

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 VALPAK DIRECT MARKETING  
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.  
(VP/USPS-T1-1-16)

The United States Postal Service hereby provides its responses to the following interrogatories Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.: VP/USPS-T1-1-16, filed on July 15, 2004.

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

Respectfully submitted,  
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
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RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
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**VP/USPS-T1-1.**

Please refer to your testimony at page 14, lines 14-18.

a. Would you agree that every other credit card issuer in the country that uses mail to solicit new business is similarly situated to Bank One and Capital One? Please explain any answer that is not an unqualified affirmative.

b. Can you envision any circumstances under which a credit card issuer that uses mail for solicitation purposes that would not be considered to be similarly situated to Bank One and Capital One? If so, please state those circumstances.

c. Please assume that (i) several firms are direct competitors in the same line of business, not necessarily credit cards or finance, and (ii) each firm uses the mail to solicit new business. With respect to eligibility for a Negotiated Service Agreement ("NSA") from the Postal Service, would you agree these firms are similarly situated? If you do not agree fully, please list all reservations which you have. If you feel that you need more information, please so state and indicate the type of information needed.

**RESPONSE:**

- a. I'm not aware that a precise definition of the term "similarly situated" has been propounded, but in a general sense I would agree.
- b. See my response to part a.
- c. To give an unqualified response I would need to know what industry the companies were in, and how such companies compete for the acquisition of customers.

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**VP/USPS-T1-2.**

Please refer to your testimony at page 15, lines 1-3.

- a. Please cite all circumstances of which you are currently aware that would make it inappropriate for the Postal Service to provide NSAs to all competitors within an industry.
- b. Please assume that for one or more firms in an industry the Postal Service and the Commission have previously approved a NSA (perhaps functionally equivalent to the Capital One NSA, but not necessarily so). Please cite any circumstances of which you are aware that would make it appropriate for the Postal Service to withhold from a competitor a NSA that is functionally equivalent to the one already in existence.
- c. In your opinion, would the volume of mail generated by one competitor in an industry be a factor that could cause it to be considered dissimilar from one or more of its competitors that are party to a NSA? Please explain any affirmative answer.

**RESPONSE:**

- a. For example, the Postal Service must demonstrate that an NSA is – at a minimum – contribution neutral. If this condition cannot be met then it would be inappropriate to enter into an NSA with the company.
- b. See my response to part a.
- c. In the absence of any other differences, volume alone would not be sufficient for a customer to be considered dissimilar, though it would be likely to have an effect on the terms of the NSA.

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**VP/USPS-T1-3.**

Please refer to your testimony at page 3, where you state that “[t]he Bank One NSA ... affirms the Postal Service’s commitment to extend the Capital One NSA’s terms and conditions to other mailers.”

a. Has the Postal Service made a commitment to extend an NSA that is functionally equivalent to the Capital One NSA to any company that (i) uses First-Class Mail extensively for solicitation purposes, and (ii) has a high percentage (e.g., 9-11 percent) of its solicitation mail returned as Undeliverable as Addressed (“UAA”)? Please explain any answer that is not an unqualified affirmative.

b. Has the Postal Service made a commitment to extend an NSA that is functionally equivalent to the Capital One NSA to any company that uses First-Class Mail extensively for solicitation purposes? Please explain any answer that not an unqualified affirmative.

c. Has the Postal Service made a commitment to extend an NSA that is functionally equivalent to the Capital One NSA to any company that now uses Standard Mail extensively for solicitation purposes and that would consider sending some or all of it as First-Class Mail? Please explain any answer that not an unqualified affirmative.

**RESPONSE:**

a. Yes, although there has been no commitment made to any specific company.

Moreover, in order to qualify, a company would have to accept electronic ACS in lieu of the physical return of undeliverable as addressed mail when such mail is used for solicitation, as well as the other terms set forth in DMM G911.

b. Yes, subject to the limitations described in my response to part a.

c. No. This situation has not arisen.

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**VP/USPS-T1-4.**

a. Please refer to page 1 of your Appendix A, and confirm that in year 1 the unit cost for an electronic flat return address correction is 45 cents, and for a letter it is 34 cents. If you do not confirm, please explain.

b. Please explain why it costs the Postal Service 11 cents more to provide an electronic return address correction for a flat than for a letter.

