OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

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

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ORIGINAL

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Rate and Sevice Changes to Implement Functionally Equivalent Negotiated Service Agreement With Bank One Corporation

Docket No. MC2004-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party	Interrogatories
Bank One Corporation	
Lawrence G. Buc (BOC-T-2)	
American Postal Workers Union, AFL-CIO	OCA/USPS-T1-24 (partial) redirected to BOC-T2
Office of the Consumer Advocate	OCA/BOC-T2-1-5 OCA/USPS-T1-24 (partial), 46 redirected to BOC-T2
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/BOC-T1-10-11, 13 redirected to T2
Brad Rappaport (BOC-T-1)	
American Postal Workers Union, AFL-CIO	APWU/BOC-T1-1-3 OCA/BOC-T1-1a-b, 8-10, 12-13, 17-19
Office of the Consumer Advocate	OCA/BOC-T1-1a-c, 2-19 OCA/USPS-T1-44 (partial) redirected to BOC-T1
Postal Rate Commission	POIR No. 1, Question 1 POIR No. 2, Questions 1-3
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/BOC-T1-1-9, 12, 14-15

Party	Interrogatories
United States Postal Service	
Michael K. Plunkett (USPS-T-1)	
American Postal Workers Union, AFL-CIO	OCA/USPS-T1-5-6, 10, 24, 28-29, 35, 38-39
Office of the Consumer Advocate	OCA/USPS-T1-1-43, 45, 47-50 OCA/BOC-T2-3 (partial), 4b (partial) redirected to USPS-T1
Postal Rate Commission	POIR No. 1, Question 2 POIR No. 1, Question 3 POIR No. 1, Question 4 POIR No. 1, Questions 5-8 POIR No. 2, Question 4 POIR No. 3 POIR No. 4, Questions 1-3 POIR No. 5 POIR No. 6
United States Postal Service	POIR NO. 3
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/USPS-T1-1-30

Respectfully
submitted,

Steven W. Williams
Secretary

INTERROGATORY RESPONSES
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
Bank One Corporation	
Lawrence G. Buc (BOC-T-2)	
OCA/BOC-T2-1	OCA
OCA/BOC-T2-2	OCA
OCA/BOC-T2-3	OCA
OCA/BOC-T2-4	OCA
OCA/BOC-T2-5	OCA
OCA/USPS-T1-24 (partial) redirected to BOC-T2	APWU, OCA
OCA/USPS-T1-46 redirected to BOC-T2	OCA
VP/BOC-T1-10 redirected to T2	Valpak
VP/BOC-T1-11 redirected to T2	Valpak
VP/BOC-T1-13 redirected to T2	Valpak
Brad Rappaport (BOC-T-1)	
APWU/BOC-T1-1	APWU
APWU/BOC-T1-2	APWU
APWU/BOC-T1-3	APWU
OCA/BOC-T1-1a	APWU, OCA
OCA/BOC-T1-1b	APWU, OCA
OCA/BOC-T1-1c	OCA
OCA/BOC-T1-2	OCA
OCA/BOC-T1-3	OCA
OCA/BOC-T1-4	OCA
OCA/BOC-T1-5	OCA
OCA/BOC-T1-6	OCA
OCA/BOC-T1-7	OCA
OCA/BOC-T1-8	APWU, OCA
OCA/BOC-T1-9	APWU, OCA
OCA/BOC-T1-10	APWU, OCA
OCA/BOC-T1-11	OCA
OCA/BOC-T1-12	APWU, OCA
OCA/BOC-T1-13	APWU, OCA
OCA/BOC-T1-14	OCA

Interrogatory	Designating Parties
OCA/BOC-T1-15	OCA
OCA/BOC-T1-16	OCA
OCA/BOC-T1-17	APWU, OCA
OCA/BOC-T1-18	APWU, OCA
OCA/BOC-T1-19	APWU, OCA
OCA/USPS-T1-44 (partial) redirected to BOC-T1	OCA
VP/BOC-T1-1	Valpak
VP/BOC-T1-2	Valpak
VP/BOC-T1-3	Valpak
VP/BOC-T1-4	Valpak
VP/BOC-T1-5	Valpak
VP/BOC-T1-6	Valpak
VP/BOC-T1-7	Valpak
VP/BOC-T1-8	Valpak
VP/BOC-T1-9	Valpak
VP/BOC-T1-12	Valpak
VP/BOC-T1-14	Valpak
VP/BOC-T1-15	Valpak
POIR No. 1, Question 1	PRC
POIR No. 2, Questions 1-3	PRC

United States Postal Service

Michael K. Plunkett (USPS-T-1)

OCA/USPS-T1-1	OCA
OCA/USPS-T1-2	OCA
OCA/USPS-T1-3	OCA
OCA/USPS-T1-4	OCA
OCA/USPS-T1-5	APWU, OCA
OCA/USPS-T1-6	APWU, OCA
OCA/USPS-T1-7	OCA
OCA/USPS-T1-8	OCA
OCA/USPS-T1-9	OCA
OCA/USPS-T1-10	APWU, OCA
OCA/USPS-T1-11	OCA
OCA/USPS-T1-12	OCA
OCA/USPS-T1-13	OCA

Interrogatory	Designating Parties
OCA/USPS-T1-14	OCA
OCA/USPS-T1-15	OCA
OCA/USPS-T1-16	OCA
OCA/USPS-T1-17	OCA
OCA/USPS-T1-18	OCA
OCA/USPS-T1-19	OCA
OCA/USPS-T1-20	OCA
OCA/USPS-T1-21	OCA
OCA/USPS-T1-22	OCA
OCA/USPS-T1-23	OCA
OCA/USPS-T1-24	APWU, OCA
OCA/USPS-T1-25	OCA
OCA/USPS-T1-26	OCA
OCA/USPS-T1-27	OCA
OCA/USPS-T1-28	APWU, OCA
OCA/USPS-T1-29	APWU, OCA
OCA/USPS-T1-30	OCA
OCA/USPS-T1-31	OCA
OCA/USPS-T1-32	OCA
OCA/USPS-T1-33	OCA
OCA/USPS-T1-34	OCA
OCA/USPS-T1-35	APWU, OCA
OCA/USPS-T1-36	OCA
OCA/USPS-T1-37	OCA
OCA/USPS-T1-38	APWU, OCA
OCA/USPS-T1-39	APWU, OCA
OCA/USPS-T1-40	OCA
OCA/USPS-T1-41	OCA
OCA/USPS-T1-42	OCA
OCA/USPS-T1-43	OCA
OCA/USPS-T1-44	OCA
OCA/USPS-T1-45	OCA
OCA/USPS-T1-47	OCA
OCA/USPS-T1-48	OCA
OCA/USPS-T1-49	OCA
OCA/USPS-T1-50	OCA
OCA/BOC-T2-3 (partial) redirected to USPS-T1	OCA

Interrogatory	Designating Parties
OCA/BOC-T2-4b (partial) redirected to USPS-T1	OCA
VP/USPS-T1-1	Valpak
VP/USPS-T1-2	Valpak
VP/USPS-T1-3	Valpak
VP/USPS-T1-4	Valpak
VP/USPS-T1-5	Valpak
VP/USPS-T1-6	Valpak
VP/USPS-T1-7	Valpak
VP/USPS-T1-8	Valpak
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VP/USPS-T1-15	Valpak
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VP/USPS-T1-24	Valpak
VP/USPS-T1-25	Valpak
VP/USPS-T1-26	Valpak
VP/USPS-T1-27	Valpak
VP/USPS-T1-28	Valpak
VP/USPS-T1-29	Valpak
VP/USPS-T1-30	Valpak
POIR No. 1, Question 2	PRC
POIR No. 1, Question 3	PRC
POIR No. 1, Question 4	PRC
POIR No. 1, Questions 5-8	PRC
POIR No. 2, Question 4	PRC
POIR No. 3	PRC

Interrogatory	Designating Parties
POIR No. 4, Questions 1-3	PRC
POIR No. 5	PRC
POIR No. 6	PRC

Bank One Corporation

Lawrence G. Buc
(BOC-T-2)

BOC-T-2

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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

DIRECT TESTIMONY
OF
LAWRENCE G. BUC
ON BEHALF OF
BANK ONE CORPORATION
(Corrected August 16, 2004)

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June 28, 2004

DIRECT TESTIMONY OF LAWRENCE G. BUC ON BEHALF OF BANK ONE CORPORATION

My name is Lawrence G. Buc. I am the President of SLS Consulting, Inc. ("SLS"), a Washington, D.C., consulting firm specializing in postal economics.

I have participated in rate and classification cases of the United States Postal Service ("Postal Service") for almost 30 years. I joined the Revenue and Cost Analysis Division of the Postal Service in March of 1975 and have analyzed postal issues ever since. I have also been employed by the United States Postal Rate Commission ("Commission") and have been retained by private clients for consultations on postal topics.

This is the eighth case in which I have submitted testimony to the Commission. In R84-1, R90-1, R97-1, and R2000-1, I appeared as a witness for intervenors before the Commission; in MC76-1, I appeared as a witness for the Postal Service; in MC77-2, I appeared as a witness for the Office of the Consumer Advocate, and in C99-4, I appeared as a witness for the complainant.

I attended Brown University and graduated in 1968 with an A.B. with honors in mathematics and economics. In 1978, I received an M.A. degree in economics from the George Washington University of America. While there, I was a member of Omicron Delta Upsilon, the national honorary economics society.

1 **I. PURPOSE AND SCOPE**

2 The Postal Service and Bank One Corporation ("Bank One") have entered
3 into a Negotiated Service Agreement ("NSA"), which is now the subject of this
4 proceeding. My testimony shows that Bank One witness Brad Rappaport's "After
5 Rates" volume projections are highly credible. They are also consistent with a
6 heuristic model of marketing decisions that I constructed without reference to any
7 proprietary information. Based on the results of that model, I conclude that the
8 volume block discounts under the proposed Bank One/Postal Service NSA will
9 create incentives for Bank One to switch a substantial amount of solicitation mail
10 from Standard Mail to First-Class Mail.

11 **II. MODEL OF MARKETING DECISIONS**

12 **A. Description of the Model**

13 Witness Rappaport estimates that the After Rates volumes for Year 1 of
14 the NSA will have approximately 19 million more pieces than the Before Rates
15 volumes. The After Rates volumes for Year 2 of the NSA will have about 100
16 million pieces more than the Before Rates volumes for Year 2. Similarly, the
17 After Rates volumes for Year 3 will also have about 100 million pieces more than
18 the Before Rates volumes for Year 3. Rappaport at 5. To determine whether
19 these estimates of After Rates volumes are reasonable, I constructed a heuristic
20 model based on the fundamental economics of marketing decisions.

21 Banks, like most firms that engage in direct marketing, face economic
22 choices about how much solicitation mail to send, and what class of mail to use
23 for sending it. A firm rationally sends a solicitation to an individual only when the

expected benefits of the solicitation exceed its costs. For a particular marketing campaign, the firm must estimate (1) the probability of response for each individual on the list ("response rate") and (2) the present value of the stream of profits over the duration of that individual's relationship with the firm (the "lifetime expected value"). By multiplying the response rate by the lifetime expected value, the firm can determine the expected value of the mailing for each individual. The expected value can then be compared with the costs of producing the marketing material and the postage charges (totaling "costs per piece") to determine whether the economic benefit from a mailing is positive (the "net value").

I used these principles of marketing to construct a model of marketing decisions presented in Attachment 3. This model demonstrates the effect of the NSA incentives on First-Class Mail volumes by comparing the net value with "Before Rates" costs per piece and the net value with "After Rates" costs per piece. The results show how much more Standard Mail would switch to First-Class Mail if the proposed NSA discounts were implemented. The model incorporates a range of plausible values for (1) response rates and (2) lifetime values.

1. Response Rates

In the model, I assumed that Standard Mail solicitations would generate response rates ranging from 0.1 percent to 0.7 percent, with a mean of 0.4 percent. The 0.4 percent is the average response rate for credit card solicitation

mailings in 2003, as published in Cardweb.com, Inc., www.cardweb.com/cardtrak/news/2004/january/28a.html.

For any given mailpiece and individual recipient, response rates for First-Class Mail are generally higher than for Standard Mail; otherwise, mailers would not incur the extra cost of mailing solicitations as First-Class Mail. The incremental response from sending solicitations as First-Class Mail rather than Standard Mail is called "lift." For each corresponding piece of First-Class Mail, I adjusted the response rates to reflect lifts ranging from 5 percent to 10 percent. For example, for a particular piece of mail, a response rate of 0.4 percent in the Standard Mail model becomes 0.42 percent with a 5-percent lift and 0.44 percent with a 10-percent lift. It is necessary to use these slightly higher response rates for corresponding pieces of First-Class Mail to accurately reflect the increased benefit of the mailing. As recognized by the practice of segmentation, response rates also vary depending on the characteristics of the potential customer.

2. Lifetime Value of Customer

The present lifetime value of a customer varies widely from customer to customer. For example, customers who pay a yearly fee, charge purchases frequently, carry monthly balances, and accrue and pay late fees but still make monthly payments on these balances, generally have higher lifetime values than those who do not use their cards in this way. On average, however, I calculate and use a present lifetime value of a customer to a credit card company of about $150. See Buc Attachment 1. The model uses lifetime values which range from $50 to $250, with $25 increments above and below the mean.

3. Costs of a Marketing Campaign

The direct costs of a marketing campaign include the costs of (1) producing the marketing materials and (2) postage. Production costs average 6.7 cents per piece for all mailings, and postage costs are 18.1 cents for Standard Mail (including freight) and 28.7 cents for First-Class Mail. See Buc Attachment 2. I rounded and used costs of 25 cents per piece production and mailing costs for a Standard Mail mailing and 35 cents per piece for a First-Class Mail mailing in the model. Dividing the costs per piece by the response rate produces the cost of acquiring a customer.

B. Application of the Model

The model calculates the expected value of mailings for 45 segments representing combinations of five response rates and nine lifetime values for Standard Mail and First-Class Mail. Tables 1A and 2A in the worksheet entitled "2_Simple Version" show the expected net values using Before Rates costs per piece. These combinations are then recalculated to reflect a change in a single input – the decrease in postage costs proposed by the Bank One NSA.

I apply the model in three applications, with each application aligning the model successively more closely to the proposed Bank One NSA. First, I constructed a preliminary application using uniform discounts of 2.5 cents and 5 cents to demonstrate the effects of an across-the-board discount, and to provide bounds on the results. Second, I adjusted the model to reflect discounts on *incremental* volume, such as those proposed in the declining block rates of the Bank One NSA. Finally, I tested the robustness of the model by distributing individuals (and hence mail) to segments, using a range of possible population

distributions. These tests show that, for a wide variation in input values, the proposed discounts will create incentives for a firm to switch large volumes of Standard Mail to First-Class Mail.

1. Preliminary Application Using Uniform Discounts

Tables 1B and 2B in the worksheet entitled "2_Simple Version" show the expected net values in each segment using After Rates costs per piece. The model allows the user to input various costs per piece (to incorporate discounts) and response-rate lifts. The model shows that for many of the segments spanning a plausible range of response rates and lifetime values of customers, First-Class Mail would become economically preferable to Standard Mail if postage costs were reduced by 2.5 to 5 cents per piece.

Summary output from the spreadsheet implementation of the model appears in Exhibit 1. This exhibit summarizes First-Class Mail mailing decisions in the 45 segments (or cells) represented in the model, comprised of combinations of nine categories of expected lifetime value and five categories of response rates. The model also displays one set of calculations for each of two user-specified lifts in response rates.

Exhibit 1:
Spreadsheet Model Output: Percentage Of Mailing Segments in Which First-Class Mail Is the Preferred Option

	Lift					
	5%		7.5%		10%	
Discount	Before Rates	After Rates	Before Rates	After Rates	Before Rates	After Rates
2.5 Cents	0%	6%	13%	28%	28%	44%
5 Cents	0%	28%	13%	53%	28%	75%

As Exhibit 1 shows, for a 2.5-cents discount per piece, in the segments for which mailing has a net benefit, the percentage of segments for which First-Class Mail is the preferred option increases, from 0 percent to 6 percent in the 5-percent lift model and from 28 percent of the segments to 44 percent in the 10-percent lift model. For a discount of 5-cents per piece, the percentage of segments for which First-Class Mail is the preferred option increases from 0 percent to 28 percent in the 5-percent lift model and from 28 percent of the cells to 75 percent of the segments in the 10-percent lift model.

2. Application Using NSA Block Discounts

The proposed NSA provides discounts based on declining block rates rather than uniform 2.5-cents or 5-cents discounts. To reflect the graduated discount rate of the NSA, I modified the model to show the discount required to turn each segment mailing by Standard Mail under the Before Rates model into a segment mailing by First-Class Mail. The worksheet entitled "4_Discount to Switch" in Buc Attachment 3 presents these results. Exhibit 2 shows the case of a 7.5-percent lift. Results for a 5-percent or 10-percent lift can be calculated by entering the lift in the appropriate spreadsheet input cell.

Exhibit 2:
Discount Required to Switch Mail from Standard Mail to First-Class Mail at 7.5-Percent Lift

Lifetime Value	Response Rate				
	0.10%	0.25%	0.40%	0.55%	0.70%
$50	$0.096	$0.091	$0.085	$0.079	$0.074
$75	$0.094	$0.086	$0.078	$0.069	$0.061
$100	$0.093	$0.081	$0.070	$0.059	$0.048
$125	$0.091	$0.077	$0.063	$0.048	$0.034
$150	$0.089	$0.072	$0.055	$0.038	$0.021
$175	$0.087	$0.067	$0.048	$0.028	$0.008
$200	$0.085	$0.063	$0.040	$0.018	$(0.005)
$225	$0.083	$0.058	$0.033	$0.007	$(0.018)
$250	$0.081	$0.053	$0.025	$(0.003)	$(0.031)

The spreadsheet model indicates that at a 7.5-percent lift, there are thirteen segments (highlighted in Exhibit 2) that are uneconomic to mail even at Standard Mail rates, and four segments (outlined in Exhibit 2) that, because of high combinations of response rate and lifetime value, are economic to mail at First-Class Mail rates even without a discount. Of the remaining 28 segments, five are economic to switch from Standard to First-Class mail for the 2.5-cents discount, one more is economic to switch for the 3-cents discount, another two are economic to switch for the 3.5-cents discount, one additional segment is economic to switch for both the 4-cents and 4.5-cents discount, and three are economic to switch for the 5-cents discount. In the remaining 15 segments, no discounts offered under this NSA are large enough to make a switch economic.

Exhibit 3 summarizes the results of Exhibit 2 by showing the percentages of segments mailing Standard Mail that are provided enough incentive to switch to First-Class Mail under the NSA for the three different lift values of 5, 7.5, and 10 percent.

Exhibit 3:
Percentage of Segments Mailing Standard Mail Incented to Switch to First-Class Mail Using NSA Discount Blocks

Lift	5%	7.5%	10%
Segments Incented to Switch	28.1%[1]	46.4%[2]	65.2%[3]

Note 1: 9 of 32 segments mailing Standard Mail incented to switch (45 starting segments minus 13 segments where it is not economic).

Note 2: 13 of 28 segments mailing Standard Mail incented to switch (45 starting segments minus 13 segments where it is not economic minus 4 segments where First-Class Mail would be justified without a discount).

Note 3: 15 of 23 segments mailing Standard Mail incented to switch (45 starting segments minus 13 segments where it is not economic minus 9 segments where First-Class Mail would be justified without a discount).

3. Application Reflecting Different Population Distributions Across the Segments

The final step in applying the model is to determine the amount of switching in terms of mail volumes, rather than numbers of segments. To make this determination, one must distribute the individuals in the mailing list by segment. The distribution of individuals is equivalent to the distribution of mail volume. I made plausible assumptions about the distribution of individuals across the response rates and lifetime values discussed earlier in Sections 1a and 1b. I also bounded the uncertainty of the distributions, as advised by Witness Panzar in MC2002-2: "[B]ounds . . . based on reasonable and clearly

spelled-out assumptions could be a useful exercise . . . for giving the Commission some quantitative evidence." MC2002-2, 8 Tr. 1774 (February 7, 2003).

To bound the uncertainty of the distribution of individuals, I performed the analysis using two distributions: (1) a uniform distribution and (2) a normal distribution. The uniform distribution assigns an identical number of individuals in each segment. The results of the uniform distribution of individuals are thus the same as the results described previously for the segments in Exhibit 1. Tables 5 and 6 in the worksheet entitled "2_Simple Version" in Buc Attachment 3 provide the results for segments and the uniform distribution, respectively.

Alternatively, I assumed a normal distribution of individuals into the segments. Table 7 provides the results. The normal distribution of individuals across response rates has a mean of 0.4 percent and a standard deviation of 0.2 percent. The normal distribution across lifetime values has a mean of $150 and a standard deviation of $68.

Exhibit 4 presents the spreadsheet model output applying the normal distributions of individuals. For a 2.5-cents discount per piece, the percentage of individuals (and of mail) for which First-Class Mail is the preferred option increases from 0 percent to 2 percent in the 5-percent lift model, and from 19 percent to 38 percent in the 10-percent lift model. For a 5-cent discount, the percentage of individuals (and of mail) for which First-Class Mail is the preferred option increases from 0 percent to 19 percent in the 5-percent lift model, and from 19 percent to 74 percent in the 10-percent lift model.

Exhibit 4:
Spreadsheet Model Output: Percentage of Mail Using First-Class Mail
(Using Normal Distributions of Individuals)

	Lift					
	5%		7.5%		10%	
Discount	Before Rates	After Rates	Before Rates	After Rates	Before Rates	After Rates
2.5 Cents	0%	2%	6%	19%	19%	38%
5 Cents	0%	19%	6%	50%	19%	74%

Changing the focus of the application from segments to mail volume requires a further refinement to incorporate the graduated volume block structures. This ensures that the declining block discounts along the proposed NSA schedule provide enough incentive to switch the amount of mail needed to reach the volume threshold that triggers the next discount. The worksheet entitled "3_Block Discounts" presents this refinement.

Finally, I used a Monte Carlo simulation to test the sensitivity of these results to potential variations in the response-rate lifts and the distribution of individuals across response rates and lifetime values. The Monte Carlo simulation shows that postage discounts will still result in a significant amount of mail switching to First-Class Mail, even under a wide range of possible response rates and lifetime values.

A Monte Carlo simulation is a statistical technique used to calculate the probability distribution of possible outcomes by performing a large number of trial runs. For example, a Monte Carlo simulation can produce the probability of rolling a seven with a pair of dice by simulating 10,000 rolls of the dice. I

calculated the volume shift from Standard Mail to First-Class Mail over the NSA block discount schedule by performing 10,000 trials using Crystal Ball® 2000.5 Standard Edition, a commercially available computer program that is commonly used for Monte Carlo simulations. Each of these trials employed different lifts and standard deviations of the normal distributions of the individuals across response rates and lifetime values. I performed the Monte Carlo simulation on the model in the worksheet entitled "3_Block Discounts." The worksheet entitled "Report" presents the results and parameters of the simulation.

Exhibit 5 displays the results of the Monte Carlo analysis. It shows the percentage of trials that calculated volume shifts greater than or equal to the selected volume shift. The simulation indicates that, in 89 percent of the trials, at least 100 million pieces of mail will shift from Standard Mail to First-Class Mail, assuming that there are 1 billion Standard Mail solicitations Before Rates.

Exhibit 5:
Monte Carlo Output: Percentage of Trials With Volume Shifts Greater Than or Equal to the Selected Volume Shift

Volume Shift	Percentage of Trials
50 million	89%
100 million	89%
150 million	89%

III. CONCLUSION

The model shows that postage discounts ranging from 2.5 cents to 5 cents will provide significant incentives to switch mail from Standard Mail to First-Class Mail. First, I used uniform discounts to calculate the percentage of segments that

would use First-Class Mail for a range of response rates and lifetime values. The percentages of segments that would use First-Class Mail under these scenarios range between 0 and 28 percent Before Rates to between 6 and 75 percent After Rates.

Second, I used the block discounts schedule of the proposed NSA to calculate the percentage of segments that would switch to First-Class Mail. These percentages range between 28 and 65 percent.

Third, I modeled different population distributions across segments to determine changes in mail volumes incented by uniform discounts. Using a uniform distribution, the percentage of mail using First-Class Mail ranged from between 0 and 28 percent Before Rates to between 6 and 75 percent After Rates. Using a normal distribution, the percentage of mail using First-Class Mail ranged from between 0 and 19 percent Before Rates to between 2 and 74 percent After Rates.

Finally, I performed a Monte Carlo simulation to calculate the results of the proposed NSA discount schedule for a range of plausible lifts and population distributions across the segments. Given a volume of a billion pieces Standard Mail in the absence of the NSA, the resulting distribution of the volume shift to First-Class Mail indicates that in approximately 9 out of every 10 trials, the volume shift is greater than 100 million pieces.

Based on these analyses, I conclude that the volume block discounts under the proposed NSA will create incentives to switch a substantial amount of

1 mail from Standard Mail to First-Class Mail and that the After Rates projections in
2 witness Rappaport's testimony are thus highly credible.

Buc Direct--Attachment 3--as corrected Aug. 16, 2004

BANK ONE RESPONSE MODEL

Notes:

1 The model uses macros to highlight mail class choice. Inserting rows or columns into the model could cause the macro to highlight improper cells.

2 Within the worksheet entitled "2_Simple Version," rows 62 through 84 are hidden for presentation purposes. These cells present flags that indicate the preferred mail class, if any. The population counts refer to these cells.

3 This analysis used Crystal Ball® 2000.5 Standard Edition (see www.crystalball.com) to perform a Monte Carlo simulation. The worksheet entitled "REPORT" presents the Crystal Ball reports of the forecasts and the assumptions.

4 The simulation defined 1 forecast on the worksheet entitled "3_Block Discounts." Crystal Ball defines forecast cells as the dependent variables that contain formulas that refer to one or more assumptions. In other words, forecast cells are the responses that you are measuring.

WORKSHEET	CELL	DESCRIPTION
3_Block Discounts	F254	Volume switch to First-Class Mail normally distributing the individuals to the segments

5 The simulation defined 3 assumptions. Crystal Ball defines assumption cells as variable value cells that have been defined as probability distributions.

WORKSHEET	CELL	DESCRIPTION
3_Block Discounts	G8	Response rate lift
3_Block Discounts	F182	Standard deviation of normal distribution of response rate population
3_Block Discounts	F185	Standard deviation of normal distribution of lifetime value population

LEGEND << Push button to execute macro >>

Highlight Mail Class Choice		
	[redacted]	Choose Standard Mail over both response rate lift scenarios.
	Yellow	Choose Standard Mail over first response rate lift scenario only.
	[redacted]	Choose Standard Mail over second response rate lift scenario only.
	Light Yellow	Choose FCM over Standard Mail in first response rate lift scenario.
	Light Green	Choose FCM over Standard Mail in second response rate lift scenario.

(1)
Before Rates
Standard Mail vs. First-Class Mail

Cells Give Net Value for Different Consumer Types
Highlighted Cells Indicate Mail Class Choice

TABLE 1A -- STANDARD MAIL

Costs per piece $ 0.250

Value	Response Rate 0.10%	0.25%	0.40%	0.55%	0.70%
$ 50	-0.200	-0.125	-0.050		
$ 75	-0.175	-0.063			
$ 100	-0.150	0.000			
$ 125	-0.125				
$ 150	-0.100				0.800
$ 175	-0.075				0.975
$ 200	-0.050			0.850	1.150
$ 225	-0.025			0.988	1.325
$ 250	0.000		0.750	1.125	1.500

TABLE 2A -- FIRST-CLASS MAIL

Costs per piece $ 0.350
Response rate lift 5.0%

Value	Response Rate 0.11%	0.26%	0.42%	0.58%	0.74%
$ 50	-0.298	-0.219	-0.140	-0.061	0.018
$ 75	-0.271	-0.153	-0.035	0.083	0.201
$ 100	-0.245	-0.088	0.070	0.228	0.385
$ 125	-0.219	-0.022	0.175	0.372	0.569
$ 150	-0.193	0.044	0.280	0.516	0.753
$ 175	-0.166	0.109	0.385	0.661	0.936
$ 200	-0.140	0.175	0.490	0.805	1.120
$ 225	-0.114	0.241	0.595	0.949	1.304
$ 250	-0.088	0.306	0.700	1.094	1.488

Response rate lift 10%

Value	Response Rate 0.11%	0.28%	0.44%	0.61%	0.77%
$ 50	-0.295	-0.213	-0.130	-0.048	0.035
$ 75	-0.268	-0.144	-0.020	0.104	0.228
$ 100	-0.240	-0.075	0.090	0.255	0.420
$ 125	-0.213	-0.006	0.200	0.406	0.613
$ 150	-0.185	0.063	0.310	0.558	0.805
$ 175	-0.158	0.131	0.420	0.709	0.998
$ 200	-0.130	0.200	0.530	0.860	1.190
$ 225	-0.103	0.269	0.640	1.011	1.383
$ 250	-0.075	0.338	0.750	1.163	1.575

(2)
After Rates
Standard Mail vs. First-Class Mail

Cells Give Net Value for Different Consumer Types
Highlighted Cells Indicate Mail Class Choice

TABLE 1B -- STANDARD MAIL

Costs per piece $ 0.250

Value	Response Rate 0.10%	0.25%	0.40%	0.55%	0.70%
$ 50	-0.200	-0.125	-0.050		
$ 75	-0.175	-0.063			0.275
$ 100	-0.150	0.000		0.300	0.450
$ 125	-0.125		0.250	0.438	0.625
$ 150	-0.100		0.350	0.575	0.800
$ 175	-0.075		0.450	0.713	0.975
$ 200	-0.050	0.250	0.550	0.850	1.150
$ 225	-0.025	0.313	0.650	0.988	1.325
$ 250	0.000	0.375	0.750	1.125	1.500

TABLE 2B -- FIRST-CLASS MAIL

Costs per piece $ 0.350 [ADJUST FOR POSTAGE DISCOUNT]
Response rate lift 5.0%

Value	Response Rate 0.11%	0.26%	0.42%	0.58%	0.74%
$ 50	-0.298	-0.219	-0.140	-0.061	0.018
$ 75	-0.271	-0.153	-0.035	0.083	0.201
$ 100	-0.245	-0.088	0.070	0.228	0.385
$ 125	-0.219	-0.022	0.175	0.372	0.569
$ 150	-0.193	0.044	0.280	0.516	0.753
$ 175	-0.166	0.109	0.385	0.661	0.936
$ 200	-0.140	0.175	0.490	0.805	1.120
$ 225	-0.114	0.241	0.595	0.949	1.304
$ 250	-0.088	0.306	0.700	1.094	1.488

Response rate lift 10%

Value	Response Rate 0.11%	0.28%	0.44%	0.61%	0.77%
$ 50	-0.295	-0.213	-0.130	-0.048	0.035
$ 75	-0.268	-0.144	-0.020	0.104	0.228
$ 100	-0.240	-0.075	0.090	0.255	0.420
$ 125	-0.213	-0.006	0.200	0.406	0.613
$ 150	-0.185	0.063	0.310	0.558	0.805
$ 175	-0.158	0.131	0.420	0.709	0.998
$ 200	-0.130	0.200	0.530	0.860	1.190
$ 225	-0.103	0.269	0.640	1.011	1.383
$ 250	-0.075	0.338	0.750	1.163	1.575

POPULATION

TABLE 3 -- Uniform Distribution

	Response Rate (Standard Mail)					
Value	0.10%	0.25%	0.40%	0.55%	0.70%	
$ 50	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 75	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 100	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 125	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 150	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 175	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 200	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 225	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 250	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
Subtotals	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%

TABLE 4 -- Normal Distribution

Distribution Parameters

Response Rate		
	Mean	0.004
	Standard Deviation	0.002
Value		
	Mean	$ 150
	Standard Deviation	$ 68

Probability Distribution Function ("PDF") Values

		7.6%	13.8%	16.8%	13.8%	7.6%
		Response Rate (Standard Mail)				
PDF Value	Value	0.10%	0.25%	0.40%	0.55%	0.70% Subtotals
0.20%	$ 50	0.7%	1.3%	1.6%	1.3%	0.7% 5.6%
0.32%	$ 75	1.1%	2.1%	2.5%	2.1%	1.1% 8.9%
0.45%	$ 100	1.6%	2.9%	3.5%	2.9%	1.6% 12.4%
0.55%	$ 125	1.9%	3.5%	4.3%	3.5%	1.9% 15.1%
0.58%	$ 150	2.1%	3.7%	4.6%	3.7%	2.1% 16.2%
0.55%	$ 175	1.9%	3.5%	4.3%	3.5%	1.9% 15.1%
0.45%	$ 200	1.6%	2.9%	3.5%	2.9%	1.6% 12.4%
0.32%	$ 225	1.1%	2.1%	2.5%	2.1%	1.1% 8.9%
0.20%	$ 250	0.7%	1.3%	1.6%	1.3%	0.7% 5.6%
	Subtotals	12.7%	23.2%	28.3%	23.2%	12.7% 100.0%

SUMMARY - PERCENTAGE MAILED BY CLASS

TABLE 5 -- Segments (Matrix Cells)

	Before Rates			After Rates			Absolute Difference		
	5%	10%	Combined	5%	10%	Combined	5%	10%	Combined
Standard	71%	51%	61%	71%	51%	61%	0.0%	0.0%	0.0%
First-Class	0%	20%	10%	0%	20%	10%	0.0%	0.0%	0.0%
None	29%	29%	29%	29%	29%	29%	0.0%	0.0%	0.0%
OF MAILING									
Standard	100%	72%	86%	100%	72%	86%	0.0%	0.0%	0.0%
First-Class	0%	28%	14%	0%	28%	14%	0.0%	0.0%	0.0%

Population

TABLE 6 -- Uniform Distribution

	Before Rates			After Rates			Absolute Difference		
	5%	10%	Combined	5%	10%	Combined	5%	10%	Combined
Standard	71%	51%	61%	71%	51%	61%	0.0%	0.0%	0.0%
First-Class	0%	20%	10%	0%	20%	10%	0.0%	0.0%	0.0%
None	29%	29%	29%	29%	29%	29%	0.0%	0.0%	0.0%
OF MAILING									
Standard	100%	72%	86%	100%	72%	86%	0.0%	0.0%	0.0%
First-Class	0%	28%	14%	0%	28%	14%	0.0%	0.0%	0.0%

TABLE 7 -- Normal Distribution

	Before Rates			After Rates			Absolute Difference		
	5%	10%	Combined	5%	10%	Combined	5%	10%	Combined
Standard	80%	64%	72%	80%	64%	72%	0.0%	0.0%	0.0%
First-Class	0%	15%	8%	0%	15%	8%	0.0%	0.0%	0.0%
None	20%	20%	20%	20%	20%	20%	0.0%	0.0%	0.0%
OF MAILING									
Standard	100%	81%	90%	100%	81%	90%	0.0%	0.0%	0.0%
First-Class	0%	19%	10%	0%	19%	10%	0.0%	0.0%	0.0%

BANK ONE RESPONSE MODEL

A. INPUT DATA

LINE ITEM			
1	Marketing Costs -- Standard Mail	$ 0.250	per piece
2	Marketing Costs -- First-Class Mail	$ 0.350	per piece
3	Response Rate Lift	[redacted]	[Crystal Ball® assumption]
4			
5	Standard Mail Solicitations	1,000,000,000	pieces
6			
7	VOLUME BLOCKS		

	FROM	TO	DIFFERENCE	DISCOUNT	
8					
9	535,000,001	560,000,000	25,000,000	$ 0.025	per piece
10	560,000,001	585,000,000	25,000,000	$ 0.030	per piece
11	585,000,001	610,000,000	25,000,000	$ 0.035	per piece
12	610,000,001	645,000,000	35,000,000	$ 0.040	per piece
13	645,000,001	680,000,000	35,000,000	$ 0.045	per piece
12	680,000,001	and above	n/a	$ 0.050	per piece

LEGEND

<< Push button to execute macro >>

Highlight Mail Class Choice

Yellow Choose First-Class Mail over Standard Mail.

B. STANDARD MAIL vs. FIRST-CLASS MAIL

Cells Give Net Value for Different Consumer Types
Highlighted Cells Indicate Mail Class Choice

TABLE 1 STANDARD MAIL

Lifetime Value	Response Rate 0.10%	0.25%	0.40%	0.55%	0.70%
$ 50	-0.200	-0.125	-0.050	0.025	0.100
$ 75	-0.175	-0.063	0.050	0.163	0.275
$ 100	-0.150	0.000	0.150	0.300	0.450
$ 125	-0.125	0.063	0.250	0.438	0.625
$ 150	-0.100	0.125	0.350	0.575	0.800
$ 175	-0.075	0.188	0.450	0.713	0.975
$ 200	-0.050	0.250	0.550	0.850	1.150
$ 225	-0.025	0.313	0.650	0.988	1.325
$ 250	0.000	0.375	0.750	1.125	1.500

TABLE 2A FIRST-CLASS MAIL "BEFORE RATES"

Marketing Costs $ 0.350 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.296	-0.216	-0.135	-0.054	0.026
$ 75	-0.269	-0.148	-0.028	0.093	0.214
$ 100	-0.243	-0.081	0.080	0.241	0.403
$ 125	-0.216	-0.014	0.188	0.389	0.591
$ 150	-0.189	0.053	0.295	0.537	0.779
$ 175	-0.162	0.120	0.403	0.685	0.967
$ 200	-0.135	0.188	0.510	0.833	1.155
$ 225	-0.108	0.255	0.618	0.980	1.343
$ 250	-0.081	0.322	0.725	1.128	1.531

TABLE 2B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	3
0	3	3	3	3
0	3	3	3	3
0	3	3	3	3
0	3	3	3	1
0	3	3	3	1
0	3	3	1	1

TABLE 3A FIRST-CLASS MAIL "AFTER RATES" (VOLUME BLOCK 1)

Incremental Discount $ 0.025 per piece
Marketing Costs $ 0.325 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.271	-0.191	-0.110	-0.029	0.051
$ 75	-0.244	-0.123	-0.002	0.118	0.239
$ 100	-0.218	-0.056	0.105	0.266	0.428
$ 125	-0.191	0.011	0.213	0.414	0.616
$ 150	-0.164	0.078	0.320	0.562	0.804
$ 175	-0.137	0.145	0.428	0.710	0.992
$ 200	-0.110	0.213	0.535	0.858	1.180
$ 225	-0.083	0.280	0.643	1.005	1.368
$ 250	-0.056	0.347	0.750	1.153	1.556

TABLE 3B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	3
0	3	3	3	3
0	3	3	3	1
0	3	3	3	1
0	3	3	1	1
0	3	3	1	1
0	3	1	1	1

TABLE 4A FIRST-CLASS MAIL "AFTER RATES" (VOLUME BLOCK 2)

Incremental Discount $ 0.030 per piece
Marketing Costs $ 0.320 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.266	-0.186	-0.105	-0.024	0.056
$ 75	-0.239	-0.118	0.003	0.123	0.244
$ 100	-0.213	-0.051	0.110	0.271	0.433
$ 125	-0.186	0.016	0.218	0.419	0.621
$ 150	-0.159	0.083	0.325	0.567	0.809
$ 175	-0.132	0.150	0.433	0.715	0.997
$ 200	-0.105	0.218	0.540	0.863	1.185
$ 225	-0.078	0.285	0.648	1.010	1.373
$ 250	-0.051	0.352	0.755	1.158	1.561

TABLE 4B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	3
0	3	3	3	3
0	3	3	3	1
0	3	3	1	1
0	3	3	1	1
0	3	3	1	1
0	3	1	1	1

TABLE 5A FIRST-CLASS MAIL "AFTER RATES" (VOLUME BLOCK 3)

Incremental Discount $ 0.035 per piece
Marketing Costs $ 0.315 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.261	-0.181	-0.100	-0.019	0.061
$ 75	-0.234	-0.113	0.008	0.128	0.249
$ 100	-0.208	-0.046	0.115	0.276	0.438
$ 125	-0.181	0.021	0.223	0.424	0.626
$ 150	-0.154	0.088	0.330	0.572	0.814
$ 175	-0.127	0.155	0.438	0.720	1.002
$ 200	-0.100	0.223	0.545	0.868	1.190
$ 225	-0.073	0.290	0.653	1.015	1.378
$ 250	-0.046	0.357	0.760	1.163	1.566

TABLE 5B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	3
0	3	3	3	1
0	3	3	3	1
0	3	3	1	1
0	3	3	1	1
0	3	1	1	1
0	3	1	1	1

TABLE 6A FIRST-CLASS MAIL "AFTER RATES" (VOLUME BLOCK 4)

Incremental Discount $ 0.040 per piece
Marketing Costs $ 0.310 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.256	-0.176	-0.095	-0.014	0.066
$ 75	-0.229	-0.108	0.013	0.133	0.254
$ 100	-0.203	-0.041	0.120	0.281	0.443
$ 125	-0.176	0.026	0.228	0.429	0.631
$ 150	-0.149	0.093	0.335	0.577	0.819
$ 175	-0.122	0.160	0.443	0.725	1.007
$ 200	-0.095	0.228	0.550	0.873	1.195
$ 225	-0.068	0.295	0.658	1.020	1.383
$ 250	-0.041	0.362	0.765	1.168	1.571

TABLE 6B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	3
0	3	3	3	1
0	3	3	1	1
0	3	3	1	1
0	3	1	1	1
0	3	1	1	1
0	3	1	1	1

TABLE 7A FIRST-CLASS MAIL "AFTER RATES" (VOLUME BLOCK 5)

Incremental Discount $ 0.045 per piece
Marketing Costs $ 0.305 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.251	-0.171	-0.090	-0.009	0.071
$ 75	-0.224	-0.103	0.018	0.138	0.259
$ 100	-0.198	-0.036	0.125	0.286	0.448
$ 125	-0.171	0.031	0.233	0.434	0.636
$ 150	-0.144	0.098	0.340	0.582	0.824
$ 175	-0.117	0.165	0.448	0.730	1.012
$ 200	-0.090	0.233	0.555	0.878	1.200
$ 225	-0.063	0.300	0.663	1.025	1.388
$ 250	-0.036	0.367	0.770	1.173	1.576

TABLE 7B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	3
0	3	3	3	1
0	3	3	1	1
0	3	3	1	1
0	3	1	1	1
0	3	1	1	1
0	3	1	1	1

TABLE 8A FIRST-CLASS MAIL "AFTER RATES" (VOLUME BLOCK 6)

Incremental Discount $ 0.050 per piece
Marketing Costs $ 0.300 per piece

Lifetime Value	Response Rate 0.11%	0.27%	0.43%	0.59%	0.75%
$ 50	-0.246	-0.166	-0.085	-0.004	0.076
$ 75	-0.219	-0.098	0.023	0.143	0.264
$ 100	-0.193	-0.031	0.130	0.291	0.453
$ 125	-0.166	0.036	0.238	0.439	0.641
$ 150	-0.139	0.103	0.345	0.587	0.829
$ 175	-0.112	0.170	0.453	0.735	1.017
$ 200	-0.085	0.238	0.560	0.883	1.205
$ 225	-0.058	0.305	0.668	1.030	1.393
$ 250	-0.031	0.372	0.775	1.178	1.581

TABLE 8B MAIL CLASS INDICATOR

0 NONE
1 FIRST-CLASS MAIL
3 STANDARD MAIL

0	0	0	3	3
0	0	3	3	3
0	0	3	3	1
0	3	3	1	1
0	3	3	1	1
0	3	1	1	1
0	3	1	1	1
0	3	1	1	1
0	3	1	1	1

C. POPULATION

TABLE 9 UNIFORM DISTRIBUTION

Lifetime Value	Response Rate (Standard Mail) 0.10%	0.25%	0.40%	0.55%	0.70%	Subtotals
$ 50	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 75	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 100	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 125	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 150	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 175	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 200	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 225	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
$ 250	2.2%	2.2%	2.2%	2.2%	2.2%	11.1%
Subtotals	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%

TABLE 10 NORMAL DISTRIBUTION

Distribution Parameters

Response Rate

Mean	0.004	
Standard Deviation	[redacted]	[Crystal Ball® assumption]

Lifetime Value

Mean	$ 150	
Standard Deviation	[redacted]	[Crystal Ball® assumption]

Probability Distribution Function ("PDF") Values

		7.6%	13.8%	16.8%	13.8%	7.6%
				Response Rate (Standard Mail)		
PDF Values	Lifetime Value	0.10%	0.25%	0.40%	0.55%	0.70% Subtotals
0.20%	$ 50	0.7%	1.3%	1.6%	1.3%	0.7% 5.6%
0.32%	$ 75	1.1%	2.1%	2.5%	2.1%	1.1% 8.9%
0.45%	$ 100	1.6%	2.9%	3.5%	2.9%	1.6% 12.4%
0.55%	$ 125	1.9%	3.5%	4.3%	3.5%	1.9% 15.1%
0.58%	$ 150	2.1%	3.7%	4.6%	3.7%	2.1% 16.2%
0.55%	$ 175	1.9%	3.5%	4.3%	3.5%	1.9% 15.1%
0.45%	$ 200	1.6%	2.9%	3.5%	2.9%	1.6% 12.4%
0.32%	$ 225	1.1%	2.1%	2.5%	2.1%	1.1% 8.9%
0.20%	$ 250	0.7%	1.3%	1.6%	1.3%	0.7% 5.6%
	Subtotals	12.7%	23.2%	28.3%	23.2%	12.7% 100.0%

D. MAILING RESULTS

TABLE 11 DISPOSITION OF INDIVIDUALS -- UNIFORM DISTRIBUTION

	% of Individuals By Total			% of Individuals by Mailing		% of Individuals Switching to First-Class Mail
	No Mail	Standard Mail	First-Class Mail	Standard Mail	First-Class Mail	
Before Rates	28.9%	62.2%	8.9%	87.5%	12.5%	n/a
After Rates						
Volume Block 1	28.9%	51.1%	20.0%	71.9%	28.1%	17.9%
Volume Block 2	28.9%	48.9%	22.2%	68.8%	31.3%	21.4%
Volume Block 3	28.9%	44.4%	26.7%	62.5%	37.5%	28.6%
Volume Block 4	28.9%	40.0%	31.1%	56.3%	43.8%	35.7%
Volume Block 5	28.9%	40.0%	31.1%	56.3%	43.8%	35.7%
Volume Block 6	28.9%	33.3%	37.8%	46.9%	53.1%	46.4%

TABLE 12 VOLUME SWITCH TO FIRST-CLASS MAIL -- UNIFORM DISTRIBUTION

	Individuals	Threshold	Mailed
Volume Block 1	178,571,429	25,000,000	25,000,000
Volume Block 2	214,285,714	25,000,000	25,000,000
Volume Block 3	285,714,286	25,000,000	25,000,000
Volume Block 4	357,142,857	35,000,000	35,000,000
Volume Block 5	357,142,857	35,000,000	35,000,000
Volume Block 6	464,285,714		319,285,714
		Total	464,285,714

TABLE 13 DISPOSITION OF INDIVIDUALS -- NORMAL DISTRIBUTION

	% of Individuals By Total			% of Individuals by Mailing		% of Individuals Switching to First-Class Mail
	No Mail	Standard Mail	First-Class Mail	Standard Mail	First-Class Mail	
Before Rates	20.5%	74.8%	4.7%	94.1%	5.9%	n/a
After Rates						
Volume Block 1	20.5%	64.4%	15.2%	80.9%	19.1%	14.0%
Volume Block 2	20.5%	60.9%	18.7%	76.5%	23.5%	18.7%
Volume Block 3	20.5%	56.4%	23.1%	71.0%	29.0%	24.6%
Volume Block 4	20.5%	49.2%	30.3%	61.9%	38.1%	34.3%
Volume Block 5	20.5%	49.2%	30.3%	61.9%	38.1%	34.3%
Volume Block 6	20.5%	39.8%	39.7%	50.1%	49.9%	46.8%

TABLE 14 VOLUME SWITCH TO FIRST-CLASS MAIL -- NORMAL DISTRIBUTION

	Individuals	Threshold	Mailed
Volume Block 1	139,870,919	25,000,000	25,000,000
Volume Block 2	186,647,928	25,000,000	25,000,000
Volume Block 3	245,838,886	25,000,000	25,000,000
Volume Block 4	342,615,670	35,000,000	35,000,000
Volume Block 5	342,615,670	35,000,000	35,000,000
Volume Block 6	467,544,511		322,544,511

Total [redacted] [Crystal Ball® forecast]

Standard Mail vs. First-Class Mail

Cells Give Discount Required to Switch Mail
From Standard Mail To First-Class Mail

TABLE 1 -- DISCOUNT REQUIRED TO SWITCH FROM STANDARD MAIL TO FIRST-CLASS MAIL

1	Marketing Costs -- Standard Mail	$ 0.250	per piece
2	Marketing Costs -- First-Class Mail	$ 0.350	per piece
3	Response Rate Lift	5.0%	

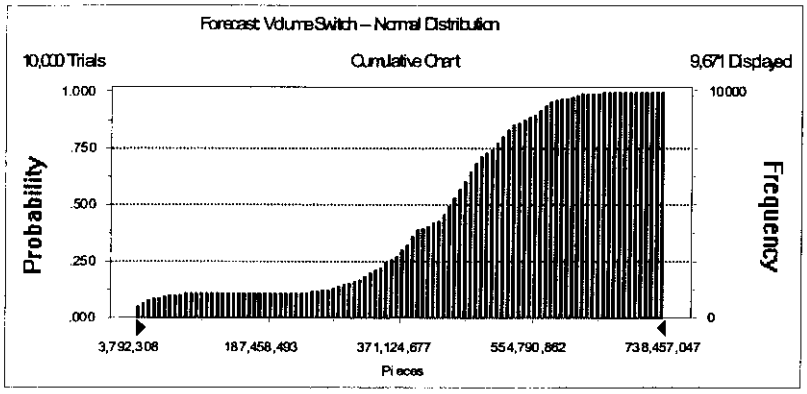
	Response Rate (Standard Mail/First-Class Mail)				
	0.10%	0.25%	0.40%	0.55%	0.70%
Lifetime Value	0.11%	0.26%	0.42%	0.58%	0.74%
$ 50	$ 0.098	$ 0.094	$ 0.090	$ 0.086	$ 0.083
$ 75	$ 0.096	$ 0.091	$ 0.085	$ 0.079	$ 0.074
$ 100	$ 0.095	$ 0.088	$ 0.080	$ 0.073	$ 0.065
$ 125	$ 0.094	$ 0.084	$ 0.075	$ 0.066	$ 0.056
$ 150	$ 0.093	$ 0.081	$ 0.070	$ 0.059	$ 0.047
$ 175	$ 0.091	$ 0.078	$ 0.065	$ 0.052	$ 0.039
$ 200	$ 0.090	$ 0.075	$ 0.060	$ 0.045	$ 0.030
$ 225	$ 0.089	$ 0.072	$ 0.055	$ 0.038	$ 0.021
$ 250	$ 0.088	$ 0.069	$ 0.050	$ 0.031	$ 0.012

Crystal Ball Report
Simulation started on 8/10/04 at 10:40:50
Simulation stopped on 8/10/04 at 10:41:03

Forecast: Volume Switch -- Normal Distribution **Cell: F254**

Summary:
Display Range is from 3,792,308 to 738,457,047 Pieces
Entire Range is from 0 to 741,981,450 Pieces
After 10,000 Trials, the Std. Error of the Mean is 1,591,633

Statistics:	Value
Trials	10000
Mean	403,852,638
Median	445,772,079
Mode	0
Standard Deviation	159,163,252
Variance	3E+16
Skewness	-1.33
Kurtosis	4.25
Coeff. of Variability	0.39
Range Minimum	0
Range Maximum	741,981,450
Range Width	741,981,450
Mean Std. Error	1,591,632.52



Forecast: Volume Switch -- Normal Distribution (cont'd) **Cell: F254**

Percentiles:

Percentile	Pieces
0%	0
10%	46,689,287
20%	335,165,970
30%	377,789,825
40%	409,182,911
50%	445,772,079
60%	466,616,514
70%	486,064,776
80%	517,363,517
90%	564,583,200
100%	741,981,450

Frequency Counts:

Frequency:

Group	Start Value	End Value	Prob.	Freq.
	-Infinity	3,792,308	0.032700	327
1	3,792,308	11,138,955	0.020200	202
2	11,138,955	18,485,603	0.016900	169
3	18,485,603	25,832,250	0.015700	157
4	25,832,250	33,178,898	0.004300	43
5	33,178,898	40,525,545	0.005000	50
6	40,525,545	47,872,192	0.006500	65
7	47,872,192	55,218,840	0.002800	28
8	55,218,840	62,565,487	0.001100	11
9	62,565,487	69,912,135	0.002100	21
10	69,912,135	77,258,782	0.002300	23
11	77,258,782	84,605,429	0.000000	0
12	84,605,429	91,952,077	0.000200	2
13	91,952,077	99,298,724	0.000000	0
14	99,298,724	106,645,371	0.000800	8
15	106,645,371	113,992,019	0.000200	2
16	113,992,019	121,338,666	0.000000	0
17	121,338,666	128,685,314	0.000000	0
18	128,685,314	136,031,961	0.000000	0
19	136,031,961	143,378,608	0.000000	0
20	143,378,608	150,725,256	0.000000	0
21	150,725,256	158,071,903	0.000000	0
22	158,071,903	165,418,551	0.000000	0
23	165,418,551	172,765,198	0.000000	0
24	172,765,198	180,111,845	0.000000	0

Forecast: Volume Switch -- Normal Distribution (cont'd) **Cell: F254**

Group	Start Value	End Value	Prob.	Freq.
25	180,111,845	187,458,493	0.000000	0
26	187,458,493	194,805,140	0.000000	0
27	194,805,140	202,151,788	0.000000	0
28	202,151,788	209,498,435	0.000000	0
29	209,498,435	216,845,082	0.000100	1
30	216,845,082	224,191,730	0.000100	1
31	224,191,730	231,538,377	0.001200	12
32	231,538,377	238,885,024	0.001400	14
33	238,885,024	246,231,672	0.001500	15
34	246,231,672	253,578,319	0.002100	21
35	253,578,319	260,924,967	0.003200	32
36	260,924,967	268,271,614	0.005200	52
37	268,271,614	275,618,261	0.005000	50
38	275,618,261	282,964,909	0.005700	57
39	282,964,909	290,311,556	0.005800	58
40	290,311,556	297,658,204	0.006900	69
41	297,658,204	305,004,851	0.006600	66
42	305,004,851	312,351,498	0.008700	87
43	312,351,498	319,698,146	0.010300	103
44	319,698,146	327,044,793	0.011700	117
45	327,044,793	334,391,440	0.012700	127
46	334,391,440	341,738,088	0.013500	135
47	341,738,088	349,084,735	0.012500	125
48	349,084,735	356,431,383	0.017300	173
49	356,431,383	363,778,030	0.016000	160
50	363,778,030	371,124,677	0.018500	185
51	371,124,677	378,471,325	0.025000	250
52	378,471,325	385,817,972	0.024400	244
53	385,817,972	393,164,620	0.035100	351
54	393,164,620	400,511,267	0.027200	272
55	400,511,267	407,857,914	0.009700	97
56	407,857,914	415,204,562	0.009800	98
57	415,204,562	422,551,209	0.008900	89
58	422,551,209	429,897,857	0.013100	131
59	429,897,857	437,244,504	0.024900	249
60	437,244,504	444,591,151	0.038300	383
61	444,591,151	451,937,799	0.038500	385
62	451,937,799	459,284,446	0.032000	320
63	459,284,446	466,631,093	0.036300	363
64	466,631,093	473,977,741	0.043400	434
65	473,977,741	481,324,388	0.035900	359
66	481,324,388	488,671,036	0.029400	294

Forecast: Volume Switch -- Normal Distribution (cont'd) **Cell: F254**

Group	Start Value	End Value	Prob.	Freq.
67	488,671,036	496,017,683	0.017300	173
68	496,017,683	503,364,330	0.017200	172
69	503,364,330	510,710,978	0.025600	256
70	510,710,978	518,057,625	0.033700	337
71	518,057,625	525,404,273	0.025800	258
72	525,404,273	532,750,920	0.019000	190
73	532,750,920	540,097,567	0.011800	118
74	540,097,567	547,444,215	0.016200	162
75	547,444,215	554,790,862	0.014000	140
76	554,790,862	562,137,509	0.007900	79
77	562,137,509	569,484,157	0.019600	196
78	569,484,157	576,830,804	0.020700	207
79	576,830,804	584,177,452	0.015800	158
80	584,177,452	591,524,099	0.007900	79
81	591,524,099	598,870,746	0.004700	47
82	598,870,746	606,217,394	0.004900	49
83	606,217,394	613,564,041	0.006300	63
84	613,564,041	620,910,689	0.007300	73
85	620,910,689	628,257,336	0.002600	26
86	628,257,336	635,603,983	0.002300	23
87	635,603,983	642,950,631	0.001500	15
88	642,950,631	650,297,278	0.001100	11
89	650,297,278	657,643,926	0.000900	9
90	657,643,926	664,990,573	0.000800	8
91	664,990,573	672,337,220	0.000600	6
92	672,337,220	679,683,868	0.001300	13
93	679,683,868	687,030,515	0.000500	5
94	687,030,515	694,377,162	0.000300	3
95	694,377,162	701,723,810	0.000800	8
96	701,723,810	709,070,457	0.000500	5
97	709,070,457	716,417,105	0.000400	4
98	716,417,105	723,763,752	0.000300	3
99	723,763,752	731,110,399	0.000300	3
100	731,110,399	738,457,047	0.001200	12
	738,457,047	+Infinity	0.000200	2
Total:			1.000000	10000

Cumulative:

Group	Start Value	End Value	Prob.	Freq.
	-Infinity	3,792,308	0.032700	327
1	3,792,308	11,138,955	0.052900	529
2	11,138,955	18,485,603	0.069800	698

Forecast: Volume Switch -- Normal Distribution (cont'd) **Cell: F254**

Group	Start Value	End Value	Prob.	Freq.
3	18,485,603	25,832,250	0.085500	855
4	25,832,250	33,178,898	0.089800	898
5	33,178,898	40,525,545	0.094800	948
6	40,525,545	47,872,192	0.101300	1013
7	47,872,192	55,218,840	0.104100	1041
8	55,218,840	62,565,487	0.105200	1052
9	62,565,487	69,912,135	0.107300	1073
10	69,912,135	77,258,782	0.109600	1096
11	77,258,782	84,605,429	0.109600	1096
12	84,605,429	91,952,077	0.109800	1098
13	91,952,077	99,298,724	0.109800	1098
14	99,298,724	106,645,371	0.110600	1106
15	106,645,371	113,992,019	0.110800	1108
16	113,992,019	121,338,666	0.110800	1108
17	121,338,666	128,685,314	0.110800	1108
18	128,685,314	136,031,961	0.110800	1108
19	136,031,961	143,378,608	0.110800	1108
20	143,378,608	150,725,256	0.110800	1108
21	150,725,256	158,071,903	0.110800	1108
22	158,071,903	165,418,551	0.110800	1108
23	165,418,551	172,765,198	0.110800	1108
24	172,765,198	180,111,845	0.110800	1108
25	180,111,845	187,458,493	0.110800	1108
26	187,458,493	194,805,140	0.110800	1108
27	194,805,140	202,151,788	0.110800	1108
28	202,151,788	209,498,435	0.110800	1108
29	209,498,435	216,845,082	0.110900	1109
30	216,845,082	224,191,730	0.111000	1110
31	224,191,730	231,538,377	0.112200	1122
32	231,538,377	238,885,024	0.113600	1136
33	238,885,024	246,231,672	0.115100	1151
34	246,231,672	253,578,319	0.117200	1172
35	253,578,319	260,924,967	0.120400	1204
36	260,924,967	268,271,614	0.125600	1256
37	268,271,614	275,618,261	0.130600	1306
38	275,618,261	282,964,909	0.136300	1363
39	282,964,909	290,311,556	0.142100	1421
40	290,311,556	297,658,204	0.149000	1490
41	297,658,204	305,004,851	0.155600	1556
42	305,004,851	312,351,498	0.164300	1643
43	312,351,498	319,698,146	0.174600	1746
44	319,698,146	327,044,793	0.186300	1863

Forecast: Volume Switch -- Normal Distribution (cont'd) **Cell: F254**

Group	Start Value	End Value	Prob.	Freq.
45	327,044,793	334,391,440	0.199000	1990
46	334,391,440	341,738,088	0.212500	2125
47	341,738,088	349,084,735	0.225000	2250
48	349,084,735	356,431,383	0.242300	2423
49	356,431,383	363,778,030	0.258300	2583
50	363,778,030	371,124,677	0.276800	2768
51	371,124,677	378,471,325	0.301800	3018
52	378,471,325	385,817,972	0.326200	3262
53	385,817,972	393,164,620	0.361300	3613
54	393,164,620	400,511,267	0.388500	3885
55	400,511,267	407,857,914	0.398200	3982
56	407,857,914	415,204,562	0.408000	4080
57	415,204,562	422,551,209	0.416900	4169
58	422,551,209	429,897,857	0.430000	4300
59	429,897,857	437,244,504	0.454900	4549
60	437,244,504	444,591,151	0.493200	4932
61	444,591,151	451,937,799	0.531700	5317
62	451,937,799	459,284,446	0.563700	5637
63	459,284,446	466,631,093	0.600000	6000
64	466,631,093	473,977,741	0.643400	6434
65	473,977,741	481,324,388	0.679300	6793
66	481,324,388	488,671,036	0.708700	7087
67	488,671,036	496,017,683	0.726000	7260
68	496,017,683	503,364,330	0.743200	7432
69	503,364,330	510,710,978	0.768800	7688
70	510,710,978	518,057,625	0.802500	8025
71	518,057,625	525,404,273	0.828300	8283
72	525,404,273	532,750,920	0.847300	8473
73	532,750,920	540,097,567	0.859100	8591
74	540,097,567	547,444,215	0.875300	8753
75	547,444,215	554,790,862	0.889300	8893
76	554,790,862	562,137,509	0.897200	8972
77	562,137,509	569,484,157	0.916800	9168
78	569,484,157	576,830,804	0.937500	9375
79	576,830,804	584,177,452	0.953300	9533
80	584,177,452	591,524,099	0.961200	9612
81	591,524,099	598,870,746	0.965900	9659
82	598,870,746	606,217,394	0.970800	9708
83	606,217,394	613,564,041	0.977100	9771
84	613,564,041	620,910,689	0.984400	9844
85	620,910,689	628,257,336	0.987000	9870
86	628,257,336	635,603,983	0.989300	9893

Forecast: Volume Switch -- Normal Distribution (cont'd) **Cell: F254**

Group	Start Value	End Value	Prob.	Freq.
87	635,603,983	642,950,631	0.990800	9908
88	642,950,631	650,297,278	0.991900	9919
89	650,297,278	657,643,926	0.992800	9928
90	657,643,926	664,990,573	0.993600	9936
91	664,990,573	672,337,220	0.994200	9942
92	672,337,220	679,683,868	0.995500	9955
93	679,683,868	687,030,515	0.996000	9960
94	687,030,515	694,377,162	0.996300	9963
95	694,377,162	701,723,810	0.997100	9971
96	701,723,810	709,070,457	0.997600	9976
97	709,070,457	716,417,105	0.998000	9980
98	716,417,105	723,763,752	0.998300	9983
99	723,763,752	731,110,399	0.998600	9986
100	731,110,399	738,457,047	0.999800	9998
	738,457,047	+Infinity	1.000000	10000

End of Forecast

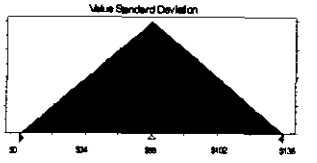
Assumptions

Assumption: *Value Standard Deviation* **Cell: *F185***

Triangular distribution with parameters:

Minimum	$0
Likeliest	$68
Maximum	$136

Selected range is from $0 to $136

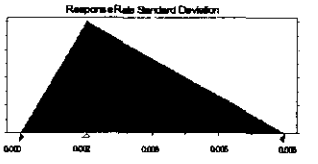


Assumption: Response Rate Standard Deviation **Cell: F182**

Triangular distribution with parameters:

Minimum	0.000
Likeliest	0.002
Maximum	0.006

Selected range is from 0.000 to 0.006

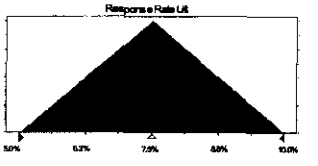


Assumption: Response Rate Lift **Cell: G8**

Triangular distribution with parameters:

Minimum	5.0%
Likeliest	7.5%
Maximum	10.0%

Selected range is from 5.0% to 10.0%



End of Assumptions

CERTIFICATE OF SERVICE

I hereby certify that I have today caused the foregoing document to be served in accordance with Section 12 of the Commission's Rules of Practice

/s/

David M. Levy

August 16, 2004

Postal Rate Commission, Docket Number MC2004-3
Declaration of Lawrence G. Buc

I, Lawrence G. Buc, hereby declare, under penalty of perjury that:

The direct testimony of Lawrence G. Buc on behalf of Bank One Corporation (BOC-T-2) in Docket Number MC 2004-3 was prepared by me under my direction; and

If I were to give this testimony orally before the Commission today, it would be the same.

I, Lawrence G. Buc, further declare under penalty of perjury that:

The responses to the various Interrogatories and The Presiding Officer's Information Requests that were addressed to me or which I have sponsored in this case, and which have been designed for inclusion in the record of this docket, were prepared by me or under my direction; and

If I were to respond to these Interrogatories and The Presiding Officer's Information Requests orally before the Commission today, the responses would be the same.

