

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

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

Docket No. MC2004-3

**DIRECT TESTIMONY
OF
MICHAEL K. PLUNKETT
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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AUTOBIOGRAPHICAL SKETCH

1
2
3 My name is Michael K. Plunkett. I have worked for the Postal Service in various
4 capacities for the past 20 years. From 1984 to 1990 I held a number of positions in
5 delivery and customer service operations. In 1990 I entered the Postal Service's
6 Management Intern program, where I performed a series of short-term assignments in
7 several different functional specialties, both in the field and at headquarters. Upon
8 leaving the Intern program I was hired as an economist in the office of Budget and
9 Financial Analysis. Subsequently I worked as an economist in the office of Pricing from
10 1998 through 2000. After leaving the Pricing organization I worked as the product
11 manager for the Postal Service's Mailing Online service, and later as the Associate Vice
12 President of Business Development. I am currently serving as manager of Pricing
13 Strategy.

14 I have testified before the Postal Rate Commission on several previous
15 occasions. In Docket No. MC97-1, I presented pricing testimony supporting an
16 experimental packaging service. In Docket No. MC98-1, I provided pricing testimony in
17 support of Mailing Online, and in Docket No. MC2000-2, I was the pricing witness in the
18 Mailing Online experiment case. I also provided policy testimony in the same docket.
19 In previous omnibus cases I have presented pricing testimony supporting Parcel Post,
20 Express Mail, and various special services. I was a policy witness in Docket No.
21 MC2002-2 (Negotiated Service Agreement with Capital One), which marked the Postal
22 Service's first Negotiated Service Agreement filing with the PRC. I also served as a
23 rebuttal witness in that docket.

1 I have an honors degree in economics and a bachelor's degree in finance from
2 Pennsylvania State University. I also earned a master's degree in business
3 administration from the Wharton School at the University of Pennsylvania.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 The purpose of my testimony is to describe and analyze the policy and business
3 considerations that support the Postal Service's negotiated service agreement (NSA)
4 with Bank One Corporation (Bank One). The Bank One NSA is submitted as
5 functionally equivalent to the Docket No. MC2002-2 baseline NSA with Capital One.
6 Thus, in accordance with 39 C.F.R. § 3001.196, my testimony will include a detailed
7 explanation of how the Bank One NSA is functionally equivalent to the baseline
8 agreement and will describe the differences between the Bank One NSA and the
9 baseline agreement. My testimony will also analyze the financial impact of the NSA on
10 the Postal Service over the three year duration of the agreement, the fairness and
11 equity of the NSA in regard to other users of the mail, and the fairness and equity of the
12 NSA in regard to the competitors of the parties to the NSA. Finally, I will also explain
13 why functionally equivalent NSAs are important to the business goals of the Postal
14 Service.

15 My testimony will show that (1) the Bank One NSA primarily rests on the same
16 substantive functional elements as the Capital One NSA and provides comparable
17 benefits; (2) Bank One is similarly situated to Capital One, and therefore this NSA has a
18 comparable competitive impact; and (3) the Bank One NSA conforms to the relevant
19 pricing and classification criteria of the Postal Reorganization Act. The testimony will
20 explain how the Bank One NSA will improve the financial position of the Postal Service.

21 In addition, the Postal Service relies on the Direct Testimony Of Brad Rappaport
22 On Behalf Of Bank One Corporation (BOC-T-1). I have reviewed Mr. Rappaport's

1 testimony, and affirm that it may be relied upon in presentation of the Postal Service's
2 direct case.

3 Appendix A to my testimony presents the model that calculates the financial
4 impacts of the Bank One NSA. This model reproduces the calculations provided in the
5 Docket No. MC2002-2 testimony of Witness Crum (USPS-T-3 Attachments (1), (2), and
6 (B)). Appendix B explains the similarities and differences of both models. It is important
7 to note that the underlying principles for calculating Postal Service contribution in the
8 new format remain the same. Appendix C contains the proposed Data Collection Plan,
9 which is based on the Data Collection Plan recommended by the Commission in Docket
10 No. MC2002-2, the baseline docket.

11

12 **II. THE IMPORTANCE OF NSAs AND FUNCTIONALLY EQUIVALENT** 13 **AGREEMENTS**

14

15 **A. Background and Strategic Advantages of NSAs**

16 In Docket No. MC2002-2, the Commission found that, when the concepts
17 underlying negotiated pricing and declining block rates are applied fairly, benefits can
18 accrue, not only to the customer and to the Postal Service, but also to all other postal
19 customers. As Postal Service witness Bizzotto pointed out in that case, the Postal
20 Service considers negotiated pricing a natural extension of its long-standing practice of
21 seeking innovations in pricing. Docket No. MC2002-2, USPS-T-1 at 2-5. Used
22 appropriately, negotiated pricing facilitates incentives for additional mail volume that
23 benefit the Postal Service, its business partners, and all users of the Postal Service
24 through the additional contribution to institutional costs provided by additional volumes.
25 Given the economic pressures described below, NSAs represent one tool that can help

1 to mitigate the risk that continued erosion of First-Class Mail volume will lead to higher-
2 than-necessary rate and fee increases in the future.

