

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH DISCOVER
FINANCIAL SERVICES, INC.

Docket No. MC2004-4

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1 (ERRATA)
(POIR1 Q4)

The United States Postal Service hereby provides its revised response to Presiding Officer's Information Request (POIR) No. 1, question 4. POIR 1 was issued on July 14, 2004, and requested responses by July 26, 2004. The initial response was filed on that date. This revised response reflects further information concerning the deployment of Postal Automation Redirection System (PARS).

The information request is stated verbatim, then followed by the response. The witness attesting to the response is identified in the header thereof.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 24, 2004

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE ALI AYUB
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 4

Revised August 24, 2004

POIR 1, Q4 Refer to USPS-T-1, Appendixes A and B. Please confirm that the estimated financial impact does not include any explicit adjustments for the effects of the planned implementation of the Postal Automation Redirection System (PARS). If confirmed, please explain why no adjustment is made for the effects of PARS and discuss the current implementation schedule for PARS as it relates to the proposed NSA. If not confirmed, please identify the adjustments.

RESPONSE:

Confirmed. The estimated financial impact does not include any adjustments for the planned implementation of PARS. My understanding is that the implementation schedule for PARS has been delayed. I cannot provide a time-frame for nation-wide implementation.

PARS will be deployed in two phases. Originally, Phase I of PARS was planned to begin deployment in July of 2003, and to be completed by May 2004. See Response of the United States Postal Service to APWU/USPS-T4-13, Docket No. MC2002-2, filed on November 27, 2002. Phase I is now planned to be completed by November 2004, at which point PARS will be deployed at 80 computerized forwarding system sites, 49 processing and distribution centers, and 15 remote encoding centers. It will cover only 25% of letter mail volume. It will not cover any flat mail volume.

My understanding about Phase II is as follows: It is intended to achieve nationwide deployment, covering close to 100% of letter mail volume. There is currently no schedule for the implementation of Phase II. Phase II has not yet been approved by the Board of Governors. Before seeking such approval, postal management must complete a Decision Analysis Review (DAR) for Phase II, with inputs from the data being developed as a result of Phase I. The earliest possible initial deployment date for

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Phase II would be the fall of 2005. I surmise that full deployment will not occur until well into 2006.

It is not possible to provide a quantifiable estimate of the effects of the deployment of PARS on cost inputs to USPS-T-1 Appendix A, including, but not limited to, Computerized Forwarding System (CFS) Processing and Mailstream Processing costs taken from Docket No. MC2002-2, USPS-LR-1. Current data do not exist to permit such an estimate. That task must await the development of reliable data after PARS has been deployed.

One can make a qualitative assessment, however, of the expected impact of PARS on ACS costs savings that are projected under the NSA. I do not believe that PARS will materially decrease the ACS costs savings in this case, for a number of reasons.

First, I do not expect PARS to be fully deployed until well into 2006, which is the third year of the agreement for purposes of my analysis in Appendix A to my testimony.

Second, to the extent that PARS has any effect on mail costs during the three-year term of the agreement, it is unlikely that PARS will materially decrease the cost savings for the reasons given in the Response of the United States Postal Service to APWU/USPS-7, Docket No. MC2002-2. That response set forth a detailed explanation of how PARS will handle physical returns, how it will handle ACS mail, and how it will therefore reduce the costs for both physical and "electronic" returns. That qualitative analysis also applies to the impact (or rather, the lack of impact) on the Discover NSA. In sum, the cost of handling Discover's returns under PARS may well be less and the

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cost savings more than projected in Appendix A to my testimony, although the magnitude of this effect is likely to be small.

Third, the benefits of PARS are greatest for single-piece First-Class Mail pieces that can be redirected, usually by forwarding, at the point of origin, thereby eliminating subsequent processing to the original delivery point and CFS processing. Because a majority of Discover's mail is presorted (Appendix A page 3), PARS will not capture most of the mail at the point of origin but rather at the destination processing plant. Thus the potential benefit of PARS' ability to capture mail early in the system for redirection will not be fully realized for Discover's mail.

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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