

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

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BOOKSPAN

Docket No. MC2005-3

**REVISED RESPONSE OF POSTAL SERVICE WITNESS YORGEY
TO INTERROGATORIES OCA/USPS-T2-11a.-e.
PURSUANT TO ORDER NO. 1445**

Pursuant to Commission Order No. 1445, the United States Postal Service hereby provides the revised response of witness Yorgey to interrogatories OCA/USPS-T2-11a.-e. These answers replace those previously provided on August 19 (a. & b.) and September 20 (c.-e.).

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-11. Please refer to your testimony at page ii. You state that: "In 1996, I was selected as the Program Manager for International Customized Mail agreements in the newly formed International Business Unit. I was responsible for negotiation, development and implementation of ICM agreements."

- a. Please describe your duties in negotiating and implementing ICM agreements.
- b. Please give the time period during which you negotiated and implemented ICM agreements.
- c. Please state the number of ICM agreements, by year, that the Postal Service entered into during the period of time given in answer to part b. of this interrogatory. Please break down this number into:
 - i. number, or percentage, of total ICM agreements (by year) that broke even, i.e., revenues equaled costs.
 - ii. number, or percentage, of total ICM agreements (by year) that produced a surplus, i.e., revenues exceeded costs.
 - iii. number, or percentage, of total ICM agreements (by year) that lost money, i.e., costs exceeded revenues.
- d. Please list all measures used by the Postal Service to ensure revenue surpluses for ICM agreements.
 - i. How successful were these measures?
 - ii. If the measures were not entirely successful, what changes to these measures are being taken with respect to ICM agreements.
- e. Please describe in detail all methods and techniques that were used under your direction to estimate the volumes that would be entered by mailers pursuant to ICM agreements.
 - i. How accurate were the volume estimation methods and techniques that were used?
 - ii. If the measures were not entirely successful, what changes to these methods and techniques were adopted to make them more successful?

RESPONSE:

a.-b. I acted as staff-level Program Manager for International Customized Mail agreements only in 1996. My duties included reviewing ICM applications and worksheets to ensure the forms were properly completed, creating customer proposals for internal approval, facilitating the development of rates and services with various cross-functional groups, and meeting with customers to present ICM agreements. I did not personally negotiate ICM agreements; nor did I set the rates that were offered to customers. Rather, at that time, I was responsible for creating a administrative process

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to guide the efforts of the cross-functional team that included International Pricing, International Operations, Product Development, Mailing Standards, and International Sales Specialists.

In subsequent years, my activities focused on specific international mail services to certain countries. I wrote mail preparation requirements for ICM customers, and assisted with the development of mail preparation requirements and acceptance procedures and with ongoing customer support related to these specific products and countries. Beginning in 2002, my duties consisted primarily of monitoring the actual volumes tendered based on postal records and continuing to assist in the implementation of ICM agreements.

There are several important differences between ICMs and NSAs. For example, unlike NSAs, which involve direct negotiation of prices and volume thresholds with the customer,¹ ICM agreements are generally available to all international customers who will tender at least 1 million pounds of international letter-post mail (excluding Global Priority Mail) or pay of at least \$2 million in international letter-post postage to the Postal Service on an annualized basis. Once qualified, a customer receives reduced rates for all its volumes tendered to the Postal Service, not just to volumes above a negotiated threshold, as is the case with NSAs. For this reason, projections of before-agreement volumes are not done for ICMs.

¹ I was not personally responsible for negotiating the Bookspan NSA. My duties as part of the NSA team in this case involved reconciliation of Bookspan and Postal Service data, integration of research into the market, and analysis of potential impacts on postal finances of various options considered during negotiations, as well as of the final NSA, the latter being the main subject of my testimony.

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c. i.-iii. The table below shows the number of ICM agreements entered into by the Postal Service in FYs 1997 through 2005. This information is not available for years prior to FY 1997. These are not broken down by results as requested, since the agreements are structured prospectively to ensure a positive contribution and they are not reviewed retrospectively in the manner the question assumes.

The Postal Service constructs ICM agreements so as to ensure revenue surpluses in the following manner. The Postal Service ascertains the cost for the relevant product through its data systems. To these costs, a factor is added to account for estimated future cost increases. In every instance, the discounted ICM rate is set so that it exceeds these costs and provides a contribution above them. In this manner, each of these ICM agreements resulted in a surplus.

| FY | Number of ICM Agreements |
|--------|--------------------------|
| FY1997 | 11 |
| FY1998 | 22 |
| FY1999 | 21 |
| FY2000 | 23 |
| FY2001 | 40 |
| FY2002 | 41 |
| FY2003 | 33 |
| FY2004 | 28 |
| FY2005 | 33 |

d. i.-ii. In 2003, it was determined to add a provision to ICM agreements to provide for interim rate increases for products that had more than a 5 percent increase in costs, as indicated by the most recent ICRA. Also, the Postal Service had discontinued discounted rates for specific products based on weight groups to a specific country and held the term of all ICM agreements would have a term of no longer than one year. And, finally, the Postal Service set a minimum cost coverage for all ICM

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rates; no discounts are available if that minimum level cannot be met, even where the overall cost coverage for the service is lower than the minimum.

e. i.-ii. As explained above, volume estimation is not part of the ICM process, unlike the NSA process. Consequently, when awarding an ICM agreement, the Postal Service concerned itself with the ability of the potential customer to meet the volume minimum, rather than with an estimate of volumes that would be entered by mailers pursuant to the agreement. As indicated above, I monitor actual volume and revenue for each agreement based on the contract period.

With respect to the NSA process, it should also be remembered that the Postal Service does not project the company's volumes. Rather, it reviews the company's projected volumes for reasonableness, based on our familiarity with the customer's postal business record and our knowledge of and research into the market in which the customer operates.

Finally, with respect to the success of the ICM program, the Postal Service's Inspector General has concluded that "the ICM program had an overall positive contribution of approximately \$6 million" in FY 2003.²

² Audit Report – International Customized Mail Agreements (Report Number MS-AR-05-001) (August 16, 2005).

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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