

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-T1-17-22)

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-T1-17-22, filed on July 16, 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.
Chief Counsel, Ratemaking

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3089 Fax -5402
July 26, 2004

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF 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 nonconfirmation.

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.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. The Standard Mail volumes presented in my testimony are used to illustrate the approximate unit contribution from Bank One's volume. In doing so, the Postal Service used Bank One permit data to compile Bank One Standard mail volumes for 2003. To the extent Bank One used third party permits to enter Standard mail during the same period, this volume would not have been included. As these numbers were used only to estimate Standard mail contribution, the magnitude of the numbers is unlikely to have a meaningful effect on my analysis.

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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

Response.

The First-Class volumes presented on pages 3, 4, and 5 of Appendix A represent FY2003 Bank One volumes in term of volume tracked through the Permit system.

However, because of time lags involved in consolidating end of FY data from the Postal Service systems, the Permit System may not identify all the volume for a given FY.

Thus, there is a timing mismatch. This discrepancy represents, on average, two days of Bank One's mailing profile. The total First-Class Mail volumes presented on page 2 of Appendix A represent a reconciled volume analysis between Bank One and the Postal Services Permit system for FY2003.

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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.

Response.

a. Confirmed.

b. Confirmed.

c. Confirmed.

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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.

	Year 1	Year 2	Year 3
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.

Response.

- a. Confirmed that these projections are used in this docket. Bank One's actual After Rates return volumes, by definition, cannot be known at this time.
- b. If actual results prove to be consistent with these projections, I will agree.
- c. Viewed in isolation, these projections show that the effect of this agreement will be to increase the number of First-Class Mail UAA pieces that the Postal Service will handle. Of course, the goal of this agreement is not to reduce the number of UAA pieces at the expense of all other possible goals. The goal of the instant agreement is to provide a net increase in contribution to the Postal Service's bottom line. To pursue the goal of reducing UAA volume without regard to other considerations would be an excellent example of suboptimization.

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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.

	Year 1	Year 2	Year 3
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.

Response.

a. Confirmed.

b. Under the assumptions identified, I agree.

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- c. I would agree, but note that the model accounts for additional return costs.

See Appendix A, page 7.

- d. Under the assumptions identified, I agree.
- e. Under the assumptions identified, I agree.
- f. As a general proposition, the estimated unit profitability should reflect specific information to the extent that it is practical to do so. In my analysis presented in Appendix A to my testimony, I have incorporated Bank One's estimated UAA rate in an adjustment to the unit costs.

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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.

Response.

a. There is no reason to suppose that the increase in UAA mail that is forwardable will be proportional to the increase in UAA mail that is non-forwardable. There are many reasons why mail pieces are returned as undeliverable: including insufficient address, expired forwarding orders, deceased addressee, no forwarding order on file, etc. Conversely, mail can be forwarded only when there is an active forwarding order on file.

b. I am not aware that there is a known statistical relationship between the quantity of a given customer's mail that is forwardable and the volume that is returned. To some extent, one would expect both volumes to be positively correlated with total volume sent. However, this doesn't necessarily imply a meaningful correlation between the two quantities.

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- c. My analysis did not include this effect because I anticipate that Bank One's forwarding rate will be comparable to the system wide average.

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.

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
July 26, 2004