

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-T1-5-6)
(April 15, 2005)

The United States Postal Service hereby provides the responses of
witness Dauer to the following interrogatories of the APWU: APWU/USPS-T1-5-
6, filed on April 14 (as 4-5) and renumbered (as 5-6) on April 15, 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 15, 2005

RESPONSES OF POSTAL SERVICE WITNESS DAUER TO INTERROGATORIES OF THE APWU

APWU/USPS-T1-5 Could you please clarify the responses provided to APWU/USPST1-1 and APWU/USPS-T1-2? In response to APWU/USPS-T1-2, you responded to section b with the following statement, "If the actual trend [rate of inflation] were to run lower, then the unit costs would be less, thus increasing the contribution per piece and total contribution of the agreement." In response to section c you provided the following response "If the actual trend were to run higher, then the unit costs would be more, thus decreasing the contribution per piece and the total contribution of the agreement."

a) If a 3% inflation rate is entered on line (4) on the assumptions page of your worksheet "USPS T1 Appendix A revised 3-22-05" the total amount generated on the USPS value worksheet on line (7) declines by 2.2%. Can you please provide clarification as to why this happens given your response to USPS-T1-2 (b)?

b) If a 5% inflation rate is entered on line (4) on the assumptions page of your worksheet "USPS T1 Appendix A revised 3-22-05" the total amount generated on the USPS value worksheet on line (7) increases by 2.2%. Can you please provide clarification as to why this happens given your response to USPS-T1-2 (c)?

c) If the average ACS capture rate in your model were lowered from 85% to the 76% average that has been experienced under the Capital One Agreement [as reported in response to APWU-USPS-T1-1] please confirm that would lower the total USPS value of this NSA by more than 10%.

Response:

a.) Theoretically speaking, if the rate of inflation were to run lower, then unit costs would be less, thus increasing the contribution per piece and total contribution of the agreement. In the HSBC case, because all costs are connected to inflation, all costs decrease, including the ACS electronic and physical return costs, thus lowering the ACS Savings. The contribution per piece does increase, but the total contribution does not because the ACS Savings is lowered more than the contribution per piece is increased.

b.) The same is true for an increase in the inflation rate. In the HSBC case, the unit costs are higher because of the inflation rate, including the ACS electronic and physical return costs, thus increasing the ACS Savings. The contribution per piece does decrease, but the total contribution increases because the ACS Savings is increased more than the contribution is lowered.

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c.) The average ACS capture rate experience thus far under the Capital One Agreement is the average from just one year of the agreement. The 85% used in both the Capital One Agreement and the HSBC case is the average that it is expected will be achieved over the entire NSA. As stated in my response to APWU/USPS-T1-1:

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.

Hypothetically, however, if the average ACS capture rate in Appendix A were to be lowered from 85% to 76%, then the total USPS value would be lowered by more than 10%.

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APWU/USPS-T1-6 In response to APWU/USPS-T1-4 (c) you indicate that cost studies regarding PARS operations may be available in FY2006. At the USPS Board of Governor's meeting on April 12th, the expected ROI for the PARS system (phases 1 and 2) was reported. Could you please provide clarification as to the data used to generate such ROI percentages if no cost information on PARS is available?

Response:

Consistent with any type of forward-looking financial analysis, discussions regarding expected ROIs are based on projected data. Actual data on costs, volumes, etc., are not available at the time decisions must be made regarding investments necessary to implement new programs.

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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