Lawrence G. Buc

Date September 10, 2004

ANSWER OF BANK ONE WITNESS BUC TO INTERROGATORY OCA/BOC-T2-1

OCA/BOC-T2-1. Please refer to your testimony at 2, lines 18-20, where you discuss the construction of a heuristic model based on the fundamental economics of marketing decisions. Please confirm that your model does not project an overall level of mailings but, rather, determines how a given level of mailings could be split between First-Class and Standard Mail based on incentive discounts.

ANSWER:

Generally confirmed. My model shows that for some combinations of lifetime values and response rates, it does not make economic sense to mail at all. For those combinations for which mailing is justified, the model indicates which class of mail would be used both with and without an incentive discount of a given amount.

ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-2

OCA/BOC-T2-2. Outside of information presented in your testimony, have you developed a volume estimate for the combination of Bank One's Standard Mail and First-Class Mail solicitation pieces?

a. For the first year of the NSA?

b. For the second year of the NSA?

c. For the third year of the NSA?

d. If you have developed the requested estimates (a. through c.), please provide them. Please discuss all factors that drive the projections.

e. If you have not developed estimates a. through c., please explain why not.

f. To your knowledge, has any individual developed estimates a. through c. If so, who is the individual (or individuals)? Please obtain such estimates from the identified individual(s) and provide them. (Part f. of this interrogatory may be redirected to witness Rappaport, if appropriate).

ANSWER:

a. No.

b. No.

c. No.

d. Not applicable.

e. I was not asked to provide these estimates

f. Yes. Bank One's volume forecast for 2004 is one billion pieces of Standard Mail solicitations. Rappaport direct testimony (BOC-T-1) at page 3, line 11. Adding these to the 83 million First-Class Mail solicitations estimated by witness Rappaport for the first year of the NSA yields an estimated total volume of 1.083 billion Bank One solicitations in the first year of the NSA. To my knowledge, no one has estimated Standard Mail for Years 2 and 3 of the NSA. However, given Bank One's historical solicitation volumes (see response to OCA/BOC-T1-1), it seems reasonable to

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-2**

assume that Bank One will mail approximately one billion solicitations in Years 2 and 3 of the NSA.

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-3**

OCA/BOC-T2-3. Please refer to your testimony at page 3, lines 20 through 22. You project response rates for Standard Mail between 0.1 percent and 0.7 percent, with 0.4 percent as the average response rate for credit card solicitation.

a. What is the response rate specifically applicable for Bank One?

b. What is the lift specifically applicable for Bank One?

ANSWER (This interrogatory has also been partially redirected to USPS witness Plunkett):

Bank One has objected to this question on the grounds that it seeks proprietary information. Without waiving this objection, however, Bank One answers the question as follows:

a. I do not know the specific response rates that Bank One actually achieves from its solicitation mailings. Bank One regards this information as highly proprietary, and has not disclosed it to me. Instead, Bank One asked me to use publicly available data as inputs to my model. Nevertheless, I can make several statements with confidence about Bank One's actual response rates.

First, Bank One, like other credit card issues, observes a range of response rates for its solicitations. As I noted in my prefiled testimony, response rates depend on the income and other demographic characteristics of the potential customer. *See* BOC-T-2 at 4. For this reason, credit card issuers like Bank One base their mailing and marketing decisions on response rates disaggregated by customer segment rather than a single company-average response rate.

Second, average response rates for Bank One's credit card solicitations cannot be far different than industry averages. If Bank One experienced response rates that

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-3**

were markedly higher or lower than the rest of the industry overall, Bank One would experience a noticeable gain or loss of market share. Since this is not the case, Bank One's response rates must be fairly close to industry averages. In 2003, the average response rate for all solicitations by credit card issuers was approximately 0.4 percent. *See USPS-T-2 at 3-4. I believe that 0.4 percent is therefore a reasonable estimate of* the overall average response rate for Bank One as well.

b. I do not know the average lift *(i.e.*, the percentage increase in response rate caused by entering solicitations as First-Class Mail rather than Standard Mail) actually achieved by Bank One. That information is highly confidential, and Bank One has not disclosed it to me. Given that Bank One does mail a percentage of its solicitations as First-Class Mail, however, there must be some lift: If there were no lift, Bank One would not use First-Class Mail at all.

There are also strong reasons to believe that Bank One's average lift exceeds five percent. When I ran my model with no discounts and a 5 percent input for lift, the results showed that in none of the 32 cells would the value of the resulting lift justify the added cost of First-Class Mail. Using the normal distribution of population into the segments also yielded the same result: at a 5 percent lift there would be no First-Class Mail solicitations. Because we know that Bank One has historically mailed some solicitations as First-Class Mail, it is reasonable to conclude that a lift of 5 percent understates Bank One's actual average lift.

For similar reasons, it is also reasonable to conclude that Bank One's average lift is less than 10 percent. When I ran my model and assumed a lift of 10 percent and a uniform distribution, the model indicated that of the 32 cells that mailed, 9 would mail as

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-3**

First-Class Mail (28 percent of the cells). When I assumed a lift of 10 percent and a normal distribution, the results showed that almost 20 percent of the mail would be First-Class Mail. Because Bank One actually enters a much lower percentage of solicitations as First-Class Mail, it is reasonable to conclude that Bank One's average lift is below 10 percent.

I obtained similar results with an assumed average lifetime value of $102.43 and segments defined in increments of $20.00 above and below that average value (please recall that in my original testimony I used an average lifetime value of $150 and segments defined in increments of $25 above and below that average value).Attachment OCA-BOC-T2-3(b) presents the results of running the model with lifts ranging from 0 to 10 percent and average lifetime values of $150 and $102.43 for both uniform and normal distributions.

ATTACHMENT OCA-BOC-T2-3(b)
source: Buc_Direct--Att._3errata.xls

NO DISCOUNT

AVERAGE LIFETIME VALUE OF $150

ACCOUNTING OF 45 SEGMENTS/POPULATION*								
	UNIFORM				NORMAL			
LIFT	STANDARD MAIL	FIRST-CLASS MAIL	NO MAIL	Total	STANDARD MAIL	FIRST-CLASS MAIL	NO MAIL	Total
0%	32	0	13	45	80%	0%	20%	100%
1%	32	0	13	45	80%	0%	20%	100%
2%	32	0	13	45	80%	0%	20%	100%
3%	32	0	13	45	80%	0%	20%	100%
4%	32	0	13	45	80%	0%	20%	100%
5%	32	0	13	45	80%	0%	20%	100%
6%	31	1	13	45	79%	1%	20%	100%
7%	30	2	13	45	78%	2%	20%	100%
8%	28	4	13	45	75%	5%	20%	100%
9%	26	6	13	45	71%	9%	20%	100%
10%	23	9	13	45	64%	15%	20%	99%

*45 segments based upon combinations of 9 lifetime values and 5 response rates.

AVERAGE LIFETIME VALUE OF $102.43

ACCOUNTING OF 45 SEGMENTS/POPULATION								
	UNIFORM				NORMAL			
LIFT	STANDARD MAIL	FIRST-CLASS MAIL	NO MAIL	Total	STANDARD MAIL	FIRST-CLASS MAIL	NO MAIL	Total
0%	26	0	19	45	75%	0%	25%	100%
1%	26	0	19	45	75%	0%	25%	100%
2%	26	0	19	45	75%	0%	25%	100%
3%	26	0	19	45	75%	0%	25%	100%
4%	26	0	19	45	75%	0%	25%	100%
5%	26	0	19	45	75%	0%	25%	100%
6%	26	0	19	45	75%	0%	25%	100%
7%	26	0	19	45	75%	0%	25%	100%
8%	25	1	19	45	73%	2%	25%	100%
9%	24	2	19	45	71%	4%	25%	100%
10%	23	3	19	45	68%	7%	25%	100%

ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4

OCA/BOC-T2-4. On page 4, you discuss the lifetime value of a customer.

a. Please confirm that in your Attachment 1, line 9, you have provided the "Net Present Value – Lifetime Value," for Bank One, of $102.43. If you do not confirm, please explain why not and give the correct figure.

b. Also confirm that $102.43 is the lifetime value of a Bank One customer, as discussed on page 4 of your testimony. If you do not confirm, then explain why not.

c. Assuming that the lifetime value is $102.43, please incorporate the appropriate lift and response rates specifically applicable to Bank One (not generic) into your model. Use your model to project a specific First-Class Mail solicitation letter estimate of the number of additional First-Class mail pieces that Bank One will mail. Please provide these estimates for both the simple version and for the subsequent normal and uniform distribution cases.

d. Please provide simulations and/or projections as applicable.

e. Please identify in your model (or use your model to estimate) the gross increase in revenue to the Postal Service; the decrease in Standard Mail revenue; and the net increase in revenue to the Postal Service. Please provide these figures for both the simple version and for the subsequent normal and uniform distribution cases.

f. Please discuss in detail any exogenous factors to your model that would cause these projections to vary substantially in their results.

ANSWER (Subpart b of this interrogatory has also been partially redirected to USPS witness Plunkett):

Bank One has objected to this question on the grounds that it seeks proprietary information. Without waiving this objection, however, Bank One answers the question as follows:

a. Confirmed that in Attachment 1, line 9, in the row "Net Present Value – Lifetime Value" under the Bank One column, the amount of $102.43 appears. Please

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4**

note that in Attachment 1, line 8, in the row "Annuitized Method – Lifetime Value" under the Bank One column, the amount of $239.18 appears.

b. I cannot confirm that $102.43 is the exact average lifetime value of a Bank One customer. Like information on response rates and lift, information about lifetime values is highly proprietary, and Bank One has not disclosed it to me. I derived the value of $102.43 for Bank One as follows: First, I grossed up Bank One's net income for 2003 reported in its annual report by adding back in an estimate of marketing expenses derived from the assumptions detailed in Attachment 1 to my testimony. Then I divided the resulting sum by the estimated number of accounts (also derived as detailed in the Attachment 1). The resulting value is an estimate of the one-year flow of net incremental revenue of an average account for 2003. To estimate a lifetime value, I found the present value of that annual flow, based on reasonable assumptions as to discount rates and the number of years the firm might receive the income. I also calculated an upper bound to this estimate by calculating the present value as an annuity.

In the runs of my model included in my testimony, I used an average lifetime value of $150, rather than $102.43. The $150 lifetime value of an average customer is based on the simple arithmetic average of the lifetime values that I calculated in Attachment 1, using publicly available data on net income and accounts from the annual reports of a sample of four banks, J. P. Morgan Chase, Capital One, MBNA, and Bank One. I used the average of the larger sample of four banks rather than the value calculated for Bank One for greater reliability. Please note that (1) the net income value is based on data for only one year: (2), net income was adjusted to net out estimated

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4**

marketing costs; and (3) for Bank One, it was necessary to estimate the number of accounts.

Information on lifetime values of customers is considered highly confidential by all financial institutions, not just Bank One; accordingly, it is difficult to find authoritative data on lifetime value in the public domain. I confirmed the reasonableness of the $150 value, however, with a marketing expert and consultant who teaches a course in "Direct Marketing Math and Finance" for the Direct Marketing Association.

Further, it should be noted that banks base marketing and mailing decisions on the lifetime values of a particular customer segment, not the average lifetime value of all customer accounts.

Finally, I note that the conclusion indicated by the model — that the proposed NSA discounts will induce a substantial migration of Bank One solicitation volume from Standard Mail to First-Class Mail — holds regardless of whether the average lifetime value used as an input to the model is $102.43 or $150.

c. I have run the model using an average lifetime value of $102.43 (with the segments defined as described in my answer to OCA/BOC-T2-3(b) above), and the lifts and response rates used in my testimony. The following exhibits provide the results. The results for the segments are the same as the results of the uniform distribution of individuals. As the results show, the model is fairly stable to changes in the input assumptions. Large volumes of mail still switch from Standard Mail to First-Class Mail.

ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4

Modified BOC-T-2 Exhibit 1: Spreadsheet Model Output: Percentage Of Segments Using First-Class Mail

	Lift					
	5%		7.5%		10%	
Discount	Before Rates	After Rates	Before Rates	After Rates	Before Rates	After Rates
2.5 Cents	0%	0%	0%	12%	12%	27%
5 Cents	0%	12%	0%	38%	12%	54%

Modified BOC-T-2 Exhibit 4: Spreadsheet Model Output: Percentage Of Mail Using First-Class Mail (Using Normal Distributions Of Individuals)

	Lift					
	5%		7.5%		10%	
Discount	Before Rates	After Rates	Before Rates	After Rates	Before Rates	After Rates
2.5 Cents	0%	0%	0%	10%	10%	25%
5 Cents	0%	10%	0%	37%	10%	55%

d. I performed a Monte Carlo simulation using the assumptions detailed in subpart c of this interrogatory. The following exhibit provides the results. The simulation indicates that in approximately two out of every three trials, the volume shift from Standard Mail to First-Class Mail is greater than 100 million pieces.

ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4

Modified BOC-T-2 Exhibit 5: Monte Carlo Output: Percentage of Trials With Volume Shifts Greater Than or Equal to the Selected Volume Shift

Volume Shift	Percentage of Trials
50 million	68%
100 million	66%
150 million	66%

e. Since I do not know whether the interrogatory asks for revenue estimates associated with an average lifetime value of $102.43 or $150, I have provided both sets of estimates. In each case, I used the model and the assumptions in my response to subpart c of this interrogatory to estimate the requested figures for the simple version, the uniform distribution case, and the normal distribution case. Because the discounts create an incentive to switch mail from Standard Mail to First-Class Mail, net increases in revenue logically follow.

ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4

Exhibit E1: Revenue Estimates (Simple Version and Uniform Distribution of Individuals)

	Lift		
Discount	5%	7.5%	10%
Average Lifetime Value of $102.43			
Increase in First-Class Mail Revenue (millions)[1]			
2.5 Cents	$0	$32.0	$40.1
5 Cents	$29.0	$92.0	$101.6
Decrease in Standard Mail Revenue (millions)[2]			
2.5 Cents	$0	$21.2	$26.6
5 Cents	$21.2	$67.3	$74.3
Net Increase in Revenue (millions)[3]			
2.5 Cents	$0	$10.8	$13.5
5 Cents	$7.8	$24.7	$27.3
Average Lifetime Value of $150			
Increase in First-Class Mail Revenue (millions)[1]			
2.5 Cents	$16.0	$42.7	$42.7
5 Cents	$67.8	$99.2	$113.7
Decrease in Standard Mail Revenue (millions)[2]			
2.5 Cents	$10.6	$28.3	$28.3
5 Cents	$49.6	$72.6	$83.2
Net Increase in Revenue (millions)[3]			
2.5 Cents	$5.4	$14.4	$14.4
5 Cents	$18.2	$26.7	$30.6

[1] Increase in percent using First-Class Mail (see BOC-T-2 Exhibit 1 and response to subpart c of this interrogatory) times the number of Standard Mail solicitations (see response to OCA/BOC-T2-2f) times the average First-Class Mail revenue per piece less the discount (see USPS-T-1 Appendix A, page 10 REVISED).

[2] Increase in percent using First-Class Mail times the number of Standard Mail solicitations times the average Standard Mail revenue per piece (see USPS-T-1 Appendix A, page 10 REVISED).

[3] Increase in First-Class Mail revenue minus the decrease in Standard Mail revenue.

ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4

Exhibit E2: Revenue Estimates (Normal Distribution of Individuals)

	Lift		
Discount	5%	7.5%	10%
Average Lifetime Value of $102.43			
Increase in First-Class Mail Revenue (millions)[1]			
2.5 Cents	$0	$26.7	$40.1
5 Cents	$24.2	$89.5	$108.9
Decrease in Standard Mail Revenue (millions)[2]			
2.5 Cents	$0	$17.7	$26.6
5 Cents	$17.7	$65.5	$79.7
Net Increase in Revenue (millions)[3]			
2.5 Cents	$0	$9.0	$13.5
5 Cents	$6.5	$24.1	$29.3
Average Lifetime Value of $150			
Increase in First-Class Mail Revenue (millions)[1]			
2.5 Cents	$5.3	$34.7	$50.7
5 Cents	$46.0	$106.5	$133.1
Decrease in Standard Mail Revenue (millions)[2]			
2.5 Cents	$3.5	$23.0	$33.6
5 Cents	$33.6	$77.9	$97.4
Net Increase in Revenue (millions)[3]			
2.5 Cents	$1.8	$11.7	$17.1
5 Cents	$12.4	$28.6	$35.8

[1] Increase in percent using First-Class Mail (see BOC-T-2 Exhibit 4 and response to subpart c of this interrogatory) times the number of Standard Mail solicitations (see response to OCA/BOC-T2-2f) times the average First-Class Mail revenue per piece less the discount (see USPS-T-1 Appendix A, page 10 REVISED).

[2] Increase in percent using First-Class Mail times the number of Standard Mail solicitations times the average Standard Mail revenue per piece (see USPS-T-1 Appendix A, page 10 REVISED).

[3] Increase in First-Class Mail revenue minus the decrease in Standard Mail revenue.

**ANSWER OF BANK ONE WITNESS BUC
TO INTERROGATORY OCA/BOC-T2-4**

f. The exogenous variables in the model include lifetime value, response rates, lift, marketing costs, and the size of the discounts. Changes in any of these input variables will affect the outputs of the model to some degree. However, as demonstrated above, model outputs are fairly robust across plausible changes in input variable. Any factors that lead to changes in the exogenous variables will also induce changes in the model outputs.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO INTERROGATORY OCA/BOC-T2-5

OCA/BOC-T2-5. At page 11 of your testimony, you report the results for Monte Carlo simulations for variations in the response-rate lifts and the distribution of individuals across response rates and lifetime values.

a. On what type of Bank One-imposed credit requirements and standards are these simulations based?

b. How would the simulations change if Bank One's credit standards changed? Please give examples and discuss.

ANSWER

a. The Monte Carlo analysis I describe in my testimony is not based on any specific credit requirements or standards.

b. Theoretically, if changes in credit standards affected the distribution of populations into the segments of the model, then the exact results could change. However, I have seen no indication that Bank One's credit standards vary enough from industry average standards to materially affect the results of my Monte Carlo analysis. As previously noted, my model confirms that the proposed NSA discounts will induce a substantial migration of Bank One solicitation volume from Standard Mail to First-Class Mail under a wide range of assumed response rates, lift percentages, and lifetime customer values.

**RESPONSE OF BANK ONE WITNESS BUC
TO OCA INTERROGATORY OCA-USPS-T1-24
(PARTIALLY REDIRECTED FROM USPS WITNESS PLUNKETT)**

OCA/USPS-T1-24. Please refer to your testimony at VI. Discount Cap, pages 15-17, and PRC Op. MC2002-2, page 154, footnote 83, which states:

> This excludes any potential increased contribution as a result of Capital One responding to the declining block rate structure by increasing its volume of First-Class Mail. The commission is excluding this potential contribution because the record does not provide an adequate basis for evaluating the response of Capital One (and its competitors) to the declining block rates. *See* Chapter V, Section M, for the analysis leading to this conclusion.

Please expand on your testimony and address the Commission's concern with respect to unknown before rates volumes and the unknown response to discounts.

ANSWER TO OCA-USPS-T1-24:

The record in this case addresses the Commission's concerns on several levels. *First*, it shows that Before Rates First-Class marketing letter volume—the only type of First-Class Mail over which Bank One appears to have significant discretion over volume—would have to increase by nearly *300 percent* over Bank One's current marketing letter volume before the resulting "leakage" from the NSA rate discounts outweighed the ACS cost savings generated by the discounts. *See* response of USPS witness Michael Plunkett to Presiding Officer's information Request No. 1, Question 7 (filed July 26, 2004).

Second, the record shows that an unanticipated increase in Before Rates volume of this magnitude is extremely unlikely. Bank One's historical volumes, in contrast to those of Capital One, have been quite stable in recent years. *See* USPS-T-1 (Plunkett Direct), App. A, p. 2. Moreover, the terms of the NSA establishing an annual threshold adjustment and merger adjustments provide structural safeguards against the risk that Bank One could obtain volume-related discounts for increases in First-Class mail

**RESPONSE OF BANK ONE WITNESS BUC
TO OCA INTERROGATORY OCA-USPS-T1-24
(PARTIALLY REDIRECTED FROM USPS WITNESS PLUNKETT)**

volume caused by a merger or an organic increase in the scale of Bank One's business. *See* NSA ¶¶ III.F (annual threshold adjustment) and IV (merger adjustments).

Third, the proponents of the NSA in this case have submitted a far more sophisticated and thorough analysis of the anticipated financial effects of the proposed block discount schedule, including the effects of leakage, new contribution and ACS savings, than the proponents submitted to the Commission in the Capital One case. *See* Plunkett Direct (USPS-T-1), App. A; response of USPS witness Plunkett to OCA interrogatory OCA-USPS-T1-15; Buc Direct (BOC-T-2). In particular, my testimony provides a model of the optimization analysis used by credit card marketers to choose between Standard Mail and First-Class Mail solicitations. Relying on publicly available data, I show that the proposed discount blocks will, under an extraordinarily robust range of assumptions, elicit enough additional First Class volume to generate an enormous positive contribution to the Postal Service. Buc Direct (BOC-T-2).

Fourth, the record shows that a "stop-loss" provision (i.e., cap on the total discounts available to Bank One) would not eliminate financial risk for the Postal Service, but would substitute one risk for another. This is because a cap on total discounts creates the risk of choking off volumes that an incentive otherwise would induce. This is particularly true for the Bank One NSA: losses in contribution from the choked-off volume could be very large. Thus, imposing a cap would replace an insignificant risk with a substantial one. To document this fact, I attach an analysis, based on the model presented in my direct testimony (BOC-T-2), which shows an 80 percent chance that imposing an annual $2.5 million cap would reduce the contribution made by Bank One's mail to institutional costs by over $8 million per year—or

**RESPONSE OF BANK ONE WITNESS BUC
TO OCA INTERROGATORY OCA-USPS-T1-24
(PARTIALLY REDIRECTED FROM USPS WITNESS PLUNKETT)**

approximately $25 million over the three year term of the NSA. And there is a ten percent chance that the lost contribution to institutional costs could exceed $12.5 million per year, or nearly $37.5 million over the three-year term of the NSA. *See* Attachment OCA-USPS-T1-24 (Excel spreadsheet).

As the Commission is aware, my direct testimony includes a Monte Carlo analysis of the amount of mail that could switch from Standard Mail to First-Class Mail under a broad set of assumptions. The same model can also be used to show the potentially "switched" volumes for each decile in my Monte Carlo analysis. One can calculate the contribution from the switched volume, as well as the net contribution after considering the incentive necessary to induce that switch. The analysis shows that, although annual losses in contribution resulting from a cap would be relatively modest at the 10th percentile volume estimate—about $0.6 million annually—they would increase to $8.3 million annually at the 20th percentile estimate, and $12.5 million at the 90th percentile estimate:

Effect of $2.5 million annual cap on total discounts offered under Bank One NSA	
Foregone annual contribution to USPS institutional costs	**Probability of Occurrence**
$8,297,435	80%
$9,416,975	70%
$9,821,916	60%
$10,183,998	50%
$10,553,403	40%
$11,140,696	30%
$11,604,061	20%
$12,469,210	10%

**RESPONSE OF BANK ONE WITNESS BUC
TO OCA INTERROGATORY OCA-USPS-T1-24
(PARTIALLY REDIRECTED FROM USPS WITNESS PLUNKETT)**

Source: Attachment OCA-USPS-T1-24.

Fifth, the risks to the Postal Service from capping discounts transcend this case, particularly if the cap is limited to ACS cost savings. Many other banks have large quantities of Standard Mail solicitations. An appropriate discount incentive could enable the Postal Service to induce a large share of this volume to migrate to First-Class Mail, benefiting the Postal Service, banks, and other mailers. Limiting the discounts to the costs savings generated by solicitations currently mailed as First-Class Mail, however, would have a chilling effect on future functionally equivalent NSAs of this kind. Very few (if any) other banks currently send enough First-Class Mail to justify the energy, time, and money needed to obtain a functionally equivalent NSA with discounts capped at ACS savings on Before Rates First-Class volumes.

BANK ONE ANNUAL CONTRIBUTION FROM NEW VOLUME SENSITIVITY ANALYSIS

I. INPUT DATA

ROW	DESCRIPTION	VALUE	SOURCE
1	Annual Before Rates Volumes	571,080,000	USPS-T-1, Appendix A, page 2
2	Contribution Per Piece -- First-Class Mail Marketing Letter	$ 0.166	USPS-T-1, Appendix A, Year 1, page 10
3	Contribution Per Piece -- Standard Mail Letter	$ 0.093	USPS-T-1, Appendix A, Year 1, page 10

II. VOLUME BLOCKS

Source: Docket No. MC2004-3 Request For Recommended Decision, Attachment F, page 4

ROW	FROM	TO	DISCOUNT		CUMULATIVE DISCOUNTS
4	535,000,001	560,000,000	$ 0.025	per piece	625,000
5	560,000,001	585,000,000	$ 0.030	per piece	1,375,000
6	585,000,001	610,000,000	$ 0.035	per piece	2,250,000
7	610,000,001	645,000,000	$ 0.040	per piece	3,650,000
8	645,000,001	680,000,000	$ 0.045	per piece	5,225,000
9	680,000,001	and above	$ 0.050	per piece	n/a

III. SENSITIVITY ANALYSIS USING MONTE CARLO SIMULATION PERCENTILES

	col. 1	col. 2	col. 3	col. 4	col. 5	col. 6	col. 7
ROW	PERCENTILE	VOLUME SWITCH	AFTER RATES VOLUME	EARNED DISCOUNT	CONTRIBUTION FROM VOLUME SWITCH	INCREASE IN CONTRIBUTION	NET LOSS DUE TO CAP
10	10%	64,212,441	635,292,441	$ 3,261,698	$ 4,687,508	$ 1,425,811	$ 628,401
11	20%	385,819,339	956,899,339	$ 19,069,967	$ 28,164,812	$ 9,094,845	$ 8,297,435
12	30%	434,494,982	1,005,574,982	$ 21,503,749	$ 31,718,134	$ 10,214,385	$ 9,416,975
13	40%	452,101,126	1,023,181,126	$ 22,384,056	$ 33,003,382	$ 10,619,326	$ 9,821,916
14	50%	467,843,824	1,038,923,824	$ 23,171,191	$ 34,152,599	$ 10,981,408	$ 10,183,998
15	60%	483,904,930	1,054,984,930	$ 23,974,247	$ 35,325,060	$ 11,350,813	$ 10,553,403
16	70%	509,439,387	1,080,519,387	$ 25,250,969	$ 37,189,075	$ 11,938,106	$ 11,140,696
17	80%	529,585,693	1,100,665,693	$ 26,258,285	$ 38,659,756	$ 12,401,471	$ 11,604,061
18	90%	567,200,871	1,138,280,871	$ 28,139,044	$ 41,405,664	$ 13,266,620	$ 12,469,210
19	100%	753,451,075	1,324,531,075	$ 37,451,554	$ 55,001,929	$ 17,550,375	$ 16,752,965
20							
21	Discount cap of $2.5 million		616,250,000	$ 2,500,000	3,297,410	$ 797,410	

Notes:

Col 1 BOC-T-2, Buc Direct--Att. 3.xls, page 2
Col 2 BOC-T-2, Buc Direct--Att. 3.xls, page 2
Col 3 = col 2 + row 1
Col 4 Calculation based upon volume blocks and incremental discounts
Col 5 = col 2 * (row 2 - row 3)
Col 6 = col 5 - col 4

OCA/USPS-T1-46. Please refer to your testimony, Appendix A, page 10, and the table below.

Contribution per Piece	Year 1	Year 2	Year 3
First-Class Marketing Letter, After Rates	$0.163	$0.158	$0.152
Standard Letter Contribution per Piece	$0.093	$0.089	$0.086
Net Contribution	$0.070	$0.069	$0.067
Discount	$0.050	$0.050	$0.050
Net Contribution less Discount	$0.020	$0.019	$0.017

a. Please confirm that Bank One's Year 1 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is $0.020. If you do not confirm, please explain.

b. Please confirm that Bank One's Year 2 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is $0.019. If you do not confirm, please explain.

c. Please confirm that Bank One's Year 3 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is $0.017. If you do not confirm, please explain.

ANSWER (revised and redirected September 1, 2004):

Witness Plunkett responded to this interrogatory as follows: "Confirmed that these questions faithfully reproduce what is in my appendix A. However, this question implies that the **marginal** net contribution assuming the maximum discount equates to the **average** after rates contribution. Since many pieces would receive smaller discounts, the average net contribution per piece would be higher."

Although these questions may faithfully reproduce the calculations for "net contribution less discount" ("ncld") from the original Appendix A, the USPS has filed a second revision to Appendix A ("Second Errata"). Accordingly, I have changed the ncld calculations from the original interrogatory OCA/USPS-T1-46 and have presented the

new figures below in Table 1. The calculations underlying this table are derived from the revised Appendix A.

Table 1

Contribution per Piece	Year 1	Year 2	Year 3
First-Class Marketing Letter, After Rates	$0.162	$0.157	$0.151
Standard Letter Contribution per Piece	$0.090	$0.087	$0.083
Net Contribution	$0.072	$0.070	$0.068
Discount	$0.050	$0.050	$0.050
Net Contribution less Discount	$0.022	$0.020	$0.018

Notwithstanding the above revisions, the nclds continue to be understated for several other reasons. The calculations in this redirected answer incorporate all of the corrections made in the Second Errata (see Table 1), but also reflect three additional revisions that should be made in determining net contribution less discount (see Table 2).

First, the Postal Service based its unit cost estimates for *Standard Mail* on the *Postal Service's* costing methodology even though it based its unit cost estimates for *First-Class Mail* on the *Commission's* costing methodology. The Commission's methodology tends to produce higher costs and correspondingly lower contribution amounts. Consistent use of the Commission's methodology to cost both mail classes would cause the estimated costs of Standard Mail (and the associated piggybacks) to increase, and the estimated contribution from Standard Mail to decrease accordingly. Thus, the net contribution less discount for each piece of mail that migrated from Standard to First Class would be higher than the model now indicates. Using one approximation of the Commission's methodology, we estimate that the increase in net

contribution less discount by correcting the mismatch of methodologies would be $0.003 in Year 1, $0.003 in Year 2, and $0.003 in Year 3.[1]

Second, in the calculations in Appendix A, revenues for both Standard Mail and First-Class Mail are assumed to remain constant over the entire life of the agreement. In fact, an omnibus rate increase is likely in early 2006. The effect of a rate increase would be to increase unit revenues of both First-Class and Standard Mail. Unless rates for Standard Mail bear percentage increases that are disproportionate to First-Class rate increases, the absolute difference between unit First-Class and unit Standard Mail rates will also increase, thus increasing the net contribution less discount in Year 3 of the NSA agreement for mail that is switched from Standard Mail to First-Class Mail. Assuming, for example, that the next omnibus rate case resulted in an across-the-board increase of 10 percent for all classes, effective at the beginning of Year 3, the net contribution less discount would increase by $0.012 in Year 3.

Third, the calculations in Appendix A assume that 100 percent of new First-Class Mail volumes will be migrated volume—*i.e.*, will be offset by an offsetting reduction in Standard Mail volume. If some of the new First-Class volume is from organic growth (*i.e.*, growth not offset by migration from Standard Mail), net contribution less discount will increase, for the obvious reason that entirely new First-Class Mail volumes will not entail any offsetting loss of Standard Mail contribution. For example, if only five percent of the new volume is from organic growth and 95 percent is from mail switched from

[1] Using the Postal Service's methodology to cost both mail classes would likewise increase the estimated net contribution less discount for each piece that migrated from Standard Mail to First-Class Mail, because the estimated costs of First-Class Mail (and associated piggyback costs) would decrease, and the estimated contribution from First-Class Mail would increase accordingly.

Standard Mail, the net contribution less discount would increase by $0.005 in Year 1, $0.004 in Year 2, and $0.004 in Year 3.

Table 2 below summarizes the effects of adjusting Appendix A (1) by using one approximation of the Commission's costing methodology for both Standard and First-Class Mail, (2) by assuming a 10 percent rate increase in Year 3 of the NSA, and (3) by assuming that five percent of new First-Class Mail volume represents organic growth in volume rather than migration from Standard Mail. Calculations are presented in the Attachment to OCA/USPS-T1-46 (redirected). Making these corrections increases net contribution less discount by $0.007 in Year 1, $0.007 in Year 2, and $0.019 in Year 3. These increases yield a total net contribution less discounts of $0.029 in Year 1, $0.027 in Year 2, and $0.037 in Year 3.

Table 2

Contribution per Piece	Year 1	Year 2	Year 3
First-Class Marketing Letter. After Rates	$0.162	$0.157	$0.151
Standard Letter Contribution per Piece	$0.090	$0.087	$0.083
Net Contribution	$0.072	$0.070	$0.068
Discount	$0.050	$0.050	$0.050
Net Contribution less Discount	$0.022	$0.020	$0.018
1. Increment from PRC method	$0.003	$0.003	$0.003
2. Increment from rate change	$0.000	$0.000	$0.012
3. Increment from 5-percent organic growth	$0.005	$0.004	$0.002
Increment from combination of 1, 2, and 3	$0.007	$0.007	$0.019
Total Net Contribution Less Discount	$0.029	$0.027	$0.037

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

I CONSISTENT COSTING METHODOLOGIES -- USPS/PRC VERSIONS

INDEX	DESCRIPTION		VALUE	SOURCE
1	Inflation Cost Adjustment Factor		1.004	USPS-T-1 Appendix A, Rev
2				
3	Standard Mail Automation Non-Carrier Route Letter Mail Processing Cost Difference -- USPS/PRC Versions			
4	FY 2003		$ 0.003	USPS-LR-J-84 CRA Mail P Letters minus USPS LR-J-6 Auto. Non-CR Letters
5	Year 1		$ 0.003	= 1 * 4
6	Year 2		$ 0.003	= 1 * 5
7	Year 3		$ 0.003	= 1 * 6
8				
9	First Class Mail Marketing Letter, After Rates			
10	Year 1	Cost With Contingency -- PRC Version	$ 0.130	USPS-T-1 Appendix A, Rev
11	Year 2	Cost With Contingency -- PRC Version	$ 0.135	USPS-T-1 Appendix A, Rev
12	Year 3	Cost With Contingency -- PRC Version	$ 0.141	USPS-T-1 Appendix A, Rev
13				
14	Year 1	Average Contribution With Contingency -- PRC Version	$ 0.162	USPS-T-1 Appendix A, Rev
15	Year 2	Average Contribution With Contingency -- PRC Version	$ 0.157	USPS-T-1 Appendix A, Rev
16	Year 3	Average Contribution With Contingency -- PRC Version	$ 0.151	USPS-T-1 Appendix A, Rev
17				
18	Standard Mail Letter			
19	Year 1	Revenue	$ 0.177	USPS-T-1 Appendix A, Rev
20	Year 2	Revenue	$ 0.177	USPS-T-1 Appendix A, Rev
21	Year 3	Revenue	$ 0.177	USPS-T-1 Appendix A, Rev
22				
23	Year 1	Cost With Contingency -- USPS Version	$ 0.087	USPS-T-1 Appendix A, Rev
24	Year 2	Cost With Contingency -- USPS Version	$ 0.090	USPS-T-1 Appendix A, Rev
25	Year 3	Cost With Contingency -- USPS Version	$ 0.094	USPS-T-1 Appendix A, Rev
26				
27	Year 1	Cost With Contingency -- PRC Version Proxy	$ 0.090	= 23 + 5
28	Year 2	Cost With Contingency -- PRC Version Proxy	$ 0.093	= 24 + 6
29	Year 3	Cost With Contingency -- PRC Version Proxy	$ 0.097	= 25 + 7
30				
31	Year 1	Average Contribution With Contingency -- USPS Version	$ 0.090	USPS-T-1 Appendix A, Rev
32	Year 2	Average Contribution With Contingency -- USPS Version	$ 0.087	USPS-T-1 Appendix A, Rev
33	Year 3	Average Contribution With Contingency -- USPS Version	$ 0.083	USPS-T-1 Appendix A, Rev
34				
35	Year 1	Average Contribution With Contingency -- PRC Version Proxy	$ 0.087	= 19 - 27
36	Year 2	Average Contribution With Contingency -- PRC Version Proxy	$ 0.084	= 20 - 28
37	Year 3	Average Contribution With Contingency -- PRC Version Proxy	$ 0.080	= 21 - 29
38				
39	Net Contribution With USPS/PRC Version Effect			
40	Year 1		$ 0.075	= 14 - 35
41	Year 2		$ 0.073	= 15 - 36

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

I CONSISTENT COSTING METHODOLOGIES -- USPS/PRC VERSIONS

INDEX	DESCRIPTION		VALUE	SOURCE
42	Year 3		$ 0.071	= 16 - 37
43				
44	Year 1	Less 5 Cent Discount	$ 0.025	= 40 - $0.05
45	Year 2	Less 5-Cent Discount	$ 0.023	= 41 - $0.05
46	Year 3	Less 5-Cent Discount	$ 0.021	= 42 - $0.05

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

II ORGANIC GROWTH IN FIRST-CLASS MAIL VOLUMES

INDEX	DESCRIPTION		VALUE	SOURCE
1	Percentages of New First-Class Mail Volume			
2	Organic Growth		5.0%	Assumption
3	Shift from Standard Mail		95.0%	= 1 - [2]
4				
5	First-Class Mail Marketing Letter, After Rates			
6	Year 1	Average Contribution With Contingency -- PRC Version	$ 0.162	USPS-T-1 Appendix /
7	Year 2	Average Contribution With Contingency -- PRC Version	$ 0.157	USPS-T-1 Appendix /
8	Year 3	Average Contribution With Contingency -- PRC Version	$ 0.151	USPS-T-1 Appendix /
9				
10	Standard Mail Letter			
11	Year 1	Average Contribution With Contingency -- USPS Version	$ 0.090	USPS-T-1 Appendix /
12	Year 2	Average Contribution With Contingency -- USPS Version	$ 0.087	USPS-T-1 Appendix /
13	Year 3	Average Contribution With Contingency -- USPS Version	$ 0.083	USPS-T-1 Appendix /
14				
15	Year 1	Average Contribution With Contingency -- PRC Version Proxy	$ 0.087	OCA-USPS-T1-46-I a
16	Year 2	Average Contribution With Contingency -- PRC Version Proxy	$ 0.084	OCA-USPS-T1-46-I a
17	Year 3	Average Contribution With Contingency -- PRC Version Proxy	$ 0.080	OCA-USPS-T1-46-I a
18				
19	Net Contribution of Organic Growth			
20	Year 1		$ 0.162	= 6
21	Year 2		$ 0.157	= 7
22	Year 3		$ 0.151	= 8
23				
24	Year 1	Less 5-Cent Discount	$ 0.112	= 20 - $0.05
25	Year 2	Less 5-Cent Discount	$ 0.107	= 21 - $0.05
26	Year 3	Less 5-Cent Discount	$ 0.101	= 22 - $0.05
27				
28	Net Contribution of Shift From Standard Mail			
29	Year 1		$ 0.072	= 6 - 11
30	Year 2		$ 0.070	= 7 - 12
31	Year 3		$ 0.068	= 8 - 13
32				
33	Year 1	Less 5-Cent Discount	$ 0.022	= 29 - $0.05
34	Year 2	Less 5-Cent Discount	$ 0.020	= 30 - $0.05
35	Year 3	Less 5-Cent Discount	$ 0.018	= 31 - $0.05

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

II ORGANIC GROWTH IN FIRST-CLASS MAIL VOLUMES

INDEX	DESCRIPTION		VALUE	SOURCE
36				
37	Net Contribution of Shift From Standard Mail With USPS/PRC Version Effect			
38	Year 1		$ 0.075	= 6 - 15
39	Year 2		$ 0.073	= 7 - 16
40	Year 3		$ 0.071	= 8 - 17
41				
42	Year 1	Less 5-Cent Discount	$ 0.025	= 38 - $0.05
43	Year 2	Less 5-Cent Discount	$ 0.023	= 39 - $0.05
44	Year 3	Less 5-Cent Discount	$ 0.021	= 40 - $0.05
45				
46	Weighted-Average Net Contribution of Organic Growth and Shift from Standard Mail			
47	Year 1		$ 0.077	= 2 * 20 + 3 * 29
48	Year 2		$ 0.074	= 2 * 21 + 3 * 30
49	Year 3		$ 0.072	= 2 * 22 + 3 * 31
50				
51	Year 1	Less 5-Cent Discount	$ 0.027	= 47 - $0.05
52	Year 2	Less 5-Cent Discount	$ 0.024	= 48 - $0.05
53	Year 3	Less 5-Cent Discount	$ 0.022	= 49 - $0.05
54				
55	Weighted-Average Net Contribution of Organic Growth and Shift from Standard Mail With USPS/PRC Version Effect			
56	Year 1		$ 0.079	= 2 * 20 + 3 * 38
57	Year 2		$ 0.077	= 2 * 21 + 3 * 39
58	Year 3		$ 0.075	= 2 * 22 + 3 * 40
59				
60	Year 1	Less 5-Cent Discount	$ 0.029	= 56 - $0.05
61	Year 2	Less 5-Cent Discount	$ 0.027	= 57 - $0.05
62	Year 3	Less 5-Cent Discount	$ 0.025	= 58 - $0.05

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

III POSTAL RATE INCREASES

INDEX	DESCRIPTION		VALUE	SOURCE
1	Potential Average Rate Increase			
2	Year 1		0.0%	Assumption
3	Year 2		0.0%	Assumption
4	Year 3		10.0%	Assumption
5				
6	First-Class Mail Letter			
7	Year 1	Revenue	$ 0.292	USPS-T-1 Appendix A, F
8	Year 2	Revenue	$ 0.292	USPS-T-1 Appendix A, F
9	Year 3	Revenue	$ 0.292	USPS-T-1 Appendix A, F
10				
11	Year 1	Revenue Including Potential Average Rate Increase	$ 0.292	= (1+ [2]) * [7]
12	Year 2	Revenue Including Potential Average Rate Increase	$ 0.292	= (1+ [3]) * [8]
13	Year 3	Revenue Including Potential Average Rate Increase	$ 0.321	= (1+ [4]) * [9]
14				
15	Standard Mail Letter			
16	Year 1	Revenue	$ 0.177	USPS-T-1 Appendix A, F
17	Year 2	Revenue	$ 0.177	USPS-T-1 Appendix A, F
18	Year 3	Revenue	$ 0.177	USPS-T-1 Appendix A, F
19				
20	Year 1	Revenue Including Potential Average Rate Increase	$ 0.177	= (1+ [2]) * [16]
21	Year 2	Revenue Including Potential Average Rate Increase	$ 0.177	= (1+ [3]) * [17]
22	Year 3	Revenue Including Potential Average Rate Increase	$ 0.195	= (1+ [4]) * [18]
23				
24	First-Class Mail Marketing Letter, After Rates			
25	Year 1	Average Contribution With Contingency -- PRC Version	$ 0.162	USPS-T-1 Appendix A, F
26	Year 2	Average Contribution With Contingency -- PRC Version	$ 0.157	USPS-T-1 Appendix A, F
27	Year 3	Average Contribution With Contingency -- PRC Version	$ 0.151	USPS-T-1 Appendix A, F
28				
29	Year 1	Average Contribution Including Potential Average Rate Increase	$ 0.162	= 11 - 7 + 25
30	Year 2	Average Contribution Including Potential Average Rate Increase	$ 0.157	= 12 - 8 + 26
31	Year 3	Average Contribution Including Potential Average Rate Increase	$ 0.180	= 13 - 9 + 27
32				
33	Standard Mail Letter			
34	Year 1	Average Contribution With Contingency -- USPS Version	$ 0.090	USPS-T-1 Appendix A, F
35	Year 2	Average Contribution With Contingency -- USPS Version	$ 0.087	USPS-T-1 Appendix A, F

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

III POSTAL RATE INCREASES

INDEX	DESCRIPTION		VALUE	SOURCE
36	Year 3	Average Contribution With Contingency -- USPS Version	$ 0.083	USPS-T-1 Appendix A, F
37				
38	Year 1	Average Contribution Including Potential Average Rate Increase	$ 0.090	= 20 - 16 + 34
39	Year 2	Average Contribution Including Potential Average Rate Increase	$ 0.087	= 21 - 17 + 35
40	Year 3	Average Contribution Including Potential Average Rate Increase	$ 0.101	= 22 - 18 + 36
41				
42	Net Contribution with Postal Rate Increases Effect			
43	Year 1		$ 0.072	= 29 - 38
44	Year 2		$ 0.070	= 30 - 39
45	Year 3		$ 0.080	= 31 - 40
46				
47	Year 1	Less 5-Cent Discount	$ 0.022	= 43 - $0.05
48	Year 2	Less 5-Cent Discount	$ 0.020	= 44 - $0.05
49	Year 3	Less 5-Cent Discount	$ 0.030	= 45 - $0.05

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

IV CONSISTENT COSTING METHODOLOGIES, ORGANIC GROWTH, AND POSTAL RATE INCREASES

INDEX	DESCRIPTION		VALUE
1	First-Class Mail Marketing Letter, After Rates		
2	Year 1	Average Contribution With Potential Average Rate Increase -- PRC Version	$ 0.16
3	Year 2	Average Contribution With Potential Average Rate Increase -- PRC Version	$ 0.15
4	Year 3	Average Contribution With Potential Average Rate Increase -- PRC Version	$ 0.18
5			
6	Standard Mail Letter		
7	Year 1	Average Contribution -- PRC Version Proxy	$ 0.08
8	Year 2	Average Contribution -- PRC Version Proxy	$ 0.08
9	Year 3	Average Contribution -- PRC Version Proxy	$ 0.08
10			
11	Year 1	Average Contribution With Potential Average Rate Increase -- PRC Version Proxy	$ 0.08
12	Year 2	Average Contribution With Potential Average Rate Increase -- PRC Version Proxy	$ 0.08
13	Year 3	Average Contribution With Potential Average Rate Increase -- PRC Version Proxy	$ 0.09
14			
15	Net Contribution of Organic Growth With Contingency, USPS/PRC Version Effect, AND Potential Average Rate Increase		
16	Year 1		$ 0.16
17	Year 2		$ 0.15
18	Year 3		$ 0.18
19			
20	Year 1	Less 5-Cent Discount	$ 0.11
21	Year 2	Less 5-Cent Discount	$ 0.10
22	Year 3	Less 5-Cent Discount	$ 0.13
23			
24	Net Contribution of Shift From Standard Mail With USPS/PRC Version Effect AND Potential Average Rate Increase		
25	Year 1		$ 0.07
26	Year 2		$ 0.07
27	Year 3		$ 0.08
28			
29	Year 1	Less 5-Cent Discount	$ 0.02
30	Year 2	Less 5-Cent Discount	$ 0.02
31	Year 3	Less 5-Cent Discount	$ 0.03
32			
33	Weighted-Average Net Contribution of Organic Growth and Shift from Standard Mail With Contingency, USPS/PRC Version Effect, AND		
34	Year 1		$ 0.07

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

IV CONSISTENT COSTING METHODOLOGIES. ORGANIC GROWTH, AND POSTAL RATE INCREASES

INDEX	DESCRIPTION		VALUE
35	Year 2		$ 0.07
36	Year 3		$ 0.08
37			
38	Year 1	Less 5-Cent Discount	$ 0.02
39	Year 2	Less 5-Cent Discount	$ 0.02
40	Year 3	Less 5-Cent Discount	$ 0.03

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NET CONTRIBUTION LESS DISCOUNT ANALYSIS

IV CONSISTENT COSTING METHODOLOGIES, ORGANIC GROWTH, AND POSTAL RATE INCREASES

INDEX	DESCRIPTION		VALUE
35	Year 2		$ 0.07
36	Year 3		$ 0.08
37			
38	Year 1	Less 5-Cent Discount	$ 0.02
39	Year 2	Less 5-Cent Discount	$ 0.02
40	Year 3	Less 5-Cent Discount	$ 0.03

RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-10

VP/BOC-T1-10.

Please refer to (i) the after rates volumes shown in Tables 3 and 4 of your testimony (at p. 6), (ii) the estimated returns for First-Class solicitation mail discussed at page 9, lines 1-7, of your testimony, and (iii) the estimated unit cost for electronic flat and letter returns shown in Appendix A of the testimony of Postal Service witness Michael K. Plunkett (USPS-T-1).

a. Please confirm that using the assumed volumes in your testimony, and the unit cost in witness Plunkett's testimony, the unit cost of electronic returns in Year 1 will average 3.85 cents for every piece of First-Class solicitation mail originated by Bank One. If you do not confirm, please supply what you believe to be the correct average unit cost, and show how it is derived.

b. Please confirm that, using the assumed volumes in your testimony and the unit costs in witness Plunkett's testimony, the unit cost of electronic returns in Year 2 will average 3.58 cents for every piece of First-Class solicitation mail originated by Bank One. If you do not confirm, please provide what you believe to be the correct average unit cost, and explain how it is derived.

c. Please confirm that, using the assumed volumes in your testimony and the unit costs in witness Plunkett's testimony, the unit cost of electronic returns in Year 3 will average 3.67 cents for every piece of First-Class solicitation mail originated by Bank One. If you do not confirm, please provide what you believe to be the correct average unit cost, and explain how it is derived.

ANSWER (redirected to Bank One witness Lawrence Buc):

Not confirmed. I am informed by the Postal Service that the correct figures are 3.36 cents for 2004, 3.15 cents for 2005, and 3.28 cents for 2006. The table below provides the underlying calculations. According to the figures in USPS-T-1, Appendix A, the unit cost of returning flats electronically is approximately 58% less than the cost of returning them manually, and the unit cost of returning letters electronically is approximately 38% less than the cost of returning them manually. Note that substituting the cost of returning mail manually (the current return procedure) for the cost of returning mail electronically in the calculations below yields much higher unit costs --

RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-10

6.77 cents for 2004, 5.80 cents for 2005, and 6.03 cents for 2006. Therefore, in the context of this NSA, electronic returns are expected to generate a net savings per First-Class solicitation of 3.41 cents in 2004, 2.65 cents in 2005, and 2.75 cents in 2006.

Year	After Rates Volume		Cost/Electronic Return		Return Rate		ACS Rate	Contingency
	Letter	Flat	Letter	Flat	Letter	Flat		
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
2004	48,442,000	35,043,000	$0.343	$0.447	9.0%	11.0%	85%	1.025
2005	128,442,000	35,043,000	$0.357	$0.465	9.0%	11.0%	85%	1.025
2006	128,442,000	35,043,000	$0.371	$0.484	9.0%	11.0%	85%	1.025

Year	Electronic Return Cost	
	Total	Per 1C Solicit
	[9]	[10]
2004	$2,806,030	$0.0336
2005	$5,157,280	$0.0315
2006	$5,363,572	$0.0328

[1] USPS-T-1, Appendix A, page 2
[2] USPS-T-1, Appendix A, page 2
[3] USPS-T-1, Appendix A, page 1, (9)
[4] USPS-T-1, Appendix A, page 1, (8)
[5] USPS-T-1, Appendix A, page 1, (2)
[6] USPS-T-1, Appendix A, page 1, (3)
[7] USPS-T-1, Appendix A, page 1, (10)
[8] USPS-T-1, Appendix A, page 1, (12)
[9]=[7]*[8]*([1]*[3]*[5]+[2]*[4]*[6])
[10]=[9]/([1]+[2])

RESPONSE OF BANK ONE WITNESS BUC TO VALPAK INTERROGATORY VP/BOC-T1-11

VP/BOC-T1-11.

Assuming that, in your response to preceding interrogatory VP/BOC-T1-10, you confirmed that every piece of First-Class solicitation mail originated by Bank One has an average cost for electronic returns of 3.67 cents per piece, please confirm that in the third year of the NSA the Postal Service's unit contribution to overhead will be reduced by 8.67 cents for each piece of Bank One solicitation mail that receives the maximum discount of 5 cents per piece. If you do not confirm, please provide what you believe to be the correct amount, and explain fully how it is derived.

ANSWER (redirected to Bank One witness Buc):

Not confirmed. The calculation in Interrogatory VP/BOC-T1-11 appears to be based upon two faulty assumptions, as well as an incorrect average cost figure for electronic returns. First, the calculation appears to assume that the average cost for returning Bank One's current solicitations is currently zero. That is incorrect. As discussed in response to VP/BOC-T1-10, the unit cost of manual returns is much higher than the unit cost of electronic returns. Therefore, the return provisions in the NSA will increase the contribution of Bank One's First-Class Mail solicitations, not reduce it. Second, the question appears to assume that there will be mail in the 5-cent discount tier without the discount. As shown in my Before-Rates volumes, this assumption is highly implausible.

I have calculated the increase in unit contribution under two scenarios. If the discount creates an incentive for a **new** piece of solicitation volume in the 5-cent tier in Year 3, the increase in unit contribution will be 10.5 cents (the 15.5 cents shown in cell I15 on worksheet "Contrib Inputs" of USPS-T-1, Appendix A minus the 5-cent discount). If the 5-cent discount creates an incentive for a piece of solicitation volume to **migrate** from Standard Mail to First-Class Mail, the increase in contribution would be approximately 2 cents (the 10.5 cents mentioned above minus the 8.6-cent contribution shown in cell I20 of the same worksheet).

RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-13

VP/BOC-T1-13.

a. Please refer to your testimony at page 6, Tables 3 and 4, and confirm that in years 2 and 3 you project an increase in First-Class solicitation mail volume from 64.430 million Before Rates to 163.485 million After Rates, or an increase in the volume of this mail of 138 percent. Please explain any non-confirmation.

b. Please refer to your testimony at page 9, lines 1-7, and confirm that if the volume of First-Class solicitation mail increases as you project, and the percentage return rates materialize as you project, the volume of Bank One's First-Class solicitation mail requiring return service will increase from 6.50 million pieces to 15.41 million pieces, or by 137 percent, computed as follows (millions):

	Before Rates Volume	Before Rates Returns	After Rates Volume Yrs. 2&3	After Rates Returns Yrs. 2&3
Letters	29.387	2.65	128.442	11.56
Flats	35.043	3.85	35.043	3.85
Total	64.430	6.50	163.485	15.41

If you do not confirm, please state what you believe to be the correct volumes, and explain the derivation.

c. Please refer to the data on page 1 of the Appendix A to the testimony of Postal Service witness William K. Plunkett (USPS-T-1), and please confirm that the Postal Service's cost of physically returning Bank One's Before Rates volume shown in your Tables 3 and 4 would amount to $6.02 million. If you do not confirm, please indicate what you believe to be the correct amount, and explain the derivation.

d. Please refer to the data on page 1 of the Appendix A to the testimony of witness Plunkett (USPS-T-1), and please confirm that the Postal Service's cost of electronically transmitting address correction information for Bank One's After Rates volume shown in your Tables 3 and 4 would amount to $6.13 million, or about 2 percent more than the cost of the manually returning the Before Rates volume. If you do not confirm, please indicate what you believe to be the correct amount, and explain the derivation.

RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-13

ANSWER: (redirected to witness Lawrence Buc)

a. Confirmed in part. While the Before Rates and After Rates figures are correct, the computed increase in volume is approximately 154%.

b. Confirmed, although the Before Rates returns for letters appears to be 2.64 million, not 2.65 million.

c. Not confirmed. I calculate a cost of $5.91 million for 2005 and a cost of $6.14 million for 2006. For each year, I derived the product of the solicitation volume (individually for letters and flats) from USPS-T-1, Appendix A, page 2, the return rate from USPS-T-1, Appendix A, page 1, the manual return unit cost from USPS-T-1, Appendix A, page 1, and the contingency factor from USPS-T-1, Appendix A, page 1. Then, I added the resulting costs for letters and flats.

d. Not confirmed. Please see my response to VP/BOC-T1-10.

Bank One Corporation

Brad Rappaport
(BOC-T-1)

Postal Rate Commission
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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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

DIRECT TESTIMONY
OF
BRAD RAPPAPORT
ON BEHALF OF
BANK ONE CORPORATION

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Brad Rappaport. I am Vice President-Marketing Operations for Bank
3 One Card Services, a division of Bank One Corporation. In this position, I have been
4 responsible for, among other things, the annual direct mail marketing postage budget of
5 approximately $200 million as well as our relationship with the Postal Service and direct
6 mail production vendors. I have held this position for five years.

7 From 1997 to 1999 I was Vice President-Client Services for Equifax Card
8 Solutions, a leading provider of credit card software and processing services in the United
9 States. I managed and directed client relationships for U.S. full service credit union
10 processing businesses.

11 From 1996 to 1997, I was Vice President and General Manager, Client Services,
12 for First Data Corporation, a world leader in credit card processing. I managed client
13 relationships and had responsibilities for two major oil company credit card programs.
14 Prior to that, from 1979, I held various positions at Mobil Oil Corporation in sales,
15 marketing, planning, and operations.

16 In 1979, I received a Bachelors Degree in Business Administration, *cum laude*,
17 with a major in Management from the University of Massachusetts.

I. PURPOSE OF TESTIMONY

Headquartered in Chicago, Bank One Corporation is the nation's sixth-largest bank holding company, with assets of $320 billion. As of January, 2004, Bank One is:

- the third-largest credit card issuer in the United States, with nearly 52 million cards in circulation and $74 billion in managed receivables
- a leader in retail and small business banking, serving nearly 7 million retail households and 500,000 small businesses
- a leading investment management company, with $188 billion in assets under management, including more than $15 billion of invested insurance assets.

Bank One and the United States Postal Service have entered into a mutually-beneficial arrangement for a Negotiated Service Agreement ("NSA"). We believe that this NSA is functionally equivalent to the Capital One NSA now in effect. Like the Capital One NSA, this NSA will reduce the Postal Service's costs in handling undeliverable mail and will provide Bank One incentives to continue to mail large volumes of solicitation mail and even to switch some solicitation mail from Standard Mail to First-Class Mail.

The purpose of my testimony is first to describe Bank One's solicitation mail and customer mail. Second, I will provide and explain Bank One's forecasts of First-Class Mail volumes without the NSA ("Before Rates" volumes) and with the NSA ("After Rates" volumes) for calendar years 2004, 2005, and 2006, referred to herein as Year 1, Year 2, and Year 3, respectively, of the NSA. Finally, I will discuss Bank One's return rates for First-Class Mail.

1 **II. BANK ONE MAIL TYPES**

2 **A. Solicitation Mail**

3 Bank One's mail may be generally divided into two kinds of mail: solicitation
4 mail, which is usually sent by Standard Mail, and customer mail, which is sent as First-
5 Class Mail.

6 Bank One mails a significant volume of solicitations to encourage existing
7 customers to use their credit cards more often and to use other products offered by Bank
8 One. We also send solicitations designed to acquire new customers. Bank One is a direct
9 competitor of Capital One. In contrast to Capital One, which mails a significant amount
10 of its solicitations by First-Class Mail, Bank One typically uses Standard Mail for about
11 90 percent of its approximately one billion solicitations each year.

12 Compared to Standard Mail, First-Class Mail is generally of greater value because
13 of the forwarding and return service provided at no additional postage and the higher
14 response rates from customers. However, in the past, because of the general difference in
15 rates for First-Class Mail and Standard Mail, this increased value has usually not justified
16 a greater reliance on First-Class Mail for Bank One's solicitations. To determine whether
17 to mail a solicitation as First-Class Mail or Standard Mail, Bank One tests for and then
18 analyzes whether the incremental response (referred to as "lift" in the industry) from
19 sending solicitations as First-Class Mail rather than Standard Mail justifies paying the
20 higher First-Class Mail rate. Bank One has generally found that the lift does not justify
21 the approximately ten cents in additional postage associated with First-Class Mail.

1 However, as might be expected, reducing the cost premium for First-Class Mail by 2.5 to
2 5 cents per piece would justify the use of First-Class Mail in place of Standard Mail for a
3 certain number of solicitations, causing Bank One to shift those solicitations from
4 Standard Mail to First-Class Mail.

5 **B. Customer Mail**

6 Like all financial institutions, Bank One uses First-Class Mail to communicate
7 with existing customers. Communications include, *inter alia*, statements for both credit
8 card and bank accounts, letters responding to customer inquiries, and mailings of new or
9 replacement credit cards. We have much less choice in the class of mail used for
10 customer mail than for solicitation mail, and we generally determine the class of mail to
11 use for customer mail based on the requirements of postal regulations rather than
12 economics.

13 **III. FIRST-CLASS MAIL VOLUME HISTORY**

14 Bank One's mail volumes have been relatively stable over the last three years:
15 Customer mail grew modestly from 479 million pieces in 2001 to 508 million pieces in
16 2002 and then declined to 500 million pieces in 2003. Customer mail in 2003 was
17 4.4 percent higher than in 2001. Solicitation mail volumes have also been relatively
18 stable, declining from 104 million pieces in 2001 to 92 million pieces in 2002, and then
19 increasing to 96 million pieces in 2003. Table 1 summarizes the historical First-Class
20 Mail volumes for customer mail and solicitation mail.

Table 1: Historical First-Class Mail Volumes

Mail Type	2001	2002	2003
Solicitation	103,919,999	91,767,846	95,532,124
Letters	79,215,956	38,870,004	59,703,685
Flats	24,704,043	52,897,842	35,828,439
Customer	479,134,992	508,411,769	500,423,407
Total	583,054,991	600,179,615	595,955,531

IV. FIRST-CLASS MAIL VOLUME FORECASTS

Tables 2, 3, and 4 compare Bank One's Before and After Rates for Year 1, Year 2, and Year 3 of the Agreement:

Table 2: Year 1 Before and After Rates First-Class Mail Volume
(Millions of Pieces)

Mail Type	Before Rates	After Rates
Solicitation	64.430	83.485
Letters	29.387	48.442
Flats	35.043	35.043
Customer	506.650	506.650
Total	571.080	590.135

Detail may not add to total given independent rounding.

Table 3: Year 2 Before and After Rates First-Class Mail Volume
(Millions of Pieces)

Mail Type	Before Rates	After Rates
Solicitation	64.430	163.485
Letters	29.387	128.442
Flats	35.043	35.043
Customer	506.650	506.650
Total	571.080	670.135

Detail may not add to total given independent rounding.

Table 4: Year 3 Before and After Rates First-Class Mail Volume
(Millions of Pieces)

Mail Type	Before Rates	After Rates
Solicitation	64.430	163.485
Letters	29.387	128.442
Flats	35.043	35.043
Customer	506.650	506.650
Total	571.080	670.135

Detail may not add to total given independent rounding.

A. Before Rates Volumes

Based on Bank One's relative stability in First-Class Mail volumes and my own business judgment, I do not expect Year 1 Before Rates volumes to deviate significantly from our 2003 volumes. In the absence of the proposed NSA, Bank One would expect to mail approximately 571 million pieces of First-Class Mail in 2004, consistent with but somewhat less than our 2003 volumes. I expect there to be 507 million pieces of customer mail and 64 million solicitations. To arrive at the Year 1 Before Rates, I used actual volumes from 2004 when available. For the rest of the year, I used Bank One's

1 mail volume forecasts for 2004 that were developed by our business managers and used
2 in the ordinary course of business for Bank One's planning. I needed to make a single
3 downward adjustment to the solicitation forecasts to reflect the fact that historically, as
4 the end of the budget year draws near and the pressure increases to reduce costs to make
5 budget, our Marketing Department has shifted solicitation volumes from First-Class Mail
6 to Standard Mail for cost-saving reasons. Depending on market conditions, the state of
7 the economy, and our response rates, this could easily occur again in the absence of an
8 NSA.

9 As to the Year 2 and Year 3 Before Rates volumes, I do not expect much
10 deviation from Year 1 Before Rates volumes. If the cost of postage remains stable until
11 2006, using mail as a marketing channel might become relatively less expensive than
12 other channels. Assuming a general increase in postal rates in 2006, I expect mail to
13 become a relatively more expensive marketing channel. All else being equal, our use of
14 the mail through 2005 would increase and then decrease in 2006 after any such general
15 rate increase. Modest account growth might also increase our use of mail. On the other
16 hand, we, like all other banks, are concerned about and under pressure to reduce our
17 costs. Suppressing paper bills by replacing them with electronic bills is one form of cost
18 control. In light of these offsetting influences on volume, I forecast Before Rates
19 volumes for Year 2 and Year 3 to be the same as Year 1 volumes. If anything, I believe
20 that this outyear forecast may be optimistic.

1 **B. After Rates Volumes**

2 Based on my business judgment and the historical trend in volumes discussed
3 above, I estimate that if the NSA had been in place for all of 2004, Bank One would have
4 at least met the 2004 First-Class Mail solicitation volume forecasts. Thus, I forecast an
5 After Rates volume increase for Year 1 of 19 million pieces. By Year 2, Bank One will
6 have had time to adjust to the declining block rates in the NSA, and these rates will
7 induce us to switch a considerable volume of solicitation mail from Standard Mail to
8 First-Class Mail. I expect Year 2 and Year 3 After Rates volumes to substantially exceed
9 Year 1 After Rates volumes. I expect an additional 80 million pieces in Year 2 for a total
10 difference of 99 million pieces between Year 2 Before Rates and Year 2 After Rates. I
11 expect the same additional 80 million pieces in Year 3, relative to Year 1, for a total
12 difference of 99 million pieces between Year 3 Before Rates and Year 3 After Rates.
13 While there may be some organic growth in our existing First-Class Mail use for
14 solicitation purposes, I have not relied on such growth in developing these forecasts. The
15 projections assume that all new First-Class Mail would be converted from Standard Mail.