3 In its opinion in Docket No. MC2002-2, the Commission also concluded that the
4 “Postal Service should ensure that “[t]he negotiated rate-and-service package is made
5 available on the same terms to other potential users willing to meet the same conditions
6 of service.” PRC Op., Docket No. MC2002-2, ¶ 7004. To address this concern in the
7 Capital One case, the Postal Service, Capital One, OCA, and many intervenors entered
8 into a stipulation and agreement that identified the terms and conditions that must be
9 included for an agreement to be considered comparable to Capital One. The Postal
10 Service codified these elements in DMM G911. The Bank One NSA meets these
11 criteria and affirms the Postal Service’s commitment to extend the Capital One NSA’s
12 terms and conditions to other mailers.

13 **B. The Importance Of Functionally Equivalent NSAs to the Postal**
14 **Service**

15
16 Functionally equivalent NSAs are important to the Postal Service because they
17 extend the benefits of favorable baseline agreements to similar relationships with other
18 customers. The Commission’s procedural framework for functionally equivalent cases
19 promises to ensure that this objective can be achieved efficiently in an expedited
20 proceeding, where controversy and duplication of effort can be minimized. These
21 procedural goals, in turn, support the related objectives of minimizing the transaction
22 costs involved in pursuing NSAs, reinforcing the financial incentives embodied in NSAs,
23 and thereby promoting a viable and productive NSA process.

24 Expedited litigation and subsequent implementation of the changes proposed in
25 this case would benefit both the Postal Service and Bank One under the specific terms

1 of the Bank One NSA. If the proposed changes are recommended and approved, the
2 Postal Service would realize immediate benefit from the agreement in terms of ACS
3 savings. If this case, however, were to be litigated as a baseline NSA under the
4 Commission's rules, the protracted proceedings would only delay the Postal Service's
5 ability to capture the ACS savings. From the customer's perspective, furthermore,
6 lengthy litigation would result in higher transaction costs, as well as delayed business
7 benefits. For very large mailers, this cost might be easily absorbed within the expected
8 benefit of the NSA, but for smaller mailers this cost can become prohibitive, in effect
9 lowering the customer's valuation of the NSA, perhaps making it economically
10 undesirable. Moreover, lengthy proceedings would add risk that the business
11 environment might change in such a way that neither the Postal Service nor Bank One
12 could take advantage of the NSA.

13 In the Docket No. MC2002-2 baseline case, considerable attention was focused
14 on the risks associated with declining block rates. Postal Service witness Panzar
15 addressed the technical risks associated with non-linear pricing, and the OCA focused
16 on the risks inherent in providing volume-based incentives in a future period. A number
17 of participants suggested various mechanisms for mitigating these risks, implying that
18 the risk of change might be greater than the risk of doing nothing. Recent volume
19 trends, however, particularly in First-Class Mail, suggest the opposite.

20 Competition from electronic alternatives, increasing cost pressure on business
21 customers, and a recent period of economic sluggishness have contributed to a
22 flattening of demand for First-Class Mail over the last several years. At the same time,
23 household growth continues to lead to expansion of the Postal Service's delivery

1 network. While productivity gains have been remarkable, there continues to be
2 pressure on the Postal Service to come up with ways to continue to fund its large and
3 growing universal service obligation. In the absence of new ways for the Postal Service
4 to generate additional volumes and revenues, USPS customers will likely be asked to
5 absorb higher price increases in the future.

6 In this environment, the Postal Service considers the ability to negotiate
7 individual price agreements that are consistent with the Act, and to implement them
8 through rate and classification changes, to be of critical importance. Procedures linking
9 favorable baseline agreements with their functionally equivalent offspring will help to
10 ensure that the benefits of baseline agreements can be efficiently extended to similar,
11 but distinct, relationships with other mailers. Promoting functionally equivalent NSAs
12 will also mitigate the concern that a baseline NSA might have adverse competitive
13 impacts.

14

15 **III. THE BANK ONE NSA IS FUNCTIONALLY EQUIVALENT TO THE CAPITAL**
16 **ONE NSA**

17

18 The Bank One NSA fully meets the guidelines outlined in the Commission's
19 Order No. 1391 (RM2003-5) for functionally equivalent NSAs. The Bank One NSA
20 contains the same functional elements as the Capital One baseline NSA (*i.e.*, declining
21 block rates and address correction elements, Order No. 1391 at 50), and will produce
22 comparable benefits for the Postal Service. Any differences between the Bank One
23 NSA and the Capital One NSA do not detract from Bank One's status as functionally
24 equivalent.