**RESPONSE**

a. Confirmed.

b. Flats are generally processed on non-mechanized terminals in CFS units. These terminals have a lower throughput rate than the mechanized terminals on which letters are processed, and therefore have a higher cost.

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**VP/USPS-T1-5.**

Your testimony at page 11 notes that “[t]o be conservative, witness Rappaport has estimated that 100 percent of incremental [First-Class] volume would be converted from Standard Mail.”

a. During 2003, did any of Bank One’s Standard Mail solicitations contain mail pieces that were UAA? If you do not know for certain, would it be reasonable to assume that this was the case?

b. During 2003, did the Postal Service provide Bank One with (i) any kind of physical returns or (ii) return information about any of its Standard Mail pieces that were UAA? Please explain any answer that is not an unqualified negative, and indicate the Postal Service’s extra costs and revenues associated with any return services that it provided for Bank One’s Standard Mail pieces that were UAA. Do not include any costs incurred to destroy or dispose of UAA Standard Mail.

c. During 2003, did Bank One request any forwarding services for its Standard Mail solicitations that might be UAA but forwardable?

d. When Standard Mail solicitations are converted to First-Class Mail, will the Postal Service incur extra costs for any pieces that are UAA but forwardable? If so, please indicate the approximate unit cost of forwarding such mail.

**RESPONSE:**

a. Yes.

b. If pieces were returned as described, then such returns were inadvertent. I know of no reason why the number of Standard Mail pieces inadvertently returned to Bank One would be different in relative terms from the number returned to the average mailer. Consequently, any costs that would arise from such activity can be fairly assumed to be included in the costs of Standard Mail already.

c. I am not aware of any such mail.

d. Presumably some of the pieces converted will be forwardable. In the Postal Service’s response to POIR 2, question 7 in MC2002-2, the unit cost of forwarding a letter was 30.7 cents.

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**VP/USPS-T1-6.**

Please assume that, for its solicitations sent via Standard Mail, Bank One does not use any kind of endorsement for such mail that is UAA (*i.e.*, no endorsement requesting forwarding, return to sender, or address correction).

- a. Why does the Postal Service believe Bank One needs physical return or electronic address correction service for UAA mail in its First-Class solicitations?
- b. Regardless of your answer to preceding part a, within the context of structuring a NSA that is similar, or functionally equivalent, to the Capital One NSA, did you consider offering Bank One the option of a new endorsement in the return address block which would indicate that (i) if the piece is UAA and non-forwardable, and no physical return or address correction is necessary, and (ii) the Postal Service may dispose of the piece in a manner similar to the way it disposes of Standard Mail that is UAA? In other words, did the Postal Service explicitly consider offering Bank One an optional endorsement that would enable the Postal Service to handle and dispose of First-Class non-forwardable mail at minimum cost? If the Postal Service did give explicit consideration to such an option, but rejected it, please indicate all reasons for the rejection. If such an option was offered to Bank One, and rejected by Bank One, please indicate all reasons of which you are aware for its rejection.

**RESPONSE:**

- a. The Postal Service has not assumed that Bank One “needs” returned mail information. The return of undeliverable mail is an existing feature of First-Class Mail.
- b. No such endorsement was considered.

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**VP/USPS-T1-7.**

a. For FY 2003, what was the total number of pieces of First-Class UAA mail which the Postal Service (1) returned to sender or, in lieu of returning to sender, and (2) supplied with an electronic address correction?

b. For the Test Year, or any subsequent year following implementation of the proposed NSA, does the Postal Service have any projection or estimate of the total volume of First-Class UAA mail which it either (1) will return to sender, or, (2) in lieu of returning to sender, will supply with an electronic address correction? If so, please provide.

**RESPONSE**

a. Assuming the proportion of UAA mail used in LR-J-69, filed in Docket No. R2001-1, there were approximately 1.2 billion pieces of First-Class UAA mail that were returned to sender. There were 1.9 million electronic ACS returns during the same period.

b. The Postal Service does not routinely project the number of undeliverable First-Class Mail pieces, but has no reason to believe that the percentage of pieces that are UAA will exceed the percentage assumed in the Postal Service's analysis.