16 **V. ADDRESS HYGIENE**

17 Under the NSA, Bank One will meet or exceed all postal requirements for address
18 hygiene. Bank One will run National Change of Address ("NCOA") on existing
19 customer files and on solicitation files every 90 days. In fact, once Bank One has
20 converted to its new mailing platform, it will run NCOA every 60 days on all mail from
21 BOCS.

1 Our historical return rates have been as follows: For non-solicitation First-Class
2 Mail, including statements and letters, 0.3 percent were returned. For First-Class Mail
3 letter solicitations, approximately 9 percent were returned, based on my experience when
4 Bank One last used the Postal Service's Address Correction Service ("ACS"). For First-
5 Class Mail flat solicitations, approximately 11 percent were returned, but Bank One
6 occasionally had return rates as high as 13 to 14 percent. I conservatively estimate
7 similar return rates for 2004, 2005, and 2006.

8 **VI. PROPOSED MERGER**

9 Bank One has announced plans to merge with J.P. Morgan Chase. At this time,
10 however, Bank One has not received all of the necessary approvals for the merger, and
11 the official closing date for the merger is not definite. This testimony thus does not
12 include any J.P. Morgan volume data. The Bank One NSA contains language which
13 addresses how integration of volumes from a merged entity would be handled should a
14 merger be consummated.

15 **CONCLUSION**

16 Bank One believes that this NSA provides cost-savings to the Postal Service and
17 strong incentives to Bank One to switch solicitations from Standard Mail to First-Class
18 Mail, thereby increasing the contribution that Bank One makes to the Postal Service's
19 institutional costs.

Postal Rate Commission, Docket Number MC2004-3
Declaration of Brad Rappaport

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

I, Brad Rappaport, hereby declare, under penalty of perjury that:

The direct testimony of Brad Rappaport on behalf of Bank One Corporation (BOC-T-1) in Docket Number MC 2004-3 was prepared by me under my direction; and

If I were to give this testimony orally before the Commission today, it would be the same.

I, Brad Rappaport, further declare under penalty of perjury that:

The responses to the various Interrogatories and The Presiding Officer's Information Requests that were addressed to me or which I have sponsored in this case, and which have been designed for inclusion in the record of this docket, were prepared by me or under my direction; and

If I were to respond to these Interrogatories and The Presiding Officer's Information Requests orally before the Commission today, the responses would be the same.

Brad Rappaport

Brad Rappaport

Date September 10, 2004

ANSWER OF BANK ONE WITNESS RAPPAPORT TO INTERROGATORY APWU-BOC-T1-1

APWU/BOC-T1-1: Appendix A, page 11 of USPS-T-1 shows that a substantial part of the ACS savings is due to the flat shaped marketing mail. What factors determine the use of flat shaped marketing mail instead of letter shaped marketing mail? BOC-T1-1 Tables 1-4 indicate that you anticipate that the before rates volume of flat marketing pieces will be about 2 percent below the 2003 volume compared to a 30 percent decline between 2002 and 2003. What factors did you consider in forecasting the relatively small decline for 2003? Are volumes to date for 2004 in line with the before rates volume forecast of flat marketing mail?

ANSWER:

Bank One uses flats primarily to solicit Business Cards, credit cards issued to businesses. At this time, we believe that flats are the most cost-effective way of marketing this product. Although the volume of solicitation flats declined by about 30 percent between 2002 and 2003, the volume in 2002 was more than double that of 2001. In forecasting volumes for Year 1 Before Rates, I considered both historic volumes and marketing plans. Year to Date Volumes for solicitation flats are reasonably consistent with our forecast.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO INTERROGATORY APWU-BOC-T1-2

APWU/BOC-T1-2: The information provided in BOC-T-1 Table 1 and in response to OCA/BOC-T1-1(b) indicates that in 2002 there was a 30 percent increase in Bank One's Standard mail solicitation volume and a 12 percent decline in its First-Class mail solicitation volume. In 2003, Bank One's Standard volume declined 35 percent while its First Class solicitation mail volume increased 4 percent. Do these two years represent "normal volatility" in Bank One's solicitation volumes or were there special circumstances that account for some of these growth differences?

ANSWER:

There may be some "normal volatility" in our year-to-year mailings; however, for a more complete perspective, please see my response to OCA/BOC-T1-8. In that response, I note that there are many marketing channels other than mail, and that many marketing decisions are driven by economics and the costs of obtaining a new customer. To the extent that mail becomes increasingly less cost-effective relative to other channels, Bank One will be forced to turn to other channels.

In the 2003 Annual Report, Chairman and Chief Executive Officer James Dimon provided one explanation for the volume decrease from 2002 to 2003:

> We also developed successful new marketing channels that do not rely on direct mail, which is becoming increasingly more expensive and less effective. In 2003, for the first time, direct mail sales accounted for less than half our new accounts. Several partners, including Disney, Starbucks and Amazon, are using their Internet sites to allow customers to apply for cards. Perhaps the most innovative distribution channel is Avon's 600,000 representatives who are now offering the Avon reward card to their customers.

2003 Annual Report at 4-5.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO INTERROGATORY APWU-BOC-T1-3

APWU/BOC-T1-3: What sort of activities is Bank One undertaking to increase its customers' use of electronic receipt/payment of bills? What sort of activities is JP Morgan Chase undertaking to increase its customers' use of electronic receipt/payment of bills? Would this NSA prompt the combined company to reassess any of its activities in this area?

ANSWER:

Bank One has objected to this question on the grounds that it seeks proprietary information. Without waiving this objection, however, Bank One answers the question as follows:

Both Bank One and J. P. Morgan Chase employ various methods to encourage customers to use electronic receipt and payment of bills. As a matter of business practice, we continually reassess costs. To the extent that the cost of sending payments increases relative to electronic payments, that provides an added incentive to encourage account holders to pay electronically. Implementation of an NSA discount would tend to have the opposite effect.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-1(a) and (c)

OCA/BOC-T1-1. In your testimony at pages 5 through 8 you provide forecasts for three years of First-Class Mail volume and information for three years of historical volumes. The following data are requested in order to examine mailing trends as related to actual and forecasted volumes over an extended period of macroeconomic variability.

(a) For First-Class Mail, please provide Solicitation (Letters and Flats) and Customer mail volumes on a monthly basis from December 1995 through the present.

(b) Please provide Standard Mail volumes for mail used for customer solicitation on a monthly basis from December 1995 through the present.

(c) If the data requested above are not available, please explain why not.

Response to OCA/BOC-T1-1:

(a) The historical volumes for First-Class Mail contained in my testimony at pages 4-5 were derived from Postal Service records of mail volumes based on permit numbers. I provided the Postal Service with the Bank One permit numbers for 2000-2003, and the Postal Service obtained the First-Class Mail volumes from their records. Because the Postal Service maintains records for this time period on an accounting period basis, not a monthly basis, the table attached to this answer (Attachment OCA/BOC-T1-1(a)) provides the requested volumes by accounting period, rather than by month. Note that the years in Table 1 of my testimony run from Postal Quarter 2 through Postal Quarter 1 (approximately December through November) for consistency with Postal Service data systems. Before 2000, Bank One did not record distinct permit numbers, which would have allowed tracking of First-Class Mail volumes.

(c) As explained above, Bank One did not keep complete records of either volume data or permit tracking numbers before 2000. In addition, not all information is available on a monthly basis.

Attachment OCA/BOC-T1-1(a)
(data in millions)
(detail may not add to totals in other tables given independent rounding)

Postal Fiscal Year	Accounting Period/Month	Start Date	End Date	Customer Mail	Solicitations		
					Total	Flats	Letters
2000	AP 4	December 4, 1999	December 31, 1999	33.5	4.3	4.1	0.2
2000	AP 5	January 1, 2000	January 28, 2000	32.7	5.6	3.9	1.7
2000	AP 6	January 29, 2000	February 25, 2000	32.4	5.3	3.9	1.4
2000	AP 7	February 26, 2000	March 24, 2000	33.5	4.9	4.0	0.9
2000	AP 8	March 25, 2000	April 21, 2000	32.0	6.4	4.1	2.3
2000	AP 9	April 22, 2000	May 19, 2000	34.6	4.7	3.1	1.6
2000	AP 10	May 20, 2000	June 16, 2000	36.5	6.0	2.0	4.0
2000	AP 11	June 17, 2000	July 14, 2000	35.2	14.9	2.5	12.4
2000	AP 12	July 15, 2000	August 11, 2000	35.5	4.7	2.3	2.3
2000	AP 13	August 12, 2000	September 8, 2000	39.3	15.1	3.0	12.1
2001	AP 1	September 9, 2000	October 6, 2000	37.0	6.0	2.9	3.1
2001	AP 2	October 7, 2000	November 3, 2000	37.1	7.3	2.5	4.7
2001	AP 3	November 4, 2000	December 1, 2000	32.6	9.3	-	9.3
2001	AP 4	December 2, 2000	December 29, 2000	40.0	8.2	-	8.2
2001	AP 5	December 30, 2000	January 26, 2001	35.2	13.2	-	13.2
2001	AP 6	January 27, 2001	February 23, 2001	36.5	8.2	-	8.2
2001	AP 7	February 24, 2001	March 23, 2001	35.5	7.4	-	7.4
2001	AP 8	March 24, 2001	April 20, 2001	34.8	8.1	-	8.1
2001	AP 9	April 21, 2001	May 18, 2001	37.0	13.3	0.2	13.1
2001	AP 10	May 19, 2001	June 15, 2001	39.3	8.0	3.2	4.8
2001	AP 11	June 16, 2001	July 13, 2001	36.7	5.1	1.2	4.0
2001	AP 12	July 14, 2001	August 10, 2001	38.6	4.5	2.9	1.6
2001	AP 13	August 11, 2001	September 7, 2001	42.3	5.0	4.7	0.2
2002	AP 1	September 8, 2001	October 5, 2001	34.1	8.9	4.6	4.3
2002	AP 2	October 6, 2001	November 2, 2001	37.3	8.5	4.6	3.9
2002	AP 3	November 3, 2001	November 30, 2001	31.9	5.4	3.2	2.2
2002	AP 4	December 1, 2001	December 28, 2001	43.7	8.8	4.8	4.0
2002	AP 5	December 29, 2001	January 25, 2002	39.2	7.3	5.1	2.2
2002	AP 6	January 26, 2002	February 22, 2002	40.5	5.1	4.6	0.5
2002	AP 7	February 23, 2002	March 22, 2002	40.9	4.7	4.1	0.6
2002	AP 8	March 23, 2002	April 19, 2002	39.8	8.9	4.8	4.1
2002	AP 9	April 20, 2002	May 17, 2002	38.9	8.3	3.7	4.6
2002	AP 10	May 18, 2002	June 14, 2002	38.8	5.8	5.0	0.8
2002	AP 11	June 15, 2002	July 12, 2002	38.9	14.5	7.3	7.2
2002	AP 12	July 13, 2002	August 9, 2002	38.4	5.5	4.2	1.3
2002	AP 13	August 10, 2002	September 6, 2002	41.4	14.7	3.7	11.0
2003	AP 1	September 7, 2002	October 4, 2002	34.8	2.2	2.0	0.1
2003	AP 2	October 5, 2002	November 1, 2002	36.4	2.5	0.3	2.2
2003	AP 3	November 2, 2002	November 29, 2002	36.6	3.5	3.2	0.3
2003	AP 4	November 30, 2002	December 27, 2002	43.3	8.2	1.8	6.4
2003	AP 5	December 28, 2002	January 24, 2003	36.8	5.5	2.8	2.7
2003	AP 6	January 25, 2003	February 21, 2003	36.4	8.7	1.5	7.2
2003	AP 7	February 22, 2003	March 21, 2003	41.8	8.8	3.3	5.6
2003	AP 8	March 22, 2003	April 18, 2003	39.6	7.5	3.7	3.8
2003	AP 9	April 19, 2003	May 16, 2003	39.2	10.3	3.7	6.6
2003	AP 10	May 17, 2003	June 13, 2003	39.3	4.9	3.6	1.4
2003	AP 11	June 14, 2003	July 11, 2003	36.8	4.5	4.0	0.5
2003	AP 12	July 12, 2003	August 8, 2003	38.1	8.9	2.5	6.3
2003	AP 13	August 9, 2003	September 5, 2003	41.5	6.7	2.5	4.2
2004		September 6, 2003	September 30, 2003	37.6	6.9	2.1	4.7
2004	Oct-03	October 1, 2003	October 31, 2003	36.5	5.9	2.2	3.7
2004	Nov-03	November 1, 2003	November 30, 2003	33.6	8.7	2.1	6.6

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-1(b)

OCA/BOC-T1-1. In your testimony at pages 5 through 8 you provide forecasts for three years of First-Class Mail volume and information for three years of historical volumes. The following data are requested in order to examine mailing trends as related to actual and forecasted volumes over an extended period of macroeconomic variability.

(a) For First-Class Mail, please provide Solicitation (Letters and Flats) and Customer mail volumes on a monthly basis from December 1995 through the present.

(b) Please provide Standard Mail volumes for mail used for customer solicitation on a monthly basis from December 1995 through the present.

(c) If the data requested above are not available, please explain why not.

Response to OCA/BOC-T1-1(b):

(b) Attachment OCA-BOC-T1-1(b) sets forth the requested Standard Mail volumes by month for 2002, 2003, and 2004. These are based on Bank One's internal records. However, Bank One did not maintain Standard Mail volumes by month for 2000 or 2001. The attachment thus provides Standard Mail volumes on an annual basis for those two years.

Attachment OCA-BOC-T1-1(b)
(data in millions)

Month/Year	Standard Mail Solicitations
2000	482.0
2001	967.0
Jan-02	75.2
Feb-02	93.9
Mar-02	77.1
Apr-02	93.9
May-02	91.7
Jun-02	151.2
Jul-02	119.4
Aug-02	152.9
Sep-02	86.6
Oct-02	117.3
Nov-02	81.9
Dec-02	119.7
Jan-03	59.5
Feb-03	76.1
Mar-03	65.7
Apr-03	66.5
May-03	32.8
Jun-03	72.8
Jul-03	31.0
Aug-03	86.0
Sep-03	71.1
Oct-03	124.9
Nov-03	68.9
Dec-03	68.8
Jan-04	46.0
Feb-04	129.4
Mar-04	59.6
Apr-04	162.8
May-04	106.8

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-2

OCA/BOC-T1-2. In your testimony at pages 5 through 6 you provide Before Rates and After Rates forecasts of mail volume.

(a) To what degree does the state of the economy (whether we are in a recession, whether better times are ahead, whether consumers are confident, trends in interest rates, etc.) affect the marketing of credit cards? Please address specific, relevant factors.

b) Please provide the models, statistical analyses, estimating procedures, and/or other relevant quantitative documentation substantiating the forecasts and/or other relevant issues related to the proposed NSA.

c) Please provide your understanding of the underlying factors that would cause Bank One to switch between Standard Mail and First-Class Mail.

Response to OCA/BOC-T1-2:

(a) Numerous factors affect Bank One's marketing of credit cards, such as the costs of non-mail marketing channels and the actions of Bank One's competitors. The state of the economy is also a general factor, but it is not possible to distill out its effect. Because predictions about the anticipated state of the economy and the specific marketing actions of Bank One's competitors during the life of the proposed NSA are necessarily speculative, we have not assumed that these factors will materially change Bank One's marketing volume in either direction. Rather, we have quantified the anticipated volume-related effects of the rate changes offered by the NSA—the one variable that that is clearly within the Commission's control—while assuming that all other volume-influencing variables will held constant.

(b) Bank One retained SLS Consulting, Inc. to provide input into Bank One's volume forecasts, and to test their reasonableness using publicly available data. Please

see the testimony of Lawrence G. Buc (BOC-T-2) for a detailed description of the models requested.

(c) As described in the testimony of Mr. Buc (BOC-T-2), the decision whether to use Standard Mail or First-Class Mail for marketing is based in large part on an economic cost-benefit analysis. For example, on the benefit side, changes in response rates or lifetime values of customers may affect the choice of mail class for marketing materials. Similarly, on the cost side, the relative cost of postage may affect the decision. If First-Class rates of postage were exactly the same as Standard rates of postage, we would mail all of our solicitations as First-Class Mail. At the other extreme, if the rate differential between First-Class and Standard mail became large enough, we would mail all (or virtually all) of our solicitations as Standard Mail. In addition, practical considerations may affect the decision of whether to use First-Class Mail or Standard Mail. For example, at any point in time, Bank One could reduce marketing costs and use less expensive channels, regardless of the economics.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-3

OCA/BOC-T1-3. In your testimony at page 7, lines 19-20, you indicate that your forecasts Before Rates volumes for Year 2 and Year 3 may be optimistic. Please explain in detail why you believe the forecast to be optimistic. What degree of reliability do you ascribe to your forecast?

Response to OCA/BOC-T1-3:

On page 7 of my testimony, I described several factors that I considered in making my forecasts of the Before Rates volumes for Years 2 and 3. Those forecasts may be optimistic because the factors that would cause volume to decrease, such as paper suppression of bills and a rate increase in 2006, may well outweigh those factors that would cause volume to increase. This may be particularly true in the out years of the NSA. I have not determined the statistical measure of the reliability of the forecasts, which are based on historical volumes and my business judgment.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-4

OCA/BOC-T1-4. Please give the primary reasons that Bank One has solicited new credit card customers via Standard Mail rather than First-Class Mail up to the present time. For the relatively small percent of solicitations of new credit card customers previously sought via First-Class Mail, what were the primary reasons for choosing First Class?

Response to OCA/BOC-T1-4.:

For most solicitation mail, the anticipated incremental response rate ("lift") from using First-Class mail does not justify the incremental cost over Standard Mail. For certain solicitation programs, a cost-benefit analysis may favor First-Class Mail solicitations. Please see the testimony of Lawrence G. Buc (BOC-T-2) for a detailed explanation.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-5

OCA/BOC-T1-5. What are the primary factors that will cause Bank One to shift from Standard Mail solicitations to First-Class Mail solicitations under the NSA? Please list. Will First-Class Mail continue to be more expensive than Standard Mail for solicitations, even under the NSA? Please discuss.

Response to OCA/BOC-T1-5:

One of the primary factors that would cause Bank One to shift from Standard Mail solicitations to First-Class Mail solicitations would be the declining block rate discounts under the NSA. Although First-Class Mail will continue to be more expensive than Standard Mail, the discounts would reduce the cost differential. This in turn would induce a migration of some Standard solicitation volume to First-Class mail.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-6

OCA/BOC-T1-6. Generally, does Bank One receive returns of Standard Mail solicitations at the present time?

(a) If so, describe the activities performed on returned Standard Mail solicitations. Does Bank One handle the returns or are returns processed by an outside entity? Please explain

(b) If not, does Bank One have concerns about how the Postal Service disposes of Bank One's Standard Mail solicitations? Please describe any concerns.

(c) Please describe, to the best of your knowledge, how the Postal Service disposes of Bank One's Standard Mail solicitations.

Response to OCA/BOC-T1-6:

Bank One does not receive returns of Standard Mail.

(a) Not applicable.

(b) Bank One is not concerned about the return of the particular mailpiece containing a solicitation. It is concerned that these pieces be disposed of in a way that protects the personal information and privacy of customers and potential customers and that complies with all applicable laws and regulations.

(c) I do not have personal knowledge of how the Postal Service disposes of undeliverable solicitations. To the best of my knowledge, the Postal Service deals with undeliverable Standard mail consistently with the concerns set forth in (b). I have not heard of any complaints, and I am unaware of any problems in this area at this time.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-7

OCA/BOC-T1-7. Did Bank One provide information to the Postal Service that would allow the Postal Service to confirm the accuracy of the customer mail and solicitation mail volume figures set forth in your testimony at page 4, line 14, through page 5, line 1? If so, please describe the information provided by Bank One to the Postal Service.

Response to OCA/BOC-T1-7:

The volume figures came from the Postal Service itself. Bank One provided the Postal Service with its records of permit numbers, which the Postal Service used to determine the historical volumes in Table 1 of my testimony.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-8

OCA/BOC-T1-8. Please list the primary media used by Bank One to attract new credit card customers, e.g., direct mail, television ads, radio ads, newspaper ads, magazine ads, internet ads, telephone, placements in retail facilities.

(a) Please give approximate percentages of each type of medium used.

(b) Please describe how these percentages are likely to change if the Bank One NSA is recommended by the Commission.

Response to OCA/BOC-T1-8:

Other media channels that are widely used in this industry and by Bank One include telemarketing, Internet, on-site, and event marketing.

(a) The actual percentages of each type of media used by Bank One are highly sensitive and proprietary information. However, Chairman and Chief Executive Officer James Dimon has explained in Bank One's 2003 Annual Report:

> We also developed successful new marketing channels that do not rely on direct mail, which is becoming increasingly more expensive and less effective. In 2003, for the first time, direct mail sales accounted for less than half our new accounts. Several partners, including Disney, Starbucks and Amazon, are using their Internet sites to allow customers to apply for cards. Perhaps the most innovative distribution channel is Avon's 600,000 representatives who are now offering the Avon reward card to their customers.

2003 Annual Report at 4-5.

(b) Bank One's After Rates volumes do not assume any shift of solicitations from other media to the direct mail channel. If such a shift occurred, Bank One's After Rates volume estimates would be understated.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-9

OCA/BOC-T1-9. Please refer to your testimony at page 3, lines 6 – 8.

(a) With respect to solicitations of existing customers, does Bank One primarily send out such solicitations using Standard Mail or First-Class Mail? Please explain.

(b) With respect to solicitations of non-customers, does Bank One primarily send out such solicitations using Standard Mail or First-Class Mail? Please explain.

Response to OCA/BOC-T1-9:

(a) For direct mail solicitations to existing customers, Bank One primarily uses Standard Mail. At the current set of rates for First-Class Mail and Standard Mail, Standard Mail is economically preferable for the majority of our customers. As discussed in my testimony (BOC-T-1) and the testimony of Lawrence G. Buc (BOC-T-2), declining block rate discounts would provide an incentive to shift a considerable volume of mail to First-Class Mail.

(b) For direct mail solicitations to non-customers, Bank One primarily uses Standard Mail. At the current set of rates for First-Class Mail and Standard Mail, Standard Mail is economically preferable for the majority of our customers. As discussed in my testimony (BOC-T-1) and the testimony of Lawrence G. Buc (BOC-T-2), declining block rate discounts would provide an incentive to shift a considerable volume of mail to First-Class Mail.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-10

OCA/BOC-T1-10. Did Bank One provide information to the Postal Service that would allow the Postal Service to confirm the accuracy of the customer mail and solicitation mail volume return figures set forth in your testimony at page 9, lines 1 - 7? If so, please describe the information provided by Bank One to the Postal Service.

Response to OCA/BOC-T1-10

Bank One's return rates were based on historical data. There is a strong similarity between Bank One's return rates and those the Postal Service used in the Capital One case and in the Discover NSA filing, as shown in the table below.

	Bank One	Discover	Cap One
Customer Mail	**0.3**	0.3	1.2
Solicitations—Letters	**9**	9.3	9.6
Solicitations—Flats	**11**	N/A	N/A

Sources:

Bank One: MC2004-3, USPS-T-1 Appendix A.xls

Discover: MC2004-4, USPS-T-1-AppA.xls

Cap One: MC2002-2, T3 Atta2.xls

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-11

OCA/BOC-T1-11. Please refer to your testimony at page 9, lines 8-14.

(a) Please confirm that J.P. Morgan Chase has completed its purchase of Bank One Corp. If you do not confirm, please explain.

(b) Please provide the effective date of the purchase of Bank One Corp. by J.P. Morgan Chase.

ANSWER:

(a) J.P. Morgan Chase and Bank One merged on July 1, 2004. The merged entity has adopted the name of J. P. Morgan Chase. The operations of the two companies are still in the process of being integrated.

(b) See answer to part (a).

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-12

OCA/BOC-T1-12. Please refer to your testimony at page 9, lines 8-14.

(a) Please confirm that J.P. Morgan Chase issues credit cards and offers checking account services. If you do not confirm, please explain.

(b) Please confirm that the credit card and checking accounts of J.P. Morgan Chase will generate eligible First-Class customer account mail and solicitation mail, as described in 612.1 of Attachment A to the Postal Service's Request containing proposed DMCS language implementing the Bank One NSA. If you do not confirm, please explain.

ANSWER:

(a) Confirmed.

(b) Confirmed to the extent that Section 612.1 of Attachment A is subject to the provisions of Section 612.34(b), which requires that the discount threshold "be adjusted upward to add the volume of the merged or acquired entity for the 12 months prior to the date the mail of the merged entity is first mailed through the threshold permit accounts."

ANSWER OF BANK ONE WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T13
(corrected August 27, 2004)

OCA/BOC-T1-13. Please refer to your testimony at page 9, lines 8-14.

(a) Please provide the following information with respect to the credit card and checking accounts of J.P. Morgan Chase:

(i) The number of credit card accounts;

(ii) The number of retail customer accounts;

(b) Please provide for J.P. Morgan Chase a description and the volumes of First-Class Mail for the following:

(i) credit card accounts;

(ii) credit card solicitations;

(iii) retail financial service accounts;

(iv) retail financial service solicitations; and,

(v) any other use of First-Class Mail related to credit and banking products and services, except mail paid for at the single-piece rate.

ANSWER:

(a) (i) The 2003 Annual Report of J. P. Morgan Chase, at page 41, contains a table of statistics relating to "Chase Cardmember Services" and indicates there are 30.8 million total accounts.

(ii) The 2003 Annual Report of J. P. Morgan Chase, at page 42, provides the following information, under "Chase Regional Banking": "CRB [Chase Regional Banking] serves 326,000 small businesses, 433,000 affluent consumers and 2.6 million mass-market consumers."

(b) (i) 219.6 million in 2003.

**ANSWER OF BANK ONE WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T13
(corrected August 27, 2004)**

(ii) Total First-Class Mail solicitation volumes in 2003 were 115.7 million. To the best of my knowledge, J.P. Morgan Chase's solicitation volumes are almost entirely for credit cards.

(iii) 126.5 million in 2003.

(iv) See my response above to OCA/BOC-T1-13(b)(ii)

(v) I have classified all J.P. Morgan Chase First-Class Mail volumes into the four above categories to the best of my ability.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-14

OCA/BOC-T1-14. Please refer to your testimony at page 9, lines 8-14. What is the new first-year Discount Threshold for the merged J.P. Morgan Chase - Bank One entity? Please explain.

ANSWER:

Under section 612.34(b) of Attachment A to the Postal Service's Request, the discount threshold will be adjusted upward to add the volume of the merged or acquired entity for the 12 months before the date the mail of the merged entity is first mailed through the threshold permit accounts. That date is referred to as the date of integration. Because no date of integration has been set for any of the five categories of mail indicated in Article IV, Paragraph B, Section 1, Subsection d of the Bank One NSA, it is impossible at this time to determine the historical volume of mail for the 12 months before the date of integration. Therefore, the adjusted level of the discount threshold upon integration also cannot be determined yet.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-15

OCA/BOC-T1-15. Please refer to Attachment F of the Request, which contains the NSA between the Postal Service and Bank One, Article IV. A. and B. Please discuss whether the by J.P. Morgan Chase qualifies under Paragraph A. or Paragraph B. of Article IV.

ANSWER:

The provisions of Article IV, Paragraph B of the Bank One NSA would apply.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-16

OCA/BOC-T1-16. Please refer to Attachment F of the Request, which contains the NSA between the Postal Service and Bank One, Article VII. Please confirm that Bank One has assigned its rights and responsibilities under the NSA to J.P. Morgan Chase. If you do not confirm, please explain.

ANSWER:

By operation of law, Bank One's rights and responsibilities under the NSA were assumed by J. P. Morgan Chase.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-17

OCA/BOC-T1-17. Please refer to your testimony at page 9, lines 8-14.

(a) For Bank One, please provide the physical return rate for Standard Mail marketing letter mail.

(b) For Bank One, please provide the physical return rate for Standard Mail marketing flat mail.

(c) For J.P. Morgan Chase (JPMC), please provide the physical return rate for First-Class operational/statement letter mail.

(d) For JPMC, please provide the physical return rate for (i) First-Class marketing letter mail, and (ii) Standard Mail marketing letter mail.

(e) For JPMC, please provide the physical return rate for (i) First-Class marketing flat mail, and (ii) Standard Mail marketing flat letter mail.

(f) For the Bank One - JPMC merged entity, please provide the weighted average physical return rate for First-Class operational/statement letter mail.

(g) For the Bank One - JPMC merged entity, please provide the weighted average physical return rate for (i) First-Class marketing letter mail, and (ii) Standard Mail marketing letter mail.

(h) For the Bank One - JPMC merged entity, please provide the weighted average physical return rate for (i) First-Class marketing flat mail, and (ii) Standard Mail marketing flat letter mail.

ANSWER:

(a) Zero. Bank One does not receive returns of Standard Mail. Also, please see my response to Presiding Officer's Information Request No. 1, Question 1, which discusses past use of ACS for Standard Mail.

(b) Zero. Bank One does not receive physical returns for Standard Mail marketing flat mail.

(c) Less than 1%. My best estimate is approximately 0.6%.

**ANSWER OF BANK ONE WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-17**

(d)(i) In 2003, it was approximately 4%.

(d)(ii) Zero. J.P. Morgan Chase did not receive physical returns of Standard Mail.

(e) (i)-(ii) To the best of my knowledge, J.P. Morgan Chase did not mail a material number of marketing mail flats.

(f) Weighted based upon 2003 volumes, less than 0.5%.

(g)(i) Weighted based upon 2003 volumes, approximately 6%.

(g)(ii) Zero. Neither Bank One nor J.P. Morgan Chase receive returns of Standard Mail.

(h)(i) 11%. Also, please see my response to Presiding Officer's Information Request No. 1, Question 1(c), which indicates that Bank One's return rate for First-Class Mail flats has recently been running higher than 11%.

(h)(ii) Zero. Neither Bank One nor J.P. Morgan Chase receives returns of Standard Mail.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-18

OCA/BOC-T1-18. Please refer to your response to OCA/BOC-T1-1(b). Please provide the Standard Mail solicitation volumes separately for letters and flats for the same time period.

ANSWER:

Attachment OCA-BOC-T1-18 provides Bank One Standard Mail solicitation volumes separately for flats and letters for 2002, 2003, and year-to-date for 2004. The requested disaggregation is not available for earlier years.

Attachment OCA/BOC-T1-18
Bank One Standard Mail solicitation volume

Month/Year	Volume (in millions)		
	Total	Letters	Flats
2000	482.0		
2001	967.0		
Jan-02	75.2	73.6	1.7
Feb-02	93.9	91.7	2.2
Mar-02	77.1	76.4	0.7
Apr-02	93.9	89.6	4.3
May-02	91.7	88.2	3.5
Jun-02	151.2	146.9	4.3
Jul-02	119.4	115.1	4.3
Aug-02	152.9	148.4	4.5
Sep-02	86.6	82.4	4.2
Oct-02	117.3	113.1	4.2
Nov-02	81.9	77.8	4.1
Dec-02	119.7	116.7	3.0
Jan-03	59.5	59.5	0.0
Feb-03	76.1	76.1	0.0
Mar-03	65.7	65.7	0.0
Apr-03	66.5	66.5	0.0
May-03	32.8	32.8	0.0
Jun-03	72.8	71.7	1.1
Jul-03	31.0	31.0	0.0
Aug-03	86.0	86.0	0.0
Sep-03	71.1	71.1	0.0
Oct-03	124.9	121.5	3.3
Nov-03	68.9	68.9	0.0
Dec-03	68.8	65.7	3.1
Jan-04	46.0	44.6	1.4
Feb-04	129.4	126.6	2.8
Mar-04	59.6	58.8	0.8
Apr-04	162.8	158.6	4.2
May-04	106.8	103.6	3.2

ANSWER OF BANK ONE WITNESS RAPPAPORT TO OCA INTERROGATORY OCA/BOC-T1-19

OCA/BOC-T1-19. Please refer to your response to OCA/BOC-T1-1(a).

(a) For JPMC, please provide the First-Class customer mail and the First-Class solicitation (letters and flats, separately) mail volumes on a monthly basis from December 1995 through the present.

(b) For JPMC, please provide the Standard Mail solicitation (letters and flats, separately) mail volume on a monthly basis from December 1995 through the present.

ANSWER:

Over the past few weeks, I have worked closely with a number of employees and consultants from the J.P. Morgan Chase side of the merged company to search for the requested mail volume information, and have compiled the mail volumes by month for the period from January 2002 to June 2004. This information is contained in Attachment OCA-BOC-T1-19.xls. Meaningful data are not available for 2001 and earlier years.

Attachment OCA/BOC-T1-19

J.P. Morgan Chase First-Class solicitation mail volumes (in millions)

Month/Year	First-Class Mail Customer	First-Class Mail Solicitations	Standard Mail Solicitations
Jan-02	31.1	49.3	6.6
Feb-02	24.7	33.1	0.0
Mar-02	25.7	2.5	29.7
Apr-02	24.8	13.1	51.7
May-02	25.1	2.9	30.2
Jun-02	26.4	3.5	34.8
Jul-02	25.7	3.5	40.9
Aug-02	26.0	4.1	31.3
Sep-02	25.7	3.5	28.1
Oct-02	25.9	13.8	42.4
Nov-02	25.5	5.8	44.6
Dec-02	30.4	43.7	5.0
Jan-03	30.9	20.8	52.6
Feb-03	26.3	3.9	29.2
Mar-03	30.1	5.3	23.1
Apr-03	28.9	19.5	40.7
May-03	28.1	7.4	32.1
Jun-03	29.0	3.9	24.1
Jul-03	29.3	16.3	59.1
Aug-03	29.6	6.5	28.6
Sep-03	27.6	5.6	30.1
Oct-03	29.2	16.6	43.4
Nov-03	28.7	0.6	21.9
Dec-03	28.5	5.9	23.1
Jan-04	34.3	12.7	24.1
Feb-04	29.8	1.3	12.1
Mar-04	28.7	0.6	22.3
Apr-04	29.0	11.4	28.9
May-04	28.5	0.2	10.6
Jun-04	29.4	0.0	7.4

Notes on Solicitation Volumes:

1. Volume figures are for J.P. Morgan Chase's primary solicitation programs that comprise approximately 95 percent of J.P. Morgan Chase's solicitation volumes.
2. To the best of our knowledge, J.P. Morgan Chase does not send a material amount of marketing flats. Therefore, all solicitations are letters.
3. The January 2002 to March 2002 mail volumes in this attachment do not include a program that averaged less than 0.5 million First-Class Mail and less than 1 million Standard Mail pieces per month for the April 2002 to June 2004 period. This is because data were unavailable.
4. The 2002 mail volumes in this attachment do not include a program that averaged no First-Class Mail and less than 0.6 million Standard Mail pieces per month during the January 2003 to June 2004 period. This is because 2002 data for this program were unavailable.
5. To this point, we have been unable to categorize precisely the actual volume for some solicitation programs by month. In these situations, we mapped volumes to months using available data. Much of the volatility in month-to-month volume, and the apparent tendency of volumes to be higher in the first months of each quarter, are likely due to imperfections in this mapping.

SUPPLEMENTAL ANSWER OF BANK ONE
TO OCA INTERROGATORY OCA/USPS-T-1-44
(redirected to Bank One witness Rappaport)

OCA/USPS-T1-44. Please reproduce Appendix A of USPS-T-1 for J.P. Morgan Chase.

ANSWER:

I have provided the Postal Service with several inputs needed to generate a model of Before Rates and After Rates volumes for Bank One and J. P. Morgan Chase combined, under the hypothetical (and unlikely) assumption that all J. P. Morgan Chase volumes would be integrated into the NSA on January 1, 2005 (the "Combined Model"). This hypothetical was developed to provide OCA with an illustration of the financial effect of integrating J. P. Morgan Chase volumes into the NSA. I emphasize, however, that full integration of J. P. Morgan Chase volumes into the NSA is unlikely to occur until well after that date.

I provided the following inputs relating to J. P. Morgan volumes: (1) Before-Rates forecasts for First-Class Mail for 2004, 2005, and 2006, (2) After-Rates forecasts for First-Class Mail for 2005 and 2006, and (3) return rates for J. P. Morgan Chase solicitations.

Because the Postal Service is assuming in this hypothetical that integration will not occur until the beginning of 2005, I did not provide an After-Rates forecast for First-Class Mail for 2004. Under the terms of the NSA, J. P. Morgan Chase's First-Class Mail volumes are ineligible for discounts under the NSA until the Postal Service has approved the integration of those volumes into the NSA. In effect, J. P. Morgan Chase's Before-Rates and After-Rates volumes would be considered to be identical in 2004.

A SUPPLEMENTAL ANSWER OF BANK ONE TO OCA INTERROGATORY OCA/USPS-T1-44 (redirected to Bank One witness Rappaport)

J. P. Morgan Chase volume forecasts are shown in Table 1. The Attachment to OCA/USPS-T1-44 (Rappaport) provides the underlying calculations.

Table 1

J.P. Morgan Chase First-Class Mail Volume Forecasts (in Millions)

Mail Type	2004		2005		2006	
	BR	AR	BR	AR	BR	AR
Solicitations	112.4	n/a	38.2	97.1	40.6	103.0
Letters	112.4	n/a	38.2	97.1	40.6	103.0
Flats	---	n/a	---	---	---	---
Customer	358.1	n/a	380.6	380.6	404.5	404.5
Total	470.5	n/a	418.9	477.7	445.1	507.5

The 2004 customer mail volumes in Table 1 include actual volumes for December 2003 to June 2004 and forecasts through November 2004. (Because of differences between invoice and mailing dates, J. P. Morgan Chase's 2004 customer mail forecasts extend only through November 2004; using this "hybrid year" does not materially affect the analysis, however.) Because J. P. Morgan Chase does not yet have official 2005 and 2006 customer volume forecasts, I estimated customer mail volumes for 2005 and 2006 by applying the 2002-2004 annual growth rate (approximately 6.3 percent) to 2004 volumes.

I believe that the 2005 and 2006 customer mail forecasts may overstate the number of pieces that qualify for discounts for at least two reasons. First, the forecasts do not specifically adjust for possible electronic diversion. J. P. Morgan Chase, like all financial institutions, is trying to convert customers from paper statements to electronic statements. As this trend grows, electronic diversion could offset any growth in

**A SUPPLEMENTAL ANSWER OF BANK ONE
TO OCA INTERROGATORY OCA/USPS-T1-44
(redirected to Bank One witness Rappaport)**

customer mail volumes. Second, growth in customer mail volumes is driven by growth in accounts. Under the terms of the NSA, growth in accounts could trigger an upward adjustment to the volume threshold in 2006, which would reduce the number of pieces qualifying for discounts.

To estimate 2004 Before-Rates First-Class Mail solicitation letter volumes, I multiplied the ratio of First-Class Mail solicitations to total solicitations from the January to June 2004 period by 2004 total solicitation volume estimates that were provided to me by J. P. Morgan Chase. These estimates were derived from the company's plans, which were used in the ordinary course of business to make a variety of business decisions.

Then, I used a two-step process to develop Before-Rates and After-Rates First-Class Mail solicitation mail forecasts for 2005 and 2006. First, I projected 2005 and 2006 volumes by applying the 2002 to 2004 annual growth rate (six percent) to J. P. Morgan Chase's total 2004 solicitation volumes. Second, I applied Bank One's 2005 and 2006 ratios of First-Class Mail solicitation letters to total solicitations (Before-Rates – 6.1%; After-Rates – 15.4%) to J. P. Morgan Chase's total solicitation volume estimates for these years. Using Bank One's "First-Class Mail ratios" is appropriate because post-merger marketing decisions for the merged corporate entity will be the responsibility of a company-wide marketing department composed primarily of former Bank One marketing employees, and headquartered in Wilmington, Delaware, the home of the former Bank One marketing department.

A SUPPLEMENTAL ANSWER OF BANK ONE TO OCA INTERROGATORY OCA/USPS-T1-44 (redirected to Bank One witness Rappaport)

Finally, J. P. Morgan Chase's return rates of approximately 0.6 per cent for customer mail and approximately 4 per cent for First-Class Mail solicitations were previously provided in response to OCA/BOC-T1-17. J. P. Morgan Chase's return rates for solicitation have been generally lower than Bank One's, in large part because of the different types of mailing lists targeted by the two banks. J. P. Morgan Chase mailed a substantially higher percentage of its solicitations to its existing customers; Bank One mailed a higher percentage of its solicitations to prospective customers. Because mail to existing customers has much lower return rates than mail to prospective customers, J. P. Morgan Chase's return rates for solicitation were lower than Bank One's return rates.

Attachment to OCA/USPS-T1-44 (Rappaport)

J.P. Morgan Chase First-Class Mail Volume Projections (in Millions)

Mail Type	2004		2005		2006	
	BR	AR	BR	AR	BR	AR
Solicitations	112.4	n/a	38.2	97.1	40.6	103.0
Letters	112.4	n/a	38.2	97.1	40.6	103.0
Flats	---	n/a	---	---	---	---
Customer	358.1	n/a	380.6	380.6	404.5	404.5
Total	470.5	n/a	418.9	477.7	445.1	507.5

Table 2. January to June 2004 First-Class Mail Solicitation Ratio (Volume in Millions)

	Volume	
FCM	60.8	[1] errata to OCA/BOC-T1-19
Total	322.5	[2] errata to OCA/BOC-T1-19
FCM%	19%	[3]=[1]/[2]

Table 3. Annual Growth Rates and Outyear Volumes

	Customer	Tot Solicit	
2002	317.0	530.3	[4] errata to OCA/BOC-T1-19
2004	358.1	596.2	[5] errata to OCA/BOC-T1-19, Internal J. P. Morgan Chase Data
Annual Growth	6.3%	6.0%	[6]=([5]/[4])^(1/2)-1
2005	380.6	632.2	[7]=[5]*([6]+1)
2006	404.5	670.3	[8]=[7]*([6]+1)

Table 4. Bank One 2005 and 2006 BR and AR Solicitation Ratios (Volumes in Millions)

	BR	AR	
First-Class Mail	64.4	163.5	[9] BOC-T-1 at 6, Tables 3 and 4
Standard Mail	1000	900.9	[10] BOC-T-1 at 3, Line 11 (AR reduction due to switching to First-Class Mail)
Total	1064.4	1064.4	[11]=[9]+[10]
FCM %	6.1%	15.4%	[12]=[9]/[11]

Table 5. J.P. Morgan Chase 2004 BR and 2005 and 2006 BR and AR FCM Solicitation Volumes (in Millions

	BR	AR	
2004 Total Solicit	596.2	---	[13]=Solicitation Volume From [5]
2005 Total Solicit	632.2	632.2	[14]=Solicitation Volume From [7]
2006 Total Solicit	670.3	670.3	[15]=Solicitation Volume From [8]
2004 FCM Solicit	112.4	---	[16]=[13]*[3]
2005 FCM Solicit	38.2	97.1	[17]=[14]*[12]
2006 FCM Solicit	40.6	103.0	[18]=[15]*[12]

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-1

VP/BOC-T1-1.

Please refer to your testimony at page 3, lines 6-11, where you explain that Bank One uses both First-Class Mail and Standard Mail to send approximately 1 billion solicitations each year. Please complete the table below, using either percentages or mail volumes, to clarify information about your solicitation mailings (not including what you call "customer mail" in Section II.B., used to communicate with existing clients about their accounts).

2003 Solicitation Mailings			
	First-Class Mail	Standard Mail	Total
To Customers			
To Non-customers			
Total			100%/1 billion

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

2003 Solicitation Mailings			
	First-Class Mail	Standard Mail	Total
To Customers	<50 % of total	<50 % of total	<50% of total
To Non-customers	<50 % of total	>50 % of total	>50 % of total
Total	<50 % of total	>50 % of total	100% of total

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-2

VP/BOC-T1-2.

For solicitation mail sent to non-customers in 2003, approximately how many different mailing lists did Bank One use for:

a. First-Class Mail mailings?

b. Standard Mail mailings?

ANSWER: Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. Bank One used hundreds of mailing lists for First-Class Mail mailings in 2003.

b. Bank One used thousands of mailing lists for Standard Mail mailings in 2003.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-3

VP/BOC-T1-3.

With respect to your response to preceding VP/BOC-T1-2, please indicate how many of the lists used for solicitation mailings to non-customers in 2003 were obtained directly by Bank One from each of the following sources:

a. Independent list brokers.

b. List owners.

c. Other (please explain).

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. A greater number of our lists were obtained from list brokers than from list owners. We also use lists from the three major credit bureaus.

b. See response to part a.

c. See response to part a.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-4

VP/BOC-T1-4.

a. In 2003, on how many occasions, or what percent of the time — if ever — did Bank One send a solicitation mailing to a list of non-customers more than once?

b. Please explain briefly the circumstances under which Bank One used a list of noncustomers for more than one solicitation mailing.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. Bank One often sends a solicitation mailing to the same list of non-customers more than once. Bank One may make multiple mailings to the same list during the same campaign cycle. Or Bank One may obtain the same list several times for different campaigns over the course of a year or other extended period.

b. See response to part a.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-5

VP/BOC-T1-5.

a. When Bank One rents a list of non-customers from an independent list broker, do the terms of the rental generally specify, or limit, the number of times that Bank One may use the list? Please explain.

b. After Bank One has finished using a list of non-customers obtained from an independent list broker (i.e., when it plans no further use of the list on its own behalf), please explain briefly what Bank One does with the list. For example, does Bank One simply destroy the list in its computers and then certify that it has erased it, or does it do something else with it?

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. When Bank One rents a list of non-customers from an independent list broker, the terms of rental generally specify or limit the number of times that Bank One may use the list.

b. Bank One purges lists from its computer databases in accordance with its agreements with list brokers.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-6

VP/BOC-T1-6.

a. When Bank One obtains a list of non-customers directly from a list owner, do the terms of the rental generally specify or limit the number of times that Bank One may use the list? Please explain.

b. After Bank One has finished using a list of non-customers obtained directly from a list owner (i.e., when it plans no further use of the list on its own behalf), please explain briefly what Bank One does with the list. For example, does Bank One simply destroy the list in its computers and then certify that it has erased it, or does it do something else with it?

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. When Bank One obtains a list of non-customers directly from a list owner, the terms of the rental generally specify or limit the number of times that Bank One may use the list.

b. After Bank One has finished using a list of non-customers obtained directly from a list owner (*i.e.*, when Bank One plans no further use of the list on Bank One's own behalf), the information is usually purged from the computers.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-7

VP/BOC-T1-7.

If you obtain lists of non-customer prospects from sources other than list brokers or list owners, or maintain an internal list of non-customer prospects, please explain your procedures in acquiring, using, and updating such lists.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

Bank One obtains mailing lists from credit bureaus for pre-approved offers of credit. All names on a mailing list are routinely run against NCOA before the mailing is sent out.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-8

VP/BOC-T1-8.

Please refer to the Postal Service request, Attachment F, item II-B, that states, inter alia, "[i]n exchange for waiver of ACS fees, Bank One agrees to update its databases within 7 business days and use the information in future marketing campaigns."

a. Please give your interpretation of the term "databases" as that term is used in the above-cited sentence. In particular, please explain the extent to which (if any) this sentence applies to a list of non-customers that Bank One may in the future rent for a First-Class solicitation mailing. Further, if this sentence applies in any way to lists of non-customers that Bank One may in the future rent for Standard Mail solicitation mailings, please explain fully what Bank One will do to update such lists.

b. Please explain what the above-cited sentence means with respect to the electronic address corrections for Undeliverable as Addressed ("UAA") mail that Bank One will receive under terms of the negotiated service agreement ("NSA").

c. Does the above-cited sentence, or any other term in the NSA, obligate Bank One to use the electronic address corrections for UAA mail which it will receive to update every list of non-customers that Bank One uses for a First-Class solicitation mailing?

d. Unless your answer to the preceding part c is an unqualified affirmative, please explain what use(s), if any, will Bank One have for electronic address corrections for UAA mail that apply to lists of non-customers.

e. To the extent that Bank One does not have any use for address corrections (electronic or otherwise) to update mailing lists of non-customers, please provide a full explanation concerning what value such address corrections have for Bank One.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-8

a. The term "databases" as used in the cited sentence comprises the list or lists of all individuals and addresses maintained by Bank One for use in generating solicitation mailing lists. When Bank One receives notification from ACS that an address is stale or otherwise invalid, an entry will be placed in the databases to ensure that the address is purged from any future solicitation mailing. This process will ensure that Bank One will not use the address again even if it is included in other existing Bank One lists, or in other lists purchased, rented or otherwise acquired by Bank One in the future.

b. The address correction information will be added to Bank One's database(s) to flag the address for purging from future solicitation mailings. See also response to part a.

c. See responses to parts a and b.

d. See responses to parts a and b

e. Not applicable. See responses to parts a and b.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-9

VP/BOC-T1-9.

Please assume that, after the proposed NSA is in place, Bank One has sent a substantial solicitation mailing to a rented list of non-customers, and received from the Postal Service electronic address corrections for UAA mail equal to 10 percent of the names on the list.

a. Does Bank One have any mechanism, or plans for any mechanism, by which it will transmit the corrected list (or the corrections) back to the list broker, to the list owner, or to whomever was the source of the list? If so, please give a general description of what the mechanism is, and how that mechanism works.

b. For lists of non-customers that Bank One uses for First-Class solicitation mailings, please describe all feedback that Bank One plans to give to the source of the list (e.g., list broker, list owner) regarding the electronic address corrections for UAA mail that it will receive under the terms of the NSA. If Bank One has plans to provide the list source with any feedback, please so state.

c. If the electronic address corrections for UAA mail generated under the proposed NSA are never incorporated into a subsequent mailing, of what value are the electronic address corrections to Bank One?

d. Would you presume that unutilized electronic address corrections have value to the Postal Service? Please explain fully any affirmative answer.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. No.

b. To the best of my knowledge, there are no plans to provide such feedback.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-9

c. This question is not applicable because address correction information will be used to improve the quality of addresses used in subsequent mailings by Bank One itself.

d. I do not make this assumption. See my response to part c above, as well as the response to VP/BOC-T1-8(b) for how information will be used.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-12

VP/BOC-T1-12.

a. During 2003, did Bank One request any kind of optional physical return or return information for any of its Standard Mail solicitations that were Undeliverable as Addressed ("UAA") and non-forwardable? Please explain any answer that is not an unqualified negative, and indicate the extent to which Bank One used such optional endorsements on its Standard Mail solicitations. Also, please indicate the amount of any extra fees that Bank One paid as a result of using such endorsements.

b. During 2003, did Bank One request forwarding service for any of its Standard Mail solicitations that might be UAA? Please explain any answer that is not an unqualified negative, and indicate the extent to which Bank One used such optional endorsements on its Standard Mail solicitations. Also, please indicate the amount of extra fees that Bank One paid the Postal Service as a result of requesting forwarding service for any of its Standard Mail solicitations.

ANSWER:

a. No.

b. No.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-14

VP/BOC-T1-14.

a. Please explain why Bank One would need address correction service for its First-Class solicitation mail, when it does not need address correction service for its Standard Mail solicitations.

b. Please explain all ways in which Bank One utilized information from its First-Class solicitation mail that was returned physically (or manually) during 2003. That is, did it use returned mail pieces to correct its solicitation mail lists? If not, what did Bank One do with returned mail?

c. During 2003, for how long a period, on average, did Bank One retain returned solicitation mail before it was disposed of?

d. Assuming that the proposed Negotiated Service Agreement ("NSA") is approved and implemented, please explain all ways in which Bank One plans to utilize the electronic return information that it will receive under the NSA.

e. After the electronic information is utilized in whatever manner you described in your response to preceding part d, please explain (i) how long Bank One anticipates retaining such electronic data, and (ii) what other plans, if any, Bank One has for utilizing such electronic data (e.g., sharing the information with list providers).

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

a. Bank One's decision on address correction service is an issue of economics rather than "need". The Postal Service and Bank One negotiated an agreement with ACS provisions for First-Class solicitation mail. We did not negotiate such an agreement for Standard Mail.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-14

b. Bank One uses information from returned First-Class solicitation mail to improve address hygiene.

c. Once we have captured the relevant address information, we do not retain the mail.

d. Bank One uses electronic return information to improve its address hygiene.

e. (i) See (d) above.

(ii) We currently have no plans to share the electronic information with list providers.

RESPONSE OF BANK ONE WITNESS RAPPAPORT TO VALPAK INTERROGATORY VP/BOC-T1-15

VP/BOC-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.

ANSWER:

a. The answer depends on, among other things, the amount by which the price of electronic address correction would be reduced, the size of the charge (if any) imposed for physical return, the position of the USPS on whether these changes would be sufficiently material to qualify under Section V.F.5 of the NSA, whether Bank One would agree, and (if the parties disagreed) how the matter would ultimately be adjudicated. Since the question fails to specify any of these assumptions, I am unable to answer it.

b. The answer depends on, among other things, the particular eligibility requirements for the subclass, the nature and magnitude of the rate differential(s) between the subclass and other First-Class mail, whether the Postal Service would regard such a development as sufficiently material to qualify under Section V.F.5 of the NSA, whether Bank One would agree, and (if the parties disagreed) how the matter

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-15**

would ultimately be adjudicated. Since the question fails to specify any of these assumptions, I am unable to answer it.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1 QUESTION 1

1. Please refer to BOC-T-1 at page 9, lines 1-7 and the response to OCA/BOC-T1-10. Witness Rappaport bases his estimated return rates for Bank One solicitations "on [his] experience when Bank One last used the Postal Service's Address Correction Service (ACS)."

   a) Please provide the following information on Bank One's use of Address Correction Service for First-Class Mail solicitations for both letters and flats:

      i. Identify the time period over which the service was used;
      ii. Identify the time period upon which Witness Rappaport based his estimates;
      iii. Identify the date the service was last used; and
      iv. If the service is no longer used, describe the reasons for discontinuing use of the service.

   b) Please identify the source of the data upon which witness Rappaport based his return rate estimates (e.g., written records, written compilations of data, personal recollections, etc.). If based on written records or compilations of data, please provide this information (or a detailed summary of this information).

   c) Please identify any changes in the nature of Bank One's recent First-Class Mail solicitations that may have affected return rates as compared to the mail upon which witness Rappaport based his estimates. Also please explain any adjustments incorporated into witness Rappaport's estimates to account for such changes.

ANSWER OF BANK ONE WITNESS RAPPAPORT:

1 (a). (i) For letters, Bank One's experience from Address Correction Service was based on its use of ACS for Standard Mail letters, which was used from 1997 through May 2001. For flats, the experience is based not on ACS, but rather on scanning returns in 2002.

(ii) My estimates for letter return rates are based on the time period 2000 to May 2001.

(iii) Bank One last used ACS in May 2001.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1 QUESTION 1

(iv) Bank One stopped using ACS because the economics for participating in the ACS program no longer applied.

1 (b). Although I kept spreadsheets with data on returns and mailings while Bank One was using ACS, under our corporate records retention policy, I have not retained these spreadsheets. My estimates are thus based on my personal recollection of these data.

1 (c). For flats, Bank One's return rates have recently been a little higher than 11 percent. On the other hand, for letters, a greater proportion of my First Class solicitation mail is currently sent to customers rather than to prospects, which might have the effect of decreasing the return rate. I anticipate that this NSA will provide incentives to move to First-Class Mail more of the solicitations sent to prospects.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2, QUESTION 1

1. Refer to BOC-T-1, page 5, Table 1. Please provide the historical First-Class Mail volumes of JP Morgan Chase for the same years and mail types shown in Table 1.

ANSWER of Bank One Witness Rappaport:

Historical First-Class Mail Volumes—J. P. Morgan Chase

(millions of pieces)

Mail Type	2001	2002	2003
Solicitation	unavailable	178.8	112.3
Letters	unavailable	178.8	112.3
Flats	unavailable	0	0
Customer	unavailable	317.0	346.0
Total	unavailable	495.8	458.3

Please see also the response to OCA/BOC-T-1-19, which provides further information.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2, QUESTION 2

2. Refer to BOC-T-1, page 5, Table 1. Has JP Morgan Chase used Address Correction Service for marketing First-Class Mail during (or subsequent to) the years shown in Table 1? If so, please provide the following information.

   a) Identify the time period over which the service was used;

   b) Identify the date the service was last used;

   c) If the service is no longer used, describe the reasons for discontinuing use of the service;

   d) Identify the volume of mail using Address Correction Service; and

   e) Identify the amount of Address Correction Service fees paid.

ANSWER of Bank One Witness Rappaport:

No.

(a) – (e). Not applicable.

ANSWER OF BANK ONE WITNESS RAPPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2, QUESTION 3

3. Refer to BOC-T-1, page 5, Table 1. Has JP Morgan Chase used Address Correction Service for Standard Mail during (or subsequent to) the years shown in Table 1? If so, please provide the following information.

   a) Identify the time period over which the service was used;

   b) Identify the date the service was last used;

   c) If the service is no longer used, describe the reasons for discontinuing use of the service;

   d) Identify the volume of mail using Address Correction Service; and

   e) Identify the amount of Address Correction Service fees paid.

ANSWER of Bank One Witness Rappaport:

No.

(a) – (e). Not applicable.

United States Postal Service

Michael K. Plunkett
(USPS-T-1)

USPS-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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

DIRECT TESTIMONY
OF
MICHAEL K. PLUNKETT
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is Michael K. Plunkett. I have worked for the Postal Service in various capacities for the past 20 years. From 1984 to 1990 I held a number of positions in delivery and customer service operations. In 1990 I entered the Postal Service's Management Intern program, where I performed a series of short-term assignments in several different functional specialties, both in the field and at headquarters. Upon leaving the Intern program I was hired as an economist in the office of Budget and Financial Analysis. Subsequently I worked as an economist in the office of Pricing from 1998 through 2000. After leaving the Pricing organization I worked as the product manager for the Postal Service's Mailing Online service, and later as the Associate Vice President of Business Development. I am currently serving as manager of Pricing Strategy.

I have testified before the Postal Rate Commission on several previous occasions. In Docket No. MC97-1, I presented pricing testimony supporting an experimental packaging service. In Docket No. MC98-1, I provided pricing testimony in support of Mailing Online, and in Docket No. MC2000-2, I was the pricing witness in the Mailing Online experiment case. I also provided policy testimony in the same docket. In previous omnibus cases I have presented pricing testimony supporting Parcel Post, Express Mail, and various special services. I was a policy witness in Docket No. MC2002-2 (Negotiated Service Agreement with Capital One), which marked the Postal Service's first Negotiated Service Agreement filing with the PRC. I also served as a rebuttal witness in that docket.

1 I have an honors degree in economics and a bachelor's degree in finance from
2 Pennsylvania State University. I also earned a master's degree in business
3 administration from the Wharton School at the University of Pennsylvania.

I. PURPOSE AND SCOPE OF TESTIMONY

The purpose of my testimony is to describe and analyze the policy and business considerations that support the Postal Service's negotiated service agreement (NSA) with Bank One Corporation (Bank One). The Bank One NSA is submitted as functionally equivalent to the Docket No. MC2002-2 baseline NSA with Capital One. Thus, in accordance with 39 C.F.R. § 3001.196, my testimony will include a detailed explanation of how the Bank One NSA is functionally equivalent to the baseline agreement and will describe the differences between the Bank One NSA and the baseline agreement. My testimony will also analyze the financial impact of the NSA on the Postal Service over the three year duration of the agreement, the fairness and equity of the NSA in regard to other users of the mail, and the fairness and equity of the NSA in regard to the competitors of the parties to the NSA. Finally, I will also explain why functionally equivalent NSAs are important to the business goals of the Postal Service.

My testimony will show that (1) the Bank One NSA primarily rests on the same substantive functional elements as the Capital One NSA and provides comparable benefits; (2) Bank One is similarly situated to Capital One, and therefore this NSA has a comparable competitive impact; and (3) the Bank One NSA conforms to the relevant pricing and classification criteria of the Postal Reorganization Act. The testimony will explain how the Bank One NSA will improve the financial position of the Postal Service.

In addition, the Postal Service relies on the Direct Testimony Of Brad Rappaport On Behalf Of Bank One Corporation (BOC-T-1). I have reviewed Mr. Rappaport's

testimony, and affirm that it may be relied upon in presentation of the Postal Service's direct case.

Appendix A to my testimony presents the model that calculates the financial impacts of the Bank One NSA. This model reproduces the calculations provided in the Docket No. MC2002-2 testimony of Witness Crum (USPS-T-3 Attachments (1), (2), and (B)). Appendix B explains the similarities and differences of both models. It is important to note that the underlying principles for calculating Postal Service contribution in the new format remain the same. Appendix C contains the proposed Data Collection Plan, which is based on the Data Collection Plan recommended by the Commission in Docket No. MC2002-2, the baseline docket.

II. THE IMPORTANCE OF NSAs AND FUNCTIONALLY EQUIVALENT AGREEMENTS

A. Background and Strategic Advantages of NSAs

In Docket No. MC2002-2, the Commission found that, when the concepts underlying negotiated pricing and declining block rates are applied fairly, benefits can accrue, not only to the customer and to the Postal Service, but also to all other postal customers. As Postal Service witness Bizzotto pointed out in that case, the Postal Service considers negotiated pricing a natural extension of its long-standing practice of seeking innovations in pricing. Docket No. MC2002-2, USPS-T-1 at 2-5. Used appropriately, negotiated pricing facilitates incentives for additional mail volume that benefit the Postal Service, its business partners, and all users of the Postal Service through the additional contribution to institutional costs provided by additional volumes. Given the economic pressures described below, NSAs represent one tool that can help

to mitigate the risk that continued erosion of First-Class Mail volume will lead to higher-than-necessary rate and fee increases in the future.

In its opinion in Docket No. MC2002-2, the Commission also concluded that the "Postal Service should ensure that '[t]he negotiated rate-and-service package is made available on the same terms to other potential users willing to meet the same conditions of service." PRC Op., Docket No. MC2002-2, ¶ 7004. To address this concern in the Capital One case, the Postal Service, Capital One, OCA, and many intervenors entered into a stipulation and agreement that identified the terms and conditions that must be included for an agreement to be considered comparable to Capital One. The Postal Service codified these elements in DMM G911. The Bank One NSA meets these criteria and affirms the Postal Service's commitment to extend the Capital One NSA's terms and conditions to other mailers.

B. The Importance Of Functionally Equivalent NSAs to the Postal Service

Functionally equivalent NSAs are important to the Postal Service because they extend the benefits of favorable baseline agreements to similar relationships with other customers. The Commission's procedural framework for functionally equivalent cases promises to ensure that this objective can be achieved efficiently in an expedited proceeding, where controversy and duplication of effort can be minimized. These procedural goals, in turn, support the related objectives of minimizing the transaction costs involved in pursuing NSAs, reinforcing the financial incentives embodied in NSAs, and thereby promoting a viable and productive NSA process.

Expedited litigation and subsequent implementation of the changes proposed in this case would benefit both the Postal Service and Bank One under the specific terms

1 of the Bank One NSA. If the proposed changes are recommended and approved, the
2 Postal Service would realize immediate benefit from the agreement in terms of ACS
3 savings. If this case, however, were to be litigated as a baseline NSA under the
4 Commission's rules, the protracted proceedings would only delay the Postal Service's
5 ability to capture the ACS savings. From the customer's perspective, furthermore,
6 lengthy litigation would result in higher transaction costs, as well as delayed business
7 benefits. For very large mailers, this cost might be easily absorbed within the expected
8 benefit of the NSA, but for smaller mailers this cost can become prohibitive, in effect
9 lowering the customer's valuation of the NSA, perhaps making it economically
10 undesirable. Moreover, lengthy proceedings would add risk that the business
environment might change in such a way that neither the Postal Service nor Bank One
12 could take advantage of the NSA.
13 In the Docket No. MC2002-2 baseline case, considerable attention was focused
14 on the risks associated with declining block rates. Postal Service witness Panzar
15 addressed the technical risks associated with non-linear pricing, and the OCA focused
16 on the risks inherent in providing volume-based incentives in a future period. A number
17 of participants suggested various mechanisms for mitigating these risks, implying that
18 the risk of change might be greater than the risk of doing nothing. Recent volume
19 trends, however, particularly in First-Class Mail, suggest the opposite.
20 Competition from electronic alternatives, increasing cost pressure on business
21 customers, and a recent period of economic sluggishness have contributed to a
flattening of demand for First-Class Mail over the last several years. At the same time,
23 household growth continues to lead to expansion of the Postal Service's delivery

network. While productivity gains have been remarkable, there continues to be pressure on the Postal Service to come up with ways to continue to fund its large and growing universal service obligation. In the absence of new ways for the Postal Service to generate additional volumes and revenues, USPS customers will likely be asked to absorb higher price increases in the future.

In this environment, the Postal Service considers the ability to negotiate individual price agreements that are consistent with the Act, and to implement them through rate and classification changes, to be of critical importance. Procedures linking favorable baseline agreements with their functionally equivalent offspring will help to ensure that the benefits of baseline agreements can be efficiently extended to similar, but distinct, relationships with other mailers. Promoting functionally equivalent NSAs will also mitigate the concern that a baseline NSA might have adverse competitive impacts.

III. THE BANK ONE NSA IS FUNCTIONALLY EQUIVALENT TO THE CAPITAL ONE NSA

The Bank One NSA fully meets the guidelines outlined in the Commission's Order No. 1391 (RM2003-5) for functionally equivalent NSAs. The Bank One NSA contains the same functional elements as the Capital One baseline NSA (*i.e.*, declining block rates and address correction elements, Order No. 1391 at 50), and will produce comparable benefits for the Postal Service. Any differences between the Bank One NSA and the Capital One NSA do not detract from Bank One's status as functionally equivalent.

