

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

RATE AND SERVICE CHANGES TO IMPLEMENT ) Docket No. MC2005-2  
FUNCTIONALLY EQUIVALENT NEGOTIATED )  
SERVICE AGREEMENT WITH HSBC NORTH )  
AMERICAN HOLDINGS, INC. )

VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
FIRST INTERROGATORIES AND REQUESTS FOR PRODUCTION OF  
DOCUMENTS TO UNITED STATES POSTAL SERVICE  
WITNESS JESSICA A. DAUER (VP/USPS-T1-1-10)  
(March 25, 2005)

Pursuant to sections 25 through 27 of the Rules of Practice of the Postal Rate  
Commission, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.  
hereby submit the following interrogatories and requests for production of documents.

Respectfully submitted,

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**VP/USPS-T1-1.**

This question is a hypothetical. Please refer to your Appendix A, page 8. Assume that HSBC's marketing mail were twice as "dirty" as the rate shown on row 2 of page 8 of your Appendix A — *i.e.*, assume that HSBC's return rate were 9.5 percent instead of 4.75 percent — and confirm the following:

- a. The return forecast for the volume of such "dirtier" marketing mail over the life of the negotiated service agreement ("NSA") would be as follows:

Year 1	15,032,073	returns
Year 2	23,293,163	returns
Year 3	<u>28,430,485</u>	returns
Total	66,755,721	returns

If you do not confirm, please provide the correct return forecast on the assumption that the return rate for HSBC's marketing mail is 9.5 percent.

- b. The before rates return cost for such "dirtier" marketing mail over the life of the NSA would be as follows:

Year 1	\$ 8,875,619
Year 2	\$ 14,303,475
Year 3	\$ <u>18,156,441</u>
Total	\$ 41,335,536

If you do not confirm, please provide the correct before rates return cost on the assumption that the return rate for HSBC's marketing mail is 9.5 percent.

- c. The after rates return cost for such "dirtier" marketing mail over the life of the NSA would be as follows:

Year 1	\$ 6,028,722
Year 2	\$ 9,715,568
Year 3	\$ <u>12,332,677</u>
Total	\$ 28,076,968

If you do not confirm, please provide the correct after rates return cost on the assumption that the return rate for HSBC's marketing mail is 9.5 percent.

- d. The return cost savings over the life of the NSA would be as follows:

Year 1	\$ 2,846,897
Year 2	\$ 4,587,907
Year 3	\$ <u>5,823,764</u>
Total	\$13,258,568

If you do not confirm, please provide the correct return cost savings on the assumption that the return rate for HSBC's marketing mail is 9.5 percent.

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

This question is also a hypothetical. Please refer to your Appendix A, page 8. Assume that HSBC's marketing mail were somewhat "cleaner" than it actually is and had a return rate of 1.5 percent, which is just under one-third of HSBC's actual return rate of the 4.75 percent — as shown on row 2 of page 8 of your Appendix A — and confirm the following:

- a. The return forecast for such cleaner marketing mail over the life of the NSA would be as follows:

Year 1	2,373,485	returns
Year 2	3,677,868	returns
Year 3	<u>4,489,024</u>	returns
Total	10,540,377	returns

If you do not confirm, please provide the correct return forecast on the assumption that the return rate for HSBC's marketing mail is 1.5 percent.

- b. The before rates return cost with such cleaner marketing mail over the life of the NSA would be as follows:

Year 1	\$ 1,401,414
Year 2	\$ 2,258,443
Year 3	\$ <u>2,866,807</u>
Total	\$ 6,526,664

If you do not confirm, please provide the correct before rates return cost on the assumption that the return rate for HSBC's marketing mail is 1.5 percent.

- c. The after rates return cost with such cleaner marketing mail over the life of the NSA would be as follows (note: total does not add due to rounding):

Year 1	\$ 951,904
Year 2	\$ 1,534,037
Year 3	\$ <u>1,947,265</u>
Total	\$ 4,433,205

If you do not confirm, please provide the correct after rates return cost on the assumption that the return rate for HSBC's marketing mail is 1.5 percent.

- d. The return cost savings with such cleaner marketing mail over the life of the NSA would be as follows:

Year 1	\$ 449,510
Year 2	\$ 724,406
Year 3	\$ <u>919,542</u>
Total	\$ 2,093,458

If you do not confirm, please provide the correct return cost savings on the assumption that the return rate for HSBC's marketing mail is 1.5 percent.

