Subpart b deals with the consolidation of a much larger entity, for which integration is likely to require longer lead times. Therefore, a more appropriate basis for adjusting thresholds is the period before integration rather than the period before merger.

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

- c.) The figure was negotiated between the parties, and represents a meeting of the minds regarding the threshold at which integration of mailing activities is sufficiently complicated that longer lead times are required.
- d.) Active accounts are those in which customers have received a statement within the prior twelve months.
- e.) In Attachment 1 of his testimony, witness Buc calculates that Bank One has 40.3 million credit card accounts. According to Bank One's most recent annual report ([www.bankone.com/resources/2003\\_financials.pdf](http://www.bankone.com/resources/2003_financials.pdf)), the total number of personal demand accounts is 4.773 million and the number of business demand accounts is .513 million. I do not have records of Bank One's active accounts during the same period nor does anyone in the Postal Service, to the best of my knowledge.
- f.) I do not have the average numbers requested nor does anyone in the Postal Service, to the best of my knowledge. Please see my response to subpart (e) above.
- g.) The formula was negotiated between the parties, based on the premise that 12 mailings per year was a reasonable approximation of the number of pieces an active account would receive.
- h.) Information on total accounts is reported in Bank One's annual report. A link to the report can be found at:  
<http://www.shareholder.com/jpmorganchase/annual.cfm> ("Bank One 2003 Annual Report and Proxy Statement").
- i.) There are no documents to provide in response to this section.

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

OCA/USPS-T1-6. Please refer to Attachment F of the Request, which contains the NSA between the Postal Service and Bank One, Article III. H. 3. – 5.

- (a) Please explain the circumstances under which the situation described in Article III. H. 3. might occur, and provide a numeric example.
- (b) Please explain the circumstances under which the situation described in Article III. H. 4. might occur, and provide a numeric example.
- (c) Please explain the circumstances under which the situation described in Article III. H. 5. might occur, and provide a numeric example.

**RESPONSE:**

- a. For example, if in quarter X of the agreement, Bank One's actual mail volume were 130 million pieces compared with a threshold of 125 million pieces, they would earn a discount of  $(5,000,000 * \$0.025) = \$125,000$ .
- b. Using the same example, at the conclusion of quarter X, the Postal Service will report total permit activity to Bank One, and calculate the appropriate discount as described above.
- c. Again using the same example, if at the end of the year including quarter X it was determined that Bank One's total First-Class Mail were only 4 million pieces over the appropriate threshold, Bank One would have received \$25,000 in unearned discounts. As described in the agreement, the Postal Service would then issue an invoice seeking payment of the \$25,000.

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

OCA/USPS-T1-7. Please refer to Attachment F of the Request, which contains the NSA between the Postal Service and Bank One, Article II. G. 2. For purposes of the following questions, assume the Postal Rate Commission has recommended, and the Board of Governors has approved and set an implementation date of November 30, 2004.

- (a) Do you anticipate that Bank One will notify the Postal Service that it intends to utilize the six-month extension to May 31, 2005, to begin compliance with the Address Change Service (ACS) requirements? Please explain.
- (b) If Bank One notifies the Postal Service that it intends to utilize the six-month extension, on what date are Bank One's First-Class solicitation mail pieces eligible for discounts? Please explain.
- (c) Will Bank One receive discounts for otherwise eligible First-Class solicitation mail pieces prior to beginning compliance with the ACS requirements? Please explain.
- (d) Does Bank One intend to install the MPTQM program and achieve a self-assessment score of 95 percent? Please explain.

**RESPONSE:**

The question appears to refer to enhanced NCOA rather than ACS requirements. As it pertains to enhanced NCOA, my answers are as follows.

- a) No. I do not anticipate that Bank One will notify the Postal Service about an extension of the enhanced NCOA processing for solicitation addresses, because I expect them to be in compliance with those requirements.
- b) The pieces so described would be eligible for discounts when the remaining conditions of the NSA are met.
- c) It is possible that Bank One may be eligible for discounts before the addresses used for its solicitations are processed through NCOA every 90 days.
- d) Unlike Capital One, Bank One uses a vendor to prepare all of its mailings. However, I also understand that Bank One's primary vendor is already MPTQM certified.

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

OCA/USPS-T1-8. Please refer to your testimony at page 8, lines 13-15, and the Commission's opinion in Docket No. MC2002-2, at pages 68-70.

