

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

RATE AND SERVICE CHANGES TO IMPLEMENT  
FUNCTIONALLY EQUIVALENT NEGOTIATED  
SERVICE AGREEMENT WITH HSBC NORTH  
AMERICA HOLDINGS INC.

Docket No. MC2005-2

NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF THE SECOND SET OF REVISIONS TO THE TESTIMONY OF WITNESS  
DAUER -- ERRATA  
(March 22, 2005)

The Postal Service hereby gives notice of further revisions to the direct testimony of witness Dauer in this proceeding. These revisions are the result of correction of an error in the Appendix A models, brought to light in response to POIR No. 1, Item 5. Essentially, they involve the correction of Column 4, TYBR 2003 Other Unit Costs, on pages 5 and 6 of Appendix A, and then reflection of the impact of this correction on Columns 5, 6, and 10 of those pages, on pages 11 and 12 of Appendix A, and on lines 9 and 12 of page 16 of the text of the testimony (as previously revised on March 11<sup>th</sup>). While the impact is not entirely insignificant (it increases the total estimated net value to the Postal Service over the three-year duration from \$6.1 million to \$6.3 million), it does not alter the fundamental parameters of the agreement. Attached to this notice are the

revised pages of Appendix A, and a revised page 16 of the testimony. An electronic Excel version of revised Appendix A is filed as well.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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March 22, 2005

### **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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1 that would have occurred without a price incentive. As described by witness Eakin,  
2 setting a threshold below forecast volume is economically efficient because it reduces  
3 the mailer's marginal price of First-Class Mail relative to other forms of solicitation, and  
4 reduces the gap between marginal price and marginal cost of the mailer's First-Class  
5 Mail. (MC2002-2,USPS-RT-2 at 4-5, Tr. 10/2069-70).

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

8 ACS Cost savings:	\$6.6 million
9 Increased contribution (less incremental discounts):	\$4.1 million
10 Discount exposure:	(\$4.4) million

11  
12 The agreement therefore would result in a net benefit to the Postal Service of \$6.3  
13 million over the life of the NSA. A detailed analysis of the financial impact is provided in  
14 Appendix A.

## 15 **B. Financial Model**

16 I believe that the analysis provided in the valuation model of the HSBC NSA  
17 complies with the guidelines established by the Commission in Rule 193(e). The model  
18 follows witness Crum's methodology in Docket No. MC2002-2, except in instances  
19 where a change allows it to conform more closely to the requirements of Rule 193(e).  
20 The features of the model are described below; the model is in Appendix A and any  
21 changes are discussed in Appendix B.

22 In order to comply with Rule 193(e)(2), the Postal Service and HSBC have  
23 provided more data than in Docket No. MC2002-2 in order to present a more

**HSBC North America Holdings Inc. Model**

Negotiated Service Agreement  
Appendix A, page 5

Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									HSBC 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 2005 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2005 Total Unit Cost (Dollars)	FY 2004 Mail Volume (Pieces)	FY 2004 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	0.264	3,748,977,000	2,673,332,468	5.8%	0.264	9,805,861	2.2%				
Automation Presort Letters																
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.128	2,504,846,824	2,820,696,002	6.1%	0.128	31,387,770	7.1%				
Automation AADC		0.046	0.044	0.018	0.107	0.116	2,680,656,176	2,636,650,800	5.7%	0.116	41,768,164	9.5%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.112	21,832,339,000	22,571,247,888	48.6%	0.112	264,042,110	60.1%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.098	12,720,447,000	14,911,024,110	32.1%	0.098	78,242,286	17.8%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.111	1,075,333,000	802,292,628	1.7%	0.111	14,351,645	3.3%				
<b>WEIGHTED AVERAGE / TOTAL</b>	<b>\$0.115</b>	<b>0.050</b>	<b>0.045</b>	<b>0.018</b>	<b>0.109</b>	<b>0.118</b>	<b>44,562,599,000</b>	<b>46,415,243,896</b>	<b>100.0%</b>	<b>0.114</b>	<b>439,597,836</b>	<b>100.0%</b>	<b>\$ (0.0053)</b>	<b>0.109</b>	<b>\$ (0.0053)</b>	<b>0.109</b>
														(17)		(18)
										Total Unit Cost Estimates, Including Contingency =				<b>0.112</b>		<b>0.112</b>

(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) \* (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 2004 HSBC 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) (Manual Letter Returns Unit Cost \* After Rates Statement Mail) \* (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail

(16) (10) + (15)

(17) (14) \* Contingency Factor (Assumptions)

(18) (16) \* Contingency Factor (Assumptions)