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

This question is also a hypothetical. Please refer to your Appendix A, page 8. Assume that HSBC's marketing mail somehow were "cleaner" than its operational mail — *i.e.*, the return rate for HSBC's marketing mail were only 0.25 percent instead of 4.75 percent — as shown on row 2 of page 8 of your Appendix A, and confirm the following:

- a. The return forecast for such very clean marketing mail would be as follows:

Year 1	395,581	returns
Year 2	612,978	returns
Year 3	<u>748,171</u>	returns
Total	1,756,730	returns

If you do not confirm, please provide the correct return forecast on the assumption that the return rate for HSBC's marketing mail is only 0.25 percent.

- b. The before rates return cost for such very clean marketing mail over the life of the NSA would be as follows:

Year 1	\$ 233,569
Year 2	\$ 376,407
Year 3	\$ <u>477,801</u>
Total	\$1,087,777

If you do not confirm, please provide the correct before rates return cost on the assumption that the return rate for HSBC's marketing mail is only 0.25 percent.

- c. The after rates return cost for such very clean marketing mail over the life of the NSA would be as follows:

Year 1	\$ 158,651
Year 2	\$ 255,673
Year 3	\$ <u>324,544</u>
Total	\$ 738,868

If you do not confirm, please provide the correct after rates return cost on the assumption that the return rate for HSBC's marketing mail is only 0.25 percent.

- d. The return cost savings over the life of the NSA would be as follows:

Year 1	\$ 74,918
Year 2	\$ 120,734
Year 3	\$ <u>153,257</u>
Total	\$ 348,910

If you do not confirm, please provide the correct return cost savings on the assumption that the return rate for HSBC's marketing mail is only 0.25 percent.

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

Please refer to your testimony, page 16, lines 6-14, where you estimate the net benefit to the Postal Service over the life of the proposed NSA with HSBC.

- a. Please confirm that a change in the assumed return rate of 4.75 percent for marketing mail does not affect the "increased contribution (less incremental discounts)" of \$4.1 million, shown on line 9. If you do not confirm, please explain fully, and indicate the extent of the change in net contribution if the assumed return rate is 9.5 percent.
- b. Please confirm that a change in the assumed return rate of 4.75 percent for marketing mail does not affect the Postal Service's "discount exposure" of (\$4.4) million, shown on line 10. If you do not confirm, please explain fully, and indicate the extent of the change in discount exposure if the assumed return rate is 9.5 percent.

- c. Please refer to your response to VP/USPS-T1-1, part d, and confirm that if HSBC's return rate for marketing mail were 9.5 percent, then over the life of the NSA the Postal Service would derive a net benefit of \$13.0 million, computed as follows:

ACS cost savings:	\$13.3 million
Increased contribution (less incremental discounts):	\$ 4.1 million
Discount exposure:	(\$4.4) million

If you do not confirm, please provide the net benefit over the life of the NSA on the assumption that HSBC's return rate for marketing mail were 9.5 percent.

- d. If you confirm preceding part c, or if you do not confirm but provide an alternate net benefit for the NSA over the life of the agreement that is somewhat greater than the \$6.3 million shown on line 12 of your testimony, would you agree that, *ceteris paribus*, the dirtier the existing marketing mail the greater is the net benefit to the Postal Service under the proposed NSA? If you fail to agree, please explain fully why not.
- e. Could a higher amount of return cost savings and a larger computed net benefit to the Postal Service (*e.g.*, \$12.8 million instead of \$6.3 million) be a basis for justifying greater discount exposure, either in the form of lower volume thresholds for existing discounts, or higher discounts at existing volume thresholds? Please explain fully any answer that is not an unqualified affirmative.

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

- a. Please refer to your response to VP/USPS-T1-2, part d, and confirm that if HSBC's return rate for marketing mail were 1.5 percent, then over the life of the NSA the Postal Service would derive a net benefit of \$1.8 million, computed as follows:

Address Change Service (“ACS”) cost savings:	\$ 2.1 million
Increased contribution (less incremental discounts):	\$ 4.1 million
Discount exposure:	(\$ 4.4) million

If you do not confirm, please provide the net benefit over the life of the NSA on the assumption that HSBC’s return rate for marketing mail is only 1.5 percent.

- b. If you confirm preceding part a, or if you do not confirm but provide an alternate net benefit for the NSA over the life of the agreement that is somewhat less than the \$6.3 million shown on line 12 of your testimony, would you agree that, *ceteris paribus*, the cleaner the existing marketing mail the smaller is the net benefit to the Postal Service under the proposed NSA? If you do not agree, please explain why not.
- c. Could a lower amount of return cost savings and a resulting reduction in the net benefit to the Postal Service (*e.g.*, \$1.8 million instead of \$6.3 million) require a reduction in the amount of discount exposure, either in the form of higher volume thresholds for existing discounts, or lower discounts at existing volume thresholds? Please explain fully any answer that is not an unqualified affirmative.