A. The Bank One NSA Contains the Same Two Functional Elements as the Capital One NSA

The Bank One NSA rests on the same substantive functional elements as the Capital One NSA. First, as in the Capital One agreement, the Postal Service's agreement with Bank One calls for the implementation of discounts in the form of declining block rates. According to the schedule outlined below, the discounts are applied only to incremental volume above the negotiated threshold. In other words, no discount would be applied to the first 535 million pieces, a discount of 2.5 cents would be applied to the next 25 million pieces, etc.:

VOLUME BLOCK	INCREMENTAL DISCOUNTS
535,000,001 – 560,000,000	2.5¢
560,000,001 – 585,000,000	3.0¢
585,000,001 – 610,000,000	3.5¢
610,000,001 – 645,000,000	4.0¢
645,000,001 – 680,000,000	4.5¢
680,000,001 and above	5.0¢

Considering these discounts and the testimony of witness Rappaport regarding the volume response of Bank One to the proposed discount structure (BOC-T-1 at 6-8), the Postal Service expects Bank One's use of First-Class Mail for solicitations to increase, resulting in additional contribution to the Postal Service.

Second, as with the Capital One NSA, the Bank One agreement also contains an address correction element, which creates further cost savings for the Postal Service. Bank One has agreed that the Postal Service can convert the physical return of its undeliverable-as-addressed (UAA) First-Class Mail marketing mailpieces into electronic

address correction information through the computerized ACS system. It is the same ACS system that was described more fully in the testimony of Postal Service witness Wilson in Docket No. MC2002-2. USPS-T-4 at 2-7.

B. The Bank One NSA Provides the Postal Service a Comparable Benefit

In discussing the NSA rules governing functionally equivalent agreements, the Commission would go beyond an evaluation of the functional elements and examine whether the agreement provides a comparable benefit to the Postal Service. PRC Order No. 1391 at 51. As an example, the Commission stated that an agreement that is functionally equivalent to Capital One would need to have ACS cost savings. The ACS cost savings that will result from the Bank One NSA are significant since over nine percent of its marketing First-Class Mail volume is currently physically returned. See BOC-T-1 at 9. Also, as in Capital One, the Bank One NSA will generate contribution from new First-Class Mail volume switched from Standard Mail. Appendix A, page 1, 10, 11.

C. Other Terms and Conditions of the Bank One NSA

The Bank One NSA incorporates other terms and conditions found in the Capital One NSA. The agreement waives the seal against postal inspection of mail; requires Bank One to prepare mail under applicable standards and to enhance its address management practices; includes a minimum payment; and contains a provision for Bank One to make necessary records and data available to the Postal Service to facilitate and monitor compliance. It also enables the Postal Service to cancel for failure by the mailer to either provide accurate data, to present properly prepared and paid mailings,

to comply with a material term of the NSA, or to use the NSA. See Request; Attachment F.

D. Differences Between the Capital One and Bank One NSAs

By their nature, individual service relationships with the Postal Service reflect the inherent differences among mailers. The ability to develop a customer-specific NSA allows the Postal Service to address these differences directly, and to develop an agreement that best satisfies the needs of an individual customer and the Postal Service. By improving overall revenue contribution to the Postal Service, such agreements in turn benefit all postal customers.

Because Bank One's volumes are different from those of Capital One, the exact declining block rates in the Bank One NSA do not match those in the Capital One NSA. The thresholds, incremental blocks, and starting discounts are unique to the Bank One NSA. However, the discount structure remains the same as in the Capital One NSA, and it represents a negotiated agreement between the customer and the Postal Service.

In addition, the Bank One NSA incorporates two customer-specific terms and conditions not found in the Capital One NSA: an annual adjustment mechanism to the threshold, and a detailed mergers and acquisitions clause. As explained below, neither term alters the functionally equivalent status of the Bank One NSA.

The first customer-specific term is the annual threshold adjustment. In general, NSAs patterned after Capital One are intended to increase First-Class Mail marketing volumes, among other objectives. However, statement volume growth could have the unintended consequence of diminishing the incentives for new marketing mail volume. The annual threshold adjustment protects against this contingency, and also mitigates

against greater discount exposure (leakage), by adjusting the thresholds in the years following the first year of the agreement (the out-years), using a formula based on the percentage change in the sum of the number of Bank One's credit cards and checking accounts. If the percentage change is an increase or decrease of greater than 5 percent, the threshold shall be adjusted upward (in the event of an increase) or downward (in the event of a decrease) by the difference between the percentage change and 3 percent. For example, if Bank One's credit card and checking accounts increase from 100 million to 106 million, which correlates to a 6 percent increase, then the threshold would be adjusted upwards 3 percent. If the number of accounts increases by less than 5 percent, there would be no adjustment to the annual threshold.

The 5 percent trigger for adjusting the threshold allows for limited variability in statement mailings and provides protection to both parties. Based on the logical correlation between number of credit card and checking accounts and statement volume, the NSA allows the Postal Service to adjust the discount threshold upward, so that exogenous factors do not result in discounts being provided to statement mail or in diluting the incentives directed at marketing mail. By the same token, should account volume drop, the annual threshold adjustment can be used to adjust the discount thresholds downward, so that the NSA continues to provide realistic incentives for marketing mail.

The second customer-specific term is the detailed mergers and acquisitions clause. The mergers and acquisitions clause in the Capital One NSA has been expanded to provide more detail relating to the integration of merged volumes. It also has a provision to accommodate portfolio purchases, losses and sales. Both

modifications are in response to Bank One's customer-specific needs. As witness Rappaport states in his testimony, (BOC-T-1 at 9), Bank One has announced plans to merge with J.P. Morgan Chase. Thus, the expanded merger clause has been designed to adjust for this possibility.

IV. Financial Impacts

A. Value Factors/Elements

As with the Capital One NSA, the Bank One NSA has three factors affecting the value: ACS cost savings, new volume contribution, and discount exposure (leakage). The ACS cost savings are the savings that accrue to the Postal Service from eliminating the physical return of First-Class Mail marketing pieces with an electronic return notice. Rather than having its undeliverable-as-addressed (UAA) marketing pieces physically returned, Bank One has agreed to receive most address correction information electronically through the computerized ACS system. Conversion to ACS would save the Postal Service the cost of returning UAA mail back to Bank One through the mail stream. Bank One has agreed to convert both its letter-shaped and flat-shaped solicitations to ACS. Because flats are more expensive to return, the ACS unit cost savings for flats are higher than for letters. Whether handling letters or flats, the ACS system is as described in the testimony of Postal Service witness Wilson in Docket No. MC2002-2, USPS-T-4 at 3-4.

The second stream of value for the Postal Service is the new volume contribution from any new volume generated by the NSA. This contribution is calculated using the following inputs: per piece contribution of First-Class Mail, per piece contribution of

Standard Mail, and percent of marketing mail converted from Standard Mail to First-Class Mail.

As Bank One witness Rappaport explains, the price incentives in the NSA are expected to produce a First-Class Mail volume response of 19 million pieces for the first year of the agreement and 99 million additional pieces in Year 2 and Year 3. BOC-T-1 at 8. The new contribution must account for any substitution leakage that would result from the loss of contribution from Standard Mail pieces converted to First-Class Mail marketing pieces. To be conservative, witness Rappaport has estimated that 100 percent of incremental volume would be converted from Standard Mail. (BOC-T-1 at 8). The Postal Service believes that the incremental volumes will exceed the forecast. *Id.* (See Part C., Conservatism of Assumptions, below).

The final value determinant is the expected discount exposure. The discount exposure lowers the value of the NSA and is the result of price incentives applied to any volume that would have occurred without a price incentive. As described by Postal Service witness Eakin, in the baseline case, setting a threshold below forecast volume is economically efficient because it reduces the mailer's marginal price of First-Class Mail relative to other forms of solicitation, and reduces the gap between marginal price and marginal cost of the mailer's First-Class Mail. Docket No. MC2002-2; USPS-RT-2 at 4-5.

I estimate the value to the Postal Service of the Bank One agreement, when considering all three value drivers over the three years of the NSA, as follows:

ACS Cost savings:	$7.8 million
Increased contribution (less incremental discounts):	$6.8 million

Discount exposure: $(2.9) million

2

3 The agreement therefore would result in net benefit to the Postal Service of $11.7
4 million over the life of the NSA. A detailed analysis of the financial impact is provided in
5 Appendix A.

6 **B. Financial Model**

7 I believe that the analysis provided in the valuation model of the Bank One NSA
8 complies with the guidelines established by the Commission in Rule 193(e). The model
9 follows Postal Service witness Crum's methodology in Docket No. MC2002-2, except in
10 instances where a change allows it to conform more closely to the requirements of Rule
11 193(e). The features of the model are described below; the model is in Appendix A and
12 any changes are discussed in Appendix B.

13 The Postal Service and Bank One have provided more data than in Docket No.
14 MC2002-2, in order to comply with Rule 193(e)(2), and to present a more
15 representative estimate of the cost and volume effects of the NSA in Years 2 and 3 of
16 the agreement (see Appendix A). In witness Rappaport's testimony, Bank One has
17 provided its best estimate of mail volume forecasts in Years 2 and 3 of the agreement.
18 BOC-T-1 at 5-8.

19 In addition, as described in Appendix B, the Postal Service applies a 4 percent
20 annual inflationary cost adjustment factor to estimate unit costs in each year of the Bank
21 One agreement and to account for cost increases since litigation of the Capital One
22 NSA agreement. This cost adjustment factor will provide a better estimate of the value

1 of the Bank One NSA in its out-years.[1] Except for the calculation of ACS flats
2 (Appendix A, pp. 12-14) and the adjustment for inflation, the cost assumptions for the
3 Bank One mail pieces are based on Docket No. MC2002-2 and Docket No. R2001-1.[2]

4 **C. Conservatism of Estimated Value**

5 The After Rates (AR) forecast provided by Bank One is, in my opinion, a
6 conservative estimate of the potential volume response to the price incentives.

7 In fact, there are reasons why these forecasts would generally tend toward
8 conservatism. Non-linear pricing of First-Class Mail is relatively new to the Postal
9 Service. Consequently, USPS customers have no direct experience in planning
10 postage expenditures, or in adjusting budgets when – as may happen if Bank One
reaches its initial declining block threshold – the cost of customer acquisition declines.
12 If customers use traditional modeling techniques out of necessity, forecasted volume
13 effects are likely to understate the result of sudden and substantial price reductions.
14 Moreover, banks work in a highly regulated and extensively analyzed industry where
15 public pronouncements can have significant consequences. This is also likely to act as
16 a check against unwarranted optimism in projecting future outcomes.

17 One of the difficulties that arises in forecasting volumes in Years 1, 2, and 3 of
18 the agreement is that, in complex mailing environments, postage is not the only variable
19 that determines future mailing strategies. Both Bank One and the Postal Service

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[1] There remains, however, a possibility of an omnibus rate increase during the term of the agreement; such an increase has not been accounted for in the revenue calculations. To the extent that revenues in the out-years have been undercounted, greater credence is lent to the conservatism of any assumption.

[2] As in the baseline case, my analysis here does not include estimates of forwarded mail cost savings.

1 believe – and the universally accepted principles of economics confirm – that keeping all
2 other business variables constant, lower postage costs will provide an incentive for
3 greater mail volumes. Yet, most companies do not currently forecast the impact of
4 declining postage rates. Thus, it is difficult to predict the full impact on mail volumes.
5 Nevertheless, I regard the point estimates provided by Bank One to be conservative
6 and the Postal Service anticipates that the volume response will be higher.
7
8 **V. COMPETITIVE IMPACT ANALYSIS**
9 The impact of the Capital One NSA on the competitors of the contracting parties
10 was discussed and evaluated extensively in the baseline proceeding. Docket No.
MC2002-2, JCP-T-1 at 11-12 and USPS-RT-2 at 11-14. In the end, the Commission
12 concluded that the impact on competition would be minor. In this regard, the
13 Commission found it significant that no competitors of Capital One opposed the NSA.
14 I estimate that the impact on competition of the Bank One NSA -- which is
15 functionally equivalent to the Capital One NSA -- should be even less, since Bank One
16 and Capital One are similarly situated, i.e., direct competitors. BOC-T-1 at 3. The pool
17 of competitors who may be disadvantaged because they do not have an NSA
18 decreases as the number of functionally equivalent agreements increases. For
19 functionally equivalent agreements with direct competitors of the baseline agreement,
20 any industry competitive impacts have been addressed in the baseline filing. More
21 importantly, approving functionally equivalent NSAs provides competitors of Capital One
`2 the same incentives to grow their mail volumes. This is not to suggest that postage
23 prices are the sole – or even the primary – dimension along which all competitors in an

industry may compete. Indeed, there may be circumstances when it would be impracticable or otherwise inappropriate to provide NSAs to all competitors within an industry.

VI. DISCOUNT CAP

A 'stop-loss provision' or discount cap of $40 million over three years was incorporated in the rate and classification changes implementing the Capital One NSA. This was not a condition that was negotiated between the Postal Service and Capital One, but was added by the Commission (PRC Op., MC2002-2, ¶ 5061).

The Commission explained that it instituted the stop-loss provision because of the variability inherent in the volume history of Capital One. The concern over "discount leakage" exceeding cost savings thus influenced the decision to limit the total value of discounts Capital One could earn (PRC Op., MC2002-2, ¶ 8024). In setting the cap, the Commission found that there would be no impact on new volume contribution because the thresholds were above the revised forecast. However, a cap based on either cost savings or exposure (leakage) unnecessarily hinders the ultimate objective of utilizing NSAs as a tool to increase net contribution. Basing the "stop-loss provision" solely on cost savings would tend to limit participation in the NSA process to only large volume mailers who can offer significant cost savings opportunities. This would place customers who do not impose added costs on the Postal Service at a disadvantage.

More importantly, the stop-loss provision based on the Capital One condition passing through 95 percent of the cost savings (Op. at 156) would foreclose the potential contribution from increased volume. It also would impose a competitive

Bank One, because its potential cost savings are not nearly as large as the potential cost savings for Capital One, which is a larger originator of First-Class Mail marketing solicitations than Bank One. Fears that the customer would have significantly increased mail volumes should be mitigated in the current environment of declining First-Class Mail volumes and potentially adverse business conditions.

The conditions that the Commission cited to support a cap on the discounts in the baseline case do not apply here. The major concern expressed over the course of the Capital One case was that mail volume would have grown in the absence of a discount so that the discounts would exceed the cost savings. By comparison, Bank One's volume history is stable, and even if its marketing mail volume were to match its historic high, the Postal Service would receive a positive benefit from the NSA. Specifically, Bank One's highest annual marketing letter First-Class Mail volume was 79 million pieces in 2001, prior to the most recent rate increase. If Bank One, without price incentives, could reach this same level for all three years of the agreement, it would receive $8.0 million in discounts on their before-rates volumes over the term of the agreement (as opposed to the $2.9 million estimate presented above in Section IV.A.). This discount earned by Bank One would correlate to exposure for the Postal Service. But, despite the increase in exposure, the NSA would be contribution-positive because of ACS savings. Under the situation described above, the Postal Service would have underestimated the savings from ACS and, in absolute terms, the savings at 79 million marketing pieces would have been $10.5 million (as opposed to the $7.8 million presented above in Section IV.A.). This means that the NSA would still generate $2.4 million in additional contribution for the Postal Service.

Accordingly, a cap could actually cause harm because it would limit the upside potential of the NSA. As discussed previously, the Bank One forecasts are conservative, and it is quite possible that the incremental volume may be higher than predicted. A cap would obviate this possibility.

VII. PROPOSED PRICES ARE CONSISTENT WITH THE CRITERIA OF THE ACT

39 U.S.C. § 3623(c) requires that the Commission evaluate proposed changes in the classification schedule in accordance with the policies of the Title and the following factors:

1. the establishment and maintenance of a fair and equitable classification system for all mail;
2. the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
3. the importance of providing classifications with extremely high degrees of reliability and speed of delivery;
4. the importance of providing classifications which do not require an extremely high degree of reliability and speed of delivery;
5. the desirability of special classifications from the point of view of both the user and of the Postal Service; and
6. such other factors as the Commission may deem appropriate.

Section 3622(b) requires that postal rates and fees reflect the policies of the Postal Reorganization Act, and accord with the following factors:

1. the establishment and maintenance of a fair and equitable schedule;
2. the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to, the collection, mode of transportation, and priority of delivery;
3. the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
4. the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;

5. the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
6. the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
7. simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
8. the educational, cultural, scientific, and informational value to the recipient of mail matter; and
9. such other factors as the Commission deems appropriate.

The arguments I presented in the Capital One NSA are also applicable to the Bank One NSA:

> ...by negotiating directly with individual customers, it may be possible, through negotiated service agreements such as the one submitted here, to more accurately present prices that represent the value that the user places on the service being provided (pricing criterion 2) for mail classifications that are desirable to the mailer and the Postal Service (classification criterion 5). In this case, the Postal Service has directly negotiated with the sender of the mail to arrive at classifications and prices that the Postal Service considers to be fair and equitable (classification criterion 1 and pricing criterion 1). As indicated in the testimony of witness Crum, there can be no doubt that the prices presented in this case will cover the costs of providing the service (pricing criterion 3). In fact, the address improvement steps that Capital One has agreed to will serve to lower the costs currently borne by other customers (pricing criterion 6). For this reason, the classifications and prices presented in this agreement confer beneficial effects on the general public and other ratepayers (classification criterion 1 and pricing criterion 1). The proposed rates do not have an adverse impact on the rates paid by the general public, or other business mail users (pricing criterion 4). The proposed declining block rate structure is relatively simple and maintains a transparent, identifiable relationship between volume levels and applicable rates and fees (pricing criterion 7).

(MC2002-2, USPS-T-2, page 9, line 36 – page 10, line 15).

I believe that these pricing and policy issues were comprehensively addressed in the Capital One NSA docket, and that the logic of functional equivalence enables the Postal Service and the Commission to rely on the findings in that case. In this instance,

1 the close comparability of the structure and elements of the Bank One and Capital One
2 NSAs, the similarity of their situations as mailers, and their status as competitors,
3 warrant full reliance on the Commission's Docket No. MC2002-2 findings to justify
4 recommending the current classification, rate and fee change proposals based on the
5 Bank One NSA. Further, the customer-specific rates offered to Bank One through the
6 NSA more than cover the costs associated with Bank One's mail, thus satisfying pricing
7 criterion 3. By extending the benefits of a functionally equivalent NSA, the Commission
8 would promote increased efficiency in postal operations and greater fairness and equity
9 in the DMCS and Rate Schedules.
10

VIII. SUMMARY AND CONCLUSIONS

12 My testimony has described and discussed the similarities and differences
13 between the Bank One NSA and the Capital One NSA. The Bank One NSA has the
14 same two substantive functional elements of the Capital One NSA, comparable
15 benefits, other material terms and conditions that were included in the Capital One NSA
16 and some additional provisions. The new provisions in the Bank One NSA reflect the
17 differences between the companies that are inherent in their status as individual
18 mailers. Because Bank One is similarly situated, and is a direct competitor of Capital
19 One, expeditious treatment of this filing under the Commission's specialized procedures
20 is especially important.
21 Accordingly, the Commission should conclude that the Bank One NSA meets the
22 standards for functional equivalency. The financial model developed to support the
23 Bank One NSA is based on the model submitted in Docket MC2002-2, with analytical

1 enhancements as recommended by the Commission in Rule 193(e). The Bank One
2 NSA also meets the terms and conditions that must be included for an agreement to be
3 considered comparable to Capital One, as codified in DMM G911.
4 Finally, based on the Commission's findings and conclusions in its review of the
5 baseline NSA, the Bank One NSA meets the criteria outlined for classifications and
6 pricing in the Postal Reorganization Act as well as the criteria for postal rates and fees
7 as outlined in Section 3622(b) of the Act.
8 For these reasons, I conclude that the Commission should recommend the
9 proposed changes to the rates, fees and classifications are warranted by the projected
10 benefits of the Bank One NSA, and as functionally equivalent to the Capital One
baseline NSA.

Bank One Model (REVISED 9/1/2004)

Negotiated Service Agreement
Appendix A, page 1

	Year 1	(13) Year 2	(14) Year 3
Return Forecast			
(1) Operational Mail (Ops)	0.3%	0.3%	0.3%
(2) Marketing Mail - Letters (Mktg)	9.0%	9.0%	9.0%
(3) Marketing Mail - Flats	11.0%	11.0%	11.0%
(4) USPS FCM average return rates	1.23%	1.23%	1.23%
Unit cost assumptions			
(5) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(6) Manual Flat Returns Unit Cost	$ 1.04	$ 1.09	$ 1.13
(7) Manual Letter Returns Unit Cost	$ 0.55	$ 0.57	$ 0.60
(8) Electronic Flat Returns Unit Cost	$ 0.45	$ 0.47	$ 0.48
(9) Electronic Letter Returns Unit Cost	$ 0.34	$ 0.36	$ 0.37
(10) Address Change Service (ACS) Success Rate	85.0%	85.0%	85.0%
(11) Percent of new marketing mail switched from Standard Mail (SM)	100.0%	100.0%	100.0%
(12) Contingency Factor	1.03		

(1) MC 2004-3 BOC T-1 at page 9
(2) MC 2004-3 BOC T-1 at page 9
(3) MC 2004-3 BOC T-1 at page 9
(4) USPS-LR-1/MC2002-2
(5) MC 2004-3 USPS T-1 at page 13
(6) Manual Return Costs ($1.0190) * (1 + (5))
(7) USPS-LR-1/MC2002-2 * (1+ (5))
(8) Electronic Returns Costs ($0.4301) * (1+ (5))
(9) USPS-LR-1/MC2002-2 * (1+ (5))
(10) USPS witness Wilson, T4/MC2002-2
(11) MC 2004-3 BOC T-1 at page
(12) USPS-LR-1/MC2002-2
(13) Year 1 * (5)
(14) Year 2 * (5)

Bank One Model
Negotiated Service Agreement
Appendix A, page 2

	2001	2002	2003	Year 1	Year 2	Year 3
(1) Volume calculations						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	29,387,000	29,387,000	29,387,000
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**571,080,000**	**571,080,000**	**571,080,000**
After rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	48,442,000	128,442,000	128,442,000
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**590,135,000**	**670,135,000**	**670,135,000**

(1) MC 2004-3 BOC T-1 at page 5 - 6

Bank One Model **Negotiated Service Agreement** **Appendix A, page 3**	(1) **FY 2003** **Volume**	(2) **Current** **Rates**	(3) **Revenue**
Rate Category			
Single-Piece Letters			
First Ounces, except QBRM	-	0.370	$ -
Qualified Business Reply Mail	-	0.340	-
Additional Ounces	-	0.230	-
Nonmachinable Pieces	-	0.120	-
Single-Piece revenue			-
Revenue Adjustment Factor (a)			1.000
(4) Total Single-Piece Postage Revenue			-
Nonautomated Presorted Letters			
First Ounce	16,901,503	0.352	5,949,329
Additional Ounces	210,013	0.225	47,253
Nonmachinable Pieces	24,599	0.055	1,353
Heavy Piece Deduction	4,067	(0.041)	(167)
Nonautomated Presorted revenue			5,997,768
Revenue Adjustment Factor (a)			1.000
(5) Total Nonautomated Presorted Letters Revenue			5,997,768
Automation Presort Letters			
Mixed AADC Letters	3,622,017	0.309	1,119,203
AADC Letters	6,093,703	0.301	1,834,205
3-Digit Letters	341,677,512	0.292	99,769,834
5-Digit Letters	189,245,273	0.278	52,610,186
Additional Ounces	6,312,612	0.225	1,420,338
Heavy Piece Deduction	71,636	(0.041)	(2,937)
Automation Presort Letters			156,750,828
Revenue Adjustment Factor (a)			1.000
(6) Total Automation Presort Letters Revenue			156,750,828
Automation Carrier Route Letters			
First Ounce	577,954	0.275	158,937
Additional Ounces	-	0.225	-
Heavy Piece Deduction	-	(0.041)	-
Automation Carrier Route Revenue			158,937
Revenue Adjustment Factor (a)			1.000
(7) Automation Carrier Route Letters Revenue			158,937
(8) Total Company Letters Subclass			$ 162,907,533
Total pieces			558,117,962
(9) **Revenue per piece**			**0.292**

(a) Revenue Adjustment factor not required because customer specific revenue presented
(1) CBCIS 2003 Bank One Volume Data
(2) Rate Schedule
(3) (1) * (2)
(4) Single Piece Revenue * Revenue Adjustment Factor
(5) Nonautomated Presorted Revenue * Revenue Adjustment Factor
(6) Automation Presort Letter Revenue * Revenue Adjustment Factor
(7) Automation Carrier Route Revenue * Revenue Adjustment Factor
(8) (4) + (5) + (6) + (7)
(9) (8) / Total pieces

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Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE MAIL MIX						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS																
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,000	2,673,332,458	5.8%	0.254	16,896,034	3.4%				
Automation Presort Letters																
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.123	2,504,846,824	2,820,696,002	6.1%	0.123	3,462,228	0.7%				
Automation AADC		0.046	0.044	0.018	0.107	0.111	2,680,656,176	2,636,650,800	5.7%	0.111	5,935,849	1.2%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,888	48.6%	0.108	321,218,301	64.4%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	150,868,728	30.3%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,333,000	802,292,628	1.7%	0.107	115,591	0.0%				
WEIGHTED AVERAGE / TOTAL	**$0.115**	**0.050**	**0.045**	**0.018**	**0.113**	**0.113**	**44,562,599,000**	**46,415,243,896**	**100.0%**	**0.109**	**498,514,731**	**100.0%**	**$ (0.0049)**	**0.104**	**$ (0.0049)**	**0.104**
														(17)		(18)
										Total Unit Cost Estimates, Including Contingency =				0.107		0.107

(1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3
(2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS", page 1
(3) Docket No. R2001-1, PRC LR-7, Page 2
(4) MC2002-2/USPS-T-3, Attachment A, pg. 2
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, FCM base year volumes from FCM letter model.
(8) Revenue, Pieces, and Weight (RPW) Report.
(9) (8) / (Sum (8))
(10) Line Item (6), Weighted Average weighted by percentages in (12).
(11) CBCIS 2003 Bank One Volume Data
(12) (11) / (Sum (11))
(13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail
(10) + (13)
(14) ((ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate))) /
(15) After Rates Statement Mail - USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
(16) (10) + (15)
(17) (14) * Contingency Factor (Assumptions)
(18) (16) * Contingency Factor (Assumptions)

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Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX (1) TYBR 2003 Total Unit Cost (Dollars)	(2) TYBR 2003 Mail Proc Unit Cost (Dollars)	(3) TYBR 2003 Delivery Unit Cost (Dollars)	(4) TYBR 2003 Other Unit Cost (Dollars)	(5) TYBR 2003 Total Unit Cost (Dollars)	(6) FY 2004 Total Unit Cost Dollars	(7) BY 2000 Mail Volume (Pieces)	(8) FY 2003 Mail Volume (Pieces)	(9) FY 2003 Mail Volume (Percent)	DOCKET NO. R2001-1 PRC FIGURES - BANK ONE MAIL MIX (10) TY 2004 Total Unit Cost (Dollars)	(11) FY 2003 Mail Volume (Pieces)	(12) FY 2003 Mail Volume (Percent)	(13) Current Returns Adjustment Unit Cost (Dollars)	(14) Current w/Rets Adj Total Unit Cost (Dollars)	(15) After Rates Returns Adjustment Unit Cost (Dollars)	(16) After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS																
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,000	2,673,332,468	5.8%	0.254	5,469	0.0%				
Automation Presort Letters																
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.123	2,504,846,824	2,820,696,002	6.1%	0.123	159,789	0.3%				
Automation AADC		0.046	0.044	0.018	0.107	0.111	2,680,656,176	2,636,650,800	5.7%	0.111	157,854	0.3%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,888	48.6%	0.108	20,459,211	34.3%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	38,358,545	64.4%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,333,000	802,292,628	1.7%	0.107	462,363	0.8%				
WEIGHTED AVERAGE / TOTAL	$0.115	0.050	0.045	0.018	0.113	0.113	44,562,599,000	46,415,243,898	100.0%	0.099	59,603,231	100.0%	0.0428	0.142	0.0269	0.126
														(17)		(18)
Total Unit Cost Estimates, Including Contingency =														0.146		0.130

(1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3.
(2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS".
(3) Docket No. R2001-1, PRC LR-7, Page 2 .
(4) MC2002-2/USPS-T-3, Attachment A, pg. 2
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, FCM base year volumes from FCM letter model.
(8) Revenue, Pieces, and Weight (RPW) Report.
(9) (8) / [Sum (8)]
(10) Line item (6). Weighted Average weighted by percentages in (12).
(11) CBCIS 2003 Bank One Volume Data
(12) (11) / [Sum (11)]
(13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail
(14) (10) + (13)
(15) {(ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate))) / After Rates Statement Mail - USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
(16) (10) + (15)
(17) (14) * Contingency Factor (Assumptions)
(18) (16) * Contingency Factor (Assumptions)

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Negotiated Service Agreement
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	Year 1	Year 2	Year 3

Agreement Structure

Year 1			Year 2			Year 3		
Threshold		*Discount*	Threshold		Discount	Threshold		Discount
535,000,000	560,000,000	$ 0.025	535,000,000	560,000,000	$ 0.025	535,000,000	560,000,000	$ 0.025
560,000,000	585,000,000	$ 0.030	560,000,000	585,000,000	$ 0.030	560,000,000	585,000,000	$ 0.030
585,000,000	610,000,000	$ 0.035	585,000,000	610,000,000	$ 0.035	585,000,000	610,000,000	$ 0.035
610,000,000	645,000,000	$ 0.040	610,000,000	645,000,000	$ 0.040	610,000,000	645,000,000	$ 0.040
645,000,000	680,000,000	$ 0.045	645,000,000	680,000,000	$ 0.045	645,000,000	680,000,000	$ 0.045
680,000,000		$ 0.050	680,000,000		$ 0.050	680,000,000		$ 0.050

Discount on volume above threshold

(1)	Before Rates Forecast	571,080,000	571,080,000	571,080,000
(2)	After Rates Forecast	590,135,000	670,135,000	670,135,000
	Discount in first tier	$ 625,000	$ 625,000	$ 625,000
	Discount in second tier	$ 750,000	$ 750,000	$ 750,000
	Discount in third tier	$ 179,725	$ 875,000	$ 875,000
	Discount in fourth tier	$ -	$ 1,400,000	$ 1,400,000
	Discount in fifth tier	$ -	$ 1,131,075	$ 1,131,075
	Discount in sixth tier	$ -	$ -	$ -
(3)	**Discount Earned**	**$ 1,554,725**	**$ 4,781,075**	**$ 4,781,075**

Exposure on volume above threshold

(4)	Threshold	535,000,000	535,000,000	535,000,000
(5)	Before Rates Rorecast	571,080,000	571,080,000	571,080,000
(6)	Exposed Pieces	36,080,000	36,080,000	36,080,000
(7)	After Rates Forecast	590,135,000	670,135,000	670,135,000
	Exposure in first tier	$ 625,000	$ 625,000	$ 625,000
	Exposure in second tier	$ 332,400	$ 332,400	$ 332,400
	Exposure in third tier	$ -	$ -	$ -
	Exposure in fourth tier	$ -	$ -	$ -
	Exposure in fifth tier	$ -	$ -	$ -
	Exposure in sixth tier	$ -	$ -	$ -
(8)	***Total Exposure***	**$ 957,400**	**$ 957,400**	**$ 957,400**

(1) Before Rates Total Volume (Volume calcs)
(2) After Rates Total Volume (Volume calcs)
(3) Sum of discounts earned in first tier to sixth tier
(4) Agreement Structure Beginning Threshold
(5) (1)
(6) Before rates - *Threshold: The number of total pieces on which leakage occurs*
(7) (2)
(8) Sum of leakage in first tier to sixth tier

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		Year 1	Year 2	Year 3
Return Costs				
	UAA Rate			
(1)	Operational Mail	0.3%	0.3%	0.3%
(2)	Marketing mail letter	9.0%	9.0%	9.0%
(3)	Marketing mail flat	11.0%	11.0%	11.0%
Before Rates Forecast				
(4)	Operational Mail	506,650,000	506,650,000	506,650,000
(5)	Marketing mail letter	29,387,000	29,387,000	29,387,000
(6)	Marketing mail flat	35,043,000	35,043,000	35,043,000
After Rates Forecast				
(7)	Operational Mail	506,650,000	506,650,000	506,650,000
(8)	Marketing mail letter	48,442,000	128,442,000	128,442,000
(9)	Marketing mail flat	35,043,000	35,043,000	35,043,000
Return Forecast				
(10)	Operational Mail	1,722,610	1,722,610	1,722,610
(11)	Marketing mail letter	2,644,830	2,644,830	2,644,830
(12)	Marketing mail flat	3,854,730	3,854,730	3,854,730
Return Costs				
(13)	Operational Mail	$ 949,503	$ 987,483	$ 1,026,982
(14)	Marketing mail letter	$ 1,457,830	$ 1,516,144	$ 1,576,789
(15)	Marketing mail flat	$ 4,085,206	$ 4,248,614	$ 4,418,559
(16)	Total	$ 6,492,539	$ 6,752,241	$ 7,022,330
After Rates Return Costs				
(17)	Operational Mail	$ 949,503	$ 987,483	$ 1,026,982
(18)	Marketing mail letter	$ 990,224	$ 1,029,833	$ 1,071,027
(19)	Marketing mail flat	$ 2,078,536	$ 2,161,677	$ 2,248,145
(20)	Total	$ 4,018,263	$ 4,178,993	$ 4,346,153
(21) Return Cost Savings		**$ 2,474,276**	**$ 2,573,247**	**$ 2,676,177**

(1) MC 2004-3 BOC T-1 at page 9
(2) MC 2004-3 BOC T-1 at page 9
(3) MC 2004-3 BOC T-1 at page 9
(4) MC 2004-3 BOC T-1 at page 5 - 6
(5) MC 2004-3 BOC T-1 at page 5 - 6
(6) MC 2004-3 BOC T-1 at page 5 - 6
(7) MC 2004-3 BOC T-1 at page 5 - 6
(8) MC 2004-3 BOC T-1 at page 5 - 6
(9) MC 2004-3 BOC T-1 at page 5 - 6
(10) (1) * (4)
(11) (2) * (5)
(12) (3) * (6)
(13) (10) * Manual Letter Returns Unit Cost (Assumptions)
(14) (11) * Manual Letter Returns Unit Cost (Assumptions)
(15) (12) * Manual Flats Returns Unit Cost (Assumptions)
(16) (13) + (14) + (15)
(17) (10) * Manual Letter Returns Unit Cost (Assumptions)
(18) ((11) *ACS Success Rate* Electronic Letter Returns Unit Cost)+ (1 - ACS Success Rate) *Manual Letter Returns Unit Cost * (11))
(19) ((12) * (1 - ACS Success Rate) * Manual Flat Returns Unit Cost) + ((12) * ACS Success Rate * Electronic Flat Returns Unit Cost)
(20) (17) + (18) + (19)
(21) (16) - (20)

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(1) Standard Mail Regular Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Mixed AADC Auto	$	0.211	13,191,188	2,789,495
AADC Auto	$	0.199	27,941,526	5,574,178
3-Digit Auto	$	0.183	215,575,750	39,531,174
5-Digit Auto	$	0.166	201,585,157	33,493,187
Basic Nonauto	$	0.259	4,056,643	1,050,661
3/5 Digit Nonauto	$	0.237	1,927,253	456,643
Total Volume			464,277,517	82,895,338
Revenue per piece				**$ 0.179**

(2) Standard Mail ECR Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Basic Nonauto Letters	$	0.182	1,008,992	183,324
Basic Auto Letters	$	0.148	25,001,012	3,702,239
High-Density Letters	$	0.164	12,771	2,094
Saturation Letters	$	0.152	699,186	106,276
Total Volume			26,721,961	3,993,933
Revenue per piece				**$ 0.149**

(3) Average Revenue per piece **$ 0.177**

(1) Rate Schedule
(2) Rate Schedule
(3) (Standard Mail Regular Revenue + Standard Mail ECR Revenue) /
(Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

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Standard Regular Unit Cost

	From Docket No. R2001-1									BANK ONE		
	TYBR 2003 Total Unit Cost (Dollars) (1)	TYBR 2003 Mail Proc Unit Cost (Dollars) (2)	TYBR 2003 Delivery Unit Cost (Dollars) (3)	TYBR 2003 Other Unit Cost (Dollars) (4)	TYBR 2003 Total Unit Cost (Dollars) (5)	FY 2004 Total Unit Cost (Dollars) (6)	BY 2000 Mail Volume (Pieces) (7)	FY 2003 Mail Volume (Pieces) (8)	FY 2003 Mail Volume (Percent) (9)	TY 2004 Total Unit Cost (Dollars) (10)	FY 2003 Mail Volume (Pieces) (11)	FY 2003 Mail Volume (Percent) (12)
LETTERS												
Nonauto Basic		0.130	0.042	0.01	0.18	0.19	1,322,401,662	1,411,242,831	3.2%	0.19	4,056,643	0.9%
Nonauto 3/5-Digit		0.121	0.044	0.01	0.17	0.18	4,476,247,838	2,481,782,907	5.7%	0.18	1,827,253	0.4%
Auto Mixed AADC		0.050	0.039	0.01	0.10	0.10	2,354,963,527	2,687,599,740	6.1%	0.10	13,181,188	2.8%
Auto AADC		0.043	0.038	0.01	0.09	0.09	2,875,476,520	2,846,635,910	6.5%	0.09	27,941,526	6.0%
Auto 3-digit		0.040	0.036	0.01	0.08	0.09	15,660,801,986	17,815,958,778	40.8%	0.09	215,575,750	46.4%
Auto 5-digit		0.031	0.037	0.01	0.07	0.08	11,222,413,732	16,804,952,264	37.9%	0.08	201,585,157	43.4%
Total/average	0.10	0.05	0.04	0.01	0.10	0.09	37,852,305,265	43,850,172,430	100.0%	0.09	464,277,517	100.0%
		(13)										
Company average letter cost 2003		$ 0.09										

Standard ECR Unit Cost

	TY 2004 Unit Costs (cents)		
Total ECR letter unit cost	0.070	(14)	
Total ECR letter delivery unit cost	0.052	(15)	
	TY 2004 Delivery Unit Costs (cents) (16)	**FY 2003 Mail Volume (Pieces) (17)**	**FY 2003 Mail Volume (Percent) (18)**
ECR Basic Auto Letters	0.046	25,001,012	93.6%
ECR Basic Letters	0.066	1,005,992	3.8%
ECR High Density Letters	0.045	12,771	0.0%
ECR Saturation Letters	0.035	699,186	2.6%
Total		26,721,961	
Company Average letter ECR Unit Delivery Cost			0.048 (19)
Company Delivery Cost Adjustment			-0.004 (20)
Company ECR total letter unit cost			0.066
(20) **Average Cost per piece**			0.087 (21)

(1) Docket No. R2001-1, LR-J-58, LR58AREG.xls, total unit letter costs
(2) Docket R2001-1, LR-J-60 Revised 11/15/01
(3) Docket R2001-1, LR-J-60 Revised 11/15/01
(4) (1) - average from (2) - average from (3)
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, SM base year volumes from SM letter model.
(8) Revenue, Pieces, and Weight (RPW) Report
(9) Each row in (8) divided by total in (8)
(10) (6)
(11) CBCIS 2003 Bank One Volume Data
(12) Each row in columnm (11) divided by total in column (11)
(13) Weighted average costs calculated by multiplying column (10) by column (12)
(14) Docket No. R2001-1, LR-J-58, LR58AECR.xls, total TY2003 ECR unit letter costs
(15) Docket No. R2001-1, LR-J-58, LR58AECR.xls, sum of TY2003 ECR unit letter delivery costs
(Cost segments 6, 7 and 10) * inflationary cost adjustment factor (Assumptions)
(16) Docket No. R2001-1, LR-J-117, Revised 1/22/02, TY2003 unit delivery costs * inflationary cost adjustment factor (Assumptions)
(17) CBCIS 2003 Bank One Volume Data
(18) Percent of volume in each row of (17) divided by total in (17)
(19) Weighted average of the unit costs in (16) weighted by the volume percents in (18)
(20) (15) - (19)
(21) { (18) + (20) } * Contingency
(22) {(13 * 11) + (21 * 17)} / (11 + 17)

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	Year 1	(13) Year 2	(14) Year 3
First Class Letter			
(1) Avg Revenue First-Class Letters	0.292	0.292	0.292
(2) First-Class Operational Letter cost per Piece Before Rates	**0.107**	**0.111**	**0.116**
(3) First-Class Operational Letter cost per Piece After Rates	**0.107**	**0.111**	**0.116**
(4) First-Class Operational Letter avg. Contribution Before Rates	**0.185**	**0.181**	**0.176**
(5) First-Class Operational Letter avg. Contribution After Rates	**0.185**	**0.181**	**0.176**
(6) First-Class Marketing Letter cost per Piece Before Rates	**0.146**	**0.152**	**0.158**
(7) First-Class Marketing Letter cost per Piece After Rates	**0.130**	**0.135**	**0.141**
(8) First-Class Marketing Letter avg. Contribution Before Rates	**0.146**	**0.140**	**0.134**
(9) First-Class Marketing Letter avg. Contribution After Rates	**0.162**	**0.157**	**0.151**
Standard Mail			
(10) Standard Revenue per Piece	0.177	0.177	0.177
(11) Standard Cost per Piece	**0.087**	**0.090**	**0.094**
(12) Standard Letter Contribution per Piece	**0.090**	**0.087**	**0.083**

(1) Revenue per piece (FCM rev calc)
(2) Current Total Unit Cost Estimates, Including Contingency (Ops unit cost)
(3) After Rates Total Unit Cost Estimates, Including Contingency (Ops unit cost)
(4) (1) - (2)
(5) (1) - (3)
(6) Current Total Unit Cost Estimates, Including Contingency (Mktg unit cost)
(7) After Rates Total Unit Cost Estimates, Including Contingency (Mktg unit cost)
(8) (1) - (6)
(9) (1) - (7)
(10) Average Revenue per Piece (SM rev calcs)
(11) Average Cost per Piece (SM cost calcs)
(12) (10) - (11)
(13) Year 1 * Inflation cost adjustment factor Year 2 (Assumptions)
(14) Year 2 * Inflation cost adjustment factor Year 3 (Assumptions)

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		Year 1	Year 2	Year 3	Total
ACS Savings					
(1)	Operational Mail	$ -	$ -	$ -	-
(2)	Marketing Mail Letter	**$ 481,634**	**$ 500,899**	**$ 520,935**	**1,503,469**
(3)	Marketing Mail Flat	**$ 2,012,052**	**$ 2,092,534**	**$ 2,176,235**	**6,280,820**
Contribution from New Volume					
(4)	Operational Mail	$ -	$ -	$ -	-
(5)	**Marketing Mail Letter**	**$ 1,366,206**	**$ 6,930,782**	**$ 6,752,665**	**15,049,653**
(6) Total Exposure		$ 957,400	$ 957,400	$ 957,400	**2,872,200**
(7) Total Incremental Discounts		$ 597,325	$ 3,823,675	$ 3,823,675	**8,244,675**
(8) Total USPS Value		**$ 2,305,167**	**$ 4,743,140**	**$ 4,668,760**	**11,717,067**

(1) *Operational Mail After Rates Return Costs (UAA calcs)*
(2) (Marketing Mail Letter Return Costs -Marketing Mail Letter After Rates Return Costs (UAA calcs))*Contingency
(3) Marketing Mail Flats - Marketing Mail Flats After Rates Return Costs (UAA calcs)*Contingency
(4) (Operational Mail After Rates - Operational Mail Before Rates) * FCM Operational Letter avg. Contribution After Rates
(5) (Marketing Mail Letter After Rates - Marketing Mail Letter Before Rates) * FCM Marketing Letter avg. Contribution After Rates
(6) Total Exposure (Disc&Leak)
(7) Discount Earned - Total Exposure (Disc&Leak)
(8) (1) + (2) + (3) + (4) + (5) - (6) - (7)

Special Services Update
Address Change Service (ACS Flats)

	Total cost/piece		Frequency		Weighted Cost/Piece	
ACS COA Notification						
Mechanized Terminal	$0.0660	[1]	0.00	[7]	$0.0000	[14]
Non-Mechanized Terminal	$0.2691	[2]	1.00	[8]	$0.2691	[15]
					$0.2691	[16]
ACS Nixie Processing						
Nixie Clerk handling	$0.0000	[3]	1.00	[9]	$0.0000	[17]
ACS Nixie Keying	$0.2074	[4]	1.00	[10]	$0.2074	[18]
					$0.2074	[19]

			% of ACS Volume		Volume Weighted Cost per Piece	
ACS COA notification	$0.2691	[5]	58.03%	[11]	$0.1561	[20]
ACS Nixie processing	$0.2074	[6]	41.97%	[12]	$0.0870	[21]
TOTAL COST PER PIECE			100.00%	[13]	**$0.243**	[22]

[1] USPS LR-I-110, Table 5.2.2, cell J31
[2] USPS LR-I-110, Table 5.2.2, cell J32
[3] These costs are treated as institutional.
[4] USPS LR-I-110, Table 5.2.2, cell J29
[5] [16]
[6] [3]+[4]
[7] USPS LR-I-110, Table 5.2.2, cell L31
[8] USPS LR-I-110, Table 5.2.2, cell L32
[9] All nixies subject to clerk processing.
[10] All nixies subject to keying.
[11] ACS "keyed only" pieces/Total ACS Volume
[12] Nixie Pieces/Total ACS Volume
[13] [11]+[12]
[14] [1]*[7]
[15] [2]*[8]
[16] [14]+[15]
[17] [3]*[9]
[18] [4]*[10]
[19] [17]+[18]
[20] [5]*[11]
[21] [6]*[12]
[22] [20]+[21]

Physical Return Costs

Cost for UAA Mail Being Returned to Sender
Physical Flat Mailpieces Returned

	A Annual Volume (Thousands)	B Cost/Piece	C Annual Cost (Thousands)	D Frequency	E Weighted Cost/Piece
1.	69,209 (1)	$0.0545 (2)	$3,771	1.00	$0.0545
2.	33,866 (3)	$0.2711 (4)	$9,181	0.49 (5)	$0.1327
3.	24,021 (6)	**$0.5381** (7)	$12,926	0.35 (8)	$0.1868
4.	69,209 (1)	$0.6295 (9)	$43,567	1.00	$0.6295
5. Total					**$1.0034**

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the portion of return to sender mail that is returned by the Nixie clerk at the delivery unit, along with the portion of ACS Nixie that is returned at the CFS unit. This is the ratio of Rows 2 and 1, Column A.
(6) *Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", Total Returned.*
(7) Refer to Table 5.2.2, Column G, (Non-ACS) Total. Non Mach terminal cost/piece is used.
(8) This is the portion of return to sender mail returned from the CFS unit, along with the portion of ACS Nixie that is returned from the CFS unit. This is the ratio of Rows 3 and 1, Column A, Table 5.2.2.
(9) Refer to Table 5.2.4.1, Row 2, Column F.This Number was calculated based on data obtained from USPS Cost Attribution

Electronic "Return" Costs

Cost of UAA Mail Being Returned to Sender
Bank One Accepts ACS Flats

	A Annual Volume (Thousands)	B Cost/Piece (1)	C Annual Cost (Thousands)	D Frequency	E Weighted Cost/Piece
1.	69,209 (1)	$0.0545 (2)	$3,771	1.00	$0.0545
2.	33,866 (3)	$0.2711 (4)	$9,181	0.49 (5)	$0.1327
3. eACS					$0.2430 (6)
4. Total					**$0.4301**

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the cost of the Nixie clerk preparing mail for the CFS unit (USPS-LR-1/MC2002-2, page 1, row 2 as proxie).
(6) *From Tab 3 of USPS LR-J-69.*

1 IX. DATA AND APPENDICES

2 Appendix B

3 EXPLANATION OF FINANCIAL MODEL

4

5 The Bank One Model incorporates all of the cost and revenue per piece
6 information into one comprehensive workbook. It serves as a presentation mechanism
7 for the customer-specific revenue and cost calculations. The model was essentially
8 built upon the same revenue and cost assumptions (discount and exposure (leakage)
9 calculations) as the Capital One NSA. The historical and forecasted volumes are
10 provided by Bank One witness Rappaport (BOC-T-1 at 5-6). All of these inputs provide
the basis for calculating the value of the NSA.

12

13 **Assumptions**

14 The assumptions contain the returns rate of UAA returns for Bank One's mail mix
15 as provided by witness Rappaport (BOC-T-1 at 9). The inflation cost adjustment factor,
16 a weighted average of inflationary factors, represents the inflationary cost growth
17 projected by the Postal Service. Currently, that factor is 4 percent. The Capital One
18 manual and electronic return unit costs for letters, adjusted for inflation, serve as proxies
19 in the Bank One Model (USPS-LR-1/MC2002-2). The manual and electronic return unit
20 costs for flats are the adjusted subclass averages (USPS-LR-1/MC2002-2). Costs for
21 Years 1, 2 and 3 of the agreement are adjusted by the inflationary cost growth of 4
2 percent. The Address Change Service (ACS) success rate was explained by USPS
23 witness Wilson (Docket No. MC2002-2, USPS-T-4 at 7) and is assumed to be constant

1 throughout the life of the agreement. The Bank One model assumes 100 percent of the
2 incremental mail volume growth to come from migrating Standard Mail to First-Class
3 Mail for all marketing letters. The contingency[1] is a multiplicative factor applied to all
4 forecasted postal costs. The application of the contingency is uniform across all unit
5 costs.
6
7 **Volume Calculations**
8 The Volume Calculations contain Bank One's mailing mix, consisting of
9 operational mail, marketing mail letters, and marketing mail flats. The mailing mix for
10 2001 through 2003 provides a historical view of Bank One's past mailing profile. To
illustrate the volume response to incentives, Bank One witness Rappaport has provided
12 the volume forecasts for Bank One, both in the absence of an agreement (BR) and in
13 the presence of an agreement (AR). BOC-T-1 at 5-6.
14
15 **First-Class Mail Revenue Calculations**
16 Appendix A, page 3 of the model shows the First-Class Mail profile of Bank One.
17 It is similar to the profile in the Capital One NSA (MC2002-2, USPS-T-3). It provides a
18 representation of the estimated revenue per piece for Bank One marketing and
19 operational mail pieces.

---

[1] The contingency is applied to all forecasted postal costs to protect against unforeseen circumstances. It is applied as the very last step in development of the roll-forward costs. It needs to be incorporated in NSA calculations for two reasons. First, the existing rates from which the NSA rates or discounts are being derived include contingency. In the absence of an NSA, the rates that Bank One would be paying would have been set so as to recover the contingency. Furthermore, the NSA financial analyses are projections into the future, and the further into the future the projections are made, the more appropriate the application of the contingency.

1

2 **Operational Unit Cost and Marketing Unit Cost**

3 The unit cost estimates for operational mail were built on the same assumptions
4 as the First-Class Mail Presort Letters/Flats Unit Cost Estimate of witness Crum (Docket
5 No. MC2002-2, USPS-T-3, "Atta2.xls") for the Capital One NSA. Estimates for the Bank
6 One NSA differ from those of the Capital One NSA in the Test Year (TY) calculations,
7 the Bank One volumes, and the total unit cost (sources 17 and 18). The TYBR 2003
8 unit cost is based on Docket No. R2001-1, with the weighted distributions calculated
9 from Base Year (BY) 2000 FCM volumes from the FCM letter model from Docket No.
10 R2001-1, PRC, LR-4. The TY 2004 cost estimates were derived by multiplying the
TYBR 2003 total unit cost by the inflationary growth rate of 4.0 percent.[2] FY 2003 Mail
12 Volume for Bank One was used because it was the latest full year historical volume
13 available. The Total Unit Cost estimates, including Contingency (Appendix A, page 4,
14 sources 17 and 18) are equal, based on the assumption that the before and after rates
15 forecasts of operational mail remain the same.

16 The Marketing Unit Cost is built on the same assumptions as the Operational
17 Unit Cost. The major difference is electronic diversion from ACS and the cost
18 differential between manual and electronic returns for UAA mail. Operational mail does
19 not receive the Change Service Requested (CSR) endorsement, because it needs to be

[2] Columns are labeled as "TYBR 2003" in these sheets because those figures are drawn from Docket No. R2001-1, in which FY 2003 was the test year. Columns are labeled as "TY 2004" because FY 2004 is the first of the three years in which the instant NSA is assumed to be in effect. Estimates for the last two years of the agreement, Years 2 and 3, are presented in the subsequent sheets. FY 2004 is not the exclusive "test year" in this proceeding in the sense that FY 2003 was the test year in the Capital One proceeding. It is, rather, one of three relevant years for which estimates are presented and evaluated.

1 physically returned to Bank One. Marketing mail receives the endorsement, and
2 information is returned from UAA mail electronically 85 percent of the time. This
3 explains why the Total Unit Cost, including Contingency, differs in sources 17 and 18
4 (Appendix A, page 5); the after-rates unit cost is 1.6 cents less than the before-rates
5 unit cost.
6
7 **Discount and Exposure**
8 The declining block rate structure for the proposed NSA begins at 535,000,000
9 pieces, with a discount of 2.5 cents per piece. Exposure (to the Postal Service)
10 measures the discounted revenue associated with declining block rates for mail volume
that Bank One would have mailed in the absence of the proposed NSA. For each year,
12 Bank One's BR forecast falls within the second tier of the discount structure. Total
13 exposure is therefore calculated by adding the first tier to the second tier. Because the
14 first tier exposure must be maximized before discount calculations apply, the ending
15 threshold is reduced by the beginning threshold (560,000,000 – 535,000,000), and that
16 difference is multiplied by the corresponding discount (2.5 cents). The first tier
17 exposure equals $625,000. The second tier exposure is the remaining volume less the
18 beginning threshold (571,079,992 – 560,000,001), multiplied by the discount (3.0 cents),
19 equaling ($332,400). Thus, the total exposure in each year in this case is $957,400
20 ($625,000+$332,400).
21 Based on the Y1AR Forecast, Bank One could achieve discounts in the first,
? second and third tiers of the agreement, equaling $1,554,725, using the same formula
23 as exposure. Discounts are given on pieces mailed above the threshold. Double

counting of the 36,080,000 (Y1BR – Beginning Threshold: 571,080,000 – 535,000,000) mail pieces occurs in the discount and exposure calculations, because the 36,080,000 pieces are in the exposure calculation. The Y1AR volume of 590,135,000 is made up of the Y1BR volume plus the 19,055,000 additional marketing pieces. To account for this double counting, the Postal Service subtracts the discount from the exposure, to get the "real" discount calculation of $597,325 (Appendix A, page 11).

UAA Calculations

In lieu of receiving physical returns, Bank One will accept electronic diversion of address changes or corrections, as Capital One does. This results in cost savings to the Postal Service by replacing costly physical returns with the less costly transmission of electronic information. The estimated Capital One physical and electronic return unit costs described in USPS-LR-1/MC2002-2 will be used in the Bank One model. The total return costs savings vary from the Capital One model because of the different marketing mail volumes and return rate forecasts (9 percent for Bank One's marketing mail letters) and the inclusion of the contingency on the base cost.

To calculate the cost savings, multiply the expected volume of Bank One's UAA mail times the unit costs savings for each piece processed through the ACS times the percentage of Bank One's UAA mail that will be processed. The calculation relies upon the evidence in Docket No. MC2002-2 for (1) the estimated percentage of Bank One's UAA mail that will be processed through the ACS system (85 percent) and (2) the unit savings for each UAA piece processed through the ACS system. The contingency is not applied until page 11.

Standard Mail Revenue Calculations and Standard Mail Cost Calculations

The Standard Mail Regular and Enhanced Carrier Route (ECR) Revenues are based on the Standard Mail Regular and ECR billing determinants of Bank One. The revenue per piece for both Regular and ECR is a weighted average of the revenue per piece and the percent of Bank One volume. The Standard Regular and ECR unit costs are based on Docket No. R2001-1 for TY 2003 unit costs (Docket No. R2001-1, USPS LR-J-58). These data are based on the USPS version of the cost models, due to the fact that a PRC-version is not available for some of the data. Specifically, the total unit costs of Standard letters and Standard ECR letters are needed for this analysis. These data are found in the USPS Weight Study (Docket No. R2001-1 USPS LR-J-58), and there is no PRC version of this document. The format for 2004 unit costs follows the First-Class Mail Unit Cost estimates on pages 4 and 5 of Appendix A. This provides the customer-specific revenue and cost data on Bank One's Standard Mail. The standard mail cost is adjusted by the contingency, as was the First-Class Mail cost.

Contribution Inputs

The Contribution Inputs calculate the contribution per piece of Bank One's operational mail and marketing mail letters. This per piece calculation provides the Postal Service with before and after rates revenue, cost, and contribution for First-Class Mail and Standard Mail on a customer-specific basis. It also allows for forecasting future contribution per piece in the out-years of the agreement by allowing the inflationary growth to be multiplied by the cost of each subclass. Unit revenue remains constant over the three-year agreement.

USPS Value

The total USPS value looks at the value determinants, less the discount and exposure associated with the declining block rate structure. "Contribution from New Volume" is any volume above the before rates forecast multiplied by the difference between the First-Class Mail and the Standard Mail estimated contributions. This is so because Bank One indicates that all of its new First-Class Mail volume will be switched from Standard Mail (100 percent conversion). BOC-T-1 at 8.

Flats Adjustment

Estimating the savings associated with conversion to ACS requires several steps. First, the physical return cost needs to be calculated. As shown in Appendix A, page 13, the estimated Postal Service cost of physically returning Bank One's flat-size First-Class Mail is $1.0190 per piece, derived as follows. I adjusted the base UAA cost in Docket No. R2001-1 (USPS-LR-J-69) by removing the costs associated with collection of postage due. This follows the methodology employed by witness Crum in Docket No. MC2002-2 for Capital One's letter-size First-Class Mail.

Second, the cost of electronic "returns" must be calculated. Appendix A, page 14 shows that the estimated cost of electronically handling UAA mail from point of return is 43.01 cents per piece. This cost is calculated by adjusting the electronic Address Correction Service costs provided in Docket No. R2001-1 by Postal Service witness Abdirahman (USPS-LR-J-69) to include costs that these mail pieces incur prior to actual electronic Address Correction Service processing. The difference between the cost of

physically returning the mail piece and electronically handling the UAA mail piece via ACS is the estimated unit cost savings of 58.89 cents. This follows the methodology employed by witness Crum in Docket No. MC2002-2 for Capital One's letter-size First-Class Mail.

Appendix C

BANK ONE CORPORATION NSA
PROPOSED DATA COLLECTION PLAN

The Postal Service plans to collect the following data pertaining to the NSA with Bank One Corporation (Bank One):

1. The volume of First-Class Mail solicitations by rate category in eligible Bank One permit accounts;

2. The volume of First-Class Mail customer mail by rate category in eligible Bank One permit accounts;

3. The amount of discounts paid to Bank One for First-Class Mail by incremental volume block;

4. The volume of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to Bank One;

5. The number of electronic address correction notices provided to Bank One for forwarded solicitation mailpieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).

6. The number of electronic address correction notices provided to Bank One for solicitation mailpieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).

7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.

8. For each First-Class Mail solicitation mailing list run against NCOA, Bank One will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.

9. For each Change of Address record that is used to forward a piece of Bank One solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.

As part of each data collection plan report, the Postal Service will provide an evaluation of the impact on contribution. It will also provide an assessment of trends of Bank One's First-Class Mail volume as compared to overall First-Class Mail volume.

Data collected under the plan shall be reported annually following the end of the fiscal
2 year, with the first report being made available at the end of FY 2004. The Postal
3 Service shall provide the data in a PC-available format.

POSTAL RATE COMMISSION
DOCKET NO. MC2004-3
DECLARATION OF MICHAEL K. PLUNKETT

I hereby declare, under penalty of perjury, that:

I prepared the interrogatory responses, and responses to the Presiding Officer's Information Requests, which were filed under my signature and which have been designated for inclusion in the record in this docket, as amended by errata; and

If I were to respond to these interrogatories and Presiding Officer's Information Requests orally today, the responses would be the same.

MICHAEL K. PLUNKETT

DATE 9.13.04

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.

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.

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.

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), 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.

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*$.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.

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.

OCA/USPS-T1-8. Please refer to you 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.

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).

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.

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

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.

OCA/USPS-T1-12. Please refer to 612.31 of Attachment A to the Request containing proposed DMCS language implementing the Bank One NSA. Since the J.P. Morgan Chase - Bank One merger is complete, please provide the first-year Discount Threshold for the J.P. Morgan Chase - Bank One merged entity.

RESPONSE:

Please see the Response of Bank One witness Rappaport to OCA/BOC T1-14.

OCA/USPS-T1-13. Please refer to Attachment B to the Request, and Rate Schedule 612A and Rate Schedule 612B.

(a) Since the J.P. Morgan Chase - Bank One merger is complete, please provide Rate Schedule 612A for the J.P. Morgan Chase - Bank One merged entity.

(b) Since the J.P. Morgan Chase - Bank One merger is complete, please provide Rate Schedule 612B for the J.P. Morgan Chase - Bank One merged entity.

RESPONSE:

Please see the Response of Bank One witness Rappaport to OCA/BOC T1-14.

OCA/USPS-T1-14. Please refer to 612.34(a) and (b) of Attachment A to the Request containing proposed DMCS language implementing the Bank One NSA. Since the J.P. Morgan Chase - Bank One merger is complete, please confirm that under 612.34(a) and (b), the size of the incremental volume blocks in Rate Schedule 612B will be the same size as Rate Schedule 612A, i.e., 25 million (minus 1), 25 million (minus 1), 25 million (minus 1), 35 million (minus 1), and 35 million (minus 1). If you do not confirm, please explain.

RESPONSE:

Confirmed that the size of the blocks will be the same. See also Response of Bank One witness Rappaport to OCA/BOC T1-14.

OCA/USPS-T1-15. Please refer to your testimony at page 8, lines 13-15, and the Commission's opinion in Docket No. MC2002-2, at pages 71-73.

(a) Please confirm that the Postal Service has developed an analysis of the type described in the Commission's opinion with respect to Bank One. If you do confirm, please provide the analysis. If you do not confirm, please explain.

(b) Please explain how, in the absence of an analysis referred to in part (a) above, the Postal Service has avoided the "design defects" described in the Commission's opinion with respect to the declining block rates applicable to Bank One under the NSA.

RESPONSE:

a. Not confirmed. The analysis was not done in part because NSA rules do not require this type of analysis. More importantly, the analysis relates to an NSA that is comprised solely of declining block rates, as it does not account for the ACS savings. The rules appropriately focus of the financial analysis on the financial impact of the NSA, which would necessarily require an analysis of the total impact, not just the impact of two components (leakage and new contribution.)

b. The "design defects" described in the Commission's opinion appear to consider declining block rates absent other considerations. As the Bank One NSA also produces net contribution gains from ACS savings it has a different design, and therefore would not be subject to the same defects. Moreover, appendix A to my testimony estimates the financial impact of the agreement and takes into account leakage, new contribution, and ACS savings.

OCA/USPS-T1-16. Please refer to Appendix A of your testimony. Since the J.P. Morgan Chase - Bank One merger is complete, please provide your Appendix A for the J.P. Morgan Chase - Bank One merged entity.

RESPONSE:

Please see the Response of Bank One witness Rappaport to OCA/BOC T1-14.

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

OCA/USPS-T1-17. Please refer to pages 12 and 13 of your testimony.

a. Did you perform or obtain different projections of Bank One's before- and/or after-rates volumes for the years that the NSA will be in effect? If so, please provide such projections and supporting documentation. If not, why not?

b. Did you perform or obtain (*e.g.,* from Finance) analyses of the effect of the NSA on postal finances other than the analysis contained in Appendix A of your testimony? If so, please provide such analyses and supporting documentation. If not, why not?

RESPONSE:

a. See USPS response to POIR 1, question 4.

b. I did not perform or obtain any other analyses (other than those sponsored by Bank One witness Buc (USPS-T-2) in this docket). In analyzing the NSA, I used the same method employed by witness Crum in MC2002-2. Deviations from witness Crum's technique are explained in Appendix B of my testimony. See also USPS response to POIR 1, question 4.

OCA/USPS-T1-18. Please refer to page 16 of your testimony.

a. Please assume that Bank One's Year-1 before-rates volume estimate of 571 million pieces is normally distributed. Please confirm that under this assumption, the probability that before-rates volumes in Year 1 would be greater than 571 million is 50 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

b. Please assume that Bank One's Year-1 before-rates volume estimate of 571 million pieces is normally distributed with coefficient of variation of ten percent.
   i. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 571 million is 50 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
   ii. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 586 million is approximately 40 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
   iii. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 601 million is approximately 30 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
   iv. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 616 million is approximately 22 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

RESPONSE:

a. Confirmed only that if one assumes that Bank One's probable year one before rates mail volumes are normally distributed about a mean of 571 million, then by definition there is a 0.5 probability that before rates volume will exceed 571 million pieces.

b. Confirmed only that the probabilities assigned by the question to specific volume levels follow correctly from the parameters assumed by the question. There is no

reason to believe, however, that a probability distribution of Bank One's year one before rates volumes can be plausibly defined according to these parameters.

OCA/USPS-T1-19. Please refer to the attachment to this interrogatory and confirm that under the Commission's MC-2002-2 methodology, the stop-loss volume for Bank One would be 616.6 million pieces. If you do not confirm, please provide the correct volume and show its derivation.