**HSBC North America Holdings Inc. Model**

Negotiated Service Agreement  
Appendix A, page 6

Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									HSBC 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 2005 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2005 Total Unit Cost (Dollars)	FY 2004 Mail Volume (Pieces)	FY 2004 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	0.264	3,748,977,000	2,673,332,468	5.8%	0.264	61,007	0.1%					
Automation Presort Letters																	
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.128	2,504,846,824	2,820,696,002	6.1%	0.128	11,944,126	12.5%					
Automation AADC		0.046	0.044	0.018	0.107	0.116	2,680,656,176	2,636,650,800	5.7%	0.116	18,498,424	19.3%					
Automation 3-Digit		0.042	0.043	0.018	0.104	0.112	21,832,339,000	22,571,247,888	48.6%	0.112	59,695,294	62.4%					
Automation 5-Digit		0.032	0.041	0.018	0.091	0.098	12,720,447,000	14,911,024,110	32.1%	0.098	5,313,665	5.6%					
Automation Carrier Route		0.021	0.064	0.018	0.103	0.111	1,075,333,000	802,292,628	1.7%	0.111	173,399	0.2%					
WEIGHTED AVERAGE / TOTAL	\$0.115	0.050	0.045	0.018	0.109	0.118	44,562,599,000	46,415,243,896	100.0%	0.114	95,685,915	100.0%	0.0202	0.134 (17)	0.0114	0.125 (18)	
										Total Unit Cost Estimates, including Contingency = 0.138							0.129

- (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) (1) - Weighted Average(2) - Weighted Average(3)
- (5) (2) + (3) + (4)
- (6) (5) \* (1 + inflation cost adjustment factor) \* (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 2004 HSBC 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)

# HSBC North America Holdings Inc. Model

Negotiated Service Agreement

Appendix A, page 11

Year 1      (14)      (15)  
Year 2      Year 3

## First Class Letter

(1)	Avg Revenue First-Class Operational Letters	0.292	0.292	0.292
(2)	Avg Revenue First-Class Marketing Letters	0.295	0.295	0.295
(3)	First-Class Operational Letter cost per Piece Before Rates	0.112	0.117	0.122
(4)	First-Class Operational Letter cost per Piece After Rates	0.112	0.117	0.122
(5)	First-Class Operational Letter avg. Contribution Before Rates	0.180	0.175	0.171
(6)	First-Class Operational Letter avg. Contribution After Rates	0.180	0.175	0.171
(7)	First-Class Marketing Letter cost per Piece Before Rates	0.138	0.144	0.150
(8)	First-Class Marketing Letter cost per Piece After Rates	0.129	0.134	0.140
(9)	First-Class Marketing Letter avg. Contribution Before Rates	0.157	0.151	0.146
(10)	First-Class Marketing Letter avg. Contribution After Rates	0.166	0.161	0.155

## Standard Mail

(11)	Standard Revenue per Piece	0.182	0.182	0.182
(12)	Standard Cost per Piece	0.091	0.095	0.098
(13)	Standard Mail Contribution per Piece	0.091	0.088	0.084

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

# HSBC North America Holdings Inc. Model

## Negotiated Service Agreement

### Appendix A, page 12

	Year 1	Year 2	Year 3	Total
<b>ACS Savings</b>				
(1) Statement Mail	\$ -	\$ -	\$ -	-
(2) Marketing Mail Letter	\$ 1,423,448	\$ 2,293,954	\$ 2,911,882	<b>6,629,284</b>
<b>Contribution from New Volume</b>				
(3) Statement Mail	\$ -	\$ -	\$ -	-
(4) Marketing Mail Letter	\$ 1,190,845	\$ 1,457,936	\$ 1,426,090	<b>4,074,871</b>
<b>(5) Total Exposure</b>	\$ 656,340	\$ 964,968	\$ 1,172,146	<b>2,793,454</b>
<b>(6) Total Incremental Discounts</b>	\$ 411,268	\$ 592,994	\$ 628,691	<b>1,632,953</b>
<b>(7) Total USPS Value</b>	<b>\$ 1,546,685</b>	<b>\$ 2,193,928</b>	<b>\$ 2,537,135</b>	<b>6,277,748</b>

- (1) Statement Mail Return Costs - Statement Mail After Rates Return Costs (UAA calcs)  
(2) Marketing Mail Return Costs - Marketing Mail After Rates Return Costs (UAA calcs)  
(3) (Statement Mail After Rates - Statement Mail Before Rates) \* FCM Statement Letter avg. Contribution After Rates  
(4) Conversion Rate \* (Marketing Mail After Rates - Marketing Mail Before Rates) \*  
(FCM Marketing Letter avg. Contribution After Rates - Standard Mail Contribution per Piece) +  
(1 - Conversion Rate) \* (Marketing Mail After Rates - Marketing Mail Before Rates) \* FCM Marketing Letter avg. Contribution After Rates  
(5) Total Leakage (Disc&Leak)  
(6) Discount Earned - Total Leakage (Disc&Leak)  
(7) (1) + (2) + (3) + (4) - (5) - (6)