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**VP/USPS-T1-8.**

a. For FY 2003, what was the Postal Service's total cost of First-Class UAA mail which the Postal Service either returned to sender or, in lieu of returning to sender, supplied an electronic address correction?

b. For the Test Year, or any subsequent year following implementation of the proposed NSA, does the Postal Service have a projection or estimate of the total cost of First-Class UAA mail which it either (i) will return to sender, or, (ii) in lieu of returning to sender, will supply with an electronic address correction? If so, please provide.

c. If, in response to preceding parts a and b, you show that the total cost of nonforwardable First-Class UAA mail is projected to be lower than in FY 2003, please indicate all major reasons for the projected decline in the total cost of handling such mail.

**RESPONSE:**

a. The total cost of handling UAA mail in TY 2003 was estimated to be \$1.9 billion.

This estimation comes from Table 5.1 in LR-J-69, Docket No. R2001-1.

b-c. The Postal Service does not routinely project the costs as requested. However, the costs of UAA mail generally vary in proportion to total First-Class Mail volume. Consequently, if First-Class Mail volume continues to decline, the aggregate costs of handling UAA mail are likely to decline irrespective of other effects.

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**VP/USPS-T1-9.**

When you testified as a Postal Service rebuttal witness in Docket No. MC2002-2, you testified that the Postal Service did not have the operational capability to implement the terms of an NSA with Capital One on a systemwide basis as a niche classification at that time. (See Rebuttal Testimony of Postal Service witness Michael K. Plunkett, USPS-RT-1, Tr. 9/1866- 69; *Opinion & Recommended Decision*, Docket No. MC2002-2, p. 34, n. 45.) Does the Postal Service now have any better operational capability to implement the terms of the NSA with Bank One as a niche classification at this time? If not, why not? If so, please explain what capabilities exist, and state why this NSA was not proposed as a niche classification.

**RESPONSE:**

Having implemented the Capital One agreement, the Postal Service has the technical ability to implement additional agreements more easily. The fundamental problem with implementing declining block discounts through niche classifications remains, however. For block discounts to increase the Postal Service's net contribution, while giving the mailer an incentive to use the discounts, the discount blocks must be reasonably tailored to the volumes that the mailer is expected to enter with and without the discounts. A niche classification is poorly suited for this kind of calibration, for the reasons explained in more detail by the Postal Service and its witnesses in the Capital One case.

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**VP/USPS-T1-10.**

For your response to the questions below, please make the following assumptions. First, assume that the largest originator of First-Class UAA mail requiring return to sender (if such originator is not already Cap One) signs an NSA similar to that signed by Cap One and the pending NSA proposed for Bank One. Second, assume that the second largest originator, the third largest, fourth largest, etc., all sign similar NSAs. Based on your understanding of the volumes of mail sent by the largest originators of First-Class UAA mail, approximately how many such NSAs would the Postal Service need to execute in order to reduce by 20 percent the cost of handling First-Class UAA mail that otherwise would require return to sender?

**RESPONSE:**

This question can not be answered since the Postal Service does not compile information on returned mail by customer unless such customers use electronic ACS.

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**VP/USPS-T1-11.**

For your response to this question, please assume that the Postal Service decided to offer all bulk First-Class mailers the option of free electronic address correction in lieu of physical return to sender. Under this assumption, would the proposed NSA with Bank One still be advantageous to the Postal Service? If so, please do your best to describe and quantify the advantage to the Postal Service?

**RESPONSE:**

Yes. As described in Appendix A in my testimony, the Postal Service expects the agreement with Bank One to produce a net gain in contribution as a result of increased First-Class Mail volume.

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**VP/USPS-T1-12.**

In responding to the questions below, please make the following assumptions. For First-Class bulk mail (*i.e.*, all First-Class Mail that qualifies for any kind of discount below the rate for single piece First-Class Mail), assume the Postal Service: (i) eliminated free return to sender for UAA mail; (ii) reduced the rates for bulk First-Class by the amount of savings from elimination of free return service; (iii) required mailers who either want their non-forwardable bulk First-Class UAA mail returned or, in lieu thereof, want an electronic address correction to indicate their desired preference in the return address block; and (iv) charged bulk First-Class mailers an appropriate cost-based fee for the service rendered.