RESPONSE:

Not confirmed. The attached worksheet (line 15) shows "BOC TYBR Equilibrium Solicitation Letter Volume" to be 581.6 million pieces. This appears to be incorrect, and should instead be identified as "BOC TYBR Equilibrium First-Class Mail Letter Volume." Furthermore, if Bank One were to attain volumes of 616.6 million pieces, then the expected ACS savings would be substantially larger than the $2.5 million calculated in the attached worksheet. By assuming that solicitations are a fixed proportion of Bank One's letter mail volume at all volume levels, the attached worksheet erroneously assumes that growth from 571 million pieces of mail to 616 million pieces would come predominantly from statements. If, as is likely, the volume growth prompted by the NSA will consist predominantly of solicitations, then the cost savings will be considerably larger (because statements for currently active accounts by definition tend to have addresses with a very low UAA rate). For example, if 100% of the incremental volume consists of solicitation mail, then a volume of 616.6 million pieces would produce ACS savings for letters under the NSA of approximately $3.2 million with a combined ACS savings for letters and flats of $9.5 million.

BANK ONE NSA
Stop Loss Estimate

TABLE 1
ACS Related Savings

[1]	Manual Flat Returns Unit Cost	$1.06
[2]	Manual Letter Returns Unit Cost	$0.55
[3]	Electronic Flat Returns Unit Cost	$0.45
[4]	Electronic Letter Returns Unit Cost	$0.34
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC TYBR Customer Mail Volume	506,650,000
[9]	BOC TYBR Solicitation Letter Volume	29,387,000
[10]	BOC TYBR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of TYBR Letter Volume	5.4823%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.00087234
[14]	BOC ACS Unit Cost Savings - Flats	$0.05726308
[15]	BOC TYBR Equilibrium Solicitation Letter Volume	581,600,577
[16]	Total ASC Cost Savings - Letters	$507,353
[17]	Total ASC Cost Savings - Flats	$2,006,670
[18]	Total ASC Test Year Savings	$2,514,023

TABLE 2
Discount Leakage

Volume Block [1]			Incremental Volume	Discount	Discount Leakage
[a]		[b]	[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	616,600,577	6,600,576	$0.040	$264,023
645,000,001	to			$0.045	$0
680,000,001	to			$0.050	$0
					$2,514,023

TABLE 1

Notes & Sources

[1] USPS-T-1 (Plunkett), Appendix A, page 1
[2] USPS-T-1 (Plunkett), Appendix A, page 1
[3] USPS-T-1 (Plunkett), Appendix A, page 1
[4] USPS-T-1 (Plunkett), Appendix A, page 1
[5] USPS-T-1 (Plunkett), Appendix A, page 1
[6] USPS-T-1 (Plunkett), Appendix A, page 1
[7] USPS-T-1 (Plunkett), Appendix A, page 1
[8] USPS-T-1 (Plunkett), Appendix A, page 2
[9] USPS-T-1 (Plunkett), Appendix A, page 2
[10] USPS-T-1 (Plunkett), Appendix A, page 2
[11] = [9] / ([8] + [9])
[12] Percent of solicitation flats eligible for ACS
[13] = ([2] - [4]) * [5] * [7] * [11]
[14] = ([1] - [3]) * [6] * [7] * [12]
[15] = Table 2 [1b] - ([10] - 43,000)
[16] = [13] * [15]
[17] = [14] * [10]
[18] = [16] + [17]

TABLE 2

Notes and Sources:

[1] Request, Attachment B
[3] Request, Attachment B

OCA/USPS-T1-20. Please assume that Bank One's Year-1 before-rates volume estimate of 571 million pieces is normally distributed. Under this assumption, please confirm that the coefficient of variation of that estimate must be no greater than 4.86 percent in order for the probability of the Postal Service's not losing money to be greater than 95 percent. If you do not confirm, please provide an estimate of the maximum coefficient of variation and explain its derivation.

RESPONSE:

Not confirmed. With the parameters assumed by the question, the probability is 0.95 that volume would not exceed 616 million pieces. Based on the calculations presented in OCA/USPS-T1-19, this is the level where expected ACS savings are presumed to equal discounts paid under the terms of the NSA. Notwithstanding the errors cited in my response to OCA/USPS-T1-19, there is an even more fundamental error in the calculations offered in OCA/USPS-T1-19: they assume that the NSA will yield a net gain in contribution from new volume of zero. Even if one were to assume that Bank One would have sent 616 million pieces without the NSA, an assumption that there will be no new volume as a result of the incentives provided by the NSA is at odds with the testimony of witness Rappaport (BOC-T-1) and witness Buc (BOC-T-2). Stated otherwise, the question assumes (1) that exogenous factors would cause Before Rates volume to exceed the estimated level of 571 million pieces by a wide margin, yet would have no effect on After Rates volume, and (2) the declining block rate discounts offered in the NSA would have no effect on the volume of First Class mail entered by Bank One. Both assumptions are illogical and unsupported by any data I have seen.

I am unable to provide alternative estimates. While it would be possible to solve for a standard deviation such that expected discounts would equal expected ACS

savings, even a minimal volume response would ensure positive contribution to the Postal Service.

OCA/USPS-T1-21. Please provide an estimate, and explain its derivation, of the coefficient of variation of Bank One's

a. Year 1 volume estimate of 571 million pieces;
b. Year 2 volume estimate of 571 million pieces;
c. Year 3 volume estimate of 571 million pieces.

RESPONSE:

As commonly used, the term "coefficient of variation" normally refers to the degree of uncertainty associated with an arithmetic mean. To derive coefficients of variation for these volume estimates would therefore require an observed pattern of variation between the actual result and the forecast value. Moreover, it would imply that the methodology used to develop the observed pattern of variance was also used to produce the forecast. As the Bank One forecast was not prepared in this way, and in fact was produced solely for use in this docket, It is not possible to derive a meaningful estimate of these terms.

OCA/USPS-T1-22. Please confirm that *ceteris paribus* the coefficient of variation of a volume projection increases as one projects farther into the future. If you do not confirm, please explain.

RESPONSE:

Not confirmed. While it is not the purpose of my testimony to offer opinions on the principles of forecasting, it is my understanding that, depending on the variable that is being forecast, longer range estimates may be more reliable than shorter range estimates. For instance, commodity prices may exhibit short-term volatility while being relatively stable over longer periods. This does not necessarily mean that it is in any way easier to produce a precise point estimate in a period that is farther in the future. See also my response to OCA/USPS-T1-21. In this instance it should be pointed out that the forecasts used in this case were not produced through sampling or regression analysis, but instead incorporated business judgment from a senior Bank One executive. Moreover, the testimony of Bank One witness Buc (BOC-T-2) shows that the additional volume of First Class solicitation mail that will be generated by the proposed rate discounts is likely to be greater than the Postal Service has assumed in its financial and cost analysis in this case.

OCA/USPS-T1-23. Please confirm that 85 percent of Bank One's mail that shifts from Standard to First-Class will incur *new* electronic return costs. Please confirm that 15 percent of Bank One's mail that shifts from Standard to First-Class will incur *new* manual return costs. If you do not confirm, please explain. If you confirm, please indicate where this cost is accounted for in Appendix A of your testimony.

RESPONSE:

Not confirmed. Of the mail that shifts from Standard to First-Class Mail, I have assumed that 7.7 percent (0.09*0.85) will receive electronic returns, and 1.3 percent (0.09*.15) will be returned manually. I included costs for these First-Class Mail physical and electronic returns when calculating "Contribution from New Volume" in Appendix A of my testimony.

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

OCA/USPS-T1-24. Please refer to your testimony at VI. Discount Cap, pages 15-17, and PRC Op. MC2002-2, page 154, footnote 83, which states:

> This excludes any potential increased contribution as a result of Capital One responding to the declining block rate structure by increasing its volume of First-Class Mail. The commission is excluding this potential contribution because the record does not provide an adequate basis for evaluating the response of Capital One (and its competitors) to the declining block rates. *See* Chapter V, Section M, for the analysis leading to this conclusion.

Please expand on your testimony and address the Commission's concern with respect to unknown before rates volumes and the unknown response to discounts.

Response:

The record in this case addresses the Commission's concerns on several levels. First, it shows that Before Rates First-Class marketing letter volume—the only type of First-Class mail volume over which Bank One appears to have significant discretion—would have to increase by nearly *300 percent* over Bank One's current marketing letter volume before the resulting "leakage" from the NSA rate discounts outweighed the ACS cost savings potential generated by the Before Rates volume. *See* my response to Presiding Officer's Information Request No. 1, Question 7 (filed July 26, 2004).

Also, the record shows that an unanticipated increase in Before Rates volume of this magnitude is extremely unlikely. Bank One's historical volumes, in contrast to those of Capital One, have been quite stable in recent years. *See* USPS-T-1 (Plunkett Direct), App. A, p. 2. Moreover, the terms of the NSA establishing an annual threshold adjustment and merger adjustments provide structural safeguards against the risk that Bank One could obtain volume-related discounts for increases in First-Class Mail volume caused by a merger or an organic increase in the scale of Bank One's business. *See* NSA ¶¶ III.F (annual threshold adjustment) and IV (merger adjustments).

Moreover, the co-proponents of the NSA in this case have submitted a more sophisticated and thorough analysis of the anticipated financial effects of the proposed block discount schedule, including the effects of leakage, new contribution and ACS savings, than the proponents submitted to the Commission in the Capital One case. *See* Plunkett Direct (USPS-T-1), App. A; response of USPS witness Plunkett to OCA interrogatory OCA-USPS-T1-15; Buc Direct (BOC-T-2). In particular, Mr. Buc's testimony provides a sophisticated model of the optimization analysis used by credit card marketers to choose between Standard Mail and First-Class Mail solicitations. Relying on publicly available data, Mr. Buc shows that the proposed discount blocks will, under a range of plausible assumptions, elicit enough additional First Class Mail volume to generate a positive contribution to the Postal Service. Buc Direct (BOC-T-2).

The record shows that a stop-loss provision (or cap) would not eliminate financial risk for the Postal Service, but would substitute one risk for another. This is because a cap on total discounts creates the risk of choking off volumes that an incentive otherwise would induce. This is particularly true for the Bank One NSA: losses in contribution from the choked-off volume could be very large. Thus, imposing a cap would replace an insignificant risk with a substantial one. Bank One witness Buc has prepared an analysis based upon his the model presented in Mr. Buc's testimony (BOC-T-2), which shows an 80 percent chance that imposing an annual $2.5 million cap would reduce the contribution made by Bank One's mail to institutional costs by $9 million per year. Over the three year term of the NSA, the lost contribution could approach $40 million. Witness Buc today will provide this analysis in a partially redirected response to this interrogatory.

Additionally, the risks to the Postal Service from capping discounts transcend this case, particularly if the cap is limited to ACS cost savings. Many other banks have large quantities of Standard Mail solicitations. An appropriate discount incentive could enable the Postal Service to induce a large share of this volume to migrate to First-Class Mail, benefiting the Postal Service, banks, and other mailers. Limiting the discounts to the costs savings generated by solicitations currently mailed as First-Class Mail, however, would have a chilling effect on future functionally equivalent NSAs of this kind. Few other banks currently send enough First-Class Mail solicitations to justify the energy, time, and money needed to obtain a functionally equivalent NSA with discounts capped at ACS savings on Before Rates First-Class volumes.

Finally, the volume forecasts in the Capital One NSA case were revised mid-case to show that the TYBR and TYAR volume forecasts were the same, since the revised TYBR forecast was below the discount threshold. The lack of expected growth in that case limited the potential gain in contribution. However, in the instant case, the volume forecasts demonstrate a robust response to the proposed discount structure.

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

OCA/USPS-T1-25. Please refer to your testimony at VI. Discount Cap, pages 15-17, and PRC Op. MC2002-2, page 154, para. [8025], which states:

> Third party mailers will be unharmed by the NSA so long as the dollar amount of the volume discounts the Postal Service makes available to Capital One is not greater than the costs it avoids as a result of the return mail feature of the agreement.

Please explain how the Postal Service has protected third party mailers from harm should the dollar amount of the volume discounts provided to Bank One exceed the costs avoided as a result of the return mail feature of the Bank One NSA.

Response:

Please see my response to OCA/USPS-T1-24.

Furthermore, any meaningful risk analysis must recognize that the financial risks run in both directions. As explained in response to interrogatory OCA-USPS-T1-24, the risk of not pursuing an NSA is not zero. Ignoring the cost savings on existing volume, the Postal Service would lose without the NSA 19 million pieces in Year 1 and 99 million pieces in Years 2 and 3 of the agreement. The potential lost opportunity to the Postal Service is, at minimum, identified below.

	YEAR 1	YEAR 2	YEAR 3
Volume	19,055,000	99,055,000	99,055,000
Contribution *	$0.163	$0.157	$0.152
Lost Opportunity	$3,096,946	$15,586,528	$15,053,473

*MC2004-3 USPST-1-Appendix A page 10 line 9

The chart above illustrates that no NSA, at a minimum, means an opportunity cost of $33.7 million in additional contribution over the term of the NSA. Moreover, this new contribution is an important component that helps to protect third party mailers.

OCA/USPS-T1-26. Please refer to your testimony Appendix A, pages 3, 4 and 5.

(a) Please confirm that the "WEIGHTED AVERAGE/TOTAL" of 498,514,731 and 59,603,231 in column 11 on pages 4 and 5, respectively, sum to 558,117,962, the "Total Pieces" in column (3) on page 3. If you do not confirm, please explain.

(b) On page 4, please explain how the "WEIGHTED AVERAGE/TOTAL" of 498,514,731 in column 11 was derived. Show all calculations.

(c) On page 5, please explain how the "WEIGHTED AVERAGE/TOTAL" of 59,603,231 in column 11 was derived. Show all calculations.

(d) Please confirm that the volumes for the specified Nonautomation Presort Letters and Automation Presort Letters rate categories in column 11 on pages 4 and 5 sum to the volumes of the same Nonautomation Presort Letters and Automation Presort Letters rate categories on page 3, column 1. If you do not confirm, please explain.

(e) On page 4, please explain how the volumes of Nonautomation Presort Letters and Automation Presort Letters in column 11 were derived. Show all calculations.

(f) On page 4, please provide all calculations that show the derivation of the percentages in column 12 associated with Nonautomation Presort Letters and Automation Presort Letters.

(g) On page 5, please explain how the volumes of Nonautomation Presort Letters and Automation Presort Letters in column 11 were derived. Show all calculations.

(h) On page 5, please provide all calculations that show the derivation of the percentages in column 12 associated with Nonautomation Presort Letters and Automation Presort Letters.

Response:

(a) Confirmed.

(b) The total of 498,514,731 is the total sum of the Bank One's statement volume at the different rate categories. These values are the reconciled volume numbers from the USPS Permit system and Bank One, as shown below:

FIRST-CLASS MAIL LETTERS	**Volume (Column 11)**
Nonautomation Presort Letters	16,896,034
Automation Presort Letters	
Automation Mixed AADC	3,462,228
Automation AADC	5,935,849
Automation 3-Digit	321,218,301
Automation 5-Digit	150,886,728
Automation Carrier Route	115,591
WEIGHTED AVERAGE / TOTAL	**498,514,731**

(c) The total 59,603,231 is the total sum of the Bank One's marketing volume at the different rate categories. These values are the reconciled volume numbers from the USPS Permit system and Bank One, as shown below:

FIRST-CLASS MAIL LETTERS	**Volume (Column 11)**
Nonautomation Presort Letters	5,469
Automation Presort Letters	
Automation Mixed AADC	159,789
Automation AADC	157,854
Automation 3-Digit	20,459,211
Automation 5-Digit	38,358,545
Automation Carrier Route	462,363
WEIGHTED AVERAGE / TOTAL	**59,603,231**

(d) Confirmed.

(e) The volumes of Nonautomation Presort Letter and Automation Presort Letter in column 11 are actual Bank One volumes broken into rate categories. The only calculations used were to sum specific rate categories across all permits.

(f) Please see the following chart:

Rate Category	**Volume /**	**Total Volume =**	**Percentage**
Nonautomation Presort Letters	16,896,034	498,514,731	3.39%
Automation Presort Letters			
Automation Mixed AADC	3,462,228	498,514,731	0.69%
Automation AADC	5,935,849	498,514,731	1.19%
Automation 3-Digit	321,218,301	498,514,731	64.44%
Automation 5-Digit	150,886,728	498,514,731	30.27%
Automation Carrier Route	115,591	498,514,731	0.02%
WEIGHTED AVERAGE / TOTAL	**498,514,731**		**100.00%**

The percentages are calculated by dividing the "Volume" for each rate category column by the "Total Volume". This is reflected in footnote (12) on page 4 of Appendix A.

(g) Please see answer (e) above.

(h) Please see the following chart:

Rate Category	**Volume /**	**Total Volume =**	**Percentage**
Nonautomation Presort Letters	5,469	59,603,231	0.01%
Automation Presort Letters			
Automation Mixed AADC	159,789	59,603,231	0.27%
Automation AADC	157,854	59,603,231	0.26%
Automation 3-Digit	20,459,211	59,603,231	34.33%
Automation 5-Digit	38,358,545	59,603,231	64.36%
Automation Carrier Route	462,363	59,603,231	0.78%
WEIGHTED AVERAGE / TOTAL	**59,603,231**		**100.00%**

OCA/USPS-T1-27. Please refer to your testimony Appendix A, pages 4 and 5.

(a) On page 4, in columns (14) and (16), please confirm that the "Total Unit Cost Estimates, Including Contingency" of 0.107 and 0.107, respectively, are not used anywhere in Appendix A. If you do not confirm, please explain.

(b) On page 5, in columns (14) and (16), please confirm that the "Total Unit Cost Estimates, Including Contingency" of 0.146 and 0.129, respectively, are not used anywhere in Appendix A. If you do not confirm, please explain.

(c) Please explain the rationale for calculating, and intended use of, the figures referred to in parts (a) and (b) of this interrogatory.

Response:

(a) Please see the Errata that the Postal Service will be filing this week concerning the Contingency.

(b) Please see the Errata that the Postal Service will be filing this week concerning the Contingency.

(c) Pease see the Errata that the Postal Service will be filing this week concerning the Contingency.

of the term equilibrium – which could generally be interpreted as stable or normal – is inherently problematic as it mistakenly suggests a normative relationship between the earned discounts and ACS cost savings.

c. Not confirmed. The "equilibrium" Before Rates volume of 619,172,944 would only permit (i.e., incent) Bank One to mail 48,092,944 (619,172,944 minus 571,080,000) additional pieces (above Bank One's Before Rates volume figure) in Year 2, approximately 0.5 (48,092,944 / 99,055,000) times Bank One's Year 1 estimated volume response of 99 million pieces. Also, note that, as discussed by witness Buc (BOC-T-2), Bank One's volume response could be much larger than 99 million pieces. See also my response to part b.

d. Not confirmed. The "equilibrium" Before Rates volume of 621,853,081 would only permit (i.e., incent) Bank One to mail 50,773,081 (621,853,081 minus 571,080,000) additional pieces (above Bank One's Before Rates volume figure) in Year 3, approximately 0.5 (50,773,081 / 99,055,000) times Bank One's Year 3 estimated volume response of 99 million pieces. Also, I note that, as discussed by witness Buc (BOC-T-2), Bank One's volume response could be much larger than 99 million pieces. See also my response to part b.

OCA/USPS-T1-28. Please refer to PRC Op. MC2002-2, pages 152-156, and the attachment to this interrogatory.

(a) Please confirm that in Table 3, the calculated stop-loss estimate for Bank One is consistent with the Commission's calculation of the stop-loss estimate with respect to Capital One. If you do not confirm, please explain and provide the correct stop loss estimate. Please show all calculations.

(b) Refer to Table 2 in Year 1. Please confirm that the equilibrium Before Rates (BR) volume of 616,600,577 would permit Bank One to mail 81,600,576 (616,600,577 – 535,000,001) additional pieces in Year 1, more than 4.3 (81,600,576 / 19,055,000) times Bank One's Year 1 estimated volume response of 19 million pieces. If you do not confirm, please explain.

(c) Refer to Table 2 in Year 2. Please confirm that the equilibrium BR volume of 619,172,944 would permit Bank One to mail 84,172,943 (619,172,944 – 535,000,001) additional pieces in Year 2, or 0.8 (84,172,943 / 99,055,000) times Bank One's Year 2 estimated volume response of 99 million pieces. If you do not confirm, please explain.

(d) Refer to Table 2 in Year 3. Please confirm that the equilibrium BR volume of 621,853,081 would permit Bank One to mail 86,853,080 (621,853,081 – 535,000,001) additional pieces in Year 2, or 0.9 (86,853,080 / 99,055,000) times Bank One's Year 3 estimated volume response of 99 million pieces. If you do not confirm, please explain.

RESPONSE:

a. Confirmed.

b. Not confirmed. While the calculations appear to be correct, the "equilibrium" Before Rates volume of 616,600,577 would only permit (i.e., incent) Bank One to mail 45,520,577 (616,600,577 minus 571,080,000) additional pieces (above Bank One's Before Rates volume figure) in Year 1, approximately 2.4 (45,520,577 / 19,055,000) times Bank One's Year 1 estimated volume response of 19 million pieces. Also, I note that, as discussed by witness Buc (BOC-T-2), Bank One's volume response could be much larger than 19 million pieces. See also my response to OCA/USPS-T-1-19. Moreover, use

c. of the term equilibrium – which could generally be interpreted as stable or normal – is inherently problematic as it mistakenly suggests a normative relationship between the earned discounts and ACS cost savings.

d. Not confirmed. The "equilibrium" Before Rates volume of 619,172,944 would only permit (i.e., incent) Bank One to mail 48,092,944 (619,172,944 minus 571,080,000) additional pieces (above Bank One's Before Rates volume figure) in Year 2, approximately 0.5 (48,092,944 / 99,055,000) times Bank One's Year 1 estimated volume response of 99 million pieces. Also, note that, as discussed by witness Buc (BOC-T-2), Bank One's volume response could be much larger than 99 million pieces. See also my response to part b.

e. Not confirmed. The "equilibrium" Before Rates volume of 621,853,081 would only permit (i.e., incent) Bank One to mail 50,773,081 (621,853,081 minus 571,080,000) additional pieces (above Bank One's Before Rates volume figure) in Year 3, approximately 0.5 (50,773,081 / 99,055,000) times Bank One's Year 3 estimated volume response of 99 million pieces. Also, I note that, as discussed by witness Buc (BOC-T-2), Bank One's volume response could be much larger than 99 million pieces. See also my response to part b.

BANK ONE NSA
Stop Loss Estimate

TABLE 1
Year 1 - ACS Related Savings

[1]	Manual Letter Returns Unit Cost	$0.55
[2]	Manual Flat Returns Unit Cost	$1.06
[3]	Electronic Letter Returns Unit Cost	$0.34
[4]	Electronic Flat Returns Unit Cost	$0.45
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC BR Customer Mail Volume	506,650,000
[9]	BOC BR Solicitation Letter Volume	29,387,000
[10]	BOC BR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of BR Letter Volume	5.4823%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.00087234
[14]	BOC ACS Unit Cost Savings - Flats	$0.05726308
[15]	BOC BR Equilibrium Letter Volume	581,600,577
[16]	Total ASC Cost Savings - Letters	$507,353
[17]	Total ASC Cost Savings - Flats	$2,006,670
[18]	Total ASC Savings	$2,514,023

TABLE 2
Year 1 - Discount Leakage

Volume Block [1] [a]		[b]	Incremental Volume [2] = [1b] - [1a]	Discount [3]	Discount Leakage [4] = [2] * [3]
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	616,600,577	6,600,576	$0.040	$264,023
645,000,001	to			$0.045	$0
680,000,001	to			$0.050	$0
		Total			$2,514,023

Difference - ACS Savings and Discount Leakage $0.053747

BANK ONE NSA
Stop Loss Estimate

TABLE 1
Year 2 - ACS Related Savings

[1]	Manual Letter Returns Unit Cost	$0.57
[2]	Manual Flat Returns Unit Cost	$1.10
[3]	Electronic Letter Returns Unit Cost	$0.36
[4]	Electronic Flat Returns Unit Cost	$0.47
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC BR Customer Mail Volume	506,650,000
[9]	BOC BR Solicitation Letter Volume	29,387,000
[10]	BOC BR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of BR Letter Volume	5.4823%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.00090723
[14]	BOC ACS Unit Cost Savings - Flats	$0.05955361
[15]	BOC BR Equilibrium Letter Volume	584,172,944
[16]	Total ASC Cost Savings - Letters	$529,981
[17]	Total ASC Cost Savings - Flats	$2,086,937
[18]	Total ASC Savings	$2,616,918

TABLE 2
Year 2 - Discount Leakage

Volume Block [1] [a]		[b]	Incremental Volume [2] = [1b] - [1a]	Discount [3]	Discount Leakage [4] = [2] • [3]
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	619,172,944	9,172,943	$0.040	$366,918
645,000,001	to			$0.045	$0
680,000,001	to			$0.050	$0
		Total			$2,616,918

Difference - ACS Savings and Discount Leakage $0.028813

BANK ONE NSA
Stop Loss Estimate

TABLE 1
Year 3 - ACS Related Savings

[1]	Manual Letter Returns Unit Cost	$0.60
[2]	Manual Flat Returns Unit Cost	$1.15
[3]	Electronic Letter Returns Unit Cost	$0.37
[4]	Electronic Flat Returns Unit Cost	$0.48
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC BR Customer Mail Volume	506,650,000
[9]	BOC BR Solicitation Letter Volume	29,387,000
[10]	BOC BR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of BR Letter Volume	5.4823%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.00094352
[14]	BOC ACS Unit Cost Savings - Flats	$0.06193575
[15]	BOC BR Equilibrium Letter Volume	586,853,081
[16]	Total ASC Cost Savings - Letters	$553,709
[17]	Total ASC Cost Savings - Flats	$2,170,414
[18]	Total ASC Savings	$2,724,123

TABLE 2
Year 3 - Discount Leakage

Volume Block [1] [a]		[b]	Incremental Volume [2] = [1b] - [1a]	Discount [3]	Discount Leakage [4] = [2] * [3]
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	621,853,081	11,853,080	$0.040	$474,123
645,000,001	to			$0.045	$0
680,000,001	to			$0.050	$0
		Total			$2,724,123

Difference - ACS Savings and Discount Leakage $0.022822

TABLE 1

Notes & Sources

[1] USPS-T-1 (Plunkett), Appendix A, page 1
[2] USPS-T-1 (Plunkett), Appendix A, page 1
[3] USPS-T-1 (Plunkett), Appendix A, page 1
[4] USPS-T-1 (Plunkett), Appendix A, page 1
[5] USPS-T-1 (Plunkett), Appendix A, page 1
[6] USPS-T-1 (Plunkett), Appendix A, page 1
[7] USPS-T-1 (Plunkett), Appendix A, page 1
[8] USPS-T-1 (Plunkett), Appendix A, page 2
[9] USPS-T-1 (Plunkett), Appendix A, page 2
[10] USPS-T-1 (Plunkett), Appendix A, page 2
[11] = [9] / ([8] + [9])
[12] Percent of solicitation flats eligible for ACS
[13] = ([1] - [3]) * [5] • [7] * [11]
[14] = ([2] - [4]) * [6] * [7] • [12]
[15] = Table 2 [1b] - ([10] - 43,000)
[16] = [13] * [15]
[17] = [14] * [10]
[18] = [16] + [17]

TABLE 2

Notes and Sources:

[1] Request, Attachment B
[3] Request, Attachment B

BANK ONE NSA

TABLE 3
Calculation of Total Stop Loss Estimate

	Volume [1]	Discount Leakage [2]	Return Cost Savings [3]
Year 1	616,600,577	$2,514,023	$2,514,023
Year 2	619,172,944	$2,616,918	$2,616,918
Year 3	621,853,081	$2,724,123	$2,724,123
			$7,855,064
Passthrough Percent			95%
STOP LOSS ESTIMATE			$7,462,311

Notes and Sources
[1] & [2] TABLE 2, for the year indicated
[3] TABLE 1, for the year indicated

OCA/USPS-T1-29. Please refer to your testimony at Appendix A, page 1.

(a) Please confirm that Bank One's first-year ACS unit cost saving for solicitation letters is $0.00087234 [($0.55 – 0.34) • 0.09 * 0.85 * 0.054823], where ($0.55 – 0.34) is the difference between manual return unit costs and electronic return unit costs, 0.09 is Bank One's physical return rate, 0.85 is the ACS success rate, and 0.054823 is the ratio of Bank One's BR solicitation letter volume to the sum of Bank One's BR customer mail and solicitation letter volume. If you do not confirm, please explain.

(b) Please confirm that Bank One's first-year ACS unit cost saving for solicitation flats is $0.05726308 [($1.06 – 0.45) * 0.11 • 0.85 • 1.00], where ($1.06 – 0.45) is the difference between manual return unit costs and electronic return unit costs, 0.11 is Bank One's physical return rate, 0.85 is the ACS success rate, and 1.00 is the percentage of Bank One's BR solicitation flats volume eligible for ACS. If you do not confirm, please explain.

RESPONSE:

a. Generally confirmed although I would state it differently. Bank One's first-year ACS cost savings for First-Class Mail solicitation letters divided by all Bank One First-Class Mail letters is $0.00087234.

b. Confirmed.

OCA/USPS-T1-30. Please refer to your testimony at page 9, lines 12-19.

(a) Please confirm that the annual threshold adjustment (*see* Bank One NSA, Article III.F., and proposed DMCS 612.33) provides a specific mechanism to address the risks of exogenous factors as they relate to *future* statement/operational mail volumes. If you do not confirm, please explain.

(b) Please confirm that there are exogenous factors that can affect the BR volumes of marketing mail. If you do not confirm, please explain.

(c) Please confirm that there are exogenous factors that can affect the AR volumes of marketing mail. If you do not confirm, please explain.

(d) If your response to parts (b) and (c) of this interrogatory is in the affirmative, please identify and describe such exogenous factors.

(e) Please identify and explain specific provisions of the Bank One NSA and proposed DMCS that explicitly recognize and attempt to the mitigate risks of the exogenous factors identified in part (d) above as they relate to *future* marketing mail volumes.

RESPONSE:

a. Confirmed.

b. Confirmed, although to the extent that one compares AR and BR volumes during the same period, exogenous impacts could be considered identical such that any difference between AR and BR volumes would be the result of a difference in postage prices.

c. See my response to part b.

d. A comprehensive list of all the exogenous factors that could affect mail volume is not possible, as it would have to include all possible macroeconomic and microeconomic variables that could be demonstrated to have an effect on credit card marketing. For example, the prices of paper and

other inputs, consumer confidence, interest rates, competitive pressure, and customer response rates all affect mail volumes.

e. It is not clear that any exogenous factors, including those listed in response to part (d), pose a risk to the success of the NSA. The relevant risks arise not from the possibility that before rate volumes will be higher or lower than projected, or that after rate volumes will be higher or lower than projected, but from the possibilities that the *differential* between after and before rate volume will be smaller than projected. If, in the unlikely circumstance that the Before Rates volumes will be materially higher than projected, it is probable that the exposure or 'discount leakage' has been underestimated. However, by that same token the projected ACS cost savings will also have been underestimated, thus mitigating the loss from the additional leakage.

The terms of the NSA establishing an annual threshold adjustment and merger adjustments provide structural safeguards against the risk that Bank One could obtain volume-related discounts for increases in First-Class mail volume caused by a merger or an organic increase in the scale of Bank One's business, rather than by the discounts. *See* NSA ¶¶ III.F (annual threshold adjustment) and IV (merger adjustments). Beyond that, it is not evident that any other exogenous factors would pose a risk to the profitability of the NSA for the Postal Service. While those factors may cause Bank One's actual before-rate volumes to vary from the projected before-rate volumes, the same factors would tend to cause Bank One's actual after-rate volumes to vary from projections in the same direction and approximately the

same magnitude. Moreover, the testimony of Bank One witness Buc (BOC-T-2) indicates that the differential between Bank One's before- and after-rate volume is likely to be even greater than the Postal Service's financial analysis has assumed.

Finally, it is important to emphasize that any risk analysis must also take account of the financial risks to the Postal Service from a rate cap. As explained in my answer to OCA-USPS-T1-24, and the partially redirected answer of Bank One witness Buc, a cap on total discounts would pose a greater risk to the Postal Service's contribution than does the absence of a cap.

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

OCA/USPS-T1-31. Please refer to PRC Op. MC2002-2, pages 152-156, and to Table 4 below. (An Excel file has been filed on-line to accompany this interrogatory.)

(a) Please confirm that in Table 4, which presents stop-loss estimates based upon a sensitivity analysis of the ratio of solicitation letter mail to total letter mail (herein "Letter Ratio"), the calculated stop-loss estimates for the Bank One – JPMC merged entity at the indicated Letter Ratios is consistent with the Commission's calculation of the stop-loss estimate with respect to Capital One. If you do not confirm, please explain and provide the correct stop loss estimates. Please show all calculations.

(b) Please confirm that adjusting the "BOC - JPMC Return Rate - Solicitation Letters" in Table 1, line [2] by the percentages shown in Table 4, column [1] (holding the Letter Ratio constant at 5.4823%) will produce the same Total Stop Loss Estimate shown in Table 4, column [3]. If you do not confirm, please explain. Please show all calculations.

(c) Please provide an estimate (or range) of the Letter Ratio for the Bank One – JPMC merged entity.

TABLE 4
SUMMARY TABLE
Total Stop Loss Estimate
Sensitivity Analysis

% Chg Letter Ratio [1]	Adjusted Letter Ratio [2]	Total Stop Loss Estimate [3]
-20%	4.3858%	$7,974,373
0%	5.4823%	$8,492,021
20%	6.5787%	$9,014,505
40%	7.6752%	$9,541,893
60%	8.7716%	$10,074,132
80%	9.8681%	$10,610,286
100%	10.9645%	$11,150,167
200%	16.4468%	$13,917,498
400%	27.4114%	$19,770,175
600%	38.3759%	$26,103,848
800%	49.3404%	$32,988,267
900%	54.8227%	$36,659,987

RESPONSE:

(a) Confirmed that these calculations appear to be correct.

(b) Not confirmed. When I attempted to reproduce these results according to these instructions I produced the following.

OCA/USPS-T1-31
TABLE 4
SUMMARY TABLE
MODIFIED VERSION
Total Stop Loss Estimate
Sensitivity Analysis

% Chg Return Rate [1]	Adjusted Letter Ratio [2]	Total Stop Loss Estimate [3]
-20%	5.4823%	$ 7,983,781
0%	5.4823%	$ 8,492,021
20%	5.4823%	$ 9,000,261
40%	5.4823%	$ 9,508,501
60%	5.4823%	$ 10,016,741
80%	5.4823%	$ 10,524,981
100%	5.4823%	$ 11,033,221
200%	5.4823%	$ 13,574,421
400%	5.4823%	$ 18,656,822
600%	5.4823%	$ 23,739,223
800%	5.4823%	$ 28,821,623
900%	5.4823%	$ 31,362,824

c) See Response to OCA/BOC-T1-19.

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

OCA/USPS-T1-32. Table 1 of this interrogatory summarizes the mean, standard deviation, and coefficient of variation for monthly pieces mailed by Bank One based on data provided in OCA/BOC-T1-1(c) and in OCA/BOC-T1-1(b). Similar data are presented for Capital One, based on information presented in the Capital One NSA case, MC2002-2. The monthly data that provide the basis for the calculations of the statistics for Bank One are summarized in Table 2. The monthly data that provide the basis for the calculations of the statistics for Capital One are presented in Table 3. The data and calculations are also provided in the electronic file BOCCV.xls. Please confirm that for First-Class Solicitation Mail the coefficient of variation for Bank One is 0.42; that for Standard Mail the coefficient of variation for Bank One is 0.38; and that for First-Class Solicitation Mail the coefficient of variation for Capital One is 0.35. If you do not confirm, please explain your answer in detail.

Table 1

Millions of Pieces per Month Mailed by Type of Mailing

	FC Customer Mail	FC Solicitation Mail	Total FC Mail	Standard Mail
Bank One				
Mean	37.3	7.4	44.7	89.3
Standard Deviation	3.0	3.1	4.7	34.0
Coefficient of Variation	0.079	0.42	0.10	0.38
Capital One				
Mean	34.2	70.5	104.5	54.0
Standard Deviation	10.9	24.7	30.7	34.3
Coefficient of Variation	0.32	0.35	0.29	0.64

Notes

Bank One: Standard Mail source data from Jan 02-May 04 by month.

Bank One: First-Class Customer and Soliciation mail source data from AP4 2000 to AP13 2003.

Capital One: All source data from October 98 through September 02 by month

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

Table 2

Bank One: Mailings by Postal Service AP

	Customer Mail	Solicitation	Total First Class
	Millions of Pieces		
2000AP4	33.5	4.3	37.8
2000AP5	32.7	5.6	38.3
2000AP6	32.4	5.3	37.7
2000AP7	33.5	4.9	38.4
2000AP8	32	6.4	38.4
2000AP9	34.6	4.7	39.3
2000AP10	36.5	6	42.5
2000AP11	35.2	14.9	50.1
2000AP12	35.5	4.7	40.2
2000AP13	39.3	15.1	54.4
2001AP1	37	6	43
2001AP2	37.1	7.3	44.4
2001AP3	32.6	9.3	41.9
2001Ap4	40	8.2	48.2
2001AP5	35.2	13.2	48.4
2001AP6	36.5	8.2	44.7
2001AP7	35.5	7.4	42.9
2001AP8	34.8	8.1	42.9
2001AP9	37	13.3	50.3
2001AP10	39.3	8	47.3
2001AP11	36.7	5.1	41.8
2001AP12	38.6	4.5	43.1
2001AP13	42.3	5	47.3
2002AP1	34.1	8.9	43
2002AP2	37.3	8.5	45.8
2002AP3	31.9	5.4	37.3
2002Ap4	43.7	8.8	52.5
2002AP5	39.2	7.3	46.5
2002AP6	40.5	5.1	45.6
2002AP7	40.9	4.7	45.6
2002AP8	39.8	8.9	48.7
2002AP9	38.9	8.3	47.2
2002AP10	38.8	5.8	44.6
2002AP11	38.9	14.5	53.4
2002AP12	38.4	5.5	43.9
2002AP13	41.4	14.7	56.1
2003AP1	34.8	2.2	37
2003AP2	36.4	2.5	38.9
2003AP3	36.6	3.5	40.1
2003AP4	43.3	8.2	51.5
2003AP5	36.8	5.5	42.3
2003AP6	36.4	8.7	45.1
2003AP7	41.8	8.8	50.6
2003AP8	39.6	7.5	47.1
2003AP9	39.2	10.3	49.5
2003AP10	39.3	4.9	44.2
2003AP11	36.8	4.5	41.3
2003AP12	38.1	8.9	47
2003AP13	41.5	6.7	48.2
2004AP1	37.6	6.9	44.5
2004AP2	36.5	5.9	42.4
2004AP3	33.6	8.7	42.3
Std Dev	2.959	3.104	4.680
Mean	37.306	7.415	44.721
Coefficient of Variation	0.079	0.419	0.105

Standard Date	**Mail Millions**
Jan	75.2
Feb	93.9
Mar	77.1
April	93.9
May	91.7
June	151.2
July	119.4
Aug	152.9
Sept	86.6
Oct	117.3
Nov	81.9
Dec	119.7
Jan	59.5
Deb	76.1
Mar	65.7
April	66.5
May	32.8
June	72.8
July	31
Aug	86
Sept	71.1
Oct	124.9
Nov	68.9
Dec	68.8
Jan	46
Feb	129.4
Mar	59.6
April	162.8
May	106.8
	34.054
	89.293
	0.381

Source: MC2004-3, OCA/BOC-T1-1(a) for First-Class Mail
MC2004-3, OCA/BOC-T1-1(b) for Standard Mail

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

Table 3

	Capital One: Monthly Mailings			
Date	Customer Mail	Solicitation FC Mail	Total FC Mail	Standard Mail
Oct-98	20,000,000	64,312,211	84,312,211	2,279,673
Nov-98	20,000,000	84,513,668	104,513,668	1,248,749
Dec-98	20,000,000	70,330,103	90,330,103	698,236
Jan-99	20,093,585	48,713,996	68,807,581	4,704,266
Feb-99	18,936,302	51,911,135	70,847,437	6,815,494
Mar-99	21,429,647	101,113,831	122,543,478	5,442,520
Apr-99	20,237,967	53,185,873	73,423,840	21,569,499
May-99	21,493,755	42,784,936	64,278,691	21,335,863
Jun-99	21,315,898	51,911,418	73,227,316	15,785,065
Jul-99	22,366,963	82,763,889	105,130,852	27,986,822
Aug-99	22,218,406	45,709,167	67,927,573	66,617,101
Sep-99	22,283,276	47,420,011	69,703,287	42,448,557
Oct-99	23,753,037	78,771,652	102,524,689	30,248,391
Nov-99	24,924,804	99,036,307	123,961,111	15,345,511
Dec-99	28,323,271	56,759,404	85,082,675	7,921,155
Jan-00	25,733,873	90,404,633	116,138,506	56,792,786
Feb-00	24,438,019	35,453,537	59,891,556	34,437,081
Mar-00	27,320,181	53,057,033	80,377,214	39,614,873
Apr-00	29,480,138	38,846,756	68,326,894	28,331,357
May-00	30,351,077	53,642,857	83,993,934	50,397,191
Jun-00	30,470,815	82,813,549	113,284,364	55,393,585
Jul-00	30,068,221	63,641,402	93,709,623	47,904,323
Aug-00	32,449,688	48,333,024	80,782,712	66,828,624
Sep-00	31,289,392	52,860,401	84,149,793	105,033,143
Oct-00	35,458,669	36,680,749	72,139,418	119,564,729
Nov-00	36,222,564	69,978,222	106,200,786	82,909,126
Dec-00	38,333,630	69,555,071	107,888,701	32,121,903
Jan-01	37,538,604	71,609,132	109,147,736	94,006,455
Feb-01	37,228,200	67,678,601	104,906,801	73,448,261
Mar-01	40,595,396	79,707,394	120,302,790	85,245,080
Apr-01	39,584,216	53,734,153	93,318,369	93,752,823
May-01	39,613,572	68,816,452	108,430,024	94,422,524
Jun-01	40,094,283	50,499,839	90,594,122	63,251,136
Jul-01	43,936,373	77,390,674	121,327,047	70,807,874
Aug-01	41,780,602	61,920,684	103,701,286	101,295,653
Sep-01	40,206,176	81,359,208	121,565,384	69,564,731
Oct-01	46,379,476	109,959,062	156,338,538	88,010,149
Nov-01	42,756,595	123,429,831	166,186,426	88,765,050
Dec-01	49,050,084	114,868,000	163,918,084	25,136,785
Jan-02	49,347,570	111,473,290	160,820,860	105,436,265
Feb-02	46,416,492	97,894,068	144,310,560	83,400,395
Mar-02	50,472,716	118,835,045	169,307,761	86,376,653
Apr-02	50,248,542	98,176,516	148,425,058	97,144,193
May-02	51,306,612	121,404,738	172,711,350	76,604,133
Jun-02	48,162,673	56,909,685	105,072,358	54,916,252
Jul-02	48,732,181	36,351,765	85,083,946	41,894,720
Aug-02	50,000,000	43,000,000	93,000,000	
Sep-02	50,000,000	64,000,000	114,000,000	
Mean	34217573.77	70490061.92	104707635.69	53983799.02
Std Dev	10894158.29	24733365.74	30672788.78	34327313.76
Coefficier	0.32	0.35	0.29	0.64

Source: COS-T-2, MC2002-2, Direct Testimony of Stuart Elliott, Exhibit 2
MC2002-2, OCA/COS-T2-6.

RESPONSE:

Partially confirmed. The coefficient of variation for the Bank One monthly volume data on First-Class Solicitation Mail included in your question is 0.43, not 0.42. The other two statistics that you asked me to confirm are correctly derived from the monthly data included in your question. Although you did not ask me to confirm the other values, some are incorrect. Attachment OCA-USPS-T1-32 presents the correct summary statistics for all values.

While I see little value in monthly coefficients of variation in evaluating any aspect of the deal, it is noteworthy that the coefficient of variation for Total-First Class Mail is much smaller for Bank One than it is for Cap One, as is the coefficient of variation for Standard Mail.

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

Attachment OCA-USPS-T1-32

Millions of Pieces per Month Mailed by Type of Mailing				
	First-Class Customer Mail	**First-Class Solicitation Mail**	**Total First-Class Mail**	**Standard Mail**
Bank One				
Mean	37.4	7.4	44.8	89.3
Standard Deviation	3.0	3.2	4.8	34.1
Coefficient of Variation	0.079	0.43	0.11	0.38
Capital One				
Mean	34.2	70.5	104.7	54.0
Standard Deviation	10.9	24.7	30.7	34.3
Coefficient of Variation	0.32	0.35	0.29	0.64
Notes				
Bank One: Standard Mail source data from Jan 02 through May 04 by month.				
Bank One: First-Class Customer and Solicitation Mail source data from AP4 2000 through AP13 2003.				
Capital One: All source data from October 98 through September 02 by month.				

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

OCA/USPS-T1-33. Please refer to the table below, entitled APPENDIX A, page 4, (REVISED BY OCA), which contains revisions to the Bank One Model at Appendix A, page 4 of your testimony. Please confirm that the table entitled APPENDIX A, page 4, (REVISED BY OCA) is an alternative presentation of the Bank One Model that separates various calculations in Appendix A at page 4 of your testimony. If you do not confirm, please explain and show all calculations.

RESPONSE: Confirmed that the calculations present a modified version of the calculations on page 4 of Appendix A to my testimony.

APPENDIX A, page 4 (REVISED BY OCA)

Bank One Model (Statement Mail)
Negotiated Service Agreement
Appendix A, page 4

BOC Marketing Mail Return Percentage =	9.0%	(1)
BOC Statement Mail Return Percentage =	0.3%	(2)
Average Presort Letters Return Percentage =	1.23%	(3)
BOC Statement Mail Volume BEFORE RATES =	508,650,000	(4)
BOC Statement Mail Volume AFTER RATES =	508,650,000	(5)
BOC Marketing Mail Volume BEFORE RATES =	29,397,000	(6)
BOC Marketing Mail Volume AFTER RATES =	48,442,000	(7)
Manual Returns Unit Cost =	$0.551	(8)
Electronic Returns Unit Cost =	$0.343	(9)
Address Change Service (ACS) Success Rate =	85.0%	(10)
Contingency Factor =	1.025	

	OCA's REVISED COLUMNS DOCKET NO. R2001.1 PRC FIGURES - BANK ONE MAIL MIX									USPS' ORIGINAL COLUMNS (Plunkett) DOCKET NO. R2001.1 PRC FIGURES - BANK ONE MAIL MIX			
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(13)	(14)	(15)	(16)
Rate Category	BOC TY 2004 Total Unit Cost (Dollars)	BOC FY 2003 Mail Volume (Pieces)	BOC FY 2003 Mail Volume (Percent)	BOC BR 2004 Adjustment for Average Returns Unit Cost (Dollars)	BOC BR 2004 Statement Total Unit Cost w/o Average Returns (Dollars)	BOC BR 2004 Adjustment for Statement Returns Unit Cost (Dollars)	BOC BR 2004 Statement Total Returns Adjusted Unit Cost (Dollars)	BOC AR 2004 Adjustment for Statement Returns Unit Cost (Dollars)	BOC AR 2004 Statement Total Returns Adjusted Unit Cost (Dollars)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS													
Nonautomation Presort Letters	0.254	16,896,034	3.4%										
Automation Presort Letters													
Automation Mixed AADC	0.123	3,462,228	0.7%										
Automation AADC	0.111	5,935,849	1.2%										
Automation 3-Digit	0.108	321,218,301	64.4%										
Automation 5-Digit	0.095	150,886,728	30.3%										
Automation Carrier Route	0.107	115,591	0.0%										
WEIGHTED AVERAGE / TOTAL	**0.109**	**498,514,731**	**100.0%**	**$0.0068**	**$0.1020**	**$0.0019**	**$0.104**	**$0.0019**	**$0.104**	**$ (0.0049)**	**0.104**	**$ (0.0049)**	**0.104**
							0.10392187		0.10392187		0.10392187		0.10392187
											(17)		(18)
Total Unit Cost Estimates, Including Contingency =											0.107		0.107

NOTES (to OCA's portion of table)

(1) USPS-T-1 (Plunkett), Appendix A, page 1
(2) USPS-T-1 (Plunkett), Appendix A, page 1
(3) USPS-T-1 (Plunkett), Appendix A, page 1
(4) USPS-T-1 (Plunkett), Appendix A, page 2
(5) USPS-T-1 (Plunkett), Appendix A, page 2
(6) USPS-T-1 (Plunkett), Appendix A, page 2
(7) USPS-T-1 (Plunkett), Appendix A, page 2
(8) USPS-T-1 (Plunkett), Appendix A, page 1
(9) USPS-T-1 (Plunkett), Appendix A, page 1
(10) USPS-T-1 (Plunkett), Appendix A, page 1
(11) USPS-T-1 (Plunkett), Appendix A, page 4, Col. (10)
(12) USPS-T-1 (Plunkett), Appendix A, page 4, Col. (11)
(13) USPS-T-1 (Plunkett), Appendix A, page 4, Col. (12)
(14) (7) * (9)
(15) (11) - (14)
(16) ((2) * (8) * (4)) / (4)
(17) (15) + (16)
(18) ((2) * (8) * (5)) / (5)
(19) (15) + (19)

NOTES (to USPS' portion of table)

(13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return F After Rates Statement Mail
(14) (10) + (13). NOTE: column (10) in Appendix A, page 4 is the same as column (11) in this table.
(15) ((ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate))) / After Rates Statement Mai USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
(16) (10) + (15). NOTE: column (10) in Appendix A, page 4 is the same as column (11) in this table.
(17) (14) * Contingency Factor (Assumptions)
(18) (16) * Contingency Factor (Assumptions)

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

OCA/USPS-T1-34. Please refer to the table below, entitled APPENDIX A, page 5, (REVISED BY OCA), which contains revisions to the Bank One Model at Appendix A, page 5 of your testimony. Please confirm that the table entitled APPENDIX A, page 5, (REVISED BY OCA) is an alternative presentation of the Bank One Model that separates various calculations in Appendix A at page 5 of your testimony. If you do not confirm, please explain and show all calculations.

RESPONSE: Confirmed that the calculations present a modified version of the calculations on page 5 of Appendix A to my testimony.

APPENDIX A, page 5 (REVISED BY OCA)

Bank One Model (Marketing Mail)

Negotiated Service Agreement
Appendix A, page 5

BOC Marketing Mail Return Percentage =	9.0%	(1)
BOC Statement Mail Return Percentage =	9.3%	(2)
Average Presort Letters Return Percentage =	1.23%	(3)
BOC Statement Mail Volume BEFORE RATES =	506,650,000	(4)
BOC Statement Mail Volume AFTER RATES =	506,650,000	(5)
BOC Marketing Mail Volume BEFORE RATES =	29,987,000	(6)
BOC Marketing Mail Volume AFTER RATES =	48,442,000	(7)
Manual Returns Unit Cost =	$0.551	(8)
Electronic Returns Unit Cost =	$0.343	(9)
Address Change Service (ACS) Success Rate =	85.0%	(10)
Contingency Factor =	1.025	

	OCA's REVISED COLUMNS									USPS' ORIGINAL COLUMNS (Plunkett)			
	DOCKET NO. R2001-1 PRC FIGURES - BANK ONE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE MAIL MIX			
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(13)	(14)	(15)	(16)
Rate Category	TY 2004 Total Unit Cost (Dollars)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	BOC BR 2004 Adjustment for Average Returns Unit Cost (Dollars)	BOC BR 2004 Marketing Total Unit Cost w/o Average Returns (Dollars)	BOC BR 2004 Adjustment for Marketing Returns Unit Cost (Dollars)	BOC BR 2004 Marketing Total Returns Adjusted Unit Cost (Dollars)	BOC AR 2004 Adjustment for Marketing Returns Unit Cost (Dollars)	BOC AR 2004 Marketing Total Returns Adjusted Unit Cost (Dollars)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS													
Nonautomation Presort Letters	0.254	5,469	0.0%										
Automation Presort Letters													
Automation Mixed AADC	0.123	159,789	0.3%										
Automation AADC	0.111	157,854	0.3%										
Automation 3-Digit	0.108	20,459,211	34.3%										
Automation 5-Digit	0.096	38,358,545	64.4%										
Automation Carrier Route	0.107	462,363	0.8%										
WEIGHTED AVERAGE / TOTAL	0.099	59,603,231	100.0%	$0.0068	$0.0925	$0.0496	$0.142	$0.0337	$0.126	0.0428	0.142	0.0269	0.126
							0.14211746		0.12620546		0.14211746		0.12620546
											(17)		(18)
Total Unit Cost Estimates, Including Contingency =											0.145		0.129

NOTES (to OCA's portion of table):

(1) USPS-T-1 (Plunkett), Appendix A, page 1
(2) USPS-T-1 (Plunkett), Appendix A, page 1
(3) USPS-T-1 (Plunkett), Appendix A, page 1
(4) USPS-T-1 (Plunkett), Appendix A, page 2
(5) USPS-T-1 (Plunkett), Appendix A, page 2
(6) USPS-T-1 (Plunkett), Appendix A, page 2
(7) USPS-T-1 (Plunkett), Appendix A, page 2
(8) USPS-T-1 (Plunkett), Appendix A, page 1
(9) USPS-T-1 (Plunkett), Appendix A, page 1
(10) USPS-T-1 (Plunkett), Appendix A, page 1
(11) USPS-T-1 (Plunkett), Appendix A, page 5, Col. (10)
(12) USPS-T-1 (Plunkett), Appendix A, page 5, Col. (11)
(13) USPS-T-1 (Plunkett), Appendix A, page 5, Col. (12)
(14) (7) * (3)
(15) ((1) - (14)
(16) ((1) * (3) * (6)) / (6)
(17) (15) + (16)
(18) (((1) * (((10) * (9)) + ((1 - (10)) * (8))) * (7)) / (7)
(19) (15) + (19)

NOTES (to USPS' portion of table):

(13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return F After Rates Statement Mail
(14) (10) + (13). NOTE: column (10) in Appendix A, page 4 is the same as column (11) in this table.
(15) ((ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate))) / After Rates Statement Mai USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
(16) (10) + (15). NOTE: column (10) in Appendix A, page 4 is the same as column (11) in this table
(17) (14) * Contingency Factor (Assumptions)
(18) (16) * Contingency Factor (Assumptions)

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

OCA/USPS-T1-35. Please refer to the table in your response to POIR No. 1, Question 7, and to Table 4 below. (An Excel file, containing Table 4 and Tables 1 – 3, has been filed on-line to accompany this interrogatory.) Please explain the differences between the "downside" risk presented in the table to your response to Question 7, and Table 4 below.

BANK ONE NSA

TABLE 4
Net Gain (Loss) at Various Assumed Before Rates Volumes

Scenario	Year	Total Volume [1]	Discount Leakage [2]	Return Cost Savings [3]	Net Gain (Loss) [4] = [3] - [2]
Plunkett	Year 1	590,135,000	$1,554,725	$2,474,276	$919,551
Plunkett	Year 2	670,135,000	$4,781,075	$2,573,247	($2,207,828)
Plunkett	Year 3	670,135,000	$4,781,075	$2,676,177	($2,104,898)
					($3,393,175)
Equilibrium	Year 1	616,600,577	$2,514,023	$2,514,023	$0
Equilibrium	Year 2	619,172,944	$2,616,918	$2,616,918	$0
Equilibrium	Year 3	621,853,081	$2,724,123	$2,724,123	$0
					$0
1	Year 1	645,000,000	$3,650,000	$2,538,797	($1,111,203)
1	Year 2	645,000,000	$3,650,000	$2,640,349	($1,009,651)
1	Year 3	645,000,000	$3,650,000	$2,745,963	($904,037)
					($3,024,891)
2	Year 1	680,000,000	$5,225,000	$2,569,329	($2,655,671)
2	Year 2	680,000,000	$5,225,000	$2,672,102	($2,552,898)
2	Year 3	680,000,000	$5,225,000	$2,778,986	($2,446,014)
					($7,654,583)
3	Year 1	715,000,000	$6,975,000	$2,599,861	($4,375,139)
3	Year 2	715,000,000	$6,975,000	$2,703,855	($4,271,145)
3	Year 3	715,000,000	$6,975,000	$2,812,009	($4,162,990)
					($12,809,274)
4	Year 1	750,000,000	$8,725,000	$2,630,393	($6,094,607)
4	Year 2	750,000,000	$8,725,000	$2,735,608	($5,989,392)
4	Year 3	750,000,000	$8,725,000	$2,845,033	($5,879,967)
					($17,963,966)

RESPONSE:

Before responding to your question, I would note that your Return Cost Savings figures for the "Plunkett" scenario misinterpret Page 7 of Appendix A of my testimony. Your table suggests that the ACS Savings figures on Page 7 correspond to Before-Rates volumes of 590,135,000 in 2004, 670,135,000 in 2005, and 670,135,000 in 2006. This is incorrect. These savings correspond to a Before-Rates volume of 571,080,000 in each of these years, rather than to the After-Rates volumes you cite.

There are two major differences between your Table 4 and the table that I provided in response to Presiding Officer's Information Request (POIR) No. 1, Question 7. First, the table I provided in response to POIR No. 1, Question 7 analyzes the impact of Before-Rates First-Class Mail *marketing* letter volumes being higher than projected by Mr. Rappaport. In contrast, your Table 4 assumes that if Before Rates volumes were higher than projected by Mr. Rappaport (BOC-T-1), operational (or customer) mail would comprise approximately 95 percent of the difference. This is an unrealistic assumption: There is no reason why Bank One would increase the frequency of the statements and other customer mail it sends to existing accounts in response to a decline in the price of First-Class postage. Stated otherwise, operational (or customer) mail is largely nondiscretionary. Use of this unrealistic assumption overstates the reduction in contribution resulting from the assumed increase in Before Rates volume.

Second, the Before Rate volume levels assumed in your Table 4 are significantly higher than the volume levels examined in my table. Given Bank One's historical volumes, the volume levels examined in your Table 4 are quite unlikely to occur in the absence of the NSA.

Finally, *both* tables, by focusing solely on potential downside risk, completely ignore the upside potential of the NSA—specifically, the significant increase in contribution to USPS institutional costs that will result from Bank One increasing its use of First-Class Mail marketing letters in response to the NSA. For the reasons explained in my testimony and discovery responses, and those of Bank One witnesses Rappaport and Buc, the proposed discounts are likely to increase the volume of First-Class Mail marketing letters entered by Bank One. OCA has not seriously disputed this. As OCA itself noted on page 8 of its August 5 reply comments on the scope of issues in this proceeding, it is a "well known axiom that reducing the price of a product tends to spur consumers of the product to buy more of it." Reasonable people may differ over the precise magnitude of the response. It is not reasonable, however, simply to assume that there will be no response at all. Hence, a risk analysis of the NSA that ignores the likely increase in contribution resulting from an increase in the volume of First-Class Mail entered by Bank One is one-sided and incomplete.

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

OCA/USPS-T1-36. Please refer to your response to OCA/USPS-T1-19, and the attachment to this interrogatory.

a. Please refer to Table 1, Year 1 – ACS Related Savings in the attachment. Please confirm that BOC's Year 1 ACS unit cost saving for letters is $0.01591200 [($0.55 – 0.34) * 0.09 * 0.85 * 1.00], where ($0.55 – 0.34) represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation mail as a percent of extra BR volume. If you do not confirm, please explain and show all calculations.

b. Please refer to Table 1, Year 1 – ACS Related Savings in the attachment. Please confirm that BOC's Year 1 ACS unit cost saving for flats is $0.05726308 [($1.06 – 0.45) * 0.11 • 0.85 * 1.00], where ($1.06 – 0.45) represents the difference between manual return unit costs and electronic return unit costs, 0.11 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation flats eligible for ACS. If you do not confirm, please explain and show all calculations.

c. Please refer to Table 1, Year 1 – ACS Related Savings in the attachment. Please confirm that BOC's BR Equilibrium First-Class Letter Volume is 610,040,414 [645,040,414 – (35,043,000 - 43,000)]. If you do not confirm, please explain and show all calculations.

d. Please refer to Table 1, Year 2 – ACS Related Savings in the attachment. Please confirm that BOC's Year 2 ACS unit cost saving for letters is $0.01654848 [($0.57 – 0.36) • 0.09 * 0.85 * 1.00], where ($0.57 – 0.36) represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation mail as a percent of extra BR volume. If you do not confirm, please explain and show all calculations.

e. Please refer to Table 1, Year 2 – ACS Related Savings in the attachment. Please confirm that BOC's Year 2 ACS unit cost saving for flats is $0.05955361 [($1.10 – 0.47) • 0.11 * 0.85 * 1.00], where ($1.10 – 0.47) represents the difference between manual return unit costs and electronic return unit costs, 0.11 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation flats eligible for ACS. If you do not confirm, please explain and show all calculations.

f. Please refer to Table 1, Year 2 – ACS Related Savings in the attachment. Please confirm that BOC's BR Equilibrium First-Class Volume is 615,174,506 [650,174,506 – (35,043,000 - 43,000)]. If you do not confirm, please explain and show all calculations.

g. Please refer to Table 1, Year 3 – ACS Related Savings in the attachment. Please confirm that BOC's Year 3 ACS unit cost saving for letters is $0.01721042 [($0.60 – 0.37) * 0.09 * 0.85 * 1.00], where ($0.60 – 0.37)

represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation mail as a percent of extra BR volume. If you do not confirm, please explain and show all calculations.

h. Please refer to Table 1, Year 3 – ACS Related Savings in the attachment. Please confirm that BOC's Year 3 ACS unit cost saving for flats is $0.06193575 [($1.15 – 0.48) • 0.11 * 0.85 * 1.00], where ($1.15 – 0.48) represents the difference between manual return unit costs and electronic return unit costs, 0.11 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation flats eligible for ACS. If you do not confirm, please explain and show all calculations.

i. Please refer to Table 1, Year 3 – ACS Related Savings in the attachment. Please confirm that BOC's BR Equilibrium First-Class Volume is 620,763,439 [655,763,439 - (35,043,000 - 43,000)]. If you do not confirm, please explain and show all calculations.

RESPONSE:

(a)-(i) I can confirm your arithmetic if in subparts (f) and (i) you are referring to BR Equilibrium First-Class *Letter* Volume, not to BR Equilibrium First-Class Volume. Please note that the assumptions underlying this method of calculating return cost savings at various levels of Before Rates First-Class Mail letter volumes produce greater cost savings than the method used to generate OCA/USPS-T1-35, Table 4.

OCA/USPS-T1-37. Please refer to the last sentence in your response to OCA/USPS-T1-19, which states "For example, if 100% of the incremental volume consists of solicitation mail, then a volume of 616.6 million pieces would produce ACS savings for letters under the NSA of approximately $3.2 million with a combined ACS savings for letters and flats of $9.5 million." Please provide all calculations showing the derivation of the figures used in your example.

RESPONSE:

The figures in my response to OCA/USPS-T1-19 should be $3.7 million and $10 million. (Please see the errata to the Response of witness Plunkett to OCA/USPS-T1-19.) To calculate these figures, I changed the Before Rates marketing mail letter volume in Appendix A, Page 1 for each of Years 1 through 3 to 74,907,000 (616,600,000-506,650,000-35,043,000). I then applied the model in Appendix A. The $3.7 million cost savings from returns for letters is set forth in the "Total" column of row (2) of Appendix A, Page 10. The $10 million combined ACS savings can be calculated by adding the totals in row (2) and row (3) of the same page.

