

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH BANK ONE
CORPORATION

Docket No. MC2004-3

UNITED STATES POSTAL SERVICE REPLY COMMENTS IN
RESPONSE TO ORDER NO. 1450
(February 1, 2006)

On January 25, 2006, JP Morgan Chase & Co. (Chase) was the only party other than the Postal Service to file comments in response to Order No. 1450.¹

The Postal Service provides the following brief comments in reply:

The Postal Service agrees with Chase that the existing record warrants removal of the \$11.5 million cap on discounts. See Chase Comments at 1. As the Governors have indicated in their decision, the cost savings cap poses a significant risk of choking off contribution from volume increases in response to the discounts.² The Governors agree that it is important to assess and appropriately balance both the financial risk from uncapped discounts and the risk of the cap itself.³

Moreover, this assessment should reflect the specific record in this case concerning the risk posed by the cap. As Chase has pointed out, the testimony

¹ Comments of J.P. Morgan Chase & Co. In Response to Order No. 1450 (Chase Comments).

² Cf. Decision Of The Governors Of The United States Postal Service On The Opinion And Recommended Decision Of The Postal Rate Commission Approving Negotiated Service Agreement With Bank One Corporation, Docket No. MC2004-3, February 16, 2005 (Governors' Decision) at 14-16 with Chase Comments (Feb. 25, 2006) at 5.

³ *Id.*

of Lawrence Buc demonstrates that the NSA discounts have the potential to cause a substantial increase in volume and contribution. –and that the discount cap jeopardizes a substantial loss of that potential gain. Testimony of Lawrence G. Buc, BOC-T-2. In particular, the Postal Service concurs with Chase that the testimony of witness Buc supports the following conclusions:

Over the three-year term of the NSA, these figures [in the Buc Testimony] translate into an 80 percent probability that the lost contribution would exceed \$18.3 million, and even probability that the lost contribution would exceed \$26.2 million, and a ten percent probability that the lost contribution would approach or exceed \$34.5 million.

Chase Comments at 12.

Finally, Chase’s comments address a number of issues raised in Order No. 1450 concerning the effect of the Chase-Bank One merger on the merged company’s compliance with the NSA.⁴ The Postal Service has carefully analyzed Chase’s volume trends to date and has tracked Chase’s compliance with the terms of the agreement. Chase is in full compliance with the terms of the NSA; and the merger has not prevented the Postal Service from verifying this fact.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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⁴ See Chase Comments at 16-20.

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.

Nan K. McKenzie

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February 1, 2006