

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS DAUER TO  
INTERROGATORIES OF THE APWU (APWU/USPS-T1-1-4)  
(April 11, 2005)

The United States Postal Service hereby provides the responses of  
witness Dauer to the following interrogatories of the APWU: APWU/USPS-T1-1-  
4, filed on March 31, 2005.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 11, 2005

**RESPONSE OF POSTAL SERVICE WITNESS DAUER  
TO INTERROGATORIES OF APWU**

**APWU/USPS-T1-1** The address change service success rate assumed in your cost estimates is 85%. How does that compare with the Postal Service's actual experience with the Capital One NSA so far?

**Response:**

The 85 percent used in the HSBC analysis is assumed to be the average success rate over the three years of the agreement.

The Postal Service's actual experience in the first year of the Capital One NSA was recently reported in Docket No. MC2002-2, Data Collection Report for Sept. 01, 2003 to Sept. 30, 2004. The report states that Capital One's yearly ACS success rate was 75.96 percent. The monthly ACS success rates for the year ranged between 58.06 percent and 89.19 percent. Because the ACS capture rate has been increasing, the yearly average may be an inappropriate metric.

The trend can be seen in the Docket No. MC2002-2, Data Collection Report for Sept. 01, 2003 to Sept. 30, 2004, page 8.

Period	First-Class Marketing Marketing Volume	Physical Returns	Electronic Returns	ACS Capture Rate	3-Month Average ACS Capture Rate
September-03	54.44	1.45	2.01	58.06%	
October-03	89.92	2.77	4.70	62.94%	
November-03	89.23	2.10	5.08	70.73%	65.09%
December-03	84.32	2.43	6.50	72.77%	69.03%
January-04	57.32	0.67	3.43	83.60%	74.24%
February-04	59.70	0.40	2.87	87.64%	78.48%
March-04	55.14	1.46	4.49	75.54%	80.99%
April-04	37.66	0.397	1.60	80.12%	79.88%
May-04	56.15	0.572	2.77	82.90%	78.53%
June-04	50.40	0.426	2.64	86.09%	83.40%
July-04	62.53	0.679	2.73	80.10%	82.92%
August-04	43.99	0.425	3.51	89.19%	85.30%
September-04	102.09	0.747	3.60	82.80%	84.16%
<b>Totals</b>	<b>842.89</b>	<b>14.53</b>	<b>45.93</b>	<b>75.96%</b>	

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Please note that there can often be a lag between the month in which the solicitation is mailed and the month when Capital One receives information that about undeliverable-as-addressed pieces, either through ACS notices or the manual return of the pieces. Solicitations mailed towards the end of the month will often result in ACS notices or manual returns occurring in the following month.

The most recent controlled ACS test by the Postal Service and Capital One, which controls for the lag variance, showed an ACS success rate of 88 percent. The Postal Service believes this is the best estimate of ACS success rate at this time.

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**APWU/USPS-T1-2** A general inflation factor of 4% is used in your calculations.

- a) How does that inflation factor compare with the Postal Service's recent experience?
- b) If actual trend inflation were to run lower than what is assumed in your model, what would be the impact on the Postal Service's savings?
- c) If actual trend inflation were to run higher than what is assumed in your model, what would be the impact on the Postal Service's savings?

**Response:**

a.) That inflation estimate was developed last year for use in the NSA cases being filed at that time, and is, in fact, a weighted estimate (i.e., by component, such as wages, benefits, etc.) of actual inflation over the 1998-2003 time period. Therefore, the estimate does not just "compare" well with the Postal Service's recent experience, but it literally constitutes the Postal Service's recent experience for that period.

b.) If the actual trend were to run lower, then the unit costs would be less, thus increasing the contribution per piece and total contribution of the agreement.

c.) If the actual trend were to run higher, then the unit costs would be more, thus decreasing the contribution per piece and total contribution of the agreement.

**RESPONSE OF POSTAL SERVICE WITNESS DAUER  
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**APWU/USPS-T1-3** What assumptions are implicit in the revenue and cost calculations for Standard mail about drop shipping?

- a) Does the profile used for Standard mail reflect HSBC's current behavior with respect to drop shipping its Standard mail?
- b) If it does not, would taking that in to account have any impact on your cost and revenue analysis? If so please explain.

**Response:**

The Standard Mail revenue and cost calculations are derived from the company's individual billing determinants. These billing determinants include all subclasses of Standard Mail in which HSBC mails, the volume, revenue per piece, and entry unit. A weighted average is then taken for each subclass, and shown on page 9 and 10 of Appendix A of my testimony. The revenue and cost unit per piece is a weighted average of all the subclasses.

a.) Yes.

b.) Not applicable.

## **RESPONSE OF POSTAL SERVICE WITNESS DAUER TO INTERROGATORIES OF APWU**

**APWU/USPS-T1-4** In your response to OCA/USPS-T1-3 you discuss the current deployment plans for PARS.

- a) What is the year-by-year deployment schedule for PARS between now and the expected full deployment in October 2007?
- b) What percentage of UAA mail is expected to be handled by PARS in each year between now and the end of 2007?
- c) When does the Postal Service expect to get preliminary cost information from its Phase 1 PARS plants?

### **Response**

a.) The year-by-year deployment schedule for PARS between now and the expected full deployment in October 2007 has not been approved by the Board of Governors, and is therefore not final.

b.) The original plan was for PARS to handle, one way or another, approximately 23 percent of automatable forwardable UAA pieces in 2005, 56 percent of such pieces in 2006, and 100 percent by the end of 2007. Those plans, however, were contingent on the deployment schedule which, as noted above, is not finalized.

c.) I assume that by "cost information," you are referring to cost information focusing specifically on the PARS operation, as opposed to information from ongoing costing systems, such as IOCS, which are likely to provide information from those plants as part of the routine sampling process. Plans for special cost studies regarding PARS operations have not been finalized. Some operations data may become available in FY 2006.

## 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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