- (a) Please confirm that the Postal Service developed an analysis of the type described by the Commission with respect to Bank One's future demand for First-Class solicitation mail. If so, please provide the analysis. If not please explain.
- (b) Please explain how each incremental volume block relates to Bank One's future demand for First-Class solicitation mail so as to provide an incentive to increase the incremental volume of solicitation mail.

**RESPONSE:**

- a) The Postal Service did not fit a demand curve for Bank One as illustrated in the Commission's opinion in Docket No. MC2002-2, at pages 68-70. As I noted in my testimony (USPS-T-1 at 11), I relied on the analysis of Postal Service witness Eakin (USPS-RT-2) from MC2002-2.
- b) Witness Rapport's testimony (BOC-T-1) describes the overall effect of the agreement on Bank One's demand. Witness Buc's testimony (BOC-T-2) illustrates the way in which the size of blocks affects the ROI calculations that determine demand for First-Class Mail advertising.

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

OCA/USPS-T1-9. Please refer to your testimony at page 9, lines 12-16. What is the "logical correlation" in terms of the number of pieces for Bank One?

**RESPONSE:**

Banks issue statements to accountholders. Therefore the number of statements mailed by banks will be correlated with the number of accounts. See also my response to OCA/USPS-T1-5 (f).

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

OCA/USPS-T1-10. Please refer to your testimony at page 13, footnote 2.

- (a) Please confirm that there will be forwarded mail cost savings accruing to the Postal Service for the duration of the Bank One NSA. If you do not confirm, please explain. If you do confirm, please explain the basis for your affirmative response.
- (b) Please confirm that the Postal Service did not estimate the forwarded mail cost savings accruing to the Postal Service for the duration of the Bank One NSA. If you do not confirm, please explain and provide the estimate. If you do confirm, please explain.

**RESPONSE:**

- a) Confirmed that the availability of ACS information and Bank One's commitments to employ such data in future mailings are likely to reduce the number of forwardable pieces. This is expected to reduce the costs associated with handling forwarded mail from Bank One. In the Response of Postal Service Witness Crum to Presiding Officer Information Request No.2, Question 7 in Docket No. MC2002-2 (November 21, 2003), the estimated cost of forwarding a mail piece was \$0.307.
- b) Confirmed. In the absence of empirical information on Bank One's forwarding rate, or on the frequency with which it mails to the same address, it is not possible to reliably estimate these savings. We expect to be able to measure these savings once empirical information is available. This lends further credence to the conservatism of our assumptions as described in my testimony at pages 12-13.

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

OCA/USPS-T1-11. Please refer to Attachment F of the Request, which contains the NSA between the Postal Service and Bank One, Article III, Paragraph E. This paragraph permits Bank One to set quarterly volume thresholds, subject to the requirement that at least 18 percent of its annual volume estimate be allocated to each quarter.

- (a) Would you expect Bank One to allocate quarterly volumes so as to maximize the expected net present value of discounts? If not, why not?
- (b) If Bank One's forecast volume for a quarter were less than 18 percent of forecast annual volume (meaning no opportunity to earn discounts in that quarter), would you expect Bank One to set the volume threshold for that quarter at 46 [100 – 3\*18] percent of forecast annual volume (so as to make the thresholds in the other three quarters as low as possible, *i.e.*, 18 percent)? If not, why not?
- (c) If Bank One's forecast volume for all quarters were 25 percent of forecast annual volume, would you expect Bank One to set the thresholds for the first three quarters at 18 percent (so as to earn discounts sooner rather than later)? If not, why not?
- (d) Do you expect the quarterly threshold mechanism to provide any benefits to the Postal Service? If so, what are they?

**RESPONSE:**

a) I would expect that all of Bank One's conduct and business decisions will be guided by the goal of maximizing the company's overall profits. Maximizing the net present value of the discounts may not necessarily be the strategy that maximizes Bank One's overall profits.

b-c) I would not. The question suggests that Bank One's goal is to maximize its discounts, when in fact Bank One's goal is to maximize its profits. For the purposes of this agreement, those profits are likely to be maximized through the creation of additional accounts. Consequently I would expect Bank One to seek ways to properly signal its internal business units so as to maximize their ability to grow accounts. As in any organization these signals are likely to be shaped by internal budgeting, resource allocation, and other business decisions. While it's

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

theoretically possible that all of these considerations would result in a threshold allocation scheme as described above, I think it extremely unlikely.

- d.) The Postal Service expects the declining block incentives to result in additional First-Class Mail advertising, and consequently more bills and statements. It is probable that quarterly thresholds will accelerate account creation when compared with a single annual threshold. Therefore, the Postal Service would benefit from getting more mail sooner.

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

**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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July 19, 2004