OCA/USPS-T1-38. This is a hypothetical question. Please make the following assumptions. (1) Unit cost saving for solicitation letters is $0.0159. (2) Unit cost saving for solicitation flats is $0.0573. (3) Pre-NSA customer volume is 506,650,000. (4) Pre-NSA solicitation letter-shaped volume is 29,387,000. (5) Pre-NSA solicitation flat-shaped volume is 35,043,000. (6) The difference in contribution between Bank One's First Class and Standard Mail is $0.07. (7) There is no quarterly settlement of discounts earned by Bank One. (8) Discount-induced volume does not appear until Bank One mails 103,368,725 solicitation pieces.

a. Do you agree that if Bank One enters 500,000,000 customer pieces in Year One, it will receive no discounts and generate no cost savings? If you do not agree, please explain.

b. Do you agree that if Bank One enters, in addition to the above 500,000,000 pieces, 35,000,000 solicitation flats, it will receive no discounts but will generate cost savings of $2,005,500? If you do not agree, please explain.

c. Do you agree that if Bank One enters, in addition to the above 535,000,000 pieces, 43,000 solicitation flats, it will receive discounts of $1,075 (43,000 * $0.025) because the threshold has been exceeded and up to 35,000,000 flats are eligible for discounts? Do you also agree that the 43,000 solicitation flats will generate additional cost savings of $2,464, for a net total benefit to the Postal Service of $2,006,889? If you do not agree, please explain.

d. Do you agree that if Bank One enters, in addition to the above 535,043,000 pieces, 6,650,000 customer pieces, it will receive additional discounts of $166,250 (6,650,000 * $0.025) and generate no additional cost savings, for a net total benefit to the Postal Service of $1,840,639? If you do not agree, please explain.

e. Do you agree that if Bank One enters, in addition to the above 541,693,000 pieces, 18,307,000 solicitation letter-shaped pieces, it will receive additional discounts of $467,675 (18,307,000 * $0.025) and generate additional cost savings of $291,081, for a net total benefit to the Postal Service of $1,674,045? If you do not agree, please explain.

f. Do you agree that if Bank One enters, in addition to the above 560,000,000 pieces, 11,080,000 solicitation letter-shaped pieces, it will receive additional discounts of $332,400 (11,080,000 * $0.030) and generate additional cost savings of $176,172, for a net total benefit to the Postal Service of $1,517,817? If you do not agree, please explain.

g. Do you agree that if Bank One enters, in addition to the above 571,080,000 pieces, 13,920,000 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $417,600 (13,920,000 * $0.030) and generate additional cost savings of $221,328, for a net total benefit to the Postal Service of $1,321,545? If you do not agree, please explain.

h. Do you agree that if Bank One enters, in addition to the above 585,000,000 pieces, 25,000,000 exogenously-generated solicitation letter-

shaped pieces, it will receive additional discounts of $875,000 (25,000,000 * $0.035) and generate additional cost savings of $397,500, for a net total benefit to the Postal Service of $844,045? If you do not agree, please explain.

i. Do you agree that if Bank One enters, in addition to the above 610,000,000 pieces, 35,000,000 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $1,400,000 (35,000,000 * $0.040) and generate additional cost savings of $556,500, for a net total benefit to the Postal Service of $545? If you do not agree, please explain.

j. Do you agree that if Bank One enters, in addition to the above 610,000,000 pieces, 18,725 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $843 (18,725 * $0.045) and generate additional cost savings of $298, for a net total benefit to the Postal Service of $0? If you do not agree, please explain.

k. Do you agree that the financial consequences to the Postal Service of Bank One's entering the above 610,018,725 pieces are independent of the order in which the various types of mail are entered? If you do not agree, please explain.

l. Do you agree that so long as (1) total Bank One customer volume in Year One is 506,650,000 pieces and (2) total Bank One solicitation volume in Year One is less than 103,368,725 pieces, the Postal Service makes money on the NSA ***even if*** no discount-induced volume appears? If you do not agree, please explain.

m. Do you agree that if the NSA discounts induce Bank One to mail one new piece of solicitation mail, in addition to the above 103,368,725 pieces, the Postal Service obtains $0.07 in new contribution while paying $0.045 in discounts, for a net gain of $0.025? If you do not agree, please explain.

n. Do you agree that if, in addition to the above 103,368,725 pieces, Bank One mails 1.2 discount-induced pieces for every exogenously-generated piece, the Postal Service obtains $0.084 in new contribution and $0.0159 in cost savings while paying $0.099 in discounts, for a net gain of $0.0009? If you do not agree, please explain.

o. Do you agree that if Bank One mails 103,368,726 pieces of exogenously-generated solicitation mail and only 1.2 pieces of discount-induced solicitation mail, the Postal Service makes money? If you do not agree, please explain.

p. What is the probability that the Postal Service loses money on the Bank One NSA?

ANSWER:

a-j. I'm not sure what is meant by "exogenously generated" mail pieces. When viewed in isolation, these calculations appear to be correct, if one assumes that the period under consideration is one in which the thresholds have not been

adjusted for some reason. But considering one component of the NSA in isolation, as has been done in this interrogatory, creates an implicit assumption that I regard to be implausible: that the creation of price incentives will have no effect whatsoever. I would also point out that the calculation in part e appears to be incorrect. In part e, the cost savings from the additional 18,307,000 pieces equals $457,675 (18,307,000 * $0.025). The calculated net total benefit to the Postal Service appears to be correct.

k. Theoretically, the Postal Service ought to be indifferent if one views the year in its entirety. Of course Bank One can not arbitrarily decide to send all of its customer mail before sending any of its acquisition mail. Presumably Bank One will retain the conventional practice of sending one statement per month to its active customers irrespective of the incentives in this agreement.

l. I agree, however I regard this scenario as highly improbable.

m. I disagree. If the piece of mail is new we would generally not include cost savings in the benefit. Moreover, I disagree with the use of the term "pay" as it suggests that the Postal Service will incur an expense. In fact there is no payout by the Postal Service, but a reduction in net contribution.

n. With the caveat described in my response to part m this calculation appears to have been done in a manner consistent with the approach used in my testimony. Similarly, if Bank One were to be prevented from sending these pieces – for example through the imposition of an arbitrarily constructed cap on incentives – then the Postal Service would forego the same net gain.

o. Yes.

p. While it is possible to construct hypothetical sets of assumptions that result in small net losses, the agreement with Bank One has been consciously structured to insulate the Postal Service from the possibility of a net loss in contribution under any plausible scenario.

OCA/USPS-T1-39. The following interrogatory concerns Bank One's "free rider" volumes.

a. Please confirm that in PRC Op. MC2002-2, para. 8016, the Commission described "free riders" as "mail that would have been sent even absent the NSA . . . ." If you do not confirm, then explain why not.

b. Using the definition cited in part a., please confirm that the Bank One NSA contains 36,080,000 "free riders," determined as follows;

   i. The NSA (§III.D.) provides for a threshold for the first year of 535 million, at which point discounts of 2.5 cents will be paid; these discounts continue to be paid up to 560 million pieces.

   ii. The Before Rates volume forecast is 571,080,000 (Attachment A, page 6 (USPS-T- 1)). Discounts of 3 cents are paid up to the 571 million-piece level (and beyond).

   iii. The Before Rates volume forecast of 571,080, 000 falls within the Commission's description of "volume that would have been sent even absent the NSA."

   iv. If you do not confirm, then state the number of "free riders" in the Bank One NSA. Show all calculations and provide all source documents.

c. Please confirm that the Commission concluded that, absent a stop-loss provision, "there is a serious risk that discounts given to 'free riders' will exceed savings to the Postal Service and that other mailers will be worse off because of the NSA."

RESPONSE:

a. Confirmed that the Commission described "free riders" as "mail that would have been sent even absent the NSA." I used the term "exposure" in my testimony to refer to the situation where the threshold is set below forecasted Before-Rates volume and discounts are given for mail volume that would have been mailed even without a price incentive. The term "free riders" is a misleading concept in the NSA context because the cost of litigating an NSA for a customer carries a significant transaction cost. This transaction cost may offset a large share of—or may actually exceed—the discounts earned on the "free riders." Thus, such mail pieces are not actually "free". Please also note that all pieces characterized as "free-riders" at all times make a positive contribution to the Postal Service.

b. (i)-(iv) Generally confirmed.

c. Confirmed that the interrogatory accurately quotes the Commission's Docket No. MC2002-2 Opinion and Recommended Decision. Given the stability of Bank One's First-Class Mail volumes and the additional cost savings that would be generated by higher Before-Rates solicitation volumes, I don't believe that "there is a serious risk that discounts given to 'free riders' will exceed savings to the Postal Service" in the Bank One NSA.

A cost-savings cap would likely choke off First-Class Mail solicitation letter volumes that would have been mailed with a discount incentive in place, thereby limiting the increase in Bank One's contribution to institutional costs which would make other customers worse off.

OCA/USPS-T1-40. For Bank One, please provide an analysis equivalent to that submitted by witness Crum at Tr. 2/318-22 (Docket No. MC2002-2), in response to POIR 2, question 7.

a. In your analysis, address specifically the fact that Bank One's estimated First-Class Mail (FCM) solicitation volumes in Year One of the NSA are approximately 11% of Capital One's FCM solicitation volumes.

b. Also, address specifically the fact that in contrast to Capital One, which had an obligation to update its address lists within two days of receipt of electronic ACS notices (Tr. 2/321), Bank One is given a longer period of time – 7 days – to update its address lists.

c. Isn't it generally correct that dividing Capital One's annual volumes of FCM solicitations – 768 million – by the number of delivery points in the United States (witness Crum used a figure of 137,682,00, from the Postal Service's 2001 Annual Report; Tr. 2/320) yielded an implied average number of pieces per delivery point of 5.6? If you do not agree, please explain.

d. Isn't it generally correct that dividing Bank One's estimated annual volumes of First-Class Mail solicitations (for Year One of the NSA) – 83.5 million – yields an implied average number of pieces per delivery point of 0.62? If you do not agree, please explain.

e. Doesn't a comparison of the figures set forth in parts c. and d., *i.e.*, 5.6 versus 0.62, suggest that the Postal Service is much less likely to benefit from avoided forwards in the case of Bank One than it does in the case of Capital One? If you do not agree, please explain.

f. Please provide discussions comparable to those requested in parts d. and e. for Year Two and Year Three of the Bank One NSA.

g. Please confirm that an obligation to update address lists within 7 days (Bank One) compared to 2 days (Capital One) is likely to result in higher costs for the Postal Service for forwarding and returning Bank One's UAA mail as compared to Capital One. If you do not confirm, please explain.

RESPONSE:

Witness Crum's analysis at Tr. 2/318-22 (Docket No. MC2002-2) in response to Presiding Officer's information Request (POIR) No. 2, Question 7 was presented to provide a minimum estimate of the effect of the costs and cost savings of providing ACS forwarding notices to Capital One as part of its NSA. However, I believe that, with one adjustment, witness Crum's bounding analysis can be applied to Bank One (as well as his general conclusion that cost savings from reducing repeat forwards will significantly exceed the cost of providing ACS notices).

The adjustment is as follows: In his analysis in POIR No 2, Question 7, Witness Crum estimated the minimum number of First-Class Mail solicitations sent by Capital One to each delivery point by dividing Capital One's total First-Class Mail solicitations by the total number of delivery points in the United States. As pointed out in this interrogatory, Bank One's First-Class Mail solicitation volumes make clear that Bank One does not mail to every delivery point in the United States. Therefore, witness Crum's "bounding" assumption for estimating the number of pieces sent to each delivery point is not appropriate for Bank One.

Since this assumption is inappropriate, I asked Bank One how many First-Class Mail solicitations it sends to delivery points for First-Class Mail. Bank One indicated that, on average, it sends several First-Class Mail solicitations to each delivery point. Given that Bank One sends several First-Class Mail solicitations to each "First-Class Mail delivery point", witness Crum's conclusion that cost savings from reduced forwards exceed the cost of providing ACS notices should hold true for Bank One as well.

Finally, witness Crum's analysis shows that even if address lists were not updated by the time the next solicitation (or even the third or fourth solicitation) is sent to the address, the cost savings from reduced forwards would still exceed the cost of providing ACS notices. Therefore, I do not think that allowing Bank One seven days to update its address lists would change witness Crum's conclusion.

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

OCA/USPS-T1-41. For J.P. Morgan Chase, please provide an analysis equivalent to that submitted by witness Crum at Tr. 2/318-22 (Docket No. MC2002-2), in response to POIR 2, question 7.

RESPONSE:

Please see my response to OCA/USPS-T1-40. Also, note that adding J. P. Morgan Chase's First-Class Mail solicitation volumes to Bank One's volumes should increase the number of pieces per delivery point, thereby increasing cost savings from reducing forwards.

OCA/USPS-T1-42. Please confirm that Capital One has an obligation to process its customer account mail addresses against CASS/NCOA within 30 days prior to mailing. (§II.H.1). If you do not confirm, please explain why not.

a. Also confirm that Bank One has an obligation to process its customer account mail addresses against CASS/NCOA much less often than Capital One, *i.e.,* within 90 days prior to mailing. (§II.G.1). If you do not confirm, please explain why not.

b. Isn't it correct that Capital One's processing of customer account mail addresses against CASS/NCOA 3 times more frequently than Bank One is more likely to result in fewer forwards for Capital One customer mail as compared to Bank One customer mail? If you do not agree, please explain why not.

RESPONSE:

Confirmed.

a. Confirmed.

b. Holding all else equal and assuming that Capital One will process its customer mail addresses more frequently than Bank One, I confirm. However, even if Bank One's customer mail forwarding rate were higher than Capital One's, this would not affect the estimated value of the NSA to the Postal Service. This is because I have not included any savings or new contribution related to Bank One customer account mail in my calculations of the value of the NSA.

OCA/USPS-T1-43. Please confirm that Capital One has an obligation to process its solicitation mail addresses against CASS/NCOA within 60 days prior to mailing. (§II.H.2). If you do not confirm, please explain why not.

a. Also confirm that Bank One has an obligation to process its solicitation mail addresses against CASS/NCOA less often than Capital One, i.e., within 90 days prior to mailing. (§II.G.2). If you do not confirm, please explain why not.

b. Isn't it correct that Capital One's processing of solicitation mail addresses against CASS/NCOA more frequently than Bank One is more likely to result in fewer forwards for Capital One solicitation mail as compared to Bank One solicitation mail? If you do not agree, please explain why not.

RESPONSE:

Confirmed.

a. Confirmed.

b. Holding all else equal, processing solicitation mail addresses more frequently might result in fewer forwards. I disagree, however, that that Bank One's processing interval willl be substantially longer than 60 days. My understanding is that, even though the NSA allows a processing cycle as long as 90 days, some of Bank One's solicitations are already being processed within a 60-day cycle, and Bank One is changing its internal process shortly to have most of its solicitations processed within a 60 day cycle prior to mailing. Furthermore, I understand that these internal processes will apply to Standard Mail solicitations in addition to First-Class Mail solicitations.

REVISED 9/1/04

OCA/USPS-T1-44. Please reproduce Appendix A of USPS-T-1 for J.P. Morgan Chase.

RESPONSE:

To provide a more complete answer, the Postal Service modeled the financial effects of a hypothetical scenario in which integration of all J.P. Morgan Chase ("JPM Chase") mail volumes into the Bank One negotiated service agreement ("NSA") occurs on January 1, 2005, the beginning of Year 2 of the NSA. Because, under this hypothetical, integration of JPM Chase volumes would not occur until Year 2 of the NSA, the model assumes that, in Year 1, only Bank One First-Class Mail volumes will be counted towards the threshold and be eligible to receive discounts in the first year of the NSA. The model is further explained in the revised response to OCA/USPS-T1-45.

The Postal Service relies on the Direct Testimony of Brad Rappaport on Behalf of Bank One Corporation (BOC-T-1), as well as several Bank One responses to OCA interrogatories. I have reviewed Mr. Rappaport's testimony, as well as the relevant interrogatory responses, and affirm that they may be relied upon in presentation of the Postal Service's direct case.

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 1	Year 1	(13) Year 2	(14) Year 3
Return Forecast			
(1) Operational Mail (Ops)	0.34%	0.45%	0.46%
(1a) Bank One	0.34%	0.34%	0.34%
(1b) JPM Chase	0.60%	0.60%	0.60%
(2) Marketing Mail - Letters (Mktg)	9.00%	6.17%	6.10%
(2a) Bank One	9.00%	9.00%	9.00%
(2b) JPM Chase	4.00%	4.00%	4.00%
(3) Marketing Mail - Flats (Bank One)	11.00%	11.00%	11.00%
(4) USPS FCM average return rates	1.23%	1.23%	1.23%
Unit cost assumptions			
(5) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(6) Manual Flat Returns Unit Cost	$ 1.04	$ 1.09	$ 1.13
(7) Manual Letter Returns Unit Cost	$ 0.55	$ 0.57	$ 0.60
(8) Electronic Flat Returns Unit Cost	$ 0.45	$ 0.47	$ 0.48
(9) Electronic Letter Returns Unit Cost	$ 0.34	$ 0.36	$ 0.37
(10) Address Change Service (ACS) Success Rate	85.0%	85.0%	85.0%
(11) Percent of new marketing mail switched from Standard Mail (SM)	100.0%	100.0%	100.0%
(12) Contingency Factor	1.030		

(1) Weighted average of (1a) and (1b)
(1a) BOC-T-1
(1b) OCA/BOC-T1-17
(2) Weighted average of 2(a) and 2(b)
(2a) BOC-T-1
(2b) OCA/BOC-T1-17
(3) BOC-T-1
(4) USPS-LR-1/MC2002-2
(5) MC 2004-3 USPS T-1 at page 13
(6) Manual Return Costs ($1.0190) * (1 + (5))
(7) USPS-LR-1/MC2002-2 * (1+ (5))
(8) Electronic Returns Costs ($0.4301) * (1+ (5))
(9) USPS-LR-1/MC2002-2 * (1+ (5))
(10) USPS witness Wilson, T4/MC2002-2
(11) BOC-T-1
(12) USPS-LR-1/MC2002-2
(13) Year 1 * (5)
(14) Year 2 * (5)

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 2

	2001	2002	2003	Year 1	Year 2	Year 3
(1) Volume calculations -- Combined Bank One and JPM Chase						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	887,250,000	911,150,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	29,387,000	67,587,000	69,987,000
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**571,080,000**	**989,880,000**	**1,016,180,000**
After rates						
Operational mail				506,650,000	887,250,000	911,150,000
Marketing mail letter				48,442,000	225,542,000	231,442,000
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total				**590,135,000**	**1,147,835,000**	**1,177,635,000**
(2) Volume calculations -- Bank One						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	29,387,000	29,387,000	29,387,000
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**571,080,000**	**571,080,000**	**571,080,000**
After rates						
Operational mail				506,650,000	506,650,000	506,650,000
Marketing mail letter				48,442,000	128,442,000	128,442,000
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total	**-**	**-**	**-**	**590,135,000**	**670,135,000**	**670,135,000**
(3) Volume calculations -- JPM Chase						
Before rates				**Not Integrated**		
Operational mail		317,000,000	346,000,000	358,100,000	380,600,000	404,500,000
Marketing mail letter		158,200,000	115,700,000	112,400,000	38,200,000	40,600,000
Marketing mail flat					-	-
Total	**-**	**475,200,000**	**461,700,000**	**470,500,000**	**418,800,000**	**445,100,000**
After rates						
Operational mail				—	380,600,000	404,500,000
Marketing mail letter				—	97,100,000	103,000,000
Marketing mail flat					-	-
Total	**-**	**-**	**-**	**—**	**477,700,000**	**507,500,000**

(1) MC 2004-3 BOC T-1 at page 5 - 6
(2) MC 2004-3 BOC T-1 at page 5 - 6
(3) OCA/BOC-T1-13,19; OCA/USPS-T1-44 (Rappaport)

Assumes start of YEAR 2 is date of integration of mail streams. YEAR 1 only applies to Bank One

(1) YEAR 1 only includes Bank One BR and AR forecasts
YEAR 2 and YEAR 3 Before Rates and After Rates volume is sum of Chase and Bank One BR and AR forecasts

Combined Bank One / Chase Model YEAR 2

Page 3

	Bank One Ops (1) FY 2003 Volume	(2) Current Rates	(3) Revenue	Bank One Marketing (1) FY 2003 Volume	(2) Current Rates	(3) Revenue	JPM Chase Ops (1) FY 2003 Volume	(2) Current Rates	(3) Revenue	JPM Chase Marketing (1) FY 2003 Volume	(2) Current Rates	(3) Revenue
Rate Category												
Single-Piece Letters												
First Ounces, except QBRM	-	0.370	$ -	-	0.370	$ -	-	0.370	$ -	-	0.370	$ -
Qualified Business Reply Mail	-	0.340	-	-	0.340	-	-	0.340	-	-	0.340	-
Additional Ounces	-	0.230	-	-	0.230	-	-	0.230	-	-	0.230	-
Nonmachinable Pieces	-	0.120	-	-	0.120	-	-	0.120	-	-	0.120	-
Single-Piece revenue	-		-	-		-	-		-	-		-
Revenue Adjustment Factor (a)	-		1.000	-		1.000	-		1.000	-		1.000
(4) Total Single-Piece Postage Revenue	-		-	-		-	-		-	-		-
	-			-			-			-		
Nonautomated Presorted Letters	-			-			-			-		
First Ounce	16,896,034	0.352	5,947,404	5,469	0.352	1,925	8,946,611	0.352	3,149,207	3,457,992	0.352	1,217,213
Additional Ounces	152,925	0.225	34,408	57,088	0.225	12,845	144,098	0.225	32,422	1,879	0.225	423
Nonmachinable Pieces	16,555	0.055	911	8,044	0.055	442	1,574	0.055	87	881	0.055	48
Heavy Piece Deduction	3,950	(0.041)	(162)	117	(0.041)	(5)	1,657	(0.041)	(68)	209	(0.041)	(9)
Nonautomated Presorted revenue			5,982,561			15,208			3,181,648			1,217,676
Revenue Adjustment Factor (a)			1.000			1.000			1.000			1.000
(5) Total Nonautomated Presorted Letters Revenue			5,982,561			15,208			3,181,648			1,217,676
Automation Presort Letters												
Mixed AADC Letters	3,462,228	0.309	1,069,828	159,789	0.309	49,375	10,984,696	0.309	3,394,271	4,408,533	0.309	1,362,237
AADC Letters	5,935,849	0.301	1,786,691	157,854	0.301	47,514	6,296,102	0.301	1,895,127	2,801,011	0.301	843,104
3-Digit Letters	321,218,301	0.292	93,795,744	20,459,211	0.292	5,974,090	234,204,476	0.292	68,387,707	70,473,036	0.292	20,578,127
5-Digit Letters	150,886,728	0.278	41,946,510	38,358,545	0.278	10,663,676	84,306,169	0.278	23,437,115	30,711,496	0.278	8,537,796
Additional Ounces	3,822,232	0.225	860,002	2,490,380	0.225	560,336	3,554,768	0.225	799,823	57,448	0.225	12,926
Heavy Piece Deduction	51,555	(0.041)	(2,114)	20,081	(0.041)	(823)	10,419	(0.041)	(427)	844	(0.041)	(35)
Automation Presort Letters			139,456,662			17,294,166	-		97,913,615	-		31,334,155
Revenue Adjustment Factor (a)			1.000			1.000	-		1.000	-		1.000
(6) Total Automation Presort Letters Revenue			139,456,662			17,294,166	-		97,913,615	-		31,334,155
							-			-		
Automation Carrier Route Letters							-			-		
First Ounce	115,591	0.275	31,787	462,363	0.275	127,150	-	0.275	-	237,934	0.275	65,432
Additional Ounces	-	0.225	-	-	0.225	-	-	0.225	-	-	0.225	-
Heavy Piece Deduction	-	(0.041)	-	-	(0.041)	-	-	(0.041)	-	-	(0.041)	-
Automation Carrier Route Revenue			31,787			127,150			-			65,432
Revenue Adjustment Factor (a)			1.000			1.000			1.000			1.000
(7) Automation Carrier Route Letters Revenue			31,787			127,150			-			65,432
(8) Total Company Letters Subclass			$ 145,471,010			$ 17,436,524			$ 101,095,263			$ 32,617,262
Total pieces			498,514,731			59,603,231			344,738,054			112,090,002
(9) **Revenue per piece**			**0.292**			**0.293**			**0.293**			**0.291**

(a) Revenue Adjustment factor not required because customer specific revenue presented
(1) CBCIS 2003 Bank One and JPM Chase Volume Data
(2) Rate Schedule
(3) (1) * (2)
(4) Single Piece Revenue * Revenue Adjustment Factor
(5) Nonautomated Presorted Revenue * Revenue Adjustment Factor
(6) Automation Presort Letter Revenue * Revenue Adjustment Factor
(7) Automation Carrier Route Revenue * Revenue Adjustment Factor
(8) (4) + (5) + (6) + (7)
(9) (8) / Total pieces

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Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX (1) TYBR 2003 Total Unit Cost (Dollars)	(2) TYBR 2003 Mail Proc Unit Cost (Dollars)	(3) TYBR 2003 Delivery Unit Cost (Dollars)	(4) TYBR 2003 Other Unit Cost (Dollars)	(5) TYBR 2003 Total Unit Cost (Dollars)	(6) FY 2004 Total Unit Cost Dollars	(7) BY 2000 Mail Volume (Pieces)	(8) FY 2003 Mail Volume (Pieces)	(9) FY 2003 Mail Volume (Percent)	DOCKET NO. R2001-1 PRC FIGURES - BANK ONE/JPM CHASE MAIL MIX (10) TY 2004 Total Unit Cost (Dollars)	(11a) Bank One FY 2003 Mail Volume (Pieces)	(12a) Bank One FY 2003 Mail Volume (Percent)	(11b) JPM Chase FY 2003 Mail Volume (Pieces)	(12b) JPM Chase FY 2003 Mail Volume (Percent)	(13) Current Returns Adjustment Unit Cost (Dollars)	(14) Current w/Rets Adj Total Unit Cost (Dollars)	(15) After Rates Returns Adjustment Unit Cost (Dollars)	(16) After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS																		
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,000	2,673,332,468	5.8%	0.254	16,896,034	3.4%	8,946,611	2.6%				
												0.0%		0.0%				
												0.0%		0.0%				
Automation Presort Letters																		
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.123	2,504,846,824	2,820,696,002	6.1%	0.123	3,462,228	0.7%	10,984,696	3.2%				
Automation AADC		0.048	0.044	0.018	0.107	0.111	2,680,656,176	2,636,650,800	5.7%	0.111	5,935,849	1.2%	6,296,102	1.8%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,888	48.6%	0.108	321,218,301	64.4%	234,204,476	67.9%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	150,896,728	30.3%	84,306,169	24.5%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,333,000	802,292,628	1.7%	0.107	115,591	0.0%	-	0.0%				
WEIGHTED AVERAGE / TOTAL	$0.115	0.050	0.045	0.018	0.113	0.113	44,562,599,000	46,415,243,896	100.0%		498,514,731	100.0%	344,738,054	100.0%				
									Bank One	0.109					$ (0.0049)	0.104	$ (0.0049)	0.104
									JPM Chase	0.109					$ (0.0035)	0.105	$ (0.0035)	0.105

	(17)	(18)
Bank One -- Total Unit Cost Estimates, Including Contingency =	0.107	0.107
JPM Chase -- Total Unit Cost Estimates, Including Contingency =	0.109	0.109

(1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3
(2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS", page 1
(3) Docket No. R2001-1, PRC LR-7, Page 2
(4) MC2002-2/USPS-T-3, Attachment A, pg. 2
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, FCM base year volumes from FCM letter model.
(8) Revenue, Pieces, and Weight (RPW) Report.
(9) (8) / [Sum (8)]
(10) Line Item (6), Weighted Average weighted by percentages in (12).
(11) CBCIS 2003 Bank One and JPM Chase Volume Data
(12) (11) / [Sum (11)]
(13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail
(10) + (13)
(14) ((ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate))) /
(15) After Rates Statement Mail - USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
(16) (10) + (15)
(17) (14) * Contingency Factor (Assumptions)
(18) (16) * Contingency Factor (Assumptions)

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Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE/JPM CHASE MAIL MIX								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11a)	(12a)	(11b)	(12b)	(13)	(14)	(15)	(16)
	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	SY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	Bank One FY 2003 Mail Volume (Pieces)	Bank One FY 2003 Mail Volume (Percent)	JPM Chase FY 2003 Mail Volume (Pieces)	JPM Chase FY 2003 Mail Volume (Percent)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS																		
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,000	2,673,332,468	5.8%	0.254	5,469	0.0%	3,457,992	3.1%				
Automation Presort Letters																		
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.123	2,504,846,824	2,820,698,002	6.1%	0.123	159,789	0.3%	4,408,533	3.9%				
Automation AADC		0.046	0.044	0.018	0.107	0.111	2,680,656,176	2,636,650,800	5.7%	0.111	157,854	0.3%	2,801,011	2.5%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,888	48.6%	0.108	20,459,211	34.3%	70,473,036	62.9%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	38,358,545	64.4%	30,711,496	27.4%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,333,000	802,292,628	1.7%	0.107	462,363	0.8%	237,934	0.2%				
WEIGHTED AVERAGE / TOTAL	$0.115	0.050	0.045	0.018	0.113	0.113	44,562,599,000	46,415,243,896	100.0%		59,603,231	100.0%	112,090,002	100.0%				
									Bank One	0.099					0.0428	0.142	0.0269	0.126
									JPM Chase	0.109					0.0153	0.125	0.0082	0.117

	(17)	(18)
Bank One – Total Unit Cost Estimates, Including Contingency =	0.146	0.130
JPM Chase – Total Unit Cost Estimates, Including Contingency =	0.128	0.121

(1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3.
(2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS"
(3) Docket No. R2001-1, PRC LR-7, Page 2.
(4) MC2002-2/USPS-T-3, Attachment A, pg. 2
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, FCM base year volumes from FCM letter model.
(8) Revenue, Pieces, and Weight (RPW) Report
(9) (8) / [Sum (8)]
(10) Line Item (6), Weighted Average weighted by percentages in (12).
(11) CBCIS 2003 Bank One and JPM Chase Volume Data
(12) (11) / [Sum (11)]
(13) (Company Return Rate - Systemwide Average Return Rate) * (Manual Letter Returns Unit Cost)
(14) (10) + (13)
(15) (Company Return Rate * (ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) - (Systemwide Average Return Rate * Manual Letter Returnes Unit Cost)
(16) (10) + (15)
(17) (14) * Contingency Factor (Assumptions)
(18) (16) * Contingency Factor (Assumptions)

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Page 6 Year 1 Year 2 Year 3

Agreement Structure

** Threshold adjusted in YEAR 2 and 3 per contract stipulation 612.34 of the NSA contract (535+358.1+112.4)

Year 1			Year 2			Year 3		
Threshold		Discount	Threshold		Discount	Threshold		Discount
535,000,000	560,000,000	$ 0.025	1,005,500,000	1,030,500,000	$ 0.025	1,005,500,000	1,030,500,000	$ 0.025
560,000,000	585,000,000	$ 0.030	1,030,500,000	1,055,500,000	$ 0.030	1,030,500,000	1,055,500,000	$ 0.030
585,000,000	610,000,000	$ 0.035	1,055,500,000	1,080,500,000	$ 0.035	1,055,500,000	1,080,500,000	$ 0.035
610,000,000	645,000,000	$ 0.040	1,080,500,000	1,115,500,000	$ 0.040	1,080,500,000	1,115,500,000	$ 0.040
645,000,000	680,000,000	$ 0.045	1,115,500,000	1,150,500,000	$ 0.045	1,115,500,000	1,150,500,000	$ 0.045
680,000,000		$ 0.050	1,150,500,000		$ 0.050	1,150,500,000		$ 0.050

Discount on volume above threshold

(1)	Before Rates Forecast	571,080,000	989,880,000	1,016,180,000
(2)	After Rates Forecast	590,135,000	1,147,835,000	1,177,635,000
	Discount in first tier	$ 625,000	$ 625,000	$ 625,000
	Discount in second tier	$ 750,000	$ 750,000	$ 750,000
	Discount in third tier	$ 179,725	$ 875,000	$ 875,000
	Discount in fourth tier	$ -	$ 1,400,000	$ 1,400,000
	Disount in fifth tier	$ -	$ 1,455,075	$ 1,575,000
	Discount in sixth tier	$ -	$ -	$ 1,356,750
(3)	**Discount Earned**	**$ 1,554,725**	**$ 5,105,075**	**$ 6,581,750**

Exposure on volume above threshold

(4)	Threshold	535,000,000	1,005,500,000	1,005,500,000
(5)	Before Rates Forecast	571,080,000	989,880,000	1,016,180,000
(6)	Exposed Pieces	36,080,000	-	10,680,000
(7)	After Rates Forecast	590,135,000	1,147,835,000	1,177,635,000
	Exposure in first tier	$ 625,000	$ -	$ 267,000
	Exposure in second tier	$ 332,400	$ -	$ -
	Exposure in third tier	$ -	$ -	$ -
	Exposure in fourth tier	$ -	$ -	$ -
	Exposure in fifth tier	$ -	$ -	$ -
	Exposure in sixth tier	$ -	$ -	$ -
(8)	**Total Exposure**	**$ 957,400**	**$ -**	**$ 267,000**

(1) Before Rates Total Volume (Volume calcs)
(2) After Rates Total Volume (Volume calcs)
(3) Sum of discounts earned in first tier to sixth tier
(4) Agreement Structure Beginning Threshold
(5) (1)
(6) Before rates - Threshold: The number of total pieces on which leakage occurs
(7) (2)
(8) Sum of leakage in first tier to sixth tier

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		##	Year 1	Year 2	Year 3
Return Costs					
	UAA Rate				
(1)	Operational Mail		0.3%	0.5%	0.5%
(2)	Marketing mail letter		9.0%	6.2%	6.1%
(3)	Marketing mail flat		11.0%	11.0%	11.0%
Before Rates Forecast					
(4)	Operational Mail		506,650,000	887,250,000	911,150,000
(5)	Marketing mail letter		29,387,000	67,587,000	69,987,000
(6)	Marketing mail flat		35,043,000	35,043,000	35,043,000
After Rates Forecast					
(7)	Operational Mail		506,650,000	887,250,000	911,150,000
(8)	Marketing mail letter		48,442,000	225,542,000	231,442,000
(9)	Marketing mail flat		35,043,000	35,043,000	35,043,000
Return Forecast					
(10)	Operational Mail		1,722,610	4,006,210	4,149,610
(11)	Marketing mail letter		2,644,830	4,172,830	4,268,830
(12)	Marketing mail flat		3,854,730	3,854,730	3,854,730
Return Costs					
(13)	Operational Mail		$ 949,503	$ 2,296,552	$ 2,473,906
(14)	Marketing mail letter		$ 1,457,830	$ 2,392,066	$ 2,544,982
(15)	Marketing mail flat		$ 4,022,592	$ 4,183,496	$ 4,350,835
(16)	Total		$ 6,429,925	$ 8,872,114	$ 9,369,724
After Rates Return Costs					
(17)	Operational Mail		$ 949,503	$ 2,296,552	$ 2,473,906
(18)	Marketing mail letter		$ 990,224	$ 1,624,800	$ 1,728,667
(19)	Marketing mail flat		$ 2,069,144	$ 2,151,910	$ 2,237,986
(20)	Total		$ 4,008,871	$ 6,073,261	$ 6,440,559
(21) Return Cost Savings			**$ 2,421,054**	**$ 2,798,853**	**$ 2,929,165**

(1) Page 1, (1)
(2) Page 1, (2)
(3) Page 1, (3)
(4) Page 2, (1)
(5) Page 2, (1)
(6) Page 2, (1)
(7) Page 2, (1)
(8) Page 2, (1)
(9) Page 2, (1)
(10) (1) * (4)
(11) (2) * (5)
(12) (3) * (6)
(13) (10) * Manual Letter Returns Unit Cost (Assumptions)
(14) (11) * Manual Letter Returns Unit Cost (Assumptions)
(15) (12) * Manual Flats Returns Unit Cost (Assumptions)
(16) (13) + (14) + (15)
(17) (10) * Manual Letter Returns Unit Cost (Assumptions)
(18) ((11) *ACS Success Rate* Electronic Letter Returns Unit Cost)+ (1 - ACS Success Rate) *Manual Letter Returns Unit Cost * (11))
(19) ((12) * (1 - ACS Success Rate) * Manual Flat Returns Unit Cost) + ((12) * ACS Success Rate * Electronic Flat Returns Unit Cost)
(20) (17) + (18) ♦ (19)
(21) (16) - (20)

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(1) Standard Mail Regular Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Mixed AADC Auto	$	0.211	14,909,235	3,152,805
AADC Auto	$	0.199	54,590,401	10,890,478
3-Digit Auto	$	0.183	449,527,587	82,432,060
5-Digit Auto	$	0.166	404,644,679	67,231,338
Basic Nonauto	$	0.259	9,140,988	2,367,494
3/5 Digit Nonauto	$	0.237	7,037,907	1,667,561
Total Volume			939,850,797	167,741,737
Revenue per piece				**$ 0.178**

(2) Standard Mail ECR Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Basic Nonauto Letters	$	0.182	11,093,337	2,015,552
Basic Auto Letters	$	0.148	25,699,949	3,805,740
High-Density Letters	$	0.164	25,764	4,225
Saturation Letters	$	0.152	727,170	110,530
W Total Volume			37,546,220	5,936,047
Revenue per piece				**$ 0.158**

(3) Average Revenue per piece **$ 0.178**

(1) Rate Schedule
(2) Rate Schedule
(3) (Standard Mail Regular Revenue + Standard Mail ECR Revenue) /
(Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

Standard Regular Unit Cost

	From Docket No. R2001-1									BANK ONE/JPM Chase		
	TYBR 2003 Total Unit Cost (Dollars) (1)	TYBR 2003 Mail Proc Unit Cost (Dollars) (2)	TYBR 2003 Delivery Unit Cost (Dollars) (3)	TYBR 2003 Other Unit Cost (Dollars) (4)	TYBR 2003 Total Unit Cost (Dollars) (5)	FY 2004 Total Unit Cost (Dollars) (6)	BY 2000 Mail Volume (Pieces) (7)	FY 2003 Mail Volume (Pieces) (8)	FY 2003 Mail Volume (Percent) (9)	TY 2004 Total Unit Cost (Dollars) (10)	FY 2003 Mail Volume (Pieces) (11)	FY 2003 Mail Volume (Percent) (12)
LETTERS												
Nonauto Basic		0.130	0.042	0.01	0.18	0.19	1,322,401,662	1,411,242,831	3.2%	0.19	9,140,988	1.0%
Nonauto 3/5-Digit		0.121	0.044	0.01	0.17	0.18	4,476,247,838	2,481,782,907	5.7%	0.18	7,037,907	0.7%
Auto Mixed AADC		0.050	0.039	0.01	0.10	0.10	2,354,963,527	2,687,599,740	6.1%	0.10	14,909,235	1.6%
Auto AADC		0.043	0.038	0.01	0.09	0.09	2,875,476,520	2,848,635,910	6.5%	0.09	54,590,401	5.8%
Auto 3-digit		0.040	0.038	0.01	0.08	0.09	15,600,801,986	17,815,958,778	40.6%	0.09	449,527,587	47.8%
Auto 5-digit		0.031	0.037	0.01	0.07	0.08	11,222,413,732	16,604,952,264	37.9%	0.08	404,644,679	43.1%
Total/average	0.10	0.05	0.04	0.01	0.10	0.09	37,852,305,265	43,850,172,430	100.0%	0.09	939,850,797	100.0%
		(13)										
Company average letter cost 2003		$ 0.09										

Standard ECR Unit Cost

	TY 2004 Unit Costs (cents)	
Total ECR letter unit cost	0.070	(14)
Total ECR letter delivery unit cost	0.052	(15)

	TY 2004 Delivery Unit Costs (cents) (16)	FY 2003 Mail Volume (Pieces) (17)	FY 2003 Mail Volume (Percent) (18)
ECR Basic Auto Letters	0.048	25,699,949	68.4%
ECR Basic Letters	0.066	11,093,337	29.5%
ECR High Density Letters	0.049	25,764	0.1%
ECR Saturation Letters	0.035	727,170	1.9%
Total		37,546,220	

Company Average letter ECR Unit Delivery Cos	0.053	(19)
Company Delivery Cost Adjustment	0.001	(20)
Company ECR total letter unit cost	0.071	(21)
(22) **Average Cost per piece**	0.085	(22)
(23) **Average Cost per piece, Including Contingenc**	0.088	(23)

(1) Docket No. R2001-1, LR-J-58, LR58AREG.xls, total unit letter costs
(2) Docket R2001-1, LR-J-60 Revised 11/15/01
(3) Docket R2001-1, LR-J-60 Revised 11/15/01
(4) (1) - average from (2) - average from (3)
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, SM base year volumes from SM letter model.
(8) Revenue, Pieces, and Weight (RPW) Report.
(9) Each row in (8) divided by total in (8)
(10) (6)
(11) CBCIS 2003 Standard Mail Volume Data
(12) Each row in columnm (11) divided by total in column (11)
(13) Weighted average costs calculated by multiplying column (10) by column (12)
(14) Docket No. R2001-1, LR-J-58, LR58AECR.xls, total TY2003 ECR unit letter costs
(15) Docket No. R2001-1, LR-J-58, LR58AECR.xls, sum of TY2003 ECR unit letter delivery costs
(Cost segments 6, 7 and 10) * inflationary cost adjustment factor (Assumptions)
(16) Docket No. R2001-1, LR-J-117, Revised 1/22/02, TY2003 unit delivery costs * inflationary cost adjustment factor (Assumptions)
(17) CBCIS 2003 Standard Mail Volume Data
(18) Percent of volume in each row of (17) divided by total in (17)
(19) Weighted average of the unit costs in (16) weighted by the volume percents in (18)
(20) (15) - (19)
(21) (14) + (20)
(22) ((13 * 11) + (21 * 17)) / (11 + 17)
(23) (22) * Contingency Factor (Assumptions)

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		Year 1	Year 2	Year 3
First Class Letter				
(1)a	**First-Class Operational Letter revenue per piece**	**0.292**	**0.292**	**0.292**
(1)b	**First-Class Marketing Letter revenue per piece**	**0.293**	**0.292**	**0.292**
(2)	**First-Class Operational Letter cost per Piece Before Rates**	**0.107**	**0.112**	**0.116**
(3)	**First-Class Operational Letter cost per Piece After Rates**	**0.107**	**0.112**	**0.116**
(4)	**First-Class Operational Letter avg. Contribution Before Rates**	**0.185**	**0.180**	**0.176**
(5)	**First-Class Operational Letter avg. Contribution After Rates**	**0.185**	**0.180**	**0.176**
(6)	**First-Class Marketing Letter cost per Piece Before Rates**	**0.146**	**0.142**	**0.147**
(7)	**First-Class Marketing Letter cost per Piece After Rates**	**0.130**	**0.130**	**0.135**
(8)	**First-Class Marketing Letter avg. Contribution Before Rates**	**0.145**	**0.150**	**0.145**
(9)	**First-Class Marketing Letter avg. Contribution After Rates**	**0.163**	**0.162**	**0.157**
Standard Mail				
(10)	Standard Revenue per Piece	0.178	0.178	0.178
(11)	Standard Cost per Piece	0.088	0.091	0.095
(12)	Standard Letter Contribution per Piece	0.090	0.087	0.083

(1)a Weighted average of Bank One and JPM Chase revenue per piece
(1)b Weighted average of Bank One and JPM Chase revenue per piece
(2) Weighted average of Bank One and JPM Chase cost per piece
(3) Weighted average of Bank One and JPM Chase cost per piece
(4) (1a) - (2)
(5) (1a) - (3)
(6) Weighted average of Bank One and JPM Chase cost per piece
(7) Weighted average of Bank One and JPM Chase cost per piece
(8) (1b) - (6)
(9) (1b) - (7)
(10) Average Revenue per Piece (SM rev calcs)
(11) Average Cost per Piece, Including Contingency (SM cost calcs)
(12) (10) - (11)

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 11

		Year 1	Year 2	Year 3	Total
ACS Savings					
(1)	Operational Mail	$ -	$ -	$ -	$ -
(2)	Marketing Mail Letter	$ 481,634	$ 790,285	$ 840,804	$ 2,112,723
(3)	Marketing Mail Flat	$ 2,012,052	$ 2,092,534	$ 2,176,235	$ 6,280,820
Contribution from New Volume					
(4)	Operational Mail	-	$ -	$ -	$ -
(5)	**Marketing Mail Letter**	**$ 1,380,038**	**$ 11,866,781**	**$ 11,898,505**	**$ 25,145,324**
(6) Total Exposure		$ 957,400	$ -	$ 267,000	**$ 1,224,400**
(7) Total Incremental Discounts		$ 597,325	$ 5,105,075	$ 6,314,750	**$ 12,017,150**
(8) Total USPS Value		**$ 2,318,999**	**$ 9,644,524**	**$ 8,333,794**	**$ 20,297,318**

(1) UAA Calcs, ((13)-(17))*1.03
(2) UAA Calcs, ((14)-(18))*1.03
(3) UAA Calcs, ((15)-(19))*1.03
(4) (Operational Mail After Rates - Operational Mail Before Rates) * FCM Operational Letter avg. Contribution After Rates
(5) (Marketing Mail Letter After Rates - Marketing Mail Letter Before Rates) * (FCM Marketing Letter avg. Contribution After Rates - SM Contribution)
(6) Disc&Exp, (8)
(7) Disc&Exp, (3)-(8)
(8) (1) + (2) + (3) + (4) + (5) - (6) - (7)

Special Services Update
Address Change Service (ACS Flats)

	Total cost/piece		Frequency		Weighted Cost/Piece	
ACS COA Notification						
Mechanized Terminal	$0.0660	[1]	0.00	[7]	$0.0000	[14]
Non-Mechanized Terminal	$0.2691	[2]	1.00	[8]	$0.2691	[15]
					$0.2691	[16]
ACS Nixie Processing						
Nixie Clerk handling	$0.0000	[3]	1.00	[9]	$0.0000	[17]
ACS Nixie Keying	$0.2074	[4]	1.00	[10]	$0.2074	[18]
					$0.2074	[19]

			% of ACS Volume		Volume Weighted Cost per Piece	
ACS COA notification	$0.2691	[5]	58.03%	[11]	$0.1561	[20]
ACS Nixie processing	$0.2074	[6]	41.97%	[12]	$0.0870	[21]
TOTAL COST PER PIECE			100.00%	[13]	**$0.243**	[22]

[1] USPS LR-I-110, Table 5.2.2, cell J31
[2] USPS LR-I-110, Table 5.2.2, cell J32
[3] These costs are treated as institutional.
[4] USPS LR-I-110, Table 5.2.2, cell J29
[5] [16]
[6] [3]+[4]
[7] USPS LR-I-110, Table 5.2.2, cell L31
[8] USPS LR-I-110, Table 5.2.2, cell L32
[9] All nixies subject to clerk processing.
[10] All nixies subject to keying.
[11] ACS "keyed only" pieces/Total ACS Volume
[12] Nixie Pieces/Total ACS Volume
[13] [11]+[12]
[14] [1]*[7]
[15] [2]*[8]
[16] [14]+[15]
[17] [3]*[9]
[18] [4]*[10]
[19] [17]+[18]
[20] [5]*[11]
[21] [6]*[12]
[22] [20]+[21]

Physical Return Costs

Cost for UAA Mail Being Returned to Sender
Physical Flat Mailpieces Returned

	A Annual Volume (Thousands)		B Cost/Piece		C Annual Cost (Thousands)	D Frequency		E Weighted Cost/Piece
1.	69,209	(1)	$0.0545	(2)	$3,771	1.00		$0.0545
2.	33,866	(3)	$0.2711	(4)	$9,181	0.49	(5)	$0.1327
3.	24,021	(6)	$0.5381	(7)	$12,926	0.35	(8)	$0.1868
4.	69,209	(1)	$0.6295	(9)	$43,567	1.00		$0.6295
5. Total								**$1.0034**

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the portion of return to sender mail that is returned by the Nixie clerk at the delivery unit, along with the portion of ACS Nixie that is returned at the CFS unit. This is the ratio of Rows 2 and 1, Column A.
(6) Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", Total Returned.
(7) Refer to Table 5.2.2, Column G, (Non-ACS) Total. Non Mach terminal cost/piece is used.
(8) This is the portion of return to sender mail returned from the CFS unit, along with the portion of ACS Nixie that is returned from the CFS unit. This is the ratio of Rows 3 and 1, Column A, Table 5.2.2.
(9) Refer to Table 5.2.4.1, Row 2, Column F.This Number was calculated based on data obtained from USPS Cost Attribution

Electronic "Return" Costs

Cost of UAA Mail Being Returned to Sender
Bank One Accepts ACS Flats

	A Annual Volume (Thousands)	B Cost/Piece (1)	C Annual Cost (Thousands)	D Frequency	E Weighted Cost/Piece
1.	69,209 (1)	$0.0545 (2)	$3,771	1.00	$0.0545
2.	33,866 (3)	$0.2711 (4)	$9,181	0.49 (5)	$0.1327
3. eACS					$0.2430 (6)
4. Total					**$0.4301**

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the cost of the Nixie clerk preparing mail for the CFS unit (USPS-LR-1/MC2002-2, page 1, row 2 as proxie).
(6) From Tab 3 of USPS LR-J-69.

OCA/USPS-T1-45. Please reproduce Appendix B of USPS-T-1 for J.P. Morgan Chase.

REVISED RESPONSE:

By agreement with OCA, the Postal Service is answering this question by providing a supplemental analysis of a hypothetical scenario in which integration of all JPM Chase mail volumes occurs on January 1, 2005, the beginning of Year 2 of the NSA. The Postal Service's answer consists of the following narrative discussion, along with the Excel worksheets attached to the Postal Service's revised response to OCA/USPS-T1-44 (and incorporated by reference here). Attachment OCA/USPS-T1-44 presents a combined model that calculates the financial implications of the NSA for a merged Bank One/J.P. Morgan Chase (JPM Chase) entity, assuming integration of all JPM Chase mail volumes at the beginning of Year 2. Thus, the model assumes that, in Year 1 only Bank One First-Class Mail volumes will be counted towards the threshold and be eligible to receive discounts.

Explanation of Financial Model

The Bank One/JPM Chase Model (the "combined model") incorporates all of the per-piece cost and revenue information into one comprehensive workbook. It serves as a presentation mechanism for the customer-specific revenue and cost calculations. The model was essentially built upon the same revenue and cost assumptions (discount and exposure (leakage) calculations) as the Capital One NSA. The historical and forecasted volumes are provided by Bank One witness Rappaport (BOC-T-1 at 5-6; response of Bank One witness Rappaport to OCA/USPT-T-1-44, partially redirected to Bank One; and witness Rappaport's responses to OCA/BOC-T1-13 and 19). All of these inputs provide the basis for calculating the value of the NSA.

Assumptions

The assumptions worksheet contains the rate of UAA returns for Bank One as provided by witness Rappaport (BOC-T-1 at 9), for JPM Chase as also provided by witness Rappaport (response to BOC/USPS-T1-17), and for the combined entity for Years 2 and 3 of the NSA. The Year 2 return rate for the combined entity was calculated by weighting the individual Bank One and JPM Chase return rates by Bank One and JPM Chase Year 2 Before Rates (BR) volumes. Similarly, the Year 3 return rate for the combined entity was calculated by weighting the individual return rates by Year 3 BR volumes.

The inflation cost adjustment factor, a weighted average of inflationary factors, represents the inflationary cost growth projected by the Postal Service. Currently, that factor is 4 percent. The Capital One manual and electronic return unit costs for letters, adjusted for inflation, serve as proxies in the model (USPS-LR-1/MC2002-2). The manual and electronic return unit costs for flats are the adjusted subclass averages (USPS-LR-1/MC2002-2). Costs for Years 1, 2 and 3 of the agreement are adjusted by the inflationary cost growth of 4 percent. The Address Change Service (ACS) success rate was explained by USPS witness Wilson (Docket No. MC2002-2, USPS-T-4 at 7) and is assumed to be constant throughout the life of the agreement.

The combined model assumes that 100 percent of the incremental mail volume growth comes from Standard Mail marketing letters migrating to First-Class Mail. The contingency[1] applied in the combined model is a multiplicative factor applied to all

[1] The contingency is applied to all forecasted postal costs to protect against unforeseen circumstances. It is applied as the very last step in development of the roll-forward costs. It needs to be incorporated in NSA calculations for two reasons. First, the existing rates from which the NSA rates or discounts are being derived include a contingency allowance. Without an NSA, the rates that Bank One would be paying would have been set so as to recover the

forecasted postal costs. The application of the contingency is uniform across all unit costs.

Volume Calculations

The Volume Calculations contain Bank One and JPM Chase's First-Class Mail volumes divided into operational mail, marketing mail letters, and marketing mail flats. This worksheet provides a historical view of Bank One's First-Class Mail profile for 2001-2003 and JPM Chase's First-Class Mail profile for 2002-2003. To illustrate the volume response to incentives, Bank One witness Rappaport has provided the volume forecasts for Bank One alone, both with the NSA ("After Rates" volumes) and without the NSA ("Before Rates" volumes). BOC-T-1 at 5-6. He has also provided these estimates for JPM Chase (*see* response to OCA/USPS-T-44, partially redirected to Bank One witness Rappaport).

First-Class Mail Revenue Calculations

Page 3 of the model shows the First-Class Mail revenue profile for Bank One and JPM Chase. It is similar to the profile in the record of the Capital One NSA case (MC2002-2, USPS-T-3). The revenue profile breaks out the estimated revenue per piece individually for Bank One's marketing letters, Bank One's operational letters, JPM Chase's marketing letters, and JPM Chase's operational letters.

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contingency. Furthermore, the NSA financial analyses are projections into the future, and the further into the future the projections are made, the more appropriate the application of the contingency.

Operational Unit Cost and Marketing Unit Cost

These spreadsheets develop unit costs separately for Bank One and JPM Chase. The unit cost estimates for operational mail are based on the same assumptions as the First-Class Mail Presort Letters/Flats Unit Cost Estimate sponsored by witness Crum in the Capital One NSA case (Docket No. MC2002-2, USPS-T-3, "Atta2.xls"). Estimates for the Bank One NSA differ from those of the Capital One NSA in the Test Year (TY) calculations, the Bank One/JPM Chase volumes, and the total unit cost (sources 17 and 18). The TYBR 2003 unit cost is based on Docket No. R2001-1, with the weighted distributions calculated from Base Year (BY) 2000 FCM volumes from the FCM letter model from Docket No. R2001-1, PRC, LR-4. The TY 2004 cost estimates are derived by multiplying the TYBR 2003 total unit cost by the inflationary growth rate of 4.0 percent.[2] FY 2003 Mail Volumes for Bank One and JPM Chase are used because FY 2003 is the most recent full year for which historical mail volume data are available. The Before Rates and After Rates estimates of Total Unit Cost, including Contingency (Model, Page 4, sources 17 and 18), are equal because the NSA does not affect return procedures for operational mail.

The Marketing Unit Costs rely on the same assumptions as the Operational Unit Costs. The major difference is electronic diversion from ACS and the cost differential between manual and electronic returns for UAA mail. Operational mail does not receive

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[2] Columns are labeled as "TYBR 2003" in these sheets because those figures are drawn from Docket No. R2001-1, in which FY 2003 was the test year. Columns are labeled as "TY 2004" because 2004 is the first of the three years in which the instant NSA is assumed to be in effect. Estimates for the last two years of the NSA, Years 2 and 3, are presented in the subsequent sheets. 2004 is not the exclusive "test year" in this proceeding in the sense that FY 2003 was the test year in the Capital One proceeding. 2004 is, rather, one of three relevant years for which estimates are presented and evaluated.

the Change Service Requested ("CSR") endorsement, because the mail needs to be physically returned to Bank One and JPM Chase. Marketing mail receives the endorsement, and information is returned from UAA mail electronically 85 percent of the time. This explains why the Total Unit Cost, including Contingency, differs in sources 17 and 18 (Model, Page 5).

Discount and Exposure

In Year 1, the declining block rate structure for the proposed NSA begins at 535,000,000 pieces, with a discount of 2.5 cents per piece. Exposure (to the Postal Service) measures the potential revenue foregone by the Postal Service when Bank One receives declining block rate discounts on mail volume that Bank One would have mailed even without the proposed NSA. In Year 1, Bank One's BR forecast falls within the second tier of the discount structure. Total exposure is therefore calculated by adding the first tier to the second tier. Because the first tier exposure must be maximized before discount calculations apply, the ending threshold is reduced by the beginning threshold (560,000,000 – 535,000,000), and that difference is multiplied by the corresponding discount (2.5 cents). The first tier exposure equals $625,000. The second tier exposure is the remaining volume less the beginning threshold (571,080,000 – 560,000,001), multiplied by the discount (3.0 cents), equaling ($332,400). Thus, the total exposure in each year in this case is $957,400 ($625,000+$332,400).

Based on the Y1AR Forecast, Bank One could qualify for discounts in the first, second and third tiers of the agreement, equaling $1,554,725, using the same formula as exposure. Discounts are given on pieces mailed above the threshold

Double counting of the 36,080,000 (Y1BR – Beginning Threshold: 571,080,000 – 535,000,000) mail pieces occurs in the discount and exposure calculations, because the 36,080,000 pieces are in the exposure calculation. The Y1AR volume of 590,135,000 is made up of the Y1BR volume plus the 19,055,000 additional marketing pieces. To account for this double counting, the Postal Service subtracts the discount from the exposure, to get the "real" discount calculation of $597,325 (Model, page 11).

At the beginning of Year 2, the discount threshold is adjusted upward by 470.5 million, to 1,005.5 million to reflect the hypothetical integration of all J.P. Morgan Chase volumes at the beginning of the year. The adjustment is made pursuant to the term of the NSA, which bases the amount of the adjustment on the 12 month volumes prior to the date of integration. The threshold remains at this level in Year 3.

UAA Calculations

In lieu of receiving physical returns, Bank One and JPM Chase will accept electronic information on address changes or corrections, as Capital One does. Providing this electronic information costs the Postal Service less than physically returning undeliverable mail. The estimated Capital One physical and electronic return unit costs described in USPS-LR-1/MC2002-2 are used to model the cost savings. The total return costs savings vary from the Capital One model because of the different marketing mail volumes and return rate forecasts (9 percent for Bank One's marketing mail letters, 4 percent for J.P. Morgan Chase).

To calculate the cost savings, we multiply the expected volume of Bank One and JPM Chase's UAA mail times the unit costs savings for each piece processed through the ACS times the percentage of UAA mail that will be processed. The calculation relies

on the evidence in Docket No. MC2002-2 for (1) the estimated percentage of UAA mail that will be processed through the ACS system (85 percent) and (2) the unit savings for each UAA piece processed through the ACS system. Page 11 of the model (USPS Value) applies the contingency factor to the UAA cost savings calculated in this worksheet.

Standard Mail Revenue Calculations and Standard Mail Cost Calculations

The Standard Mail Regular and Enhanced Carrier Route (ECR) Revenues are based on the combined FY 2003 Standard Mail Regular and ECR billing determinants of Bank One and JPM Chase. The revenue per piece for both Regular and ECR is a weighted average of the revenue per piece and the percent of combined Bank One/JPM Chase volume. The Standard Regular and ECR unit costs are based on Docket No. R2001-1 for TY 2003 unit costs (Docket No. R2001-1, USPS LR-J-58 as corrected). The cost calculations are based on the USPS version of the cost models, because costs using the Commission's methodology are unavailable for some of the data. Specifically, the total unit costs of Standard Mail Regular and ECR letters are needed for this analysis. These data are found in the USPS Weight Study (Docket No. R2001-1 USPS LR-J-58 (revised)), and there is no PRC version of this document. Note that using the USPS version of costs for Standard Mail and the PRC version of costs for First-Class Mail understates the contribution of switched mail and hence the value of the agreement to the USPS. See Response to BOC/USPS-T-1-46, partially redirected to Bank One witness Buc.

Contribution Inputs

The Contribution Inputs worksheet calculates the contribution per piece of Bank One's operational mail and marketing mail letters in Year 1 and of combined Bank One/JPM Chase operational mail and marketing mail letters in Years 2 and 3. This per-piece calculation provides the Postal Service with before rates and after rates revenue, cost, and contribution for First-Class Mail and Standard Mail on a customer-specific basis. This approach also allows for forecasting future contribution per piece in the out-years of the agreement by allowing the inflationary growth to be multiplied by the cost of each subclass.

In addition to applying inflationary factors to Year 1 unit costs to calculate First-Class Mail per-piece costs and revenues for Years 2 and 3 of the Agreement, this worksheet develops volume-weighted averages of the Bank One and J.P. Morgan Chase unit cost and revenue figures from Model, Pages 3, 4, and 5. The following table shows which volumes are used as weights for which First-Class Mail calculations:

Weighting Factor	Cell
Year 2 BR Operational Mail Volume	Column "Year 2" – Rows (1) a, (2), (3)
Year 2 BR Marketing Letter Volume	Column "Year 2" – Rows (1) b, (6), (7)
Year 3 BR Operational Mail Volume	Column "Year 3" – Rows (1) a, (2), (3)
Year 3 BR Marketing Letter Volume	Column "Year 3" – Rows (1) b, (6), (7)

USPS Value

The total USPS value looks at the value determinants, less the discount and exposure associated with the declining block rate structure. "Contribution from New Volume" is any volume above the before rates forecast multiplied by the difference between the First-Class Mail and the Standard Mail estimated contributions. This is so because Bank One as well as the merged entity indicates that all of its new First-Class

Mail volume will be switched from Standard Mail (100 percent conversion). BOC-T-1 at 8; Response to OCA/USPS-T1-44 (Rappaport). As noted above, I applied contingency to the UAA cost savings in this worksheet.

Tab -3 (Table 5.2), Physical Returns, Electronic Returns

Estimating the savings associated with conversion to ACS requires several steps. First, the physical return cost needs to be calculated. As shown on page 13 of the model, the estimated Postal Service cost of physically returning Bank One's flat-size First-Class Mail is $1.0034 per piece. This value is derived as follows:

The base UAA cost in Docket No. R2001-1 (USPS-LR-J-69) is adjusted by removing the costs associated with collection of postage due. This follows the methodology employed by witness Crum in Docket No. MC2002-2 for Capital One's letter-size First-Class Mail.

Second, the cost of electronic "returns" must be calculated. Model, page 14, shows that the estimated cost of electronically handling UAA mail from point of return is 43.01 cents per piece. This cost is calculated by adjusting the electronic Address Correction Service costs provided in Docket No. R2001-1 by Postal Service witness Abdirahman (USPS-LR-J-69) to include costs that these mail pieces incur prior to actual electronic Address Correction Service processing. The difference between the cost of physically returning the mail piece and electronically handling the UAA mail piece via ACS is the estimated unit cost savings of 58.89 cents. This follows the methodology employed by witness Crum in Docket No. MC2002-2 for Capital One's letter-size First-Class Mail.

OCA/USPS-T1-46. Please refer to your testimony, Appendix A, page 10, and the table below.

Contribution per Piece	Year 1	Year 2	Year 3
First-Class Marketing Letter, After Rates	$0.163	$0.158	$0.152
Standard Letter Contribution per Piece	$0.093	$0.089	$0.086
Net Contribution	$0.070	$0.069	$0.067
Discount	$0.050	$0.050	$0.050
Net Contribution less Discount	$0.020	$0.019	$0.017

a. Please confirm that Bank One's Year 1 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is $0.020. If you do not confirm, please explain.

b. Please confirm that Bank One's Year 2 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is $0.019. If you do not confirm, please explain.

c. Please confirm that Bank One's Year 3 After Rates Net Contribution per Piece for First-Class Marketing Letters, after the 5 cent discount, is $0.017. If you do not confirm, please explain.

RESPONSE:

Confirmed that these questions faithfully reproduce what is in my appendix A. However, this question implies that the **marginal** net contribution assuming the maximum discount equates to the **average** after rates net contribution. Since many pieces would receive smaller discounts, the average net contribution per piece would be higher.

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

OCA/USPS-T1-47.

a. Please confirm that Capital One's TYAR Contribution per Piece less Discount is:

Capital One FCM Revenue per Piece	$0.2910	[1]
TYAR Unit Cost, Capital One	$0.1266	[2]
TYAR Contribution per Piece	$0.1644	[3] = [1] – [2]
Discount, "1,600,000,000 to Above" Tier	$0.0600	[4]
TYAR Contribution per Piece less Discount	$0.1040	[5] = [3] – [4]

Notes & Sources:

[1] Docket No. MC2002-2, USPS-T-3 (Crum), Attachment A, Page 1, Col. (3)
[2] Docket No. MC2002-2, USPS-T-3 (Crum), Attachment A, Page 2, Line (25)
[4] Docket No. MC2002-2, Request, Attachment B, Rate Schedule 610A (Capital One)

If you do not confirm, please explain.

b. Please confirm that Capital One's TYAR Contribution per Piece less Discount is 5.2 ($0.1040 / $0.020) times Bank One's Year 1 Net Contribution per Piece less Discount. If you don't confirm, please explain.

Response

a. Confirmed.

b. Not confirmed. The estimates used in MC 2002 were based on an earlier time period and do not include inflation factors used in this docket.

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

OCA/USPS-T1-48. Please refer to your response to OCA/USPS-T1-30(b) and (e), and your response to POIR No. 2, Question 5, in Docket No. MC2002-2, which states

> Once discounts intended to influence mailer behavior are established, it is not possible to "observe" what mailer behavior would have been without such discounts.

a. Your response to part (b) states

> Confirmed, although to the extent that one compares AR and BR volumes during the same period, exogenous impacts could be considered identical such that any difference between AR and BR volumes would be the result of a difference in postage prices.

Please confirm that it is not possible to know the effect of exogenous variables on a mailer's BR volumes after price discounts are offered. If you do not confirm, please explain.

b. Your response to part (e) states

> If, in the unlikely circumstance that the Before Rates volumes will be materially higher than projected, it is probable that the exposure or 'discount leakage' has been underestimated. However, by that same token the projected ACS cost savings will also have been underestimated, thus mitigating the loss from the additional leakage.

Please confirm that to the extent Before Rates volumes are materially higher, as you posit, the discount leakage cannot be eliminated. If you do not confirm, please explain.

c. Please confirm that to the extent Before Rates volumes are materially higher in Year 3, the discount leakage at a $0.050 discount will be $0.033 [Discount - Net Contribution less Discount, $0.050 - $0.017]. If you do not confirm, please explain.