25

A. The Bank One NSA Contains the Same Two Functional Elements as the Capital One NSA

The Bank One NSA rests on the same substantive functional elements as the Capital One NSA. First, as in the Capital One agreement, the Postal Service's agreement with Bank One calls for the implementation of discounts in the form of declining block rates. According to the schedule outlined below, the discounts are applied only to incremental volume above the negotiated threshold. In other words, no discount would be applied to the first 535 million pieces, a discount of 2.5 cents would be applied to the next 25 million pieces, etc.:

VOLUME BLOCK	INCREMENTAL DISCOUNTS
535,000,001 – 560,000,000	2.5¢
560,000,001 – 585,000,000	3.0¢
585,000,001 – 610,000,000	3.5¢
610,000,001 – 645,000,000	4.0¢
645,000,001 – 680,000,000	4.5¢
680,000,001 and above	5.0¢

Considering these discounts and the testimony of witness Rappaport regarding the volume response of Bank One to the proposed discount structure (BOC-T-1 at 6-8), the Postal Service expects Bank One's use of First-Class Mail for solicitations to increase, resulting in additional contribution to the Postal Service.

Second, as with the Capital One NSA, the Bank One agreement also contains an address correction element, which creates further cost savings for the Postal Service. Bank One has agreed that the Postal Service can convert the physical return of its undeliverable-as-addressed (UAA) First-Class Mail marketing mailpieces into electronic

1 address correction information through the computerized ACS system. It is the same
2 ACS system that was described more fully in the testimony of Postal Service witness
3 Wilson in Docket No. MC2002-2. USPS-T-4 at 2-7.

4 **B. The Bank One NSA Provides the Postal Service a Comparable Benefit**

5 In discussing the NSA rules governing functionally equivalent agreements, the
6 Commission would go beyond an evaluation of the functional elements and examine
7 whether the agreement provides a comparable benefit to the Postal Service. PRC Order
8 No. 1391 at 51. As an example, the Commission stated that an agreement that is
9 functionally equivalent to Capital One would need to have ACS cost savings. The ACS
10 cost savings that will result from the Bank One NSA are significant since over nine
11 percent of its marketing First-Class Mail volume is currently physically returned. See
12 BOC-T-1 at 9. Also, as in Capital One, the Bank One NSA will generate contribution
13 from new First-Class Mail volume switched from Standard Mail. Appendix A, page 1,
14 10, 11.

15 **C. Other Terms and Conditions of the Bank One NSA**

16 The Bank One NSA incorporates other terms and conditions found in the Capital
17 One NSA. The agreement waives the seal against postal inspection of mail; requires
18 Bank One to prepare mail under applicable standards and to enhance its address
19 management practices; includes a minimum payment; and contains a provision for Bank
20 One to make necessary records and data available to the Postal Service to facilitate
21 and monitor compliance. It also enables the Postal Service to cancel for failure by the
22 mailer to either provide accurate data, to present properly prepared and paid mailings,

1 to comply with a material term of the NSA, or to use the NSA. See Request;
2 Attachment F.

3 **D. Differences Between the Capital One and Bank One NSAs**

4
5 By their nature, individual service relationships with the Postal Service reflect the
6 inherent differences among mailers. The ability to develop a customer-specific NSA
7 allows the Postal Service to address these differences directly, and to develop an
8 agreement that best satisfies the needs of an individual customer and the Postal
9 Service. By improving overall revenue contribution to the Postal Service, such
10 agreements in turn benefit all postal customers.

11 Because Bank One's volumes are different from those of Capital One, the exact
12 declining block rates in the Bank One NSA do not match those in the Capital One NSA.
13 The thresholds, incremental blocks, and starting discounts are unique to the Bank One
14 NSA. However, the discount structure remains the same as in the Capital One NSA,
15 and it represents a negotiated agreement between the customer and the Postal Service.

16 In addition, the Bank One NSA incorporates two customer-specific terms and
17 conditions not found in the Capital One NSA: an annual adjustment mechanism to the
18 threshold, and a detailed mergers and acquisitions clause. As explained below, neither
19 term alters the functionally equivalent status of the Bank One NSA.