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

- a. Please refer to your response to VP/USPS-T1-3, part d, and confirm that if HSBC’s return rate for very clean marketing mail were only 0.25 percent, then over the life of the NSA the net benefit to the Postal Service would be \$0 million (rounded), computed as follows:

ACS cost savings:	\$ 0.3 million
Increased contribution (less incremental discounts):	\$ 4.1 million
Discount exposure:	(\$ 4.4) million

If you do not confirm, please provide the net benefit over the life of the NSA on the assumption that HSBC's return rate for marketing mail were 0.25 percent.

- b. If you confirm preceding part a, or if you do not confirm but provide an alternate net benefit of the NSA over the life of the agreement that is not positive, please explain how, under such circumstances — *i.e.*, generating only very clean marketing mail — HSBC could qualify for an NSA that is functionally equivalent to the baseline (Capital One Services, Inc.) NSA? Would one sure-fire option for increasing the computed net benefit to the Postal Service be for HSBC to rent and use dirtier mailing lists prior to entering into an NSA?
- c. If very clean Standard marketing mail results in very little ACS cost savings, but would give the Postal Service a higher per piece contribution if such mail were to upgrade to First-Class, what does (or could) the Postal Service offer to induce such mail to use First-Class?

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

- a. Does the Postal Service have any estimate for the percentage of HSBC's Standard Mail that was undeliverable as addressed ("UAA") in BY 2000, or any fiscal year subsequent to BY 2000? If so, please provide.
- b. For the portion of its Standard Mail that HSBC expects to convert to First-Class, does the Postal Service have any estimates of the percentage that is expected to be (i) UAA, (ii) UAA and forwardable, and (iii) UAA and non-forwardable? If so, please provide.

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

- a. For the portion of HSBC's Standard Mail that it expects to convert to First-Class, do your computations of the net benefit to the Postal Service assume, either explicitly or implicitly, that the percentage of such converted Standard Mail that will be UAA and non-forwardable (*i.e.*, requiring either an electronic or manual return) will be the same as HSBC's existing First-Class marketing mail return rate of 4.5 percent? Please explain fully any response that is not an unqualified affirmative.
- b. If your response to preceding part a is affirmative, please explain the basis for assuming that HSBC's Standard marketing mail is neither "cleaner" nor "dirtier" than its First-Class marketing mail.
- c. Would you concur that the UAA rate of the NSA recipient's Standard marketing mail was not a relevant consideration in the baseline (Cap One) NSA, but is a relevant consideration in this NSA with HSBC? If you do not concur, please explain why.
- d. Where in your testimony do you discuss the UAA rate of HSBC's Standard marketing mail?
- e. Please assume that the Standard marketing mail that HSBC converts to First-Class turns out to be much "dirtier" than its existing First-Class marketing mail, and has a return rate of 9.5 percent. Over the life of the NSA, would that eventuality, by itself, tend to increase or decrease the \$6.3 million net benefit to the Postal Service that is shown in your testimony at page 16, line 12? Please explain your answer.
- f. Please assume that the Standard marketing mail that HSBC converts to First-Class turns out to be much "cleaner" than its existing First-Class marketing mail, and has a return

rate of only 1.5 percent. Over the life of the NSA, would that eventuality, by itself, tend to increase or decrease the net \$6.3 million benefit to the Postal Service that is shown in your testimony at page 16, lines 12-13? Please explain your answer.

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

Please refer to your response to Presiding Officer's Information Request No. 1, question 10.

- a. Please explain why correction of the ACS pricing anomaly you discuss would "typically be addressed in an omnibus rate case."
- b. What are the major reasons why correction of the ACS pricing anomaly you discuss could not be corrected in a mail classification case or a non-omnibus rate case?
- c. Please confirm that correction of the ACS pricing anomaly you discuss would promote Postal Service efficiency. If you do not confirm, please explain why the pricing anomaly does not hamper or impede more efficient use of postal resources.
- d. Please confirm that correction to the ACS pricing anomaly you discuss would result in the lowest combined cost for the Postal Service and the mailer. If you do not confirm, please explain how the pricing anomaly supports lowest combined cost.

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

On October 27, 2004, the Postal Service published a final rule seeking to clarify the eligibility requirements for First-Class Mail, particularly with respect to personalization of mailings, which will be effective on June 1, 2005 (69 Fed. Reg. 62578), as well as several

related Customer Support Rulings. Is it your understanding that either the current or scheduled-to-be-amended Postal Service First-Class eligibility rules or Customer Support Rulings could require some or all of HSBC's current or planned marketing mail to be sent as First-Class Mail?

- a. If so, how much of HSBC's current or planned marketing mail would be required to be sent as First-Class Mail?
- b. If not, please explain in detail why not.