RESPONSE:

a. Confirmed that when analyzing changes in a customer's mail volume, it is not possible to precisely identify causal relationships between specific factors and such changes. However, "exogenous" in this context means things that are outside the scope of the agreement between Bank One and the Postal

Service. Thus, for any period of time under consideration, exogenous factors would presumably affect both AR and BR volumes in the same manner. For example, an exogenous factor that results in an increase in BR volume would also result in a similar increase in the AR volume as well.

b. Confirmed.

c. Confirmed, with two caveats. First, it is highly unlikely that there will be any Before-Rates volume in the 5-cent discount block in any year of the agreement. Moreover, if this unanticipated development occurred, it is likely that whatever exogenous factor caused it would also cause a comparable increase in the After-Rates volume above the level projected for the same year. Second, the terminology "Discount - Net Contribution less Discount" is misleading. A more accurate description of the per-unit values is "Discount – Cost Savings". See Attachment to OCA/USPS-T1-36, page 3, Row 13, cell W23

OCA/USPS-T1-49. Please refer to your response to OCA/USPS-T1-31(b). Please confirm that by inserting =9%*(1+H9) in Cell G8 in each worksheet, and by changing the figure in Cell G9 to 5.48227081339534% in each worksheet will produce the same Total Stop Loss Estimate shown in Table 4, column [3] accompanying OCA/USPS-T1-31. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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

OCA/USPS-T1-50. Please refer to your response to OCA/USPS-T1-31 and to the worksheet "BOC – JPMC" in the spreadsheet accompanying OCA/USPS-T1-31. Also, please refer to the attachment accompanying this follow-up interrogatory, which shows the worksheet "BOC – JPMC" based upon the volumes provided in OCA/BOC-T1-13 (revised August 9, 2004) and the weighted average return rate for Bank One and J.P. Morgan Chase provided in OCA/BOC-T1-17. Please confirm that the Year 1 stop-loss estimate for the BOC – JPMC merged entity is $14,293,625. If you do not confirm, please explain.

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

BANK ONE - J.P. MORGAN CHASE
Stop Loss Estimate Model

Attachment to Interrogatory
OCA/USPS-T1-50

TABLE 1
Year 1 - ACS Related Savings

	ASSUMPTIONS	
[1]	JPMC Total Additional Solicitation Volume	112,300,000
[2]	JPMC Total Additional Customer Volume	219,600,000
[3]	BOC - JPMC Return Rate - Solicitation Letters	6.0%
[4]	BOC - JPMC Solicitation Ltrs % Extra BR Ltr Vol.	100.0%
[5]	BOC BR Customer Mail Volume	506,650,000
[6]	BOC BR Solicitation Letter Volume	29,387,000
[7]	BOC BR Solicitation Flats Volume	35,043,000
[8]	BOC - JPMC Total Letter Volume	867,937,000
[9]	BOC - JPMC Customer Letter Volume	726,250,000
[10]	BOC - JPMC Solicitation Letter Volume	141,687,000
[11]	BOC - JPMC Solicitation Flats Volume	35,043,000
[12]	Manual Letter Returns Unit Cost	$0.55
[13]	Manual Flat Returns Unit Cost	$1.06
[14]	Electronic Letter Returns Unit Cost	$0.34
[15]	Electronic Flat Returns Unit Cost	$0.45
[16]	BOC Return Rate - Solicitation Flats	11%
[17]	Address Change Service (ACS) Success Rate	85%
[18]	BOC Solicitation Flats %	100%
[19]	BOC ACS Unit Cost Savings - Letters	$0.01060800
[20]	BOC ACS Unit Cost Savings - Flats	$0.05726308
[21]	BOC - JPMC BR Equilibrium Letter Volume	1,158,272,502
[22]	Total ASC Cost Savings - Letters	$12,286,955
[23]	Total ASC Cost Savings - Flats	$2,006,670
[24]	Total ASC Savings	$14,293,625

TABLE 2
Year 1 - Discount Leakage

Volume Block			**Incremental Volume**	**Discount**	**Discount Leakage**	
	[1]		[2] = [1b] - [1a]	[3]	[4] = [2] * [3]	
[a]		[b]				
866,900,001	to	891,900,000	24,999,999	$0.025	$625,000	
891,900,001	to	916,900,000	24,999,999	$0.030	$750,000	
916,900,001	to	941,900,000	24,999,999	$0.035	$875,000	
941,900,001	to	976,900,000	34,999,999	$0.040	$1,400,000	
976,900,001	to	1,011,900,000	34,999,999	$0.045	$1,575,000	
1,011,900,001	to	1,193,272,502	181,372,501	$0.050	$9,068,625	
		Total			$14,293,625	$0

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

RESPONSE:

Not confirmed for several reasons. First, the formula in row [22] in the attachment appears to be incorrect. Specifically, it applies the unit cost savings of an average First-Class Mail *solicitation* letter to *all* First-Class Mail letters -- whether the letter is a customer mailpiece or a solicitation. Even though the vast majority of any Before-Rates First-Class Mail letters over and above witness Rappaport's Before-Rates forecast – if any were to exist – would be solicitations (see my response to OCA/USPS-T1-35), Bank One and J. P. Morgan Chase will also mail a significant number of customer letters in Year 1 for which there will no ACS savings. To correct the formula in row [22], the customer mail volume figure in row [9] should be subtracted from total letter volume before multiplying by the cost savings per solicitation letter.

Second, the "JPMC Total Additional Customer Volume" figure in row [2] excludes the J. P. Morgan Chase retail financial service volume figures identified by witness Rappaport in his answer to OCA/BOC-T1-13(b)(iii).

Third, the "JPMC Total Additional Solicitation Volume" does not reflect the revision to OCA/BOC-T1-13(b)(ii) that was filed on August 27, 2004.

Fourth, it is unlikely that J. P. Morgan Chase volumes will be integrated in their entirety immediately. Hence, the merger will not affect the NSA until after the beginning of Year 1, and, in fact, may not affect the NSA until Year 1 has completely ended.

Fifth, the volumes specified in rows [1] and [2] are for 2003, not for Year 1 of the agreement.

In addition to these technical points, the "stop-loss estimate" calculated in the interrogatory reflects a fundamental conceptual error. The calculations assume that the declining block rate discounts will cause no migration of solicitation letter volume whatsoever from Standard Mail to First-Class Mail, and that the Postal Service therefore will gain no net contribution from this inter-class migration. Bank One witness Rappaport has conservatively assumed, however, that at least 99 million Bank One solicitations will migrate from Standard Mail to First-Class Mail in 2005 and 2006. And Bank One witness Buc has calculated that more than 400 million pieces are likely to migrate from Standard Mail to First-Class Mail in response to the NSA.

Using Microsoft Excel's "Goal Seek" function[1] and the "Combined Model" filed in response to OCA/BOC-T1-44 for Bank One and J.P. Morgan Chase combined, I have calculated "breakeven" Before-Rates volumes, After-Rates volumes and the corresponding discounts, based upon three alternative (and conservative) assumptions: that 100 million, 150 million, and 200 million solicitation letters will switch from Standard Mail to First-Class Mail in response to the NSA's incentives. These calculations show how much actual Before Rates volume would have to exceed projected Before Rates volume to eliminate the positive net contribution received by the Postal Service from (1) cost savings and (2) the added contribution generated by the migration of Bank One/J.P. Morgan Chase solicitation mail from Standard Mail to higher-margin First-Class Mail as a result of the NSA rate incentives. For comparison, I also analyzed a fourth scenario that assumes that *zero* pieces migrate to First-Class Mail. This

[1] "Goal Seek" is a functionality of the Excel program which allows the user to find a specific result for a cell by adjusting the value of one other cell.

particular scenario, which assumes that the NSA rate discounts will have no effect at all, corresponds to the "stop-loss estimate" to which the interrogatory refers.

For each of the three alternative migration scenarios (as well as the zero-migration scenario assumed by the interrogatory), I assumed that After-Rates First-Class Mail marketing letter volume would equal the sum of the Before-Rates volume projected by witness Rappaport *plus* the number of pieces (alternatively 0, 100 million, 150 million, and 200 million pieces) assumed to migrate from Standard Mail to First-Class Mail as a result of the declining-block discounts. I then used the "Goal Seek" function of the Microsoft Excel program to compute the amount by which actual Before-Rates volume would have to exceed witness Rappaport's projections to offset completely the net contribution less discounts that the Postal Service would receive from cost savings plus the extra margins generated by the migration of solicitation letters from Standard Mail to First-Class Mail. As Tables 1, 2, and 3 below clearly show, actual Before-Rates First-Class Mail volume would need to exceed witness Rappaport's forecast by a very large amount for the NSA to produce a net loss in USPS contribution.

Along with this interrogatory response, I am filing as Attachment OCA-USPS-T1-50 Model.xls the Excel spreadsheet that I used to perform my analysis. The spreadsheet builds from the model that I filed in my revised response to OCA/USPS-T1-44. The major difference is that this spreadsheet includes a worksheet "Breakeven Analysis" (Page 2a) that performs the analysis discussed above. This worksheet varies the volume figures in Page 2 to calculate breakeven volumes for the scenarios discussed above. To replicate my analysis,

populate the "ENTER -- Switched Marketing Mail Letter Volume" row and press the "GOAL SEEK" button.

Table 1
How Much Would Actual Before Rates Volume Need To Exceed Projected Before Rates Volume To Produce A Net Loss In Contribution?
(Bank One—2004)

If the NSA rate discounts induced this many Standard pieces to migrate to First-Class Mail . . .	Actual Before Rates volume would have to reach this level to wipe out the net gain to the USPS from the NSA:	After Rates volume at this "break even" point would equal:	Discounts paid at this "break even" point would equal:
0	646,928,903	646,928,903	$3,736,801
100,000,000	718,565,454	818,565,454	$12,153,273
150,000,000	751,923,861	901,923,861	$16,321,193
200,000,000	785,282,268	985,282,268	$20,489,113

Table 2
How Much Would Actual Before Rates Volume Need To Exceed Projected Before Rates Volume To Produce A Net Loss In Contribution?
(Bank One/JPMorgan Chase Combined—2005)

If the NSA rate discounts induced this many Standard pieces to migrate to First-Class Mail . . .	Actual Before Rates volume would have to reach this level to wipe out the net gain to the USPS from the NSA:	After Rates volume at this "break even" point would equal:	Discounts paid at this "break even" point would equal:
0	1,136,566,765	1,136,566,765	$4,598,004
100,000,000	1,203,980,467	1,303,980,467	$12,899,023
150,000,000	1,236,778,007	1,386,778,007	$17,038,900
200,000,000	1,269,575,548	1,469,575,548	$21,178,777

Table 3
How Much Would Actual Before Rates Volume Need To Exceed Projected Before Rates Volume To Produce A Net Loss In Contribution?
(Bank One/JPMorgan Chase Combined—2006)

If the NSA rate discounts induced this many Standard pieces to migrate to First-Class Mail . . .	Actual Before Rates volume would have to reach this level to wipe out the net gain to the USPS from the NSA:	After Rates volume at this "break even" point would equal:	Discounts paid at this "break even" point would equal:
0	1,132,484,109	1,132,484,109	$4,414,285
100,000,000	1,197,234,551	1,297,234,551	$12,561,728
150,000,000	1,228,424,088	1,378,424,088	$16,621,204
200,000,000	1,259,613,625	1,459,613,625	$20,680,681

So large an understatement of Before Rates volume is highly implausible. Bank One's First-Class volumes, unlike those of Capital One during the years of record in Docket No. MC2002-2, have been highly stable in recent years—ranging from 583 million pieces in 2001 to 600 million pieces in 2002 to 596 million pieces in 2003.[2] The same is true of J.P. Morgan Chase's recent First-Class volumes which were 475.2 million pieces in 2002 and 461.7 million pieces in 2003.[3].

Moreover, most of Bank One's First-Class Mail (unlike Capital One's First-Class Mail) consists of operational (or "customer") mail—*i.e.*, monthly account statements and the like—not solicitation or marketing mail. In 2003, for example, solicitation letters represented only 60 million pieces—or *11 percent* of Bank One's total First-Class letters in that year.[4] Likewise, in 2003 solicitation letters

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[2] Rappaport Direct (BOC-T-1) at 5. By contrast, Capital One's First-Class mail volume was highly volatile during the three years of historical record in Docket No. MC2002-2. *See* Docket No. MC2002-2, 2 Tr. 207, 209-210.

[3] Derived from Attachment OCA/BOC-T1-19, corrected Aug. 27, 2004

[4] Rappaport Direct (BOC-T-1) at 5.

represented only about 25 percent of J. P. Morgan Chase's total First-Class letters in that year. [5] Because the volume of operational or customer mail is largely nondiscretionary, an underestimate of this magnitude necessarily implies a veritable explosion in the volume of Bank One's First-Class Before Rates solicitation letter volume:

I am unaware of any reason to explain why the Before Rates solicitation volumes of Bank One (and J.P. Morgan Chase) might surge so dramatically if existing First-Class rates remained unchanged. For this reason, a cap on total discounts would only serve to reduce the value of the agreement to the Postal Service and Bank One by choking off additional First-Class Mail volumes.

[5] Corrected response of witness Rappaport to OCA/BOC-T-13

Attachment to Response to OCA/USPS-T1-50

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 1	Year 1	(13) Year 2	(14) Year 3
Return Forecast			
(1) Operational Mail (Ops)	0.34%	0.45%	0.46%
(1a) Bank One	0.34%	0.34%	0.34%
(1b) JPM Chase	0.60%	0.60%	0.60%
(2) Marketing Mail - Letters (Mktg)	9.00%	6.17%	6.10%
(2a) Bank One	9.00%	9.00%	9.00%
(2b) JPM Chase	4.00%	4.00%	4.00%
(3) Marketing Mail - Flats (Bank One)	11.00%	11.00%	11.00%
(4) USPS FCM average return rates	1.23%	1.23%	1.23%
Unit cost assumptions			
(5) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(6) Manual Flat Returns Unit Cost	$ 1.04	$ 1.09	$ 1.13
(7) Manual Letter Returns Unit Cost	$ 0.55	$ 0.57	$ 0.60
(8) Electronic Flat Returns Unit Cost	$ 0.45	$ 0.47	$ 0.48
(9) Electronic Letter Returns Unit Cost	$ 0.34	$ 0.36	$ 0.37
(10) Address Change Service (ACS) Success Rate	85.0%	85.0%	85.0%
(11) Percent of new marketing mail switched from Standard Mail (SM)	100.0%	100.0%	100.0%
(12) Contingency Factor	1.030		

(1) Weighted average of (1a) and (1b)
(1a) BOC-T-1
(1b) OCA/BOC-T1-17
(2) Weighted average of 2(a) and 2(b)
(2a) BOC-T-1
(2b) OCA/BOC-T1-17
(3) BOC-T-1
(4) USPS-LR-1/MC2002-2
(5) MC 2004-3 USPS T-1 at page 13
(6) Manual Return Costs ($1.0190) * (1 + (5))
(7) USPS-LR-1/MC2002-2 * (1+ (5))
(8) Electronic Returns Costs ($0.4301) * (1+ (5))
(9) USPS-LR-1/MC2002-2 * (1+ (5))
(10) USPS witness Wilson, T4/MC2002-2
(11) BOC-T-1
(12) USPS-LR-1/MC2002-2
(13) Year 1 * (5)
(14) Year 2 * (5)

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 2	2001	2002	2003	Year 1	Year 2	Year 3
(1) Volume calculations -- Combined Bank One and JPM Chase						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	887,250,000	911,150,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	243,589,268	347,282,548	313,420,625
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**785,282,268**	**1,269,575,548**	**1,259,613,625**
After rates						
Operational mail				506,650,000	887,250,000	911,150,000
Marketing mail letter				443,589,268	547,282,548	513,420,625
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total				**985,282,268**	**1,469,575,548**	**1,459,613,625**
(2) Volume calculations -- Bank One						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	243,589,268	150,999,338	131,602,896
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**785,282,268**	**692,692,338**	**673,295,896**
After rates						
Operational mail				506,650,000	506,650,000	506,650,000
Marketing mail letter				443,589,268	311,667,295	284,930,012
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total	-	-	-	**985,282,268**	**853,360,295**	**826,623,012**
(3) Volume calculations -- JPM Chase						
Before rates				**Not Integrated**		
Operational mail		317,000,000	346,000,000	358,100,000	380,600,000	404,500,000
Marketing mail letter		158,200,000	115,700,000	112,400,000	196,283,210	181,817,729
Marketing mail flat					-	-
Total	-	**475,200,000**	**461,700,000**	**470,500,000**	**576,883,210**	**586,317,729**
After rates						
Operational mail				---	380,600,000	404,500,000
Marketing mail letter				---	235,615,253	228,490,613
Marketing mail flat					-	-
Total	-	-	-	---	**616,215,253**	**632,990,613**

(1) MC 2004-3 BOC T-1 at page 5 - 6
(2) MC 2004-3 BOC T-1 at page 5 - 6
(3) OCA/BOC-T1-13,19; OCA/USPS-T1-44 (Rappaport)

Assumes start of YEAR 2 is date of integration of mail streams. YEAR 1 only applies to Bank One

(1) YEAR 1 only includes Bank One BR and AR forecasts
YEAR 2 and YEAR 3 Before Rates and After Rates volume is sum of Chase and Bank One BR and AR forecasts
(2) Year 1 and Year 2 marketing mail letter volume calculated using constant ratio.
(3) Year 1 and Year 2 marketing mail letter volume calculated using constant ratio.

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 2A

	Year 1	Year 2
(1) Breakeven Analysis -- Combined Bank One and JPM Chase		
Before rates		
Marketing mail letter -- Original	29,387,000	67,587,000
SOLVE -- Marketing mail letter -- Increase Where USPS Value Equals $0	214,202,268	279,695,548
Total	**243,589,268**	**347,282,548**
ENTER -- Switched Marketing Mail Letter Volume	200,000,000	200,000,000
After rates		
Marketing mail letter -- Original	48,442,000	225,542,000
Marketing mail letter -- Solution Where USPS Value Equals $0	443,589,268	547,282,548
(2) USPS Value -- Combined Bank One and JPM Chase	$ -	$ -
(3) Discount Earned -- Combined Bank One and JPM Chase	$ 20,489,113	$ 21,178,777
(4) Solve for BR Increase Where USPS Value Equals $0		**<------ CLICK I**
(5) Volume calculations -- Combined Bank One and JPM Chase		
Before rates -- Total	785,282,268	1,269,575,548
After rates -- Total	985,282,268	1,469,575,548

(1) Page 2
(2) Page 11 Revised
(3) Page 6
(5) Page 2

Combined Bank One / Chase Model YEAR 2	Bank One Ops			Bank One Marketing			JPM Chase Ops		
Page 3	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue
Rate Category									
Single Piece Letters									
First Ounces, except QBRM		0.370	$ -	-	0.370	$ -	-	0.370	$ -
Qualified Business Reply Mail		0.340			0.340	-	-	0.340	-
Additional Ounces	-	0.230	-	-	0.230	-	-	0.230	-
Nonmachinable Pieces		0.120	-	-	0.120	-	-	0.120	-
Single-Piece revenue	-		-	-		-	-		-
Revenue Adjustment Factor (a)			1.000	-		1.000	-		1.000
(4) Total Single-Piece Postage Revenue			-	-		-	-		-
	-			-			-		
Nonautomated Presorted Letters	-			-			-		
First Ounce	16,896,034	0.352	5,947,404	5,469	0.352	1,925	8,946,611	0.352	3,149,207
Additional Ounces	152,925	0.225	34,408	57,088	0.225	12,845	144,098	0.225	32,422
Nonmachinable Pieces	16,555	0.055	911	8,044	0.055	442	1,574	0.055	87
Heavy Piece Deduction	3,950	(0.041)	(162)	117	(0.041)	(5)	1,657	(0.041)	(68)
Nonautomated Presorted revenue			5,982,561			15,208			3,181,648
Revenue Adjustment Factor (a)			1.000			1.000			1.000
(5) Total Nonautomated Presorted Letters Revenue			5,982,561			15,208			3,181,648
Automation Presort Letters									
Mixed AADC Letters	3,462,216	0.309	1,069,828	159,789	0.309	49,375	10,984,696	0.309	3,394,271
AADC Letters	5,935,849	0.301	1,786,691	157,854	0.301	47,514	6,296,102	0.301	1,895,127
3-Digit Letters	321,218,361	0.292	93,795,744	20,459,211	0.292	5,974,090	234,204,476	0.292	68,387,707
5-Digit Letters	150,886,738	0.278	41,946,510	38,358,545	0.278	10,663,676	84,336,169	0.278	23,437,115
Additional Ounces	3,822,232	0.225	860,002	2,490,389	0.225	560,336	3,554,768	0.225	799,823
Heavy Piece Deduction	51,555	(0.041)	(2,114)	20,081	(0.041)	(823)	10,419	(0.041)	(427)
Automation Presort Letters			139,456,662			17,294,166	-		97,913,615
Revenue Adjustment Factor (a)			1.000			1.000	-		1.000
(6) Total Automation Presort Letters Revenue			139,456,662			17,294,166	-		97,913,615
							-		
Automation Carrier Route Letters							-		
First Ounce	115,501	0.275	31,787	462,363	0.275	127,150		0.275	-
Additional Ounces	-	0.225	-	-	0.225	-	-	0.225	-
Heavy Piece Deduction		(0.041)	-	-	(0.041)	-	-	(0.041)	-
Automation Carrier Route Revenue			31,787			127,150			-
Revenue Adjustment Factor (a)			1.000			1.000			1.000
(7) Automation Carrier Route Letters Revenue			31,787			127,150			-
(8) Total Company Letters Subclass			$ 145,471,010			$ 17,436,524			$ 101,095,263
Total pieces			498,514,731			59,603,231			344,738,054
(9) **Revenue per piece**			**0.292**			**0.293**			**0.293**

(a) Revenue Adjustment factor not required because customer specific revenue presented
(1) CBCIS 2003 Bank One and JPM Chase Volume Data
(2) Rate Schedule
(3) (1) * (2)
(4) Single Piece Revenue * Revenue Adjustment Factor
(5) Nonautomated Presorted Revenue * Revenue Adjustment Factor
(6) Automation Presort Letter Revenue * Revenue Adjustment Factor
(7) Automation Carrier Route Revenue * Revenue Adjustment Factor
(8) (4) + (5) + (6) + (7)
(9) (8) / Total pieces

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION
Negotiated Service Agreement
Page 4

	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE/JPM CHASE MAIL M				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11a)	(12a)	(11b)	(12b)
	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	Bank One FY 2003 Mail Volume (Pieces)	Bank One FY 2003 Mail Volume (Percent)	JPM Chase FY 2003 Mail Volume (Pieces)	JPM Cha FY 200 Mail Volum (Percen
Rate Category														
FIRST-CLASS MAIL LETTERS														
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,745,977,000	2,673,332,468	5.8%	0.254	16,896,034	3.4%	8,946,611	2.6
												0.0%		0.0
Automation Presort Letters												0.0%		0.0
Automation Mixed AADC		0.065	0.041	0.018	0.118	0.123	2,943,846,000	2,835,676,307	6.1%	0.123	3,462,228	0.7%	10,984,696	3.1
Automation AAOC		0.065	0.041	0.018	0.107	0.111	2,488,686,000	2,636,000,800	5.7%	0.111	5,935,849	1.2%	6,296,102	1.7
Automation 3-Digit		0.042	0.041	0.018	0.104	0.108	27,812,000,000	22,571,247,865	48.6%	0.108	321,218,301	64.4%	234,204,476	67.9
Automation 5-Digit		0.039	0.041	0.018	0.091	0.095	12,720,437,000	14,911,024,150	32.1%	0.095	150,886,726	30.3%	84,306,169	24.5
Automation Carrier Route		0.021	0.041	0.018	0.103	0.107	1,075,333,000	807,292,628	1.7%	0.107	115,591	0.0%	-	0.0
WEIGHTED AVERAGE / TOTAL	**$0.115**	**0.050**	**0.045**	**0.018**	**0.113**	**0.113**	**44,562,599,000**	**46,415,243,896**	**100.0%**		**498,514,731**	**100.0%**	**344,738,054**	**100.0**
									Bank One	**0.109**				
									JPM Chase	**0.109**				

Bank One -- Total Unit Cost Estimates, Includ
JPM Chase -- Total Unit Cost Estimates, Includ

(1) Docket No. R2001-1 PRC - R-2 Volume 4, "TYBR", page 3
(2) Docket No. R2001-1 PRC - R-4 "CITI PRCR A.XLS", page 1
(3) Docket No. R2001-1 PRC - R-7 Page 2
(4) MC2005-2/DFS-1-1 Attachment A, pg. 2
(5) = (2) + (3) + (4)
(6) = (5) * (1 + Productivity adjustment factor)
(7) Docket No. R2001-1 PRC - R-4, FCM base year volumes here FCM letter model
(8) Revenue, Pieces, and Weight (RPW) Report
(9) = (8) / [Row (8)]
(10) Line item (6) Weighted Average weighted by percentages in (7)
(11a) BCIS 2001 Bank One and JPM Chase Volume Data
(12a) = (9) * [Row (11a)]
(11b) Manual Letter Returns Unit Cost * After Rates Statement Mail * Statement Mail Return Forecast - USPS FCM Avg. Return Rate) - After Rates Statement Mail
(11b) (12b)
(12b) (AOS Success Rate * Electronic Letter Returns Unit Cost + (1 - AOS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * Statement Mail Return Forecast - USPS FCM Avg. Return Rate)) /
(13) After Rates Statement Mail - USPS FCM Avg. Return Rate * Manual Letter Returns Unit Cost - Electronic Letter Returns Unit Cost) * AOS Success Rate
(14) = (10) + (11)
(15) = (4) * [Assumptions Table (Assumptions)]
(16) = (10) * [Assumptions Table (Assumptions)]

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 5

	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE/JPM CHASE MAIL I				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11a)	(12a)	(11b)	(12b)
Rate Category	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	Bank One FY 2003 Mail Volume (Pieces)	Bank One FY 2003 Mail Volume (Percent)	JPM Chase FY 2003 Mail Volume (Pieces)	JPM Chase FY 2003 Mail Volume (Percent)
FIRST-CLASS MAIL LETTERS														
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,098	2,473,332,465	5.8%	0.254	5,469	0.0%	3,457,992	3.1%
Automation Presort Letters														
Automation Mixed AADC		0.156	0.049	0.018	0.118	0.124	[illegible]	[illegible]	6.1%	0.123	150,789	0.5%	4,408,533	3.9%
Automation AADC		0.155	0.044	0.018	0.107	0.111	[illegible]	[illegible]	5.7%	0.111	157,854	0.5%	2,801,011	2.5%
Automation 3-Digit		0.132	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,858	48.6%	0.108	20,469,211	34.3%	70,473,036	62.9%
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	36,398,946	61.4%	30,711,496	27.4%
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,353,000	602,292,628	1.3%	0.107	462,363	0.8%	237,934	0.2%
WEIGHTED AVERAGE / TOTAL	**$0.115**	**0.050**	**0.045**	**0.018**	**0.113**	**0.113**	**44,562,599,000**	**46,415,243,896**	**100.0%**		**59,603,231**	**100.0%**	**112,090,002**	**100.0%**
									Bank One	**0.099**				
									JPM Chase	**0.109**				

Bank One -- Total Unit Cost Estimates, Including C
JPM Chase -- Total Unit Cost Estimates, Including C

(1) Docket No. R2001-1 PRC LR 2, Volume 4, "TYBR", page 3
(2) Docket No. R2001-1 PRC LR 4, "FCLSPROFA.XLS"
(3) Docket No. R2001-1 PRC LR-7, Page 2
(4) MC2002-2/USPS-T-3, Attachment A, pg. 2
(5) = (2) + (3) + (4)
(6) (4) + [illegible] adjustment factor
(7) Docket No. R2001-1 PRC LR 4, FY 04 base year volumes from FY 04 forecast model
(8) Revenue, Pieces, and Weight (RPW) Report
(9) = (8) / [illegible]
(10) Line Item No. Weighted Average detailed by percentages in (12)
(11a) FY 2003 Bank One Live JPM Chase Volume Data
(11b) [illegible]
(12a) Bank One Mail Volume / Total Mail Volume (Average Return Rate * Manual Letter Return Unit Cost)
(12b) [illegible]
(12c) Bank One Mail Volume * (ACS Success Rate * Electronic Letter Return Unit Cost) + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) + (Systemwide Average Return Rate * Manual Letter Returns Unit Cost)
(12d) = (12a) + (12c)
(13) = (14) * Average Unit Cost (Average phase)
(14) = (9) * Average Volume (Average phase)

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Page 6 **Year 1** **Year 2** **Year 3**

Agreement Structure

** Threshold adjusted in YEAR 2 and 3 per contract stipulation 612.34 of the NSA contract (535+358.1+1

Year 1			Year 2			Year 3	
Threshold		Discount	Threshold		Discount	Threshold	
535,000,000	560,000,000	$ 0.025	1,005,500,000	1,030,500,000	$ 0.025	1,005,500,000	1,030,500,000
560,000,000	585,000,000	$ 0.030	1,030,500,000	1,055,500,000	$ 0.030	1,030,500,000	1,055,500,000
585,000,000	610,000,000	$ 0.035	1,055,500,000	1,080,500,000	$ 0.035	1,055,500,000	1,080,500,000
610,000,000	645,000,000	$ 0.040	1,080,500,000	1,115,500,000	$ 0.040	1,080,500,000	1,115,500,000
645,000,000	680,000,000	$ 0.045	1,115,500,000	1,150,500,000	$ 0.045	1,115,500,000	1,150,500,000
680,000,000		$ 0.050	1,150,500,000		$ 0.050	1,150,500,000	

Discount on volume above threshold

(1)	Before Rates Forecast	785,282,268	1,269,575,548	1,259,613,625
(2)	After Rates Forecast	985,282,268	1,469,575,548	1,459,613,625
	Discount in first tier	$ 625,000	$ 625,000	$ 625,000
	Discount in second tier	$ 750,000	$ 750,000	$ 750,000
	Discount in third tier	$ 875,000	$ 875,000	$ 875,000
	Discount in fourth tier	$ 1,400,000	$ 1,400,000	$ 1,400,000
	Disount in fifth tier	$ 1,575,000	$ 1,575,000	$ 1,575,000
	Discount in sixth tier	$ 15,264,113	$ 15,953,777	$ 15,455,681
(3)	**Discount Earned**	**$ 20,489,113**	**$ 21,178,777**	**$ 20,680,681**

Exposure on volume above threshold

(4)	Threshold	535,000,000	1,005,500,000	1,005,500,000
(5)	Before Rates Forecast	785,282,268	1,269,575,548	1,259,613,625
(6)	Exposed Pieces	250,282,268	264,075,548	254,113,625
(7)	After Rates Forecast	985,282,268	1,469,575,548	1,459,613,625
	Exposure in first tier	$ 625,000	$ 625,000	$ 625,000
	Exposure in second tier	$ 750,000	$ 750,000	$ 750,000
	Exposure in third tier	$ 875,000	$ 875,000	$ 875,000
	Exposure in fourth tier	$ 1,400,000	$ 1,400,000	$ 1,400,000
	Exposure in fifth tier	$ 1,575,000	$ 1,575,000	$ 1,575,000
	Exposure in sixth tier	$ 5,264,113	$ 5,953,777	$ 5,455,681
(8)	**Total Exposure**	**$ 10,489,113**	**$ 11,178,777**	**$ 10,680,681**

(1) Before Rates Total Volume (Volume calcs)
(2) After Rates Total Volume (Volume calcs)
(3) Sum of discounts earned in first tier to sixth tier
(4) Agreement Structure Beginning Threshold
(5) (1)
(6) Before rates - Threshold: The number of total pieces on which leakage occurs
(7) (2)
(8) Sum of leakage in first tier to sixth tier

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		##	Year 1	Year 2	Year 3
Return Costs					
	UAA Rate				
(1)	Operational Mail		0.3%	0.5%	0.5%
(2)	Marketing mail letter		9.0%	6.2%	6.1%
(3)	Marketing mail flat		11.0%	11.0%	11.0%
Before Rates Forecast					
(4)	Operational Mail		506,650,000	887,250,000	911,150,000
(5)	Marketing mail letter		243,589,268	347,282,548	313,420,625
(6)	Marketing mail flat		35,043,000	35,043,000	35,043,000
After Rates Forecast					
(7)	Operational Mail		506,650,000	887,250,000	911,150,000
(8)	Marketing mail letter		443,589,268	547,282,548	513,420,625
(9)	Marketing mail flat		35,043,000	35,043,000	35,043,000
Return Forecast					
(10)	Operational Mail		1,722,610	4,006,210	4,149,610
(11)	Marketing mail letter		21,923,034	21,441,269	19,116,970
(12)	Marketing mail flat		3,854,730	3,854,730	3,854,730
Return Costs					
(13)	Operational Mail		$ 949,503	$ 2,296,552	$ 2,473,906
(14)	Marketing mail letter		$ 12,083,976	$ 12,291,164	$ 11,397,115
(15)	Marketing mail flat		$ 4,022,592	$ 4,183,496	$ 4,350,835
(16)	Total		$ 17,056,071	$ 18,771,212	$ 18,221,857
After Rates Return Costs					
(17)	Operational Mail		$ 949,503	$ 2,296,552	$ 2,473,906
(18)	Marketing mail letter		$ 8,207,984	$ 8,348,715	$ 7,741,437
(19)	Marketing mail flat		$ 2,069,144	$ 2,151,910	$ 2,237,986
(20)	Total		$ 11,226,630	$ 12,797,177	$ 12,453,329
(21) Return Cost Savings			**$ 5,829,441**	**$ 5,974,035**	**$ 5,768,528**

(1) Page 1, (1)
(2) Page 1, (2)
(3) Page 1, (3)
(4) Page 2, (1)
(5) Page 2, (1)
(6) Page 2, (1)
(7) Page 2, (1)
(8) Page 2, (1)
(9) Page 2, (1)
(10) (1) * (4)
(11) (2) * (5)
(12) (3) * (6)
(13) (10) * Manual Letter Returns Unit Cost (Assumptions)
(14) (11) * Manual Letter Returns Unit Cost (Assumptions)
(15) (12) * Manual Flats Returns Unit Cost (Assumptions)
(16) (13) + (14) + (15)
(17) (10) * Manual Letter Returns Unit Cost (Assumptions)
(18) ((11) *ACS Success Rate* Electronic Letter Returns Unit Cost)+ (1 - ACS Success Rate) *Manual Letter Returns Unit Cost * (1
(19) ((12) * (1 - ACS Success Rate) * Manual Flat Returns Unit Cost) + ((12) * ACS Success Rate * Electronic Flat Returns Unit Cos
(20) (17) + (18) + (19)
(21) (16) - (20)

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

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(1) Standard Mail Regular Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Mixed AADC Auto	$	0.211	14,909,235	3,152,805
AADC Auto	$	0.199	54,590,401	10,890,478
3-Digit Auto	$	0.183	449,527,587	82,432,060
5-Digit Auto	$	0.166	404,644,679	67,231,338
Basic Nonauto	$	0.259	9,140,988	2,367,494
3/5 Digit Nonauto	$	0.237	7,037,907	1,667,561
Total Volume			939,850,797	167,741,737
Revenue per piece				**$ 0.178**

(2) Standard Mail ECR Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Basic Nonauto Letters	$	0.182	11,093,337	2,015,552
Basic Auto Letters	$	0.148	25,699,949	3,805,740
High-Density Letters	$	0.164	25,764	4,225
Saturation Letters	$	0.152	727,170	110,530
W Total Volume			37,546,220	5,936,047
Revenue per piece				**$ 0.158**

(3) Average Revenue per piece **$ 0.178**

(1) Rate Schedule
(2) Rate Schedule
(3) (Standard Mail Regular Revenue + Standard Mail ECR Revenue) /
(Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

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Standard Regular Unit Cost

	From Docket No. R2001-1									BANK ONE/JPM Cha	
	TYBR 2003 Total Unit Cost (Dollars) (1)	TYBR 2003 Mail Proc Unit Cost (Dollars) (2)	TYBR 2003 Delivery Unit Cost (Dollars) (3)	TYBR 2003 Other Unit Cost (Dollars) (4)	TYBR 2003 Total Unit Cost (Dollars) (5)	FY 2004 Total Unit Cost (Dollars) (6)	BY 2000 Mail Volume (Pieces) (7)	FY 2003 Mail Volume (Pieces) (8)	FY 2003 Mail Volume (Percent) (9)	TY 2004 Total Unit Cost (Dollars) (10)	F V (I
LETTERS											
Nonauto Basic		0.130	0.042	0.01	0.18	0.19	13,724,401,662	14,411,242,831	33.2%	0.19	
Nonauto 3/5-Digit		0.121	0.044	0.01	0.17	0.18	4,376,247,838	2,481,787,907	5.7%	0.18	
Auto Mixed AADC		0.090	0.039	0.01	0.10	0.10	2,354,963,527	2,687,599,740	6.1%	0.10	
Auto AADC		0.043	0.038	0.01	0.09	0.09	2,875,476,520	2,848,636,010	6.5%	0.09	
Auto 3-digit		0.016	0.038	0.01	0.08	0.09	16,641,807,386	17,815,958,778	40.6%	0.09	:
Auto 5-digit		0.017	0.037	0.01	0.07	0.08	11,222,413,732	16,694,052,264	37.9%	0.08	4
Total/average	**0.10**	**0.05**	**0.04**	**0.01**	**0.10**	**0.09**	**37,852,305,265**	**43,850,172,430**	**100.0%**	**0.09**	**9**
Company average letter cost 2003		(13) $ 0.09									

Standard ECR Unit Cost

	TY 2004 Unit Costs (cents)	
Total ECR letter unit cost	0.070	(14)
Total ECR letter delivery unit cost	0.052	(15)

	TY 2004 Delivery Unit Costs (cents) (16)	FY 2003 Mail Volume (Pieces) (17)	FY 2003 Mail Volume (Percent) (18)
ECR Basic Auto Letters	0.046	25,799,940	68.4%
ECR Basic Letters	0.060	11,182,327	29.5%
ECR High Density Letters	0.040	262,762	0.7%
ECR Saturation Letters	0.035	722,179	1.9%
Total		37,946,220	

Company Average letter ECR Unit Delivery Cost	0.053	(19)
Company Delivery Cost Adjustment	0.007	(20)
Company ECR total letter unit cost	0.071	(21)

(22) Average Cost per piece: **0.085** (22)

(23) Average Cost per piece, Including Contingenc: **0.088** (23)

(1) Docket No. R2001-1, LR-J-58, LR58ARFG.xls, total unit letter costs
(2) Docket R2001-1, LR-J-60 Revised 11/15/01
(3) Docket R2001-1, LR-J-60 Revised 11/15/01
(4) (1) - average from (2) - average from (3)
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001, PRC, LR-4, SM base year volumes from SM letter model
(8) Revenue, Pieces, and Weight (RPW) Report.
(9) Each row in (8) divided by total in (8)
(10) (6)
(11) CBCIS 2003 Standard Mail Volume Data
(12) Each row in column (11) divided by total in column (11)
(13) Weighted average costs calculated by multiplying column (10) by column (12)
(14) Docket No. R2001-1, LR-J-58, LR58AECR.xls, total TY2003 ECR unit letter costs
(15) Docket No. R2001-1, LR-J-58, LR58AECR.xls, sum of TY2003 ECR unit letter delivery costs
(Cost segments 6, 7 and 10) * inflationary cost adjustment factor (Assumptions)
(16) Docket No. R2001-1, LR-J-117, Revised 1/22/02, TY2003 unit delivery costs * inflationary cost adjustment factor (Assumptions)
(17) CBCIS 2003 Standard Mail Volume Data
(18) Percent of volume in each row of (17) divided by total in (17)
(19) Weighted average of the unit costs in (16) weighted by the volume percents in (18)
(20) (15) - (19)
(21) (14) + (20)
(22) ((21 * 11) + (21 * 17)) / (11 + 17)
(23) (22) * Contingency Factor (Assumptions)

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		Year 1	Year 2	Year 3
First Class Letter				
(1)a	**First-Class Operational Letter revenue per piece**	**0.292**	**0.292**	**0.292**
(1)b	**First-Class Marketing Letter revenue per piece**	**0.293**	**0.292**	**0.292**
(2)	**First-Class Operational Letter cost per Piece Before Rates**	**0.107**	**0.112**	**0.116**
(3)	**First-Class Operational Letter cost per Piece After Rates**	**0.107**	**0.112**	**0.116**
(4)	**First-Class Operational Letter avg. Contribution Before Rates**	**0.185**	**0.180**	**0.176**
(5)	**First-Class Operational Letter avg. Contribution After Rates**	**0.185**	**0.180**	**0.176**
(6)	**First-Class Marketing Letter cost per Piece Before Rates**	**0.146**	**0.142**	**0.147**
(7)	**First-Class Marketing Letter cost per Piece After Rates**	**0.130**	**0.130**	**0.135**
(8)	**First-Class Marketing Letter avg. Contribution Before Rates**	**0.145**	**0.150**	**0.145**
(9)	**First-Class Marketing Letter avg. Contribution After Rates**	**0.163**	**0.162**	**0.157**
Standard Mail				
(10)	Standard Revenue per Piece	0.178	0.178	0.178
(11)	Standard Cost per Piece	0.088	0.091	0.095
(12)	Standard Letter Contribution per Piece	0.090	0.087	0.083

(1)a Weighted average of Bank One and JPM Chase revenue per piece
(1)b Weighted average of Bank One and JPM Chase revenue per piece
(2) Weighted average of Bank One and JPM Chase cost per piece
(3) Weighted average of Bank One and JPM Chase cost per piece
(4) (1a) - (2)
(5) (1a) - (3)
(6) Weighted average of Bank One and JPM Chase cost per piece
(7) Weighted average of Bank One and JPM Chase cost per piece
(8) (1b) - (6)
(9) (1b) - (7)
(10) Average Revenue per Piece (SM rev calcs)
(11) Average Cost per Piece, Including Contingency (SM cost calcs)
(12) (10) - (11)

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		Year 1	Year 2	Year 3	
ACS Savings					T
(1)	Operational Mail	$ -	$ -	$ -	$
(2)	Marketing Mail Letter	$ 3,992,272	$ 4,060,722	$ 3,765,349	$
(3)	Marketing Mail Flat	$ 2,012,052	$ 2,092,534	$ 2,176,235	$
Contribution from New Volume					
(4)	Operational Mail	-	$ -	$ -	$
(5)	**Marketing Mail Letter**	**$ 14,484,790**	**$ 15,025,521**	**$ 14,739,097**	**$**
(6) Total Exposure		$ 10,489,113	$ 11,178,777	$ 10,680,681	$
(7) Total Incremental Discounts		$ 10,000,000	$ 10,000,000	$ 10,000,000	$
(8) Total USPS Value		**$ -**	**$ -**	**$ -**	**$**

(1) UAA Calcs, ((13)-(17))*1.03
(2) UAA Calcs, ((14)-(18))*1.03
(3) UAA Calcs, ((15)-(19))*1.03
(4) (Operational Mail After Rates - Operational Mail Before Rates) * FCM Operational Letter avg. Contribution After Rates
(5) (Marketing Mail Letter After Rates - Marketing Mail Letter Before Rates) * (FCM Marketing Letter avg. Contribution After Rates - SM Cc
(6) Disc&Exp, (8)
(7) Disc&Exp, (3)-(8)
(8) (1) + (2) + (3) + (4) + (5) - (6) - (7)

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Special Services Update
Address Change Service (ACS Flats)

	Total cost/piece		Frequency		Weighted Cost/Piece	
ACS COA Notification						
Mechanized Terminal	$0.0660	[1]	0.00	[7]	$0.0000	[14]
Non-Mechanized Terminal	$0.2691	[2]	1.00	[8]	$0.2691	[15]
					$0.2691	[16]
ACS Nixie Processing						
Nixie Clerk handling	$0.0000	[3]	1.00	[9]	$0.0000	[17]
ACS Nixie Keying	$0.2074	[4]	1.00	[10]	$0.2074	[18]
					$0.2074	[19]

			% of ACS Volume		Volume Weighted Cost per Piece	
ACS COA notification	$0.2691	[5]	58.03%	[11]	$0.1561	[20]
ACS Nixie processing	$0.2074	[6]	41.97%	[12]	$0.0870	[21]
TOTAL COST PER PIECE			100.00%	[13]	**$0.243**	[22]

[1] USPS LR-I-110, Table 5.2.2, cell J31
[2] USPS LR-I-110, Table 5.2.2, cell J32
[3] These costs are treated as institutional.
[4] USPS LR-I-110, Table 5.2.2, cell J29
[5] [16]
[6] [3]+[4]
[7] USPS LR-I-110, Table 5.2.2, cell L31
[8] USPS LR-I-110, Table 5.2.2, cell L32
[9] All nixies subject to clerk processing.
[10] All nixies subject to keying.
[11] ACS "keyed only" pieces/Total ACS Volume
[12] Nixie Pieces/Total ACS Volu
[13] [11]+[12]
[14] [1]*[7]
[15] [2]*[8]
[16] [14]+[15]
[17] [3]*[9]
[18] [4]*[10]
[19] [17]+[18]
[20] [5]*[11]
[21] [6]*[12]
[22] [20]+[21]

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Physical Return Costs

Cost for UAA Mail Being Returned to Sender
Physical Flat Mailpieces Returned

	A Annual Volume (Thousands)	B Cost/Piece	C Annual Cost (Thousands)	D Frequency
1.	69,209 (1)	$0.0545 (2)	$3,771	1.00
2.	33,866 (3)	$0.2711 (4)	$9,181	0.49 (5)
3.	24,021 (6)	$0.5381 (7)	$12,926	0.35 (8)
4.	69,209 (1)	$0.6295 (9)	$43,567	1.00
5. Total				[

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refe
Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the portion of return to sender mail that is returned by the Nixie clerk at the delivery unit, along with the portion of ACS Nixie that is returned at the CFS unit. This is the ratio of Rows 2 and 1, Column A.
(6) Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", Total Returned.
(7) Refer to Table 5.2.2, Column G, (Non-ACS) Total. Non Mach terminal cost/piece is used.
(8) This is the portion of return to sender mail returned from the CFS unit, along with the portion of ACS Nixie that is returned from the CFS unit. This is the ratio of Rows 3 and 1, Column A, Table 5.2.2.
(9) Refer to Table 5.2.4.1, Row 2, Column F.This Number was calculated based on data obtained from USPS Cost Attributi

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Electronic "Return" Costs

Cost of UAA Mail Being Returned to Sender

Bank One Accepts ACS Flats

	A Annual Volume (Thousands)		B Cost/Piece (1)		C Annual Cost (Thousands)	D Frequency	
1.	69,209	(1)	$0.0545	(2)	$3,771	1.00	
2.	33,866	(3)	$0.2711	(4)	$9,181	0.49	(5)
3. eACS							
4. Total							[

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Vo Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the cost of the Nixie clerk preparing mail for the CFS unit (USPS-LR-1/MC2002-2, page 1, row 2 as proxie).
(6) From Tab 3 of USPS LR-J-69.

Postal Rate Commission
Submitted 9/1/2004 3:03 pm
Filing ID: 41590
Accepted 9/1/2004

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 1	Year 1	(13) Year 2	(14) Year 3
Return Forecast			
(1) Operational Mail (Ops)	0.34%	0.45%	0.46%
(1a) Bank One	0.34%	0.34%	0.34%
(1b) JPM Chase	0.60%	0.60%	0.60%
(2) Marketing Mail - Letters (Mktg)	9.00%	6.17%	6.10%
(2a) Bank One	9.00%	9.00%	9.00%
(2b) JPM Chase	4.00%	4.00%	4.00%
(3) Marketing Mail - Flats (Bank One)	11.00%	11.00%	11.00%
(4) USPS FCM average return rates	1.23%	1.23%	1.23%
Unit cost assumptions			
(5) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(6) Manual Flat Returns Unit Cost	$ 1.04	$ 1.09	$ 1.13
(7) Manual Letter Returns Unit Cost	$ 0.55	$ 0.57	$ 0.60
(8) Electronic Flat Returns Unit Cost	$ 0.45	$ 0.47	$ 0.48
(9) Electronic Letter Returns Unit Cost	$ 0.34	$ 0.36	$ 0.37
(10) Address Change Service (ACS) Success Rate	85.0%	85.0%	85.0%
(11) Percent of new marketing mail switched from Standard Mail (SM)	100.0%	100.0%	100.0%
(12) Contingency Factor	1.030		

(1) Weighted average of (1a) and (1b)
(1a) BOC-T-1
(1b) OCA/BOC-T1-17
(2) Weighted average of 2(a) and 2(b)
(2a) BOC-T-1
(2b) OCA/BOC-T1-17
(3) BOC-T-1
(4) USPS-LR-1/MC2002-2
(5) MC 2004-3 USPS T-1 at page 13
(6) Manual Return Costs ($1.0190) * (1 + (5))
(7) USPS-LR-1/MC2002-2 * (1+ (5))
(8) Electronic Returns Costs ($0.4301) * (1+ (5))
(9) USPS-LR-1/MC2002-2 * (1+ (5))
(10) USPS witness Wilson, T4/MC2002-2
(11) BOC-T-1
(12) USPS-LR-1/MC2002-2
(13) Year 1 * (5)
(14) Year 2 * (5)

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 2

	2001	2002	2003	Year 1	Year 2	Year 3
(1) Volume calculations -- Combined Bank One and JPM Chase						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	887,250,000	911,150,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	243,589,268	347,282,548	313,420,625
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**785,282,268**	**1,269,575,548**	**1,259,613,625**
After rates						
Operational mail				506,650,000	887,250,000	911,150,000
Marketing mail letter				443,589,268	547,282,548	513,420,625
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total				**985,282,268**	**1,469,575,548**	**1,459,613,625**
(2) Volume calculations -- Bank One						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	243,589,268	150,999,338	131,602,896
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	**583,054,991**	**600,179,615**	**595,955,531**	**785,282,268**	**692,692,338**	**673,295,896**
After rates						
Operational mail				506,650,000	506,650,000	506,650,000
Marketing mail letter				443,589,268	311,667,295	284,930,012
Marketing mail flat				35,043,000	35,043,000	35,043,000
Total	-	-	-	**985,282,268**	**853,360,295**	**826,623,012**
(3) Volume calculations -- JPM Chase						
Before rates				**Not Integrated**		
Operational mail		317,000,000	346,000,000	358,100,000	380,600,000	404,500,000
Marketing mail letter	-	158,200,000	115,700,000	112,400,000	196,283,210	181,817,729
Marketing mail flat					-	-
Total	-	**475,200,000**	**461,700,000**	**470,500,000**	**576,883,210**	**586,317,729**
After rates						
Operational mail				---	380,600,000	404,500,000
Marketing mail letter				---	235,615,253	228,490,613
Marketing mail flat					-	-
Total	-	-	-	---	**616,215,253**	**632,990,613**

(1) MC 2004-3 BOC T-1 at page 5 - 6
(2) MC 2004-3 BOC T-1 at page 5 - 6
(3) OCA/BOC-T1-13,19; OCA/USPS-T1-44 (Rappaport)

Assumes start of YEAR 2 is date of integration of mail streams. YEAR 1 only applies to Bank One

(1) YEAR 1 only includes Bank One BR and AR forecasts
YEAR 2 and YEAR 3 Before Rates and After Rates volume is sum of Chase and Bank One BR and AR forecasts
(2) Year 1 and Year 2 marketing mail letter volume calculated using constant ratio.
(3) Year 1 and Year 2 marketing mail letter volume calculated using constant ratio.

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 2A

	Year 1	Year 2
(1) Breakeven Analysis -- Combined Bank One and JPM Chase		
Before rates		
Marketing mail letter -- Original	29,387,000	67,587,000
SOLVE -- Marketing mail letter -- Increase Where USPS Value Equals $0	214,202,268	279,695,548
Total	**243,589,268**	**347,282,548**
ENTER -- Switched Marketing Mail Letter Volume	200,000,000	200,000,000
After rates		
Marketing mail letter -- Original	48,442,000	225,542,000
Marketing mail letter -- Solution Where USPS Value Equals $0	443,589,268	547,282,548
(2) USPS Value -- Combined Bank One and JPM Chase	$ -	$ -
(3) Discount Earned -- Combined Bank One and JPM Chase	$ 20,489,113	$ 21,178,777
(4) Solve for BR Increase Where USPS Value Equals $0		**<------ CLICK I**
(5) Volume calculations -- Combined Bank One and JPM Chase		
Before rates -- Total	785,282,268	1,269,575,548
After rates -- Total	985,282,268	1,469,575,548

(1) Page 2
(2) Page 11 Revised
(3) Page 6
(5) Page 2

Combined Bank One / Chase Model YEAR 2	Bank One Ops			Bank One Marketing			JPM Chase Ops		
Page 3	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue	(1) FY 2003 Volume	(2) Current Rates	(3) Revenue
Rate Category									
Single-Piece Letters									
First Ounces, except QBRM		0.370	$ -	-	0.370	$	-	0.370	$ -
Qualified Business Reply Mail		0.340	-	-	0.340	-		0.340	-
Additional Ounces	-	0.230	-	-	0.230	-	-	0.230	-
Nonmachinable Pieces	-	0.120	-	-	0.120	-	-	0.120	-
Single-Piece revenue	-		-			-	-		-
Revenue Adjustment Factor (a)			1.000	-		1.000	-		1.000
(4) Total Single Piece Postage Revenue	-		-			-	-		-
	-			-			-		
Nonautomated Presorted Letters	-			-			-		
First Ounce	16,896,034	0.352	5,947,404	5,469	0.352	1,925	8,946,611	0.352	3,149,207
Additional Ounces	152,925	0.225	34,408	57,088	0.225	12,845	144,098	0.225	32,422
Nonmachinable Pieces	16,555	0.055	911	8,044	0.055	442	1,574	0.055	87
Heavy Piece Deduction	3,950	(0.041)	(162)	117	(0.041)	(5)	1,657	(0.041)	(68)
Nonautomated Presorted revenue			5,982,561			15,208			3,181,648
Revenue Adjustment Factor (a)			1.000			1.000			1.000
(5) Total Nonautomated Presorted Letters Revenue			5,982,561			15,208			3,181,648
Automation Presort Letters									
Mixed AADC Letters	3,462,228	0.309	1,069,828	159,780	0.309	49,375	10,984,696	0.309	3,394,271
AADC Letters	5,935,849	0.301	1,786,691	157,854	0.301	47,514	6,296,102	0.301	1,895,127
3-Digit Letters	321,218,301	0.292	93,795,744	20,459,211	0.292	5,974,090	234,204,476	0.292	68,387,707
5-Digit Letters	150,886,728	0.278	41,946,510	38,358,545	0.278	10,663,676	84,306,169	0.278	23,437,115
Additional Ounces	3,872,232	0.225	860,002	2,490,380	0.225	560,336	3,554,768	0.225	799,823
Heavy Piece Deduction	51,555	(0.041)	(2,114)	20,081	(0.041)	(823)	10,419	(0.041)	(427)
Automation Presort Letters			139,456,662			17,294,166	-		97,913,615
Revenue Adjustment Factor (a)			1.000			1.000	-		1.000
(6) Total Automation Presort Letters Revenue			139,456,662			17,294,166	-		97,913,615
							-		
Automation Carrier Route Letters							-		
First Ounce	115,591	0.275	31,787	462,363	0.275	127,150		0.275	-
Additional Ounces	-	0.225	-	-	0.225	-	-	0.225	-
Heavy Piece Deduction	-	(0.041)		-	(0.041)		-	(0.041)	-
Automation Carrier Route Revenue			31,787			127,150			-
Revenue Adjustment Factor (a)			1.000			1.000			1.000
(7) Automation Carrier Route Letters Revenue			31,787			127,150			-
(8) Total Company Letters Subclass			$ 145,471,010			$ 17,436,524			$ 101,095,263
Total pieces			498,514,731			59,603,231			344,738,054
(9) **Revenue per piece**			**0.292**			**0.293**			**0.293**

(a) Revenue Adjustment factor not required because customer specific revenue presented
(1) CBCIS 2003 Bank One and JPM Chase Volume Data
(2) Rate Schedule
(3) (1) * (2)
(4) Single Piece Revenue * Revenue Adjustment Factor
(5) Nonautomated Presorted Revenue * Revenue Adjustment Factor
(6) Automation Presort Letter Revenue * Revenue Adjustment Factor
(7) Automation Carrier Route Revenue * Revenue Adjustment Factor
(8) (4) + (5) + (6) + (7)
(9) (8) / Total pieces

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION
Negotiated Service Agreement
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	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE/JPM CHASE MAIL M				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11a)	(12a)	(11b)	(12b)
	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	Bank One FY 2003 Mail Volume (Pieces)	Bank One FY 2003 Mail Volume (Percent)	JPM Chase FY 2003 Mail Volume (Pieces)	JPM Cha FY 200 Mail Volume (Percen
Rate Category														
FIRST-CLASS MAIL LETTERS														
Nonautomation Presort Letters		0.153	0.063	0.018	0.244	0.254	3,746,977,000	2,673,332,468	5.8%	0.254	16,896,034	3.4%	8,946,611	2
												0.0%		0
Automation Presort Letters												0.0%		0
Automation Mixed AADC		0.063	0.045	0.018	0.128	0.123	[illegible]	2,826,896,062	6.1%	0.123	3,462,229	0.7%	10,984,686	3
Automation AAOC		0.064	0.034	0.015	0.113	0.111	[illegible]	2,636,050,802	5.7%	0.111	5,935,849	1.2%	5,296,102	1
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	[illegible]	22,571,247,886	48.6%	0.108	321,218,301	64.4%	234,204,476	67
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	150,886,728	30.3%	84,306,169	24
Automation Carrier Route		0.031	0.064	0.018	0.103	0.107	[illegible]	802,202,826	1.7%	0.107	115,591	0.0%	-	0
WEIGHTED AVERAGE / TOTAL	**$0.115**	**0.050**	**0.045**	**0.018**	**0.113**	**0.113**	**44,562,599,000**	**46,415,243,896**	**100.0%**		**498,514,731**	**100.0%**	**344,738,054**	**100.**
									Bank One	**0.109**				
									JPM Chase	**0.109**				

Bank One -- Total Unit Cost Estimates, Includ
JPM Chase -- Total Unit Cost Estimates, Includ

(1) Docket No. R2001-1 PRC LR-2, Volume 4, "TYBR", page 3
(2) Docket No. R2001-1 PRC LR-I, "FCLETPROC & XLS", page 1
(3) Docket No. R2001-1 PRC LR-7, Page 2
(4) MC2000-2/3, USPS-T-3, Attachment A, pg. 2
(5) (2) + (3) + (4)
(6) (5) * (1) / (total unadjusted unit cost)
(7) Docket No. R2001-1 PRC LR-I, FCM base year volumes from FCM letter model
(8) Revenue, Pieces, and Weight (RPW) Report
(9) (8) / (Sum (8))
(10) = (weighted average weighted by percentages in (9))
(11a) = (BOB 2003 Base Volume) * (JPM Chase Volume Data)
(11b) = (11a) / (Sum (11a))
(12a) = (Manual Letter Returns Unit Cost * After Rates Statement Mail * Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail
(12b) = (ACS Success Rate * Electronic Letter Returns Unit Cost) + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) /
(13a) = (After Rates Statement Mail - USPS FCM Avg. Return Rate) * Manual Letter Returns Unit Cost - Electronic Letter Returns Unit Cost * ACS Success Rate
(13b) = (13a) / (13a)
(14a) = (14a) * (Monetary Factor (Assumptions))
(14b) = (14b) * (Monetary Factor (Assumptions))

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION
Negotiated Service Agreement
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	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE/JPM CHASE MAIL I				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11a)	(12a)	(11b)	(12b)
Rate Category	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	Bank One FY 2003 Mail Volume (Pieces)	Bank One FY 2003 Mail Volume (Percent)	JPM Chase FY 2003 Mail Volume (Pieces)	JPM Chase FY 2003 Mail Volume (Percent)
FIRST CLASS MAIL LETTERS														
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,077,000	2,673,332,468	5.8%	0.254	5,469	0.0%	3,457,992	3.1%
Automation Presort Letters														
Automation Mixed AADC		0.045	0.045	0.018	0.118	0.123	2,504,846,000	2,820,995,000	6.1%	0.123	159,709	0.3%	4,408,533	3.9%
Automation AADC		0.045	0.044	0.018	0.107	0.111	2,852,156,175	2,635,558,800	5.7%	0.111	157,654	0.3%	2,801,011	2.5%
Automation 3-Digit		0.041	0.043	0.018	0.104	0.109	21,832,339,705	22,571,247,898	48.6%	0.108	20,459,211	34.3%	70,473,036	62.9%
Automation 5-Digit		0.042	0.041	0.018	0.099	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	38,358,545	64.4%	30,711,496	27.4%
Automation Carrier Route		0.021	0.014	0.018	0.103	0.107	1,075,333,000	862,292,628	1.7%	0.107	462,363	0.8%	237,934	0.2%
WEIGHTED AVERAGE / TOTAL	$0.115	0.050	0.045	0.018	0.113	0.113	44,552,599,000	46,415,243,896	100.0%		59,603,231	100.0%	112,090,002	100.0%
									Bank One	0.099				
									JPM Chase	0.109				

Bank One -- Total Unit Cost Estimates, Including C
JPM Chase -- Total Unit Cost Estimates, Including C

(1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page A
(2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS"
(3) Docket No. R2001-1, PRC LR-7, Page 2
(4) MC2002-2/USPS-T-3, Attachment A, pg. 2
(5) (2) + (3) + (4)
(6) (5) * inflation cost adjustment factor
(7) Docket No. R2001-1, PRC LR-4, FCM base year volumes from FCM letter model
(8) Revenue, Pieces, and Weight (RPW) Report
(9) *(8) / [Sum (8)]*
(10) one item (6), Weighted Average weighted by percentages in (12)
(11a) CBCIS 2003 Bank One and JPM Chase Volume Data
(12a) (11a) / [Sum (11a)]
(11b) Secondary Return Rate * Systemwide Average Return Rate * Manual Letter Returns Unit Cost
(12b) (11b) / (12b)
(13) (Secondary Return Rate * (1 - ACS Success Rate) * Electronic Letter Returns Unit Cost) + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost); (Systemwide Average Return Rate * Manual Letter Returns Unit Cost)
(14) (12) * (13)
(15) (14) * (Contingency Factor (Assumptions))
(16) (14) * (Contingency Factor (Assumptions))

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 6 **Year 1** **Year 2** **Year 3**

Agreement Structure

** Threshold adjusted in YEAR 2 and 3 per contract stipulation 612.34 of the NSA contract (535+358.1+1

Year 1			Year 2			Year 3	
Threshold		Discount	Threshold		Discount	Threshold	
535,000,000	560,000,000	$ 0.025	1,005,500,000	1,030,500,000	$ 0.025	1,005,500,000	1,030,500,000
560,000,000	585,000,000	$ 0.030	1,030,500,000	1,055,500,000	$ 0.030	1,030,500,000	1,055,500,000
585,000,000	610,000,000	$ 0.035	1,055,500,000	1,080,500,000	$ 0.035	1,055,500,000	1,080,500,000
610,000,000	645,000,000	$ 0.040	1,080,500,000	1,115,500,000	$ 0.040	1,080,500,000	1,115,500,000
645,000,000	680,000,000	$ 0.045	1,115,500,000	1,150,500,000	$ 0.045	1,115,500,000	1,150,500,000
680,000,000		$ 0.050	1,150,500,000		$ 0.050	1,150,500,000	

Discount on volume above threshold

(1)	Before Rates Forecast	785,282,268	1,269,575,548	1,259,613,625
(2)	After Rates Forecast	985,282,268	1,469,575,548	1,459,613,625
	Discount in first tier	$ 625,000	$ 625,000	$ 625,000
	Discount in second tier	$ 750,000	$ 750,000	$ 750,000
	Discount in third tier	$ 875,000	$ 875,000	$ 875,000
	Discount in fourth tier	$ 1,400,000	$ 1,400,000	$ 1,400,000
	Disount in fifth tier	$ 1,575,000	$ 1,575,000	$ 1,575,000
	Discount in sixth tier	$ 15,264,113	$ 15,953,777	$ 15,455,681
(3)	**Discount Earned**	**$ 20,489,113**	**$ 21,178,777**	**$ 20,680,681**

Exposure on volume above threshold

(4)	Threshold	535,000,000	1,005,500,000	1,005,500,000
(5)	Before Rates Forecast	785,282,268	1,269,575,548	1,259,613,625
(6)	Exposed Pieces	250,282,268	264,075,548	254,113,625
(7)	After Rates Forecast	985,282,268	1,469,575,548	1,459,613,625
	Exposure in first tier	$ 625,000	$ 625,000	$ 625,000
	Exposure in second tier	$ 750,000	$ 750,000	$ 750,000
	Exposure in third tier	$ 875,000	$ 875,000	$ 875,000
	Exposure in fourth tier	$ 1,400,000	$ 1,400,000	$ 1,400,000
	Exposure in fifth tier	$ 1,575,000	$ 1,575,000	$ 1,575,000
	Exposure in sixth tier	$ 5,264,113	$ 5,953,777	$ 5,455,681
(8)	**Total Exposure**	**$ 10,489,113**	**$ 11,178,777**	**$ 10,680,681**

(1) Before Rates Total Volume (Volume calcs)
(2) After Rates Total Volume (Volume calcs)
(3) Sum of discounts earned in first tier to sixth tier
(4) Agreement Structure Beginning Threshold
(5) (1)
(6) Before rates - Threshold: The number of total pieces on which leakage occurs
(7) (2)
(8) Sum of leakage in first tier to sixth tier