- a. How would the change hypothesized above affect the proposed NSA with Bank One?
- b. 1. Assuming that the proposed NSA with Bank One were to be recommended by the Commission and implemented by the Postal Service, would the existence this NSA, along with the current Cap One NSA preclude the Postal Service from filing a subsequent request with the Commission to implement an overall market-based solution to the high cost of returning UAA mail?
  2. Even if it would not preclude such a request, would it in any way make it less likely? Please explain why it would or would not.

**RESPONSE:**

- a. These assumptions would produce far-reaching effects on First-Class Mail that preclude a precise response. Moreover, without knowing the differing fees for physically returned or electronically returned mail, it is difficult to assess the perceived value of electronic returns to a large mailer such as Bank One. In general however, the Postal Service would presumably still want to provide incentives for large mailers to adopt electronic returns because of the cost difference. In addition, the Postal Service considers the declining block rate structure included in the Bank One agreement to have considerable utility independent of any changes in return service.
- b. 1. No.

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cont'd

2. I do not believe it would be less likely. Based on my experience, the number of mailers likely to qualify for and negotiate functionally equivalent agreements will comprise a relatively small proportion of First-Class Mailers.

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**VP/USPS-T1-13.**

The executed NSA provided in Attachment F of your testimony states in Section II.G.2 that Bank One may have a six-month extension to May 31, 2005 to have its solicitations updated against NCOA/CASS. Has the Postal Service estimated the loss that it would incur if Bank One utilized this extension? If so, please provide that estimate.

**RESPONSE:**

No. I note, however, that none of the cost savings projected by the Postal Service in this case are predicated on the frequency of NCOA processing.

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**VP/USPS-T1-14.**

Has Bank One provided the post-merger information that it is required to file within 90 days of a merger (which counsel for Bank One has advised the Commission occurred on July 1, 2004; see Responses of Bank One Corporation to Office of Consumer Advocate Interrogatories (OCA/BOC-T1-2-6 and T1-8-10 (July 8, 2004) page 1)? If so, please provide. If not, when is this information expected to be filed, and how can intervenors and the Commission be expected to evaluate this proposal prior to receiving this information?

**RESPONSE:**

This information has not yet been provided. The merger provisions of the contract between Bank One and the Postal Service are not binding until the Commission issues a Recommended Decision approving the contract, and the Governors of the Postal Service approve such a Decision. Furthermore, Bank One and the Postal Service must jointly agree on an implementation date. If it is necessary to merge volumes for the purposes of recalibrating discount thresholds, there will be adequate lead time in which to do so. The Postal Service considers the information filed by the parties to be sufficient for a thorough evaluation of this proposal. As in the Capital One case, there is a clause in the agreement that allows the parties to adjust the terms as needed in the event of a merger.



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**VP/USPS-T1-15.**

The Bank One NSA provides that a material change in the Domestic Mail Classification Schedule ("DMCS") or the Domestic Mail Manual ("DMM") "that affects the basic structure of this agreement or changes the benefits of the arrangement" occurs, each party may terminate the agreement, without penalty. (Section V.F.5.)

a. Do you believe that if the Postal Service were to propose successfully to the Commission that the price of electronic address correction would be reduced by any amount, or that any charge is imposed for physical return of commercial First-Class Mail, that the Postal Service could terminate the agreement without penalty under this clause? Please explain your answer.

b. Do you believe that if the Postal Service were to propose successfully to the Commission the creation of a First-Class bulk subclass, that the Postal Service could terminate the agreement without penalty under this clause? Please explain your answer.

**RESPONSE:**

Whether the hypothetical changes described in this question constitute "material" changes under the agreement depends on the size of the charge for physical return, the rate reduction for electronic return, or both. The bigger the magnitude of the change(s), the more likely that the clause referenced above could be invoked. In any event, such a change in circumstances, even if material, would permit, but not require, a termination of the agreement.

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**VP/USPS-T1-16.**

Has the Postal Service developed any mailer-specific costs for the Bank One NSA? If so, please provide. If not, why have mailer-specific costs not been developed?

**RESPONSE**

See response to POIR 1, question 3.

## **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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