20 The first customer-specific term is the annual threshold adjustment. In general,
21 NSAs patterned after Capital One are intended to increase First-Class Mail marketing
22 volumes, among other objectives. However, statement volume growth could have the
23 unintended consequence of diminishing the incentives for new marketing mail volume.
24 The annual threshold adjustment protects against this contingency, and also mitigates

1 against greater discount exposure (leakage), by adjusting the thresholds in the years
2 following the first year of the agreement (the out-years), using a formula based on the
3 percentage change in the sum of the number of Bank One's credit cards and checking
4 accounts. If the percentage change is an increase or decrease of greater than 5
5 percent, the threshold shall be adjusted upward (in the event of an increase) or
6 downward (in the event of a decrease) by the difference between the percentage
7 change and 3 percent. For example, if Bank One's credit card and checking accounts
8 increase from 100 million to 106 million, which correlates to a 6 percent increase, then
9 the threshold would be adjusted upwards 3 percent. If the number of accounts
10 increases by less than 5 percent, there would be no adjustment to the annual threshold.

11 The 5 percent trigger for adjusting the threshold allows for limited variability in
12 statement mailings and provides protection to both parties. Based on the logical
13 correlation between number of credit card and checking accounts and statement
14 volume, the NSA allows the Postal Service to adjust the discount threshold upward, so
15 that exogenous factors do not result in discounts being provided to statement mail or in
16 diluting the incentives directed at marketing mail. By the same token, should account
17 volume drop, the annual threshold adjustment can be used to adjust the discount
18 thresholds downward, so that the NSA continues to provide realistic incentives for
19 marketing mail.

20 The second customer-specific term is the detailed mergers and acquisitions
21 clause. The mergers and acquisitions clause in the Capital One NSA has been
22 expanded to provide more detail relating to the integration of merged volumes. It also
23 has a provision to accommodate portfolio purchases, losses and sales. Both

1 modifications are in response to Bank One's customer-specific needs. As witness
2 Rappaport states in his testimony, (BOC-T-1 at 9), Bank One has announced plans to
3 merge with J.P. Morgan Chase. Thus, the expanded merger clause has been designed
4 to adjust for this possibility.

5

6 **IV. Financial Impacts**

7 **A. Value Factors/Elements**

8 As with the Capital One NSA, the Bank One NSA has three factors affecting the
9 value: ACS cost savings, new volume contribution, and discount exposure (leakage).
10 The ACS cost savings are the savings that accrue to the Postal Service from eliminating
11 the physical return of First-Class Mail marketing pieces with an electronic return notice.
12 Rather than having its undeliverable-as-addressed (UAA) marketing pieces physically
13 returned, Bank One has agreed to receive most address correction information
14 electronically through the computerized ACS system. Conversion to ACS would save
15 the Postal Service the cost of returning UAA mail back to Bank One through the mail
16 stream. Bank One has agreed to convert both its letter-shaped and flat-shaped
17 solicitations to ACS. Because flats are more expensive to return, the ACS unit cost
18 savings for flats are higher than for letters. Whether handling letters or flats, the ACS
19 system is as described in the testimony of Postal Service witness Wilson in Docket No.
20 MC2002-2, USPS-T-4 at 3-4.

21 The second stream of value for the Postal Service is the new volume contribution
22 from any new volume generated by the NSA. This contribution is calculated using the
23 following inputs: per piece contribution of First-Class Mail, per piece contribution of

1 Standard Mail, and percent of marketing mail converted from Standard Mail to First-
2 Class Mail.

3 As Bank One witness Rappaport explains, the price incentives in the NSA are
4 expected to produce a First-Class Mail volume response of 19 million pieces for the first
5 year of the agreement and 99 million additional pieces in Year 2 and Year 3. BOC-T-1
6 at 8. The new contribution must account for any substitution leakage that would result
7 from the loss of contribution from Standard Mail pieces converted to First-Class Mail
8 marketing pieces. To be conservative, witness Rappaport has estimated that 100
9 percent of incremental volume would be converted from Standard Mail. (BOC-T-1 at 8).
10 The Postal Service believes that the incremental volumes will exceed the forecast. *Id.*
11 (See Part C., Conservatism of Assumptions, below).

12 The final value determinant is the expected discount exposure. The discount
13 exposure lowers the value of the NSA and is the result of price incentives applied to any
14 volume that would have occurred without a price incentive. As described by Postal
15 Service witness Eakin, in the baseline case, setting a threshold below forecast volume
16 is economically efficient because it reduces the mailer's marginal price of First-Class
17 Mail relative to other forms of solicitation, and reduces the gap between marginal price
18 and marginal cost of the mailer's First-Class Mail. Docket No. MC2002-2; USPS-RT-2
19 at 4-5.

20 I estimate the value to the Postal Service of the Bank One agreement, when
21 considering all three value drivers over the three years of the NSA, as follows:

22	ACS Cost savings:	\$7.7 million
23	Increased contribution (less incremental discounts):	\$6.8 million

1 Discount exposure: \$(2.9) million

2

3 The agreement therefore would result in net benefit to the Postal Service of \$11.6
4 million over the life of the NSA. A detailed analysis of the financial impact is provided in
5 Appendix A.

6 **B. Financial Model**

7 I believe that the analysis provided in the valuation model of the Bank One NSA
8 complies with the guidelines established by the Commission in Rule 193(e). The model
9 follows Postal Service witness Crum's methodology in Docket No. MC2002-2, except in
10 instances where a change allows it to conform more closely to the requirements of Rule
11 193(e). The features of the model are described below; the model is in Appendix A and
12 any changes are discussed in Appendix B.

13 The Postal Service and Bank One have provided more data than in Docket No.
14 MC2002-2, in order to comply with Rule 193(e)(2), and to present a more representative
15 estimate of the cost and volume effects of the NSA in Years 2 and 3 of the agreement
16 (see Appendix A). In witness Rappaport's testimony, Bank One has provided its best
17 estimate of mail volume forecasts in Years 2 and 3 of the agreement. BOC-T-1 at 5-8.

18 In addition, as described in Appendix B, the Postal Service applies a 4 percent
19 annual inflationary cost adjustment factor to estimate unit costs in each year of the Bank
20 One agreement and to account for cost increases since litigation of the Capital One
21 NSA agreement. This cost adjustment factor will provide a better estimate of the value

1 of the Bank One NSA in its out-years.¹ Except for the calculation of ACS flats
2 (Appendix A, pp. 12-14) and the adjustment for inflation, the cost assumptions for the
3 Bank One mail pieces are based on Docket No. MC2002-2 and Docket No. R2001-1.²

4 **C. Conservatism of Estimated Value**

5 The After Rates (AR) forecast provided by Bank One is, in my opinion, a
6 conservative estimate of the potential volume response to the price incentives.

7 In fact, there are reasons why these forecasts would generally tend toward
8 conservatism. Non-linear pricing of First-Class Mail is relatively new to the Postal
9 Service. Consequently, USPS customers have no direct experience in planning
10 postage expenditures, or in adjusting budgets when – as may happen if Bank One
11 reaches its initial declining block threshold – the cost of customer acquisition declines.
12 If customers use traditional modeling techniques out of necessity, forecasted volume
13 effects are likely to understate the result of sudden and substantial price reductions.
14 Moreover, banks work in a highly regulated and extensively analyzed industry where
15 public pronouncements can have significant consequences. This is also likely to act as
16 a check against unwarranted optimism in projecting future outcomes.

17 One of the difficulties that arises in forecasting volumes in Years 1, 2, and 3 of
18 the agreement is that, in complex mailing environments, postage is not the only variable
19 that determines future mailing strategies. Both Bank One and the Postal Service

¹ There remains, however, a possibility of an omnibus rate increase during the term of the agreement; such an increase has not been accounted for in the revenue calculations. To the extent that revenues in the out-years have been undercounted, greater credence is lent to the conservatism of any assumption.

² As in the baseline case, my analysis here does not include estimates of forwarded mail cost savings.

1 believe – and the universally accepted principles of economics confirm – that keeping all
2 other business variables constant, lower postage costs will provide an incentive for
3 greater mail volumes. Yet, most companies do not currently forecast the impact of
4 declining postage rates. Thus, it is difficult to predict the full impact on mail volumes.
5 Nevertheless, I regard the point estimates provided by Bank One to be conservative
6 and the Postal Service anticipates that the volume response will be higher.

7

8 **V. COMPETITIVE IMPACT ANALYSIS**

9 The impact of the Capital One NSA on the competitors of the contracting parties
10 was discussed and evaluated extensively in the baseline proceeding. Docket No.
11 MC2002-2, JCP-T-1 at 11-12 and USPS-RT-2 at 11-14. In the end, the Commission
12 concluded that the impact on competition would be minor. In this regard, the
13 Commission found it significant that no competitors of Capital One opposed the NSA.

14 I estimate that the impact on competition of the Bank One NSA -- which is
15 functionally equivalent to the Capital One NSA -- should be even less, since Bank One
16 and Capital One are similarly situated, i.e., direct competitors. BOC-T-1 at 3. The pool
17 of competitors who may be disadvantaged because they do not have an NSA
18 decreases as the number of functionally equivalent agreements increases. For
19 functionally equivalent agreements with direct competitors of the baseline agreement,
20 any industry competitive impacts have been addressed in the baseline filing. More
21 importantly, approving functionally equivalent NSAs provides competitors of Capital One
22 the same incentives to grow their mail volumes. This is not to suggest that postage
23 prices are the sole – or even the primary – dimension along which all competitors in an

1 industry may compete. Indeed, there may be circumstances when it would be
2 impracticable or otherwise inappropriate to provide NSAs to all competitors within an
3 industry.

4

5 **VI. DISCOUNT CAP**

6 A 'stop-loss provision' or discount cap of \$40 million over three years was
7 incorporated in the rate and classification changes implementing the Capital One NSA.
8 This was not a condition that was negotiated between the Postal Service and Capital
9 One, but was added by the Commission (PRC Op., MC2002-2, ¶ 5061).

10 The Commission explained that it instituted the stop-loss provision because of
11 the variability inherent in the volume history of Capital One. The concern over "discount
12 leakage" exceeding cost savings thus influenced the decision to limit the total value of
13 discounts Capital One could earn (PRC Op., MC2002-2, ¶ 8024). In setting the cap, the
14 Commission found that there would be no impact on new volume contribution because
15 the thresholds were above the revised forecast. However, a cap based on either cost
16 savings or exposure (leakage) unnecessarily hinders the ultimate objective of utilizing
17 NSAs as a tool to increase net contribution. Basing the "stop-loss provision" solely on
18 cost savings would tend to limit participation in the NSA process to only large volume
19 mailers who can offer significant cost savings opportunities. This would place
20 customers who do not impose added costs on the Postal Service at a disadvantage.

21 More importantly, the stop-loss provision based on the Capital One condition
22 passing through 95 percent of the cost savings (Op. at 156) would foreclose the
23 potential contribution from increased volume. It also would impose a competitive

1 disadvantage for Bank One, because its potential cost savings are not nearly as large
2 as the potential cost savings for Capital One, which is a larger originator of First-Class
3 Mail marketing solicitations than Bank One. Fears that the customer would have
4 significantly increased mail volumes should be mitigated in the current environment of
5 declining First-Class Mail volumes and potentially adverse business conditions.

6 The conditions that the Commission cited to support a cap on the discounts in
7 the baseline case do not apply here. The major concern expressed over the course of
8 the Capital One case was that mail volume would have grown in the absence of a
9 discount so that the discounts would exceed the cost savings. By comparison, Bank
10 One's volume history is stable, and even if its marketing mail volume were to match its
11 historic high, the Postal Service would receive a positive benefit from the NSA.
12 Specifically, Bank One's highest annual marketing letter First-Class Mail volume was 79
13 million pieces in 2001, prior to the most recent rate increase. If Bank One, without price
14 incentives, could reach this same level for all three years of the agreement, it would
15 receive \$8.0 million in discounts on their before-rates volumes over the term of the
16 agreement (as opposed to the \$2.9 million estimate presented above in Section IV.A.).
17 This discount earned by Bank One would correlate to exposure for the Postal Service.
18 But, despite the increase in exposure, the NSA would be contribution-positive because
19 of ACS savings. Under the situation described above, the Postal Service would have
20 underestimated the savings from ACS and, in absolute terms, the savings at 79 million
21 marketing pieces would have been \$10.2 million (as opposed to the \$7.7 million
22 presented above in Section IV.A.). This means that the NSA would still generate \$2.1
23 million in additional contribution for the Postal Service.

1 Accordingly, a cap could actually cause harm because it would limit the upside
 2 potential of the NSA. As discussed previously, the Bank One forecasts are
 3 conservative, and it is quite possible that the incremental volume may be higher than
 4 predicted. A cap would obviate this possibility.

5

6 **VII. PROPOSED PRICES ARE CONSISTENT WITH THE CRITERIA OF THE ACT**

7 39 U.S.C. § 3623(c) requires that the Commission evaluate proposed changes in
 8 the classification schedule in accordance with the policies of the Title and the following
 9 factors:

- 10 1. the establishment and maintenance of a fair and equitable classification
- 11 system for all mail;
- 12 2. the relative value to the people of the kinds of mail matter entered into the
- 13 postal system and the desirability and justification for special classifications
- 14 and services of mail;
- 15 3. the importance of providing classifications with extremely high degrees of
- 16 reliability and speed of delivery;
- 17 4. the importance of providing classifications which do not require an extremely
- 18 high degree of reliability and speed of delivery;
- 19 5. the desirability of special classifications from the point of view of both the user
- 20 and of the Postal Service; and
- 21 6. such other factors as the Commission may deem appropriate.

22

23 Section 3622(b) requires that postal rates and fees reflect the policies of the

24 Postal Reorganization Act, and accord with the following factors:

- 25 1. the establishment and maintenance of a fair and equitable schedule;
- 26 2. the value of the mail service actually provided each class or type of mail
- 27 service to both the sender and the recipient, including but not limited to, the
- 28 collection, mode of transportation, and priority of delivery;
- 29 3. the requirement that each class of mail or type of mail service bear the direct
- 30 and indirect postal costs attributable to that class or type plus that portion of
- 31 all other costs of the Postal Service reasonably assignable to such class or
- 32 type;
- 33 4. the effect of rate increases upon the general public, business mail users, and
- 34 enterprises in the private sector of the economy engaged in the delivery of
- 35 mail matter other than letters;

- 1 5. the available alternative means of sending and receiving letters and other
- 2 mail matter at reasonable costs;
- 3 6. the degree of preparation of mail for delivery into the postal system performed
- 4 by the mailer and its effect upon reducing costs to the Postal Service;
- 5 7. simplicity of structure for the entire schedule and simple, identifiable
- 6 relationships between the rates or fees charged the various classes of mail
- 7 for postal services;
- 8 8. the educational, cultural, scientific, and informational value to the recipient of
- 9 mail matter; and
- 10 9. such other factors as the Commission deems appropriate.

11
12 The arguments I presented in the Capital One NSA are also applicable to the

13 Bank One NSA:

14 ...by negotiating directly with individual customers, it may be
15 possible, through negotiated service agreements such as the one
16 submitted here, to more accurately present prices that represent the value
17 that the user places on the service being provided (pricing criterion 2) for
18 mail classifications that are desirable to the mailer and the Postal Service
19 (classification criterion 5). In this case, the Postal Service has directly
20 negotiated with the sender of the mail to arrive at classifications and prices
21 that the Postal Service considers to be fair and equitable (classification
22 criterion 1 and pricing criterion 1). As indicated in the testimony of witness
23 Crum, there can be no doubt that the prices presented in this case will
24 cover the costs of providing the service (pricing criterion 3). In fact, the
25 address improvement steps that Capital One has agreed to will serve to
26 lower the costs currently borne by other customers (pricing criterion 6).
27 For this reason, the classifications and prices presented in this agreement
28 confer beneficial effects on the general public and other ratepayers
29 (classification criterion 1 and pricing criterion 1). The proposed rates do
30 not have an adverse impact on the rates paid by the general public, or
31 other business mail users (pricing criterion 4). The proposed declining
32 block rate structure is relatively simple and maintains a transparent,
33 identifiable relationship between volume levels and applicable rates and
34 fees (pricing criterion 7).

35
36 (MC2002-2, USPS-T-2, page 9, line 36 – page 10, line 15).

37

38 I believe that these pricing and policy issues were comprehensively addressed in
39 the Capital One NSA docket, and that the logic of functional equivalence enables the
40 Postal Service and the Commission to rely on the findings in that case. In this instance,

1 the close comparability of the structure and elements of the Bank One and Capital One
2 NSAs, the similarity of their situations as mailers, and their status as competitors,
3 warrant full reliance on the Commission's Docket No. MC2002-2 findings to justify
4 recommending the current classification, rate and fee change proposals based on the
5 Bank One NSA. Further, the customer-specific rates offered to Bank One through the
6 NSA more than cover the costs associated with Bank One's mail, thus satisfying pricing
7 criterion 3. By extending the benefits of a functionally equivalent NSA, the Commission
8 would promote increased efficiency in postal operations and greater fairness and equity
9 in the DMCS and Rate Schedules.

10

11 **VIII. SUMMARY AND CONCLUSIONS**

12 My testimony has described and discussed the similarities and differences
13 between the Bank One NSA and the Capital One NSA. The Bank One NSA has the
14 same two substantive functional elements of the Capital One NSA, comparable
15 benefits, other material terms and conditions that were included in the Capital One NSA
16 and some additional provisions. The new provisions in the Bank One NSA reflect the
17 differences between the companies that are inherent in their status as individual
18 mailers. Because Bank One is similarly situated, and is a direct competitor of Capital
19 One, expeditious treatment of this filing under the Commission's specialized procedures
20 is especially important.

21 Accordingly, the Commission should conclude that the Bank One NSA meets the
22 standards for functional equivalency. The financial model developed to support the
23 Bank One NSA is based on the model submitted in Docket MC2002-2, with analytical

1 enhancements as recommended by the Commission in Rule 193(e). The Bank One
2 NSA also meets the terms and conditions that must be included for an agreement to be
3 considered comparable to Capital One, as codified in DMM G911.

4 Finally, based on the Commission's findings and conclusions in its review of the
5 baseline NSA, the Bank One NSA meets the criteria outlined for classifications and
6 pricing in the Postal Reorganization Act as well as the criteria for postal rates and fees
7 as outlined in Section 3622(b) of the Act.

8 For these reasons, I conclude that the Commission should recommend the
9 proposed changes to the rates, fees and classifications are warranted by the projected
10 benefits of the Bank One NSA, and as functionally equivalent to the Capital One
11 baseline NSA.

Bank One Model

Negotiated Service Agreement Appendix A, page 1

	Year 1	(13) Year 2	(14) Year 3
Return Forecast			
(1) Operational Mail (Ops)	0.3%	0.3%	0.3%
(2) Marketing Mail - Letters (Mktg)	9.0%	9.0%	9.0%
(3) Marketing Mail - Flats	11.0%	11.0%	11.0%
(4) USPS FCM average return rates	1.23%	1.23%	1.23%
Unit cost assumptions			
(5) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(6) Manual Flat Returns Unit Cost	\$ 1.06	\$ 1.10	\$ 1.15
(7) Manual Letter Returns Unit Cost	\$ 0.55	\$ 0.57	\$ 0.60
(8) Electronic Flat Returns Unit Cost	\$ 0.45	\$ 0.47	\$ 0.48
(9) Electronic Letter Returns Unit Cost	\$ 0.34	\$ 0.36	\$ 0.37
(10) Address Change Service (ACS) Success Rate	85.0%	85.0%	85.0%
(11) Percent of new marketing mail switched from Standard Mail (SM)	100.0%	100.0%	100.0%
(12) Contingency Factor	1.03		

- (1) MC 2004-3 BOC T-1 at page 9
- (2) MC 2004-3 BOC T-1 at page 9
- (3) MC 2004-3 BOC T-1 at page 9
- (4) USPS-LR-1/MC2002-2
- (5) MC 2004-3 USPS T-1 at page 13
- (6) Manual Return Costs (\$1.0190) * (1 + (5))
- (7) USPS-LR-1/MC2002-2 * (1+ (5))
- (8) Electronic Returns Costs (\$0.4301) * (1+ (5))
- (9) USPS-LR-1/MC2002-2 * (1+ (5))
- (10) USPS witness Wilson, T4/MC2002-2
- (11) MC 2004-3 BOC T-1 at page
- (12) USPS-LR-1/MC2002-2
- (13) Year 1 * (5)
- (14) Year 2 * (5)

Bank One Model
 Negotiated Service Agreement
 Appendix A, page 2

	2001	2002	2003	Year 1	Year 2	Year 3
(1) Volume calculations						
Before rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	29,387,000	29,387,000	29,387,000
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	583,054,991	600,179,615	595,955,531	571,080,000	571,080,000	571,080,000
After rates						
Operational mail	479,134,992	508,411,769	500,423,407	506,650,000	506,650,000	506,650,000
Marketing mail letter	79,215,956	38,870,004	59,703,685	48,442,000	128,442,000	128,442,000
Marketing mail flat	24,704,043	52,897,842	35,828,439	35,043,000	35,043,000	35,043,000
Total	583,054,991	600,179,615	595,955,531	590,135,000	670,135,000	670,135,000

(1) MC 2004-3 BOC T-1 at page 5 - 6

Bank One Model	(1)	(2)	(3)
Negotiated Service Agreement	FY 2003	Current	Revenue
Appendix A, page 3	Volume	Rates	Revenue

Rate Category

Single-Piece Letters			
First Ounces, except QBRM	-	0.370	\$ -
Qualified Business Reply Mail	-	0.340	-
Additional Ounces	-	0.230	-
Nonmachinable Pieces	-	0.120	-
<hr/>			
Single-Piece revenue			-
Revenue Adjustment Factor (a)			1.000
<hr/>			
(4) Total Single-Piece Postage Revenue			-
Nonautomated Presorted Letters			
First Ounce	16,901,503	0.352	5,949,329
Additional Ounces	210,013	0.225	47,253
Nonmachinable Pieces	24,599	0.055	1,353
Heavy Piece Deduction	4,067	(0.041)	(167)
<hr/>			
Nonautomated Presorted revenue			5,997,768
Revenue Adjustment Factor (a)			1.000
<hr/>			
(5) Total Nonautomated Presorted Letters Revenue			5,997,768
Automation Presort Letters			
Mixed AADC Letters	3,622,017	0.309	1,119,203
AADC Letters	6,093,703	0.301	1,834,205
3-Digit Letters	341,677,512	0.292	99,769,834
5-Digit Letters	189,245,273	0.278	52,610,186
Additional Ounces	6,312,612	0.225	1,420,338
Heavy Piece Deduction	71,636	(0.041)	(2,937)
<hr/>			
Automation Presort Letters			156,750,828
Revenue Adjustment Factor (a)			1.000
<hr/>			
(6) Total Automation Presort Letters Revenue			156,750,828
Automation Carrier Route Letters			
First Ounce	577,954	0.275	158,937
Additional Ounces	-	0.225	-
Heavy Piece Deduction	-	(0.041)	-
<hr/>			
Automation Carrier Route Revenue			158,937
Revenue Adjustment Factor (a)			1.000
<hr/>			
(7) Automation Carrier Route Letters