Combined Bank One / JPM Chase Model YEAR 2 INTEGRATION

Negotiated Service Agreement

Page 7		##	Year 1	Year 2	Year 3
Return Costs					
	UAA Rate				
(1)	Operational Mail		0.3%	0.5%	0.5%
(2)	Marketing mail letter		9.0%	6.2%	6.1%
(3)	Marketing mail flat		11.0%	11.0%	11.0%
Before Rates Forecast					
(4)	Operational Mail		506,650,000	887,250,000	911,150,000
(5)	Marketing mail letter		243,589,268	347,282,548	313,420,625
(6)	Marketing mail flat		35,043,000	35,043,000	35,043,000
After Rates Forecast					
(7)	Operational Mail		506,650,000	887,250,000	911,150,000
(8)	Marketing mail letter		443,589,268	547,282,548	513,420,625
(9)	Marketing mail flat		35,043,000	35,043,000	35,043,000
Return Forecast					
(10)	Operational Mail		1,722,610	4,006,210	4,149,610
(11)	Marketing mail letter		21,923,034	21,441,269	19,116,970
(12)	Marketing mail flat		3,854,730	3,854,730	3,854,730
Return Costs					
(13)	Operational Mail		$ 949,503	$ 2,296,552	$ 2,473,906
(14)	Marketing mail letter		$ 12,083,976	$ 12,291,164	$ 11,397,115
(15)	Marketing mail flat		$ 4,022,592	$ 4,183,496	$ 4,350,835
(16)	Total		$ 17,056,071	$ 18,771,212	$ 18,221,857
After Rates Return Costs					
(17)	Operational Mail		$ 949,503	$ 2,296,552	$ 2,473,906
(18)	Marketing mail letter		$ 8,207,984	$ 8,348,715	$ 7,741,437
(19)	Marketing mail flat		$ 2,069,144	$ 2,151,910	$ 2,237,986
(20)	Total		$ 11,226,630	$ 12,797,177	$ 12,453,329
(21) Return Cost Savings			**$ 5,829,441**	**$ 5,974,035**	**$ 5,768,528**

(1) Page 1, (1)
(2) Page 1, (2)
(3) Page 1, (3)
(4) Page 2, (1)
(5) Page 2, (1)
(6) Page 2, (1)
(7) Page 2, (1)
(8) Page 2, (1)
(9) Page 2, (1)
(10) (1) * (4)
(11) (2) * (5)
(12) (3) * (6)
(13) (10) * Manual Letter Returns Unit Cost (Assumptions)
(14) (11) * Manual Letter Returns Unit Cost (Assumptions)
(15) (12) * Manual Flats Returns Unit Cost (Assumptions)
(16) (13) + (14) + (15)
(17) (10) * Manual Letter Returns Unit Cost (Assumptions)
(18) ((11) *ACS Success Rate* Electronic Letter Returns Unit Cost)+ (1 - ACS Success Rate) *Manual Letter Returns Unit Cost * (1
(19) ((12) * (1 - ACS Success Rate) * Manual Flat Returns Unit Cost) + ((12) * ACS Success Rate * Electronic Flat Returns Unit Cos
(20) (17) + (18) + (19)
(21) (16) - (20)

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(1) Standard Mail Regular Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Mixed AADC Auto	$	0.211	14,909,235	3,152,805
AADC Auto	$	0.199	54,590,401	10,890,478
3-Digit Auto	$	0.183	449,527,587	82,432,060
5-Digit Auto	$	0.166	404,644,679	67,231,338
Basic Nonauto	$	0.259	9,140,988	2,367,494
3/5 Digit Nonauto	$	0.237	7,037,907	1,667,561
Total Volume			939,850,797	167,741,737
Revenue per piece				**$ 0.178**

(2) Standard Mail ECR Revenue per piece

Mail Category	Revenue per piece		Volume	Weighted Avg.
Basic Nonauto Letters	$	0.182	11,093,337	2,015,552
Basic Auto Letters	$	0.148	25,699,949	3,805,740
High-Density Letters	$	0.164	25,764	4,225
Saturation Letters	$	0.152	727,170	110,530
W Total Volume			37,546,220	5,936,047
Revenue per piece				**$ 0.158**

(3) Average Revenue per piece **$ 0.178**

(1) Rate Schedule
(2) Rate Schedule
(3) (Standard Mail Regular Revenue + Standard Mail ECR Revenue) /
(Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

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Standard Regular Unit Cost

	From Docket No. R2001-1									BANK ONE/JPM Cha	
	TYBR 2003 Total Unit Cost (Dollars) (1)	TYBR 2003 Mail Proc Unit Cost (Dollars) (2)	TYBR 2003 Delivery Unit Cost (Dollars) (3)	TYBR 2003 Other Unit Cost (Dollars) (4)	TYBR 2003 Total Unit Cost (Dollars) (5)	FY 2004 Total Unit Cost (Dollars) (6)	BY 2000 Mail Volume (Pieces) (7)	FY 2003 Mail Volume (Pieces) (8)	FY 2003 Mail Volume (Percent) (9)	TY 2004 Total Unit Cost (Dollars) (10)	F
LETTERS											
Nonauto Basic		0.136	0.042	0.01	0.18	0.19	1,322,401,662	1,411,242,831	3.2%	0.19	
Nonauto 3/5-Digit		0.121	0.044	0.01	0.17	0.18	4,476,247,838	2,481,782,967	5.7%	0.18	
Auto Mixed AADC		0.050	0.039	0.01	0.10	0.10	2,354,563,527	2,687,599,740	6.1%	0.10	
Auto AADC		0.041	0.038	0.01	0.09	0.09	2,875,476,070	2,648,635,810	6.5%	0.09	
Auto 3 digit		0.040	0.039	0.01	0.09	0.09	15,680,901,686	17,816,958,778	40.6%	0.09	4
Auto 5 digit		0.031	0.037	0.01	0.07	0.08	11,222,413,792	16,604,952,264	37.9%	0.08	4
Total/average	**0.10**	**0.05**	**0.04**	**0.01**	**0.10**	**0.09**	**37,852,305,265**	**43,850,172,430**	**100.0%**	**0.09**	**9**
		(13)									
Company average letter cost 2003		**$ 0.09**									

Standard ECR Unit Cost

	TY 2004 Unit Costs (cents)	
Total ECR letter unit cost	[illegible]	(14)
Total ECR letter delivery unit cost	[illegible]	(15)

	TY 2004 Delivery Unit Costs (cents) (16)	FY 2003 Mail Volume (Pieces) (17)	FY 2003 Mail Volume (Percent) (18)
ECR Basic Auto Letters	[illegible]	[illegible]	68.4%
ECR Basic Letters	[illegible]	[illegible]	29.5%
ECR High Density Letters	[illegible]	[illegible]	0.1%
ECR Saturation Letters	[illegible]	[illegible]	1.9%
Total		37,546,220	

Company Average letter ECR Unit Delivery Cost	0.053	(19)
Company Delivery Cost Adjustment	0.007	(20)
Company ECR total letter unit cost	**0.071**	(21)

(22) Average Cost per piece	**0.085**	(22)
(23) Average Cost per piece, Including Contingency	**0.088**	(23)

(1) Docket No. R2001-1, LR-J-58, LR58AREG.xls, total unit letter costs
(2) Docket R2001-1, LR-J-60 Revised 1/15/01
(3) Docket R2001-1, LR-J-60 Revised 1/15/01
(4) (1) - average from (2) - average from (3)
(5) (2) + (3) + (4)
(6) (5) * (1 + inflation cost adjustment factor)
(7) Docket No. R2001-1 PRC, LR-4, SM base year volumes from SM letter model
(8) Revenue, Pieces, and Weight (RPW) Report
(9) Each row in (8) divided by total in (8)
(10) (6)
(11) CBCIS 2003 Standard Mail Volume Data
(12) Each row in column (11) divided by total in column (11)
(13) Weighted average costs calculated by multiplying column (10) by column (12)
(14) Docket No. R2001-1, LR-J-58, LR58AECR.xls, total TY2003 ECR unit letter costs
(15) Docket No. R2001-1, LR-J-58, LR58AECR.xls, sum of TY2003 ECR unit letter delivery costs (Cost segments 6, 7 and 10) * inflationary cost adjustment factor (Assumptions)
(16) Docket No. R2001-1, LR-J-117, Revised 1/22/02, TY2003 unit delivery costs * inflationary cost adjustment factor (Assumptions)
(17) CBCIS 2003 Standard Mail Volume Data
(18) Percent of volume in each row of (17) divided by total in (17)
(19) Weighted average of the unit costs in (16) weighted by the volume percents in (18)
(20) (15) - (19)
(21) (14) + (20)
(22) ((13 * (11)) + (21 * (17))) / (11 + 17)
(23) (22) * Contingency Factor (Assumptions)

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		Year 1	Year 2	Year 3
First Class Letter				
(1)a	**First-Class Operational Letter revenue per piece**	**0.292**	**0.292**	**0.292**
(1)b	**First-Class Marketing Letter revenue per piece**	**0.293**	**0.292**	**0.292**
(2)	**First-Class Operational Letter cost per Piece Before Rates**	**0.107**	**0.112**	**0.116**
(3)	**First-Class Operational Letter cost per Piece After Rates**	**0.107**	**0.112**	**0.116**
(4)	**First-Class Operational Letter avg. Contribution Before Rates**	**0.185**	**0.180**	**0.176**
(5)	**First-Class Operational Letter avg. Contribution After Rates**	**0.185**	**0.180**	**0.176**
(6)	**First-Class Marketing Letter cost per Piece Before Rates**	**0.146**	**0.142**	**0.147**
(7)	**First-Class Marketing Letter cost per Piece After Rates**	**0.130**	**0.130**	**0.135**
(8)	**First-Class Marketing Letter avg. Contribution Before Rates**	**0.145**	**0.150**	**0.145**
(9)	**First-Class Marketing Letter avg. Contribution After Rates**	**0.163**	**0.162**	**0.157**
Standard Mail				
(10)	Standard Revenue per Piece	0.178	0.178	0.178
(11)	Standard Cost per Piece	0.088	0.091	0.095
(12)	Standard Letter Contribution per Piece	0.090	0.087	0.083

(1)a Weighted average of Bank One and JPM Chase revenue per piece
(1)b Weighted average of Bank One and JPM Chase revenue per piece
(2) Weighted average of Bank One and JPM Chase cost per piece
(3) Weighted average of Bank One and JPM Chase cost per piece
(4) (1a) - (2)
(5) (1a) - (3)
(6) Weighted average of Bank One and JPM Chase cost per piece
(7) Weighted average of Bank One and JPM Chase cost per piece
(8) (1b) - (6)
(9) (1b) - (7)
(10) Average Revenue per Piece (SM rev calcs)
(11) Average Cost per Piece, Including Contingency (SM cost calcs)
(12) (10) - (11)

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		Year 1	Year 2	Year 3
ACS Savings				
(1)	Operational Mail	$ -	$ -	$ -
(2)	Marketing Mail Letter	$ 3,992,272	$ 4,060,722	$ 3,765,349
(3)	Marketing Mail Flat	$ 2,012,052	$ 2,092,534	$ 2,176,235
Contribution from New Volume				
(4)	Operational Mail	-	$ -	$ -
(5)	**Marketing Mail Letter**	**$ 14,484,790**	**$ 15,025,521**	**$ 14,739,097**
(6) Total Exposure		$ 10,489,113	$ 11,178,777	$ 10,680,681
(7) Total Incremental Discounts		$ 10,000,000	$ 10,000,000	$ 10,000,000
(8) Total USPS Value		**$ -**	**$ -**	**$ -**

(1) UAA Calcs, ((13)-(17))*1.03
(2) UAA Calcs, ((14)-(18))*1.03
(3) UAA Calcs, ((15)-(19))*1.03
(4) (Operational Mail After Rates - Operational Mail Before Rates) * FCM Operational Letter avg. Contribution After Rates
(5) (Marketing Mail Letter After Rates - Marketing Mail Letter Before Rates) * (FCM Marketing Letter avg. Contribution After Rates - SM Co
(6) Disc&Exp, (8)
(7) Disc&Exp, (3)-(8)
(8) (1) + (2) + (3) + (4) + (5) - (6) - (7)

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Special Services Update
Address Change Service (ACS Flats)

	Total cost/piece		Frequency		Weighted Cost/Piece	
ACS COA Notification						
Mechanized Terminal	$0.0660	[1]	0.00	[7]	$0.0000	[14]
Non-Mechanized Terminal	$0.2691	[2]	1.00	[8]	$0.2691	[15]
					$0.2691	[16]
ACS Nixie Processing						
Nixie Clerk handling	$0.0000	[3]	1.00	[9]	$0.0000	[17]
ACS Nixie Keying	$0.2074	[4]	1.00	[10]	$0.2074	[18]
					$0.2074	[19]

			% of ACS Volume		Volume Weighted Cost per Piece	
ACS COA notification	$0.2691	[5]	58.03%	[11]	$0.1561	[20]
ACS Nixie processing	$0.2074	[6]	41.97%	[12]	$0.0870	[21]
TOTAL COST PER PIECE			100.00%	[13]	**$0.243**	[22]

[1] USPS LR-I-110, Table 5.2.2, cell J31
[2] USPS LR-I-110, Table 5.2.2, cell J32
[3] These costs are treated as institutional.
[4] USPS LR-I-110, Table 5.2.2, cell J29
[5] [16]
[6] [3]+[4]
[7] USPS LR-I-110, Table 5.2.2, cell L31
[8] USPS LR-I-110, Table 5.2.2, cell L32
[9] All nixies subject to clerk processing.
[10] All nixies subject to keying.
[11] ACS "keyed only" pieces/Total ACS Volume
[12] Nixie Pieces/Total ACS Vol
[13] [11]+[12]
[14] [1]*[7]
[15] [2]*[8]
[16] [14]+[15]
[17] [3]*[9]
[18] [4]*[10]
[19] [17]+[18]
[20] [5]*[11]
[21] [6]*[12]
[22] [20]+[21]

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Physical Return Costs

Cost for UAA Mail Being Returned to Sender

Physical Flat Mailpieces Returned

	A Annual Volume (Thousands)	B Cost/Piece	C Annual Cost (Thousands)	D Frequency
1.	69,209 (1)	$0.0545 (2)	$3,771	1.00
2.	33,866 (3)	$0.2711 (4)	$9,181	0.49 (5)
3.	24,021 (6)	$0.5381 (7)	$12,926	0.35 (8)
4.	69,209 (1)	$0.6295 (9)	$43,567	1.00
5. Total				[

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).

(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).

(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refe Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.

(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).

(5) This is the portion of return to sender mail that is returned by the Nixie clerk at the delivery unit, along with the portion of ACS Nixie that is returned at the CFS unit. This is the ratio of Rows 2 and 1, Column A.

(6) Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", Total Returned.

(7) Refer to Table 5.2.2, Column G, (Non-ACS) Total. Non Mach terminal cost/piece is used.

(8) This is the portion of return to sender mail returned from the CFS unit, along with the portion of ACS Nixie that is returned from the CFS unit. This is the ratio of Rows 3 and 1, Column A, Table 5.2.2.

(9) Refer to Table 5.2.4.1, Row 2, Column F.This Number was calculated based on data obtained from USPS Cost Attributi

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Electronic "Return" Costs

Cost of UAA Mail Being Returned to Sender
Bank One Accepts ACS Flats

	A Annual Volume (Thousands)		B Cost/Piece (1)		C Annual Cost (Thousands)	D Frequency	
1.	69,209	(1)	$0.0545	(2)	$3,771	1.00	
2.	33,866	(3)	$0.2711	(4)	$9,181	0.49	(5)
3. eACS							
4. Total							

(1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
(2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
(3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Vo Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
(4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
(5) This is the cost of the Nixie clerk preparing mail for the CFS unit (USPS-LR-1/MC2002-2, page 1, row 2 as proxie).
(6) From Tab 3 of USPS LR-J-69.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE, PARTIALLY REDIRECTED FROM BANK ONE CORPORATION WITNESS LAWRENCE BUC

OCA/BOC-T2-3. Please refer to your testimony at page 3, lines 20 through 22. You project response rates for Standard Mail between 0.1 percent and 0.7 percent, with 0.4 percent as the average response rate for credit card solicitation.

a. What is the response rate specifically applicable for Bank One?

b. What is the lift specifically applicable for Bank One?

RESPONSE:

In the period since the implementation of the Capital One NSA I have been involved in extensive discussions with most of the major credit card issuers in the United States, and have analyzed publicly available materials such as those employed by witness Buc. In my experience, this information is regarded as highly proprietary by credit card issuers. These companies are not only reluctant to disclose this information in public litigation, but are generally unwilling to share such information even in private negotiations in which all parties are covered by written non-disclosure agreements. Nonetheless, I can affirm that the assumptions used in Mr. Buc's model comport well with my understanding, and the understanding of my colleagues who are involved in NSA negotiations, of how mailing decisions are affected by response rates and lift.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE, PARTIALLY REDIRECTED FROM BANK ONE CORPORATION WITNESS LAWRENCE BUC

OCA/BOC-T2-4. On page 4, you discuss the lifetime value of a customer.

b. Also confirm that $102.43 is the lifetime value of a Bank One customer, as discussed on page 4 of your testimony. If you do not confirm, then explain why not.

RESPONSE:

b. I cannot confirm that $102.43 is the exact average lifetime value of a Bank One customer. In my experience, this information is regarded as highly proprietary by credit card issuers. These companies are not only reluctant to disclose this information in public litigation, but are generally unwilling to share such information even in private negotiations in which all parties are covered by written non-disclosure agreements. Nonetheless, I believe that the method used by witness Buc to respond to this interrogatory appears to be a reasonable approximation.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-1.

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.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-2.

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. It 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.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-3.

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.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-4.

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.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-5.

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.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-6.

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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VALPAK DEALERS' ASSOCIATION, INC.

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.

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.

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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	26,721,961
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 Col. 1	App. A Page 4 Col. 11
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	577,594	115,591
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	3,854,730	3,854,730	3,854,730
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	$ 2,078,536	$ 2,161,677	$ 2,248,145
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 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 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.

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.

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.

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VP/USPS-T1-23.
In recent years, has the Postal Service conducted any special studies or analyses to determine whether First-Class Mail returned as Undeliverable as Addressed ("UAA") was in fact non-deliverable as addressed? That is, to the Postal Service's knowledge, for First-Class Mail that was returned, could some portion of it in fact have been delivered as addressed but, for whatever reason, instead was returned to sender? If so, please provide a summary of the results of such studies or analyses, or else provide the studies or analyses as library references.

RESPONSE:

I'm not aware of any such studies.

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VP/USPS-T1-24.
Please refer to Docket No. MC2002-2, Response of Postal Service witness Charles L. Crum to APWU/USPS-T3-4(e-g) (Tr. 2/268), where he (i) develops the average forwarding rate for all First-Class Mail of 1.96 percent, and (ii) states that information is not available separately on the forwarding rate for single-piece and discounted First-Class Mail.
a. Please confirm that the source of witness Crum's 1.96 percent datum was developed from data in Tables 4.2 and 4.3.3 in USPS-LR-J-69, of Docket No. R2001-1.
b. Since the time of witness Crum's above-cited reply, has the Postal Service developed any data on the forwarding rate for single-piece First-Class Mail? If so, please indicate what that rate is, and provide the source of the data.
c. Since the time of witness Crum's above-cited reply, has the Postal Service developed any data on the forwarding rate for discounted First-Class Mail? If so, please indicate what that rate is, and provide the source of the data.

RESPONSE:

a. Confirmed

b. I'm not aware of any studies that have been conducted in this area.

c. I'm not aware of any studies that have been conducted in this area.

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VP/USPS-T1-25.
a. Since single-piece First-Class Mail is never subject to National Change of Address ("NCOA"), is it reasonable to believe that returns of single-piece First-Class Mail would be higher than the First-Class Mail systemwide average of 1.23 percent (USPST-1, App. A, p. 1, l. (4))?
b. First-Class solicitation mail appears to have returns that average between 9 and 10 percent, which is approximately 7 to 8 times the systemwide average. In the absence of any data, analysis, or study, would it be reasonable to estimate that returns of single piece and discounted First-Class Mail are in proportion to their respective shares of the total volume of First-Class Mail? If not, please state what you believe to be the most reasonable assumption regarding the share of returns generated by discounted First-Class Mail, and explain why.

RESPONSE:

a. While use of NCOA is not a qualifying condition for the entry of single piece First-Class Mail, that does not mean that no single-piece First-Class Mail is improved as a result of NCOA processing. For example, First-Class presort mailers often send some portion of their First-Class Mail at single piece rates. Assuming these customers use a single source of address information, NCOA processing will improve the addresses that are placed on single-piece First-Class Mail.

b. I'm not aware of any study that identifies the return rate separately for single-piece and discounted First-Class Mail. In the absence of such an analysis, the assumption that the return rates for single-pieces and discounted First-Class Mail are the same appears plausible. I would further note that Bank One's return rate of 9 percent is not typical of all discounted First-Class Mail.

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VP/USPS-T1-26.

Your response to VP/USPS-T1-8 indicates that the total costs of handling UAA mail in TY 2003 was estimated to be $1.9 billion.
a. If discounted First-Class Mail accounts for approximately half of all First-Class UAA returns, would it be reasonable to assume that discounted First-Class Mail accounted for about half, or $950,000,000, of the total cost of handling UAA mail in TY 2003?
If not, please state what you believe to be the most reasonable estimate for the total cost of handling UAA returns of discounted First-Class Mail in TY 2003, and explain the basis for your answer.
b. If the Postal Service's unit cost to return a letter manually in Year 3 is 60 cents, and the unit cost for an electronic return is 37 cents (USPS-T-1, App. A, p. 1, ll. (7) and (9)), and the Postal Service saves 23 cents, or approximately 38 percent of the cost of a manual return, would it be reasonable to assume that the Postal Service could save approximately $364,000,000 if all manual returns of discounted First-Class Mail were replaced with electronic Address Correction Service ("ACS") returns? If you do not agree with this estimate, please provide what you believe to be the potential savings that the Postal Service could realize by having all discounted First-Class Mail convert to electronic ACS.

RESPONSE:

a. I can't confirm this calculation, though the assumption appears to be plausible.

b. I have not analyzed customers' willingness or ability to adopt electronic ACS, nor have I analyzed which customers make use of electronic ACS solely as a means to qualify to automation discounts. Without this kind of information, a reliable estimate of the potential net savings is not possible.

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VP/USPS-T1-27.

Please refer to your response to VP/USPS-T1-7(a), in which you state that there were 1.9 million electronic ACS returns during FY 2003 and that there were approximately 1.2 billion pieces of First-Class UAA mail that were returned to sender.

a. During FY 2003, how many mailers used electronic ACS for their First-Class Mail?

That is, how many mailers accounted for the 1.9 million electronic ACS returns discussed in your response?

b. Were all, or approximately all, of the 1.9 million electronic ACS returns for First-Class Mail provided at the rate of 20 cents each during FY 2003 (excluding any that may have been provided to Capital One Services, Inc. ("Capital One"))? If not, how many (or what percentage) were provided for less than 20 cents?

c. Would it be correct to presume that in FY 2003 the Postal Service collected approximately $380,000 in fees from First-Class mailers for electronic ACS? If not, how much did the Postal Service collect in fees for electronic ACS returns for First-Class Mail during FY 2003?

d. In your opinion, does the 20 cent fee which the Postal Service charges for electronic ACS returns, versus free manual return, act as a disincentive to adoption of electronic ACS by First-Class bulk mailers? If your answer is negative, please explain why not.

If your answer is positive, please (i) explain how large a disincentive the current fee is, and (ii) explain all reasons for the Postal Service's reluctance to offer electronic ACS for the same fee (*i.e.*, as an optional free service) as manual returns.

e. Please explain how the Postal Service markets its electronic ACS to users of First-Class Mail (other than Capital One, Bank One Corporation ("Bank One"), and Discover Financial Services, Inc.). In particular, please explain what inducements the Postal Service offers to overcome resistence created comparing the price of electronic ACS to free physical return of UAA mail.

RESPONSE:

a. As of September 19, 2003 there were 1786 First Class ACS mailers.

b. Yes.

c. Yes.

d. In general, customers appear to prefer the free option.

e. Over the last 15 years or so, the Postal Service's National Customer Support Center has provided training and presentations to many USPS Sales/Marketing groups, local and national Postal Customer Councils,

held Postal Forum sessions, and attended numerous meetings. Articles have also appeared in Memo To Mailers, the Mailers Companion and other trade publications.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-28.
Please refer to your Appendix A, page 1. For the unit costs shown in rows (6) through (9), please indicate the fiscal years to which the three columns labeled Years 1, 2, and 3 apply.
That is, have the unit cost data shown under Year 1 been inflated to FY 2004, or to FY 2005?

RESPONSE:

Year 1 refers to 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-T1-29.

a. Please refer to the response of Postal Service witness Ali Ayub to VP/USPS-T1-3 in Docket No. MC2004-4 and confirm that, according to that response, if a Standard Mailing of 10,000,000 pieces can be anticipated to have 9.0 percent that is UAA and non-forwardable, then based on the data provided in that response, should the mailer request ACS and forwarding service, on average, for (i) each 900,000 pieces returned, (ii) an additional 1,324,800 (*i.e.*, 1.472 x 900,000) pieces would be forwarded. That is, for Standard Mail, if the return rate averages 9.0 percent, the forward rate would be expected to average 13.2 percent. If you do not confirm, please explain.

b. Please confirm that for every 10,000,000 pieces of First-Class marketing mail sent by Bank One, the Postal Service projects that 900,000 (9.0 percent) pieces will be returned as UAA, 200,000 (2.0 percent) will be forwarded, and the number of pieces forwarded will be 1,124,800 less than would be projected for 10,000,000 pieces of Standard Mail using the ratio in the above-cited response to VP/USPS-T1-3(d). If you do not confirm, please explain.

c. Please confirm that currently some Standard Mailings need to be Coding Accuracy Support System ("CASS") certified with respect to address hygiene or address quality checks, but none are required to be run against National Change of Address ("NCOA"). If you do not confirm, please explain other address hygiene requirements for Standard Mail that are more strict than CASS certification.

d. Please confirm that discounted First-Class mailings need to be run against NCOA within six months prior to mailing. If you do not confirm, please explain the requirement for discounted First-Class mailings.

e. As between mailings entered as Standard and First-Class, are there any differences (other than those set out in preceding parts c and d) in **Postal Service-required** address hygiene or address quality measures that could account for some or all of the reduction in forwards when Standard solicitation mailings convert to First-Class marketing mail? If so, please endeavor to quantify both the individual and cumulative effect of whatever factors you describe.

f. If a CASS-certified list were to be run against NCOA, would the use of NCOA be expected to reduce the expected 1,324,800 forwards to 200,000, which is a reduction of 1,124,800, or 84.9 percent? Please explain why or why not.

g. To the extent that your responses to preceding parts e and f do not fully account for the expected reduction in forwards of Bank One mail that converts from Standard to First-Class marketing mail — *i.e.*, from 1,324,800 to 200,000 — what additional measures will Bank One be **required** to take under the proposed Negotiated Service Agreement ("NSA") that account for the reduction in forwards?

h. When Bank One converts Standard Mail to First-Class Mail, if the measures that Bank One will be **required** to take, both by virtue of being entered as First-Class Mail and under the proposed NSA, do not account fully for the expected reduction in forwards, what **optional** address hygiene measures is Bank One expected to take that acount for the expected reduction in forwards from 1,368,960 to 200,000?

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

RESPONSE:

a. Not confirmed. The rates for Standard Mail Forwarding and Return Service are based upon the nationwide average ratio of forwards to returns. While this assumption is used in pricing a service, the nationwide average ratio of forwards to returns is not expected to hold true for individual mailers. For example, Capital One's ratio of forwarded First-Class Mail to returned First-Class Mail is approximately 0.2. I expect a similar ratio of forwards to returns for Bank One's solicitations.

b. Not confirmed. As I mentioned in my response to subpart (a) above, one cannot assume that Bank One's ratio of forwardable UAA to non-forwardable UAA for Standard Mail is equal to the nationwide average ratio. Also, my expectation is that the forwarding rate for Bank One's First-Class Mail solicitations will be close to the average forwarding rate for all First-Class Mail (1.96%), which is similar to Capital One's 2.0% forwarding rate.

c. Confirmed.

d. Confirmed.

e. I'm not aware of any other regulations that bear on this issue, though I would point out that customers pay a significant premium for First-Class Mail relative to a comparable piece of Standard Mail. To the extent that customers place a premium on the timeliness of delivery of their messages, they would have an added incentive to minimize the number of pieces that would need to be forwarded prior to delivery.

f. I don't know, but as I indicated in response to subparts (a) and (b) of this interrogatory, I don't believe that Bank One's rate of forwardable UAA for its Standard Mail solicitations is as high as you suggest.

g. Not applicable since your interrogatory is based upon faulty assumptions regarding Bank One's rate of forwardable UAA for its Standard Mail solicitations. Please see my responses to subparts (a), (b), and (f) of this interrogatory.

h. Not applicable since your interrogatory is based upon faulty assumptions regarding Bank One's rate of forwardable UAA for its Standard Mail solicitations. Please see my responses to subparts (a), (b), and (f) of this interrogatory.

VP/USPS-T1-30.

The attached spreadsheets (Attachments 1-3) compare the returns that the Postal Service receives in 2005 (Year 1) (Attachment 1) and 2007 (Year 3) (Attachment 2) when Bank One Standard Mail converts to First-Class Mail. Column (1) of Attachments 1 and 2 shows the return for Standard Mail, column (2) shows the return from un-discounted First-Class Mail, and columns (3)-(8) compute the returns at the various discount levels contained in the NSA. For ease of comparison, the data in each column assume an incremental volume of 10,000,000 pieces.

a. Rows (2)-(8) of Attachments 1 and 2 compute the total contribution and the per piece contribution for each respective column. Please review the data in this part of Attachments 1 and 2 and confirm that the entries accurately reflect the assumptions made by the Postal Service in this docket as to price and unit cost. If you do not confirm, please indicate what changes should be made in order to conform with the assumptions made by the Postal Service in this docket.

b. Rows (9)-(23) of Attachments 1 and 2 compute the cost of handling returns of UAA mail for each respective column. Please review the data in this part of Attachments 1 and 2 and confirm that the entries accurately reflect the assumptions made by the Postal Service in this docket as to return rates (both manual and ACS), as well as the unit costs for manual and ACS returns. If you do not confirm, please indicate what changes should be made in order to conform with the assumptions made by the Postal Service and Bank One in this docket.

c. The unit costs of destruction on shown on row (20) of Attachments 1 and 2 are somewhat arbitrary entries. If you have a better estimate for the unit cost of destruction, please provide.

d. Rows (24)-(35) of Attachments 1 and 2 compute the cost of providing forwarding service and electronic ACS returns for each respective column. Please review the data in this part of Attachments 1 and 2 and confirm that the entries accurately reflect the assumptions as to forwarding rates and ACS returns, as well as the unit costs for forwarding and ACS returns, made by the Postal Service in this docket. If you do not confirm, please indicate what changes should be made in order to conform with the assumptions made by the Postal Service in this docket.

e. If you believe that any further adjustment(s) should be made with respect to the costs of forwarding and/or ACS returns for forwarded mail in Attachments 1 and 2, please explain clearly and fully the nature of each such adjustment, and indicate how it would affect (*i.e.*, increase of decrease) the costs shown in rows (34)-(35).

RESPONSE:

Before responding to the specific subparts of the question, it is important to emphasize that the assumptions made by the Postal Service concerning the

	BANK ONE FCM vs STD Comparison for 2005	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		STD	FCM	FCM	FCM	FCM	FCM	FCM	FCM
(1)	(Discount)	(No discount)	(No discount)	$0.0250	$0.0300	$0.0350	$0.0400	$0.0450	$0.0500
(2)	Marketing Volume (millions)	10	10	10	10	10	10	10	10
(3)	Price per Piece	$0.177	$0.292	$0.267	$0.262	$0.257	$0.252	$0.247	$0.242
(4)	Total Revenue (millions)	$1.77	$2.92	$2.67	$2.62	$2.57	$2.52	$2.47	$2.42
(5)	Cost per Piece including 1.23% return rate	$0.087	$0.107	$0.107	$0.107	$0.107	$0.107	$0.107	$0.107
(6)	Total Cost including 1.23% return rate (millions)	$0.87	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07
(7)	**Contribution Millions**	$0.900	$1.850	$1.600	$1.550	$1.500	$1.450	$1.400	$1.350
(8)	***Incremental Contribution per piece***	**$0.090**	**$0.185**	**$0.160**	**$0.155**	**$0.150**	**$0.145**	**$0.140**	**$0.135**
(9)	Return Rate	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
(10)	Systemwide Return Rate	0.00%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
(11)	Excess Return Rate	0.00%	7.77%	7.77%	7.77%	7.77%	7.77%	7.77%	7.77%
(12)	UAA Volume (millions)	0.9	0.777	0.777	0.777	0.777	0.777	0.777	0.777
(13)	Electronic Returns (millions)	0.000	0.000	0.660	0.660	0.660	0.660	0.660	0.660
(14)	Manual Returns (millions)	0.000	0.777	0.117	0.117	0.117	0.117	0.117	0.117
(15)	Electronic Return Cost per Piece	$0.340	$0.340	$0.340	$0.340	$0.340	$0.340	$0.340	$0.340
(16)	Manual Return Cost per Piece	$0.550	$0.550	$0.550	$0.550	$0.550	$0.550	$0.550	$0.550
(17)	Total electronic return cost (millions)	$0.000	$0.000	$0.225	$0.225	$0.225	$0.225	$0.225	$0.225
(18)	Total manual return cost (millions)	$0.000	$0.427	$0.064	$0.064	$0.064	$0.064	$0.064	$0.064
(19)	Total Return Cost	$0.000	$0.427	$0.289	$0.289	$0.289	$0.289	$0.289	$0.289
(20)	Cost of Destruction per Piece	$0.015	$0.015	$0.015	$0.015	$0.015	$0.015	$0.015	$0.015
(21)	Total Cost of destruction (millions)	$0.014	$0.000	$0.010	$0.010	$0.010	$0.010	$0.010	$0.010
(22)	**Contribution after return cost adjustments (millions)**	$0.887	$1.423	$1.301	$1.251	$1.201	$1.151	$1.101	$1.051
(23)	***Incremental Contribution/pc after return cost adjustment***	***$0.089***	***$0.142***	***$0.130***	***$0.125***	***$0.120***	***$0.115***	***$0.110***	***$0.105***
(24)	Assumed Forwarding Rate	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
(25)	Systemwide Forwarding Rate	0.00%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%
(26)	Excess Forwarding Rate	0.00%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
(27)	Excess Forward pieces from conversion (millions)	0	0.004	0.004	0.004	0.004	0.004	0.004	0.004
(28)	Cost per Forward, Year 1	$0.345	$0.345	$0.345	$0.345	$0.345	$0.345	$0.345	$0.345
(29)	Total Excess Cost of Forwards, Year 1	$0.000	$0.001	$0.001	$0.001	$0.001	$0.001	$0.001	$0.001
(30)	ACS Notices for forwarded mail (millions)	0	0	0.2	0.2	0.2	0.2	0.2	0.2
(31)	Cost per ACS notice, Year 1	$0.074	$0.074	$0.074	$0.074	$0.074	$0.074	$0.074	$0.074
(33)	Total Cost ACS notices for Forwarded Mail (millions)	$0.000	$0.000	$0.015	$0.015	$0.015	$0.015	$0.015	$0.015
(34)	**Contribution after forwards cost adjustment (millions)**	**$0.887**	**$1.421**	**$1.285**	**$1.235**	**$1.185**	**$1.135**	**$1.085**	**$1.035**
(35)	***Incremental Contribution/pc after return cost adjustment***	***$0.0887***	***$0.1421***	***$0.1285***	***$0.1235***	***$0.1185***	***$0.1135***	***$0.1085***	***$0.1035***
(36)	Incremental Contribution of Standard Mail (millions)	$0.887	$0.887	$0.887	$0.887	$0.887	$0.887	$0.887	$0.887
(37)	**Contribution after Standard Mail conversion (millions)**	**$0.000**	**$0.535**	**$0.399**	**$0.349**	**$0.299**	**$0.249**	**$0.199**	**$0.149**
(38)	***Incremental Contribution/pc after Standard Mail adjust***	***$0.000***	***$0.053***	***$0.040***	***$0.035***	***$0.030***	***$0.025***	***$0.020***	***$0.015***

	BANK ONE FCM Vs STD Comparison for 2007	(1) STD	(2) FCM	(3) FCM	(4) FCM	(5) FCM	(6) FCM	(7) FCM	(8) FCM
(1)	(Discount)	(No discount)	(No discount)	$0.0250	$0.0300	$0.0350	$0.0400	$0.0450	$0.0500
(2)	Marketing Volume (millions)	10	10	10	10	10	10	10	10
(3)	Price per Piece	$0.177	$0.292	$0.267	$0.262	$0.257	$0.252	$0.247	$0.242
(4)	Total Revenue (millions)	$1.77	$2.92	$2.67	$2.62	$2.57	$2.52	$2.47	$2.42
(5)	Cost per Piece including 1.23% return rate	$0.094	$0.116	$0.116	$0.116	$0.116	$0.116	$0.116	$0.116
(6)	Total Cost including 1.23% return rate (millions)	$0.94	$1.16	$1.16	$1.16	$1.16	$1.16	$1.16	$1.16
(7)	**Contribution Millions**	$0.829	$1.763	$1.513	$1.463	$1.413	$1.363	$1.313	$1.263
(8)	***Incremental Contribution per piece***	**$0.083**	**$0.176**	**$0.151**	**$0.146**	**$0.141**	**$0.136**	**$0.131**	**$0.126**
(9)	Return Rate	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
(10)	Systemwide Return Rate	0.00%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
(11)	Excess Return Rate	0.00%	7.77%	7.77%	7.77%	7.77%	7.77%	7.77%	7.77%
(12)	UAA Volume (millions)	0.9	0.777	0.777	0.777	0.777	0.777	0.777	0.777
(13)	Electronic Returns (millions)	0.000	0.000	0.660	0.660	0.660	0.660	0.660	0.660
(14)	Manual Returns (millions)	0.000	0.777	0.117	0.117	0.117	0.117	0.117	0.117
(15)	Electronic Return Cost per Piece	$0.000	$0.368	$0.368	$0.368	$0.368	$0.368	$0.368	$0.368
(16)	Manual Return Cost per Piece	$0.000	$0.595	$0.595	$0.595	$0.595	$0.595	$0.595	$0.595
(17)	Total electronic return cost (millions)	$0.000	$0.000	$0.243	$0.243	$0.243	$0.243	$0.243	$0.243
(18)	Total manual return cost (millions)	$0.000	$0.462	$0.069	$0.069	$0.069	$0.069	$0.069	$0.069
(19)	Total Return Cost	$0.000	$0.462	$0.312	$0.312	$0.312	$0.312	$0.312	$0.312
(20)	Cost of Destruction per Piece	$0.016	$0.016	$0.016	$0.016	$0.016	$0.016	$0.016	$0.016
(21)	Total Cost of destruction (millions)	$0.015	$0.000	$0.011	$0.011	$0.011	$0.011	$0.011	$0.011
(22)	**Contribution after return cost adjustments (millions)**	$0.814	$1.300	$1.190	$1.140	$1.090	$1.040	$0.990	$0.940
(23)	***Incremental Contribution/pc after return cost adjustment***	***$0.081***	***$0.130***	***$0.119***	***$0.114***	***$0.109***	***$0.104***	***$0.099***	***$0.094***
(24)	Assumed Forwarding Rate	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
(25)	Systemwide Forwarding Rate	0.00%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%
(26)	Excess Forwarding Rate	0.00%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
(27)	Excess Forward pieces from conversion (millions)	0	0.004	0.004	0.004	0.004	0.004	0.004	0.004
(28)	Cost per Forward, Year 1	$0.374	$0.374	$0.374	$0.374	$0.374	$0.374	$0.374	$0.374
(29)	Total Excess Cost of Forwards, Year 1	$0.000	$0.001	$0.001	$0.001	$0.001	$0.001	$0.001	$0.001
(30)	ACS Notices for forwarded mail (millions)	0	0	0.2	0.2	0.2	0.2	0.2	0.2
(31)	Cost per ACS notice, Year 1	$0.080	$0.080	$0.080	$0.080	$0.080	$0.080	$0.080	$0.080
(33)	Total Cost ACS notices for Forwarded Mail (millions)	$0.000	$0.000	$0.016	$0.016	$0.016	$0.016	$0.016	$0.016
(34)	**Contribution after forwards cost adjustment (millions)**	**$0.814**	**$1.299**	**$1.172**	**$1.122**	**$1.072**	**$1.022**	**$0.972**	**$0.922**
(35)	***Incremental Contribution/pc after return cost adjustment***	***$0.0814***	***$0.1299***	***$0.1172***	***$0.1122***	***$0.1072***	***$0.1022***	***$0.0972***	***$0.0922***
(36)	Incremental Contribution of Standard Mail (millions)	$0.814	$0.814	$0.814	$0.814	$0.814	$0.814	$0.814	$0.814
(37)	**Contribution after Standard Mail conversion (millions)**	**$0.000**	**$0.485**	**$0.358**	**$0.308**	**$0.258**	**$0.208**	**$0.158**	**$0.108**
(38)	***Incremental Contribution/pc after Standard Mail adjust.***	***$0.000***	***$0.048***	***$0.036***	***$0.031***	***$0.026***	***$0.021***	***$0.016***	***$0.011***

FOOTNOTES

Shaded footnotes indicate that the calculation for the Standard Mail column is different.

(1) Price incentive level.
(2) Marketing letter volume.
(3) Revenue per piece from Appendix A page 3 at (9) less price incentive for First Class Mail; and page 8 at (3) for Standard Mail .
(4) (2) * (3)
(5) In Appendix A page 1 change return rates for marketing mail - Letters (4) to 1.23%. Cost from Appendix A page 4 at (18).
Standard Mail = page 9 at (21) * contingency.
(6) (2) * (5)
(7) (4) - (6)
(8) (7) / (2)
(9) Appendix A page 1 at (2)
(10) Appendix A page 1 at (4)
(11) (9) - (11)
(12) (11) * (2)
(13) .85 (ACS success rate) * (12)
(14) .15 (ACS failure rate) * (12)
(15) Appendix A page 1 at (7)
(16) Appendix A page 1 at (9)
(17) (13) * (15)
(18) (14) * (16)
(19) (17) + (18)
(20) Place holder. I have no estimate for the cost of destruction however because the same procedures for FCM and Standard the cost is the same.
(21) For FCM = (13) * (20) and for Standard Mail = (12) * (20)
(22) (7) - (19) - (21)
(23) (22) / (2)
(24) Unaudited Postal data from Capital One and expected for this customer.
(25) MC2002-2, POIR-2, Q7. (Tr. 2/319.)
(26) (24) - (25)
(27) (26) * (2)
(28) FCM forwarding costs from MC2002-2, POIR-2, Q7 (.307*1.04^3) inflated to 2005, and (.307*1.04^5) to 2007. For Standard Mail is
destruction cost because no forwards, only destruction. (Tr. 2/320.)
(29) (27) * (28)
(30) (2) * (24)
(31) ACS notices costs from MC2002-2, POIR-2, Q7 inflated by 4% for 3 years to 2005, and 5 years to 2007. (Tr. 2/320.)
(33) (30) * (31)
(34) (22) - (29) - (33)
(35) (33) / (2)
(36) Total Contribution of Standard marketing pieces
(37) (34) - (36)
(38) (37) / (2)

costs of providing returns and forwarding, and the net contribution less discount of mail qualifying for the NSA discounts, are highly conservative.

First, the Postal Service based its unit cost estimates for Standard Mail on the Postal Service's costing methodology, while using the Commission's methodology to estimate the unit costs of First Class Mail. (This situation arose because, perhaps relating to the settlement of Docket No. R2001-1, Commission versions of the inputs needed to construct a Standard Mail model were not available at sufficient levels of disaggregation, creating an obstacle most readily surmounted by using Postal Service version inputs for Standard Mail.) The Commission methodology tends to produce higher costs. Consistent use of the same methodology to estimate the mail processing and carrier costs for *both* Standard Mail and First-Class Mail would increase the net contribution less discount for each piece that migrated from Standard Mail to First-Class Mail. If the Commission's methodology were used to cost both mail classes, the estimated costs of Standard Mail (and the associated piggybacks) would increase, and the estimated contribution from Standard mail would decrease accordingly. If the Postal Service's methodology were used to cost both mail classes, the estimated costs of First-Class Mail (and the associated piggybacks) would decrease, and the estimated contribution from First-Class mail would increase accordingly. Either way, the estimated net contribution less discount for mail that migrated from Standard Mail to First-Class Mail would increase.

Second, the Postal Service's financial calculations in this case have assumed that all new First-Class mail volumes generated by the NSA discounts will be migrated volume – i.e., will be offset by a corresponding reduction in Standard Mail volume. If some organic growth in First-Class Mail volumes (i.e., non-migration volumes) also occur, net contribution less discount will be larger, for the obvious reason that such new First-Class Mail volumes will not entail any offsetting loss of Standard Mail contribution.

a. Confirmed except for the following exceptions. The cost per piece for marketing letters including the 1.23% return rate for Year 1 is $0.100 from page 5 of Appendix A,, and not $0.107 as referenced in line (5). This is the result if you change the forecast for marketing mail – letters (2) to 1.23% as noted in footnote 5. The correct value for the third year of the agreement is $0.108 against $0.116 presented. This analysis does not reflect the true incremental contribution per total pieces under the NSA because it ignores the higher contributions on the volume responses required to reach the 5 cent discount tier.

In addition, based on the errata to Appendix A of my testimony filed on September 1, 2004, the following changes occur:

1. The manual return cost per piece and electronic return cost per pieces were also increased by the contingency factor. Raising the price of electronic return cost per piece from $0.340 to $0.350 and manual return cost per piece to $0.567 from $0.550. This was done so a contingency of 3% is included on the cost calculations. This affects Year 3 because Year 3 is based on inflating Year 1.
2. The net effect is an increase in incremental contribution per piece as presented in Year 1 at the $0.05 discount from $0.015 to $0.021 for Year 1 and from $0.011 to $0.017 in Year 3.

b. Confirmed.
c. I am not aware of any alternative estimates, though the $0.015 is a reasonable assumption given that the cost of destroying UAA should be the same irrespective of mail class.
d. Confirmed except for the following: If the assumed forwarding rate of Bank One's Standard Mail is zero, the cost of destroying the mail that would otherwise have been forwardable should be included.

e. The estimated incremental contribution per piece after Standard Mail adjustment would be higher if the value of avoided forwarding costs could be calculated at this time. While an accurate estimate of this value is not currently available, I note that avoiding a single forward with a cost of $0.345 would defray the cost of 4.5 ACS notices for forwarded mail.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 2

POIR 1, Q2. Witness Plunkett (USPS-T-1) asserts that the Bank One NSA is functionally equivalent to the Capital One NSA. He also utilizes cost figures from Docket No. MC2002-2 as inputs to the estimated impact of the proposal on Postal Service finances. Has witness Plunkett reviewed the results since the implementation of the Capital One NSA to test the accuracy of the cost estimates relied upon in support of the current proposal? If so, please present a summary of his findings.

RESPONSE:

A limited amount of unaudited empirical information exists. Thus far, Capital One's return rate is in line with expectations (10%). Capital One's forwarding rate is also in line with the system average. The system average is 1.96% while Capital One's forwarding rate to date is 2.0%. For these reasons, the Postal Service believes the cost figures used in Docket No. MC2002-2 can be relied upon in this case. As no rate specific First Class Mail or ACS costs studies have been completed since settlement of the last omnibus rate case the costs for the Bank One NSA have been inflated by 4%, compounded annually, to account for any cost increases. The 4% inflation factor is consistent with the increases in costs projected by the Postal Service in venues with other stakeholders, including the Presidential Commission.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 3

POIR 1, Q3 Refer to Rule 193(e)(1), and USPS-T-1, Appendixes A and B. The return costs of manual letters, electronic letters, manual flats, and electronic flats as well as the ACS success rate used to estimate the financial impact of the proposal do not appear to be mailer-specific. Please provide the bases for utilizing each figure, including a discussion of the suitability of the proposed factors as proxies for Bank One-specific figures. If the Postal Service considers the costs to be mailer-specific, please provide a discussion of the variances between the mailer-specific costs and system-wide average costs.

RESPONSE:

The average costs of manual letters and electronic notices were used in the Capital One NSA because Capital One's mail mix and profile was that of a large national mailer and it is reasonable to assume that their cost structure should mirror the national averages. The mail mix and profile of Bank One, a national mailer should reflect the national average and there is no evidence to suggest that Bank One's mail incurs additional costs above the national averages.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
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. Phase I was originally planned to begin deployment in July of 2003 and reach completion by May 2004. See Response of the United States Postal Service to APWU/USPS-T4-13, 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, however, and it 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 based on data developed from Phase I. The earliest possible initial deployment date for Phase II

would be the fall of 2005. It appears that full deployment will not occur until well into 2006.

Current data do not exist to permit 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 MC2002-2 USPS-LR-1. 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 cost savings offered by the proposed NSA, for a number of reasons.

First, a significant part of the cost savings in this case relates to the handling of flat-sized mail through ACS. PARS will not process flat size mail. Second, PARS will not be fully deployed until well into 2006, which is the third year of the agreement in my analysis in Appendix A to my testimony.

Third, 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 applies to the impact (or rather, the lack of impact) on the Bank One NSA. In sum, the cost of handling Bank One's returns under PARS may well be less and the

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

Fourth, 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 Bank One'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 Bank One's mail.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 5

POIR 1, Q5 Refer to Rule 196(a)(2) and Request, Attachment E, pages 12-16. Please confirm that the description of differences between the proposed agreement and the Capital One NSA recommended by the Commission and approved by the Governors does not include the absence of a stop-loss provision in the proposed agreement. Please explain and revise the attachment as necessary.

RESPONSE:

The Postal Service interpreted Rule 196(a)(2) as requiring the Postal Service to identify aspects of the contract of the proposed functionally equivalent NSA that are different than the baseline agreement. The contract with Capital One did not contain a cap on discounts and the Bank One NSA contract is similar in that respect. The cap was imposed on the Capital One NSA and was not a contractual requirement of either party. As such, the Postal Service does not believe the attachment needs to be revised.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 6

POIR 1, Q6 Refer to USPS-T-1, pages 14-15. Please provide any available empirical evidence for the evaluation of the impact of the proposal on competitors. For example, has the Postal Service performed any surveys, market data analysis, ad hoc conversations with competitors of Bank One, or has the Postal Service learned anything about the impact on competitors from its implementation of the Capital One NSA?

RESPONSE:

The Postal Service has not conducted any extensive surveys or market data analysis of the effect of the NSA on competitors of Capital One. Ad hoc conversations and general research on the credit card industry indicate that the NSA has not contributed to a gain in market share or had a material effect on the operating income of Capital One. The NSA does not appear to have influenced other credit card mailers to alter the mailing decisions or profiles.

The NSA however does provide greater incentives to Capital One to increase and continue its use of the First-Class Mail as a marketing medium compared to alternative marketing channels. Competitors of Capital One, such as Bank One, who commit to the same service changes and are interested in First-Class Mail as a marketing medium are disadvantaged if they are unable to take advantage of the price incentives to grow their mail volumes.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 7

POIR 1, Q7 Please refer to USPS-T-1, pages 11-14 and Docket No. MC2002-2 Tr. 2/334. Witness Plunkett accepts the forecasts of before-rates volume, after-rates volume and estimated return rates provided by Bank One witness Rappaport (BOC-T-1) and characterizes the after-rates volume estimates as conservative. Please provide any independent analysis done by the Postal Service to evaluate the reasonableness of the mailer-provided forecasts of: (a) before-rates volumes, (b) after-rates volumes and (c) estimated return rates.

RESPONSE:

Just as witness Crum described in his response to POIR1-Question 4 and POIR2-Question 4 in Docket No. MC2002-2, the Postal Service did not develop a parallel estimate of Bank One's mail volume using distinct data sources or methodologies. The Postal Service did, however, analyze and evaluate Bank One's estimates and reconciled Bank One's volume information with data contained in the PERMIT system.

The estimated return-rates are based on data provided by Bank One (see POIR-1). The Postal Service cannot estimate the return rate for an individual mailer, but ad hoc discussions with customers indicates that the Bank One return rate is within the range for similar First-Class marketing mail.

The Postal Service believes that the TYAR rates forecast provided by Bank One may be conservative because as described in Bank One witness Buc's testimony the effect of the price incentives on mailing decisions cause a material shift in marketing mail volume from Standard to First-Class. A sensitivity analysis appears on the following page.

% Change in Marketing Letter Volume	Letter Marketing Volume	ACS Savings	Contribution New Mail	Exposure	Incremental Discounts	USPS Value
-20%	23,509,600	$7,431,765	$0	$2,343,234	$0	$5,088,531
-10%	26,448,300	$7,577,732	$0	$2,607,717	$0	$4,970,015
10%	32,325,700	$7,869,668	$0	$3,136,683	$0	$4,732,985
20%	35,264,400	$8,015,636	$0	$3,401,166	$0	$4,614,470
30%	38,203,100	$8,161,604	$0	$3,665,649	$0	$4,495,955
40%	41,141,800	$8,307,572	$0	$3,930,132	$0	$4,377,440
50%	44,080,500	$8,453,540	$0	$4,206,218	$0	$4,247,322
75%	51,427,250	$8,818,459	$0	$4,977,626	$0	$3,840,833
100%	58,774,000	$9,183,379	$0	$5,749,035	$0	$3,434,344
200%	88,161,000	$10,643,058	$0	$9,132,480	$0	$1,510,578
300%	117,548,000	$12,102,736	$0	$12,872,535	$0	-$769,799

29,387,000 Current Marketing Letter Volume
Assume TYAR and TYBR are the same
No other variables change

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 8

POIR 1, Q8 Please refer to Docket No. MC2002-2, Opinion para. 3050-51, and Tr. 9/1868 and 1876. In that case, the Postal Service indicated that it was reviewing possible pricing approaches to physical return of mail and electronic equivalents to consider alternative ways to address the apparent pricing anomaly with respect to the return of undeliverable-as-addressed First-Class Mail. Please update the Commission on the status of this review and how it affected the Postal Service's decision to enter into the proposed agreement with Bank One.

RESPONSE:

The NSA process to date has provided the Postal Service and others the opportunity to gain considerable knowledge about the existing address correction process. At the same time, an approach which works for some of the largest financial institutions may not be appropriate for the wide spectrum of customers who use the Postal Service. With that in mind, the Postal Service is examining both the knowledge that it has gained along with the needs of customers to see if there are opportunities to reduce the costs associated with incorrect addresses. While no specific actions have been identified as of yet, any resulting proposals could conceivably have such far-reaching consequences that they are better addressed through a general rate filing which comprehensively addresses all of the domestic products.

The review of ACS fees did not impact the Postal Service's decision to enter into the Bank One NSA. There are many elements of the NSAs that can and likely will be affected by future internal policy choices or deployment of equipment or introduction of new rates, but that by their very nature, NSA negotiations take place in the here and now and require relatively quick development and responses. If any of the aforementioned changes in policy, pricing or technology regarding ACS affect the value of the NSA in the future, the short term of the agreement protects the Postal Service from significant impact and the terms of the NSA can be reconsidered when it expires.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT TO PRESIDING OFFICER'S INFORMATION REQUEST No. 2, QUESTION 4

POIR 2, Q4. Refer to USPS-T-1, Appendix A, page 11. Please confirm that, as calculated, the contribution from new marketing mail letter volume (line 5) for Year 3 is based in part on the difference between the First-Class marketing mail letter average contribution after rates for *Year 3*, and the Standard letter contribution per piece for *Year 2* found on page 10 of the Appendix, lines 9 and 12 respectively. Please confirm that the estimate should be based on the difference in unit contribution within Year 3. If confirmed, please revise the table as necessary. If not, please explain.

RESPONSE:

Confirmed. Please see the errata to United States Postal Service witness Plunkett's testimony and Attachment A thereto, filed on August 6, 2004.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 3

Please refer to the response to POIR 1, Question 4. The following citation is from the DM News, August 5, 2004, article "PARS on Track for Rollout This Month".

> PARS is being deployed in two phases. Phase one begins this month and will be completed by November, at which point PARS will be deployed at 80 computerized forwarding system sites, 49 processing and distribution centers and 15 remote encoding centers. The equipment is already in place at the postal service's National Customer Support Center in Memphis, TN. The second phase is to begin early next year.

The article also credits a Postal Service official with an estimate that the system, when fully deployed, will save the Postal Service $1 million a day. Please revise the response to POIR 1, Question 4, as necessary and include an 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 MC2002-2 USPS-LR-1.

RESPONSE:

Please see the revised response to POIR Question 1, No. 4, filed on August 24, 2004.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 4, QUESTION 1

POIR 4, Q1. Refer to USPS-T-1, Appendix A, page 3. Please provide FY 2003 Billing Determinants separately for First-Class operations letters and First-Class marketing letters for (a) Bank One and (b) J.P. Morgan Chase.

RESPONSE:

Please see page 3 of the attachment to the Revised Response to the United States Postal Service Witness Plunkett to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-44), filed September 1, 2004.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 4, QUESTION 2

POIR 4, Q2 Refer to USPS-T-1, Appendix A, page 1. While the contingency factor in line 12 appears as 1.03, it is rounded from 1.025. Please explain the rationale for using a contingency factor of 1.025, as opposed to the 1.03 factor used in Docket No. MC2002-2 and R2001-1.

RESPONSE:

Please see the United States Postal Service Notice of Second Errata to the Testimony of Witness K. Plunkett, filed on September 1, 2004, and the attachment thereto.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 4, QUESTION 3

POIR 4, Q3 Refer to USPS-T-1, Appendix A, page 9. The ECR letter unit costs in lines 14 and 15 (0.080 cents and 0.059 cents, respectively) are derived by applying an inflation adjustment to costs from Docket No. R2001-1 LR-J-58 as originally filed. The Postal Service later revised LR-J-58, changing the cost estimates used to calculate the figures in lines 14 and 15. Please explain the rationale for using the unrevised costs.

RESPONSE:

Please see the United States Postal Service Notice of Second Errata to the Testimony of Witness K. Plunkett, filed on September 1, 2004, and the attachment thereto.

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 5

POIR 5. Refer to USPS-T-1, Appendix A, page 13. The unit cost figures in lines 3 and 4 of column B ($0.5831 and $0.6295 respectively) have been modified from the costs originally calculated in the referenced Tables from USPS LR-J-69. Please provide the source tables as modified to calculate the new cost estimates, including a description of the modifications and references to all input sources.

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RESPONSE:

The $0.5831 cost figure was a transposition error; please see the United States Postal Service Notice of Second Errata to the Testimony of Witness K. Plunkett, filed on September 1, 2004 and the attachment thereto. The cost figure $0.6295 results from isolating flats return-to-sender costs from overall return to sender costs. Please refer to the following attachment.

Table 5.2.4.1
Mailstream Processing Unit Cost for First-Class Mail, by Disposition

	A		B	C	D	E	F
	Mail Processing Overall Cost (Thousands)		Volume (Thousands) (1)	Mail Processing Cost/Piece	Transportation Cost/Piece (2)	Piggyback Factor (3)	Total Cost/Piece
1. Forward	$138,507	(4)	1,953,295	$0.0709	$0.000011	72.4%	$0.1223
2. Return to Sender	$24,670	(5)	67,564	$0.3651	$0.000011	72.4%	$0.6295

(1) Refer to Section 4.0, Volume Profile, Table 4.3.3, First-Class Mail. It is estimated that 5.5% of total Return to Sender Volume is Flat Mail1,228,427*5.5%= 67,564
(2) This is the ratio of Cost Segment 14: Transportation (FY2000 CRA), for First-Class Mail and the total volume of First-Class Mailpieces from the 2000 RPW.
(3) Based on the R2001 rate case, piggyback factor for mail processing.
(4) Developed from FY2000IOCS survey data. This is the cost of mail processing for forwarded (23.D.F) First-Class Mailpieces of the following shapes: letters, postcards, flats, parcels, and IPPs.
(5) Developed from FY2000 IOCS survey data. This is the cost of mail processing for return to sender (23.D.D and 23.D.E) First-Class Mailpieces of the following shapes: flats,

RESPONSE OF UNITED STATES POSTAL SERVICE MICHAEL PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 6

POIR 6. Refer to the response to POIR 5 and the attached version of Table 5.2.2 from Docket No. R2001-1 USPS-LR-J-69. The table has been modified by outlining numbers of particular interest, and by adding a column H labeled "Non-Mech Only".

The "Total Non-ACS" cost of $0.1386 in column G is used as the CFS Processing component of the estimated cost of physical returns of First-Class letter-shaped mail in Docket No. MC2002-2 USPS-LR-1. Two of the components of the total non-ACS cost are the Non-ACS costs for Mechanized and the Non-ACS costs for Non-Mechanized Terminals ($0.0660 and $0.2691) which are weighted by their frequencies (0.83 and 0.17, respectively).

Column H produces a parallel Total Non-ACS cost of $0.3072 using 100% of the non-ACS non-mechanized terminal cost, and none of the mechanized terminal costs. In contrast, USPS-T-1, Appendix A, page 13 (revised 9/01/2004) uses the ACS Non-Mechanized Terminal cost of $0.5381 for the CFS processing component of the cost of physical returns for First-Class flat-shaped mail.

As physical returns do not receive ACS processing, please explain the rationale for using the *ACS* non-mechanized cost ($0.5381) instead of the *non-ACS* non-mechanized cost ($0.2691) and excluding all of the other elements that make up Total Non-ACS costs (i.e., Mail Preparation, Load and Sweep, and Support and Other).

If it is more appropriate to use the $0.3072 figure in your analysis, please update USPS-T-1, Appendix A.

RESPONSE:

Today, Bank One's undeliverable First-Class Mail flats are handled in two ways. Some flat pieces are sent to a CFS unit for processing and would be handled on non-mech terminals. For this portion of Bank One's UAA flats, purely non-mechanized costs would be used. However, flat pieces which do not have a valid Change of Address file but otherwise are undeliverable are handled manually as nixies. In the absence of empirical information that would allow construction of a weighted average, it is appropriate to use the ACS non-mechanized cost ($0.5381) from Table 5.2.2 of USPS-LR-J-69, Docket No. R2001-1 as a proxy for the actual costs.

Attachment to POIR 6

Table 5.2.2
Cost per Piece for Processing at CFS Units

	A	B	C	D	E	F	G	H
	Hours/Piece	Labor Rate (1)	Cost/Piece	Piggyback Factor (2)	Total Cost/Piece	Frequency	Weighted Total Cost/Piece	Non-Mech Only
I. Label Generation								
A. Mail Preparation	0.00020 (3)	$30.84	$0.0060	56.00%	$0.0094	1.00	$0.0094	$0.0094
B. Keying and Labeling:	0.00148 (4)		$0.0457	56.00%	$0.0713			
Mechanized Terminal		$30.84						
- Non-ACS					$0.0660 (5)	0.83 (6)	$0.0548	0
- ACS					$0.1320 (7)			
C. Non-Mechanized Terminal								
	0.01211 (8)		$0.3735	56.00%	$0.5827	N/A	N/A	
Data Maintenance and Labeling (COA Cards)		$30.84						
Keying and Labeling	0.00603 (4)	$30.84	$0.1860	56.00%	$0.2901			
- Non-ACS					$0.2691 (9)	0.17 (10)	$0.0456	$0.2691
- ACS					$0.5381 (11)			
D. Load and Sweep	0.00017 (3)	$30.84	$0.0053	56.00%	$0.0083	1.00	$0.0083	$0.0083
E. Support and Other	0.00042 (3)	$30.84	$0.0131	56.00%	$0.0204	1.00	$0.0204	$0.0204
Total Non-ACS							$0.1386	$0.3072
II. Address Correction								
A. Form 3547	0.00198 (3)	$30.84	$0.0612	56.00%	$0.0955	N/A	N/A	
B. Form 3579	0.00773 (3)	$30.84	$0.2384	56.00%	$0.3719	N/A	N/A	
C. ACS 2nd Generation/Nixie	0.00425 (3)	$30.84	$0.1310	58.30%	$0.2074	N/A	N/A	
D. ACS Keying								
- Mechanized Terminal	N/A	N/A	N/A	N/A	$0.0660 (12)	0.83 (13)	$0.0550	
- Non-Mechanized Terminal	N/A	N/A	N/A	N/A	$0.2691 (14)	0.17 (15)	$0.0447	
ACS Keying Subtotal							$0.0997	

(1) Clerk labor rates.
(2) Piggyback factor for CFS operations.
(3) Based on a 2-week sample period, developed from the Daily Address Information Operation Analysis (3925 Report).
(4) Refer to Table 5.2.2.1, Column C.
(5) Refer to Table 5.2.2.2, Column C, Row I.
(6) This is the proportion of UAA mail processed on the Mechanized Terminal. Refer to Table 5.2.2.1, Column D, Adjusted Subtotals.
(7) Refer to Table 5.2.2.2, Column B, Row I.
(8) Based on a 2-week sample period developed from the CFS Daily Report.
(9) Refer to Table 5.2.2.2, Column C, Row II.
(10) This is the proportion of UAA mail processed on the Non-Mechanized Terminal (NMT). Refer to Table 5.2.2.1, Column D, Adjusted Subtotals. Every piece of mail that is keyed on the NMT must be labeled. Thus, these tasks occur with the same f
(11) Refer to Table 5.2.2.2, Column B, Row II.
(12) Refer to Column E, Row I.b, ACS.
(13) This is the proportion of UAA mail at CFS units that is machineable letters. It is assumed this is an appropriate proxy for estimating the proportion of ACS mail processed on the Mechanized Terminal. For factor development, refer to Section
(14) Refer to Column E, Row I.c, ACS.
(15) This is the proportion of UAA mail at CFS units that is Non-machineable letters. It is assumed this is an appropriate proxy for estimating the proportion of ACS mail processed on the Non-Mechanized Terminal. For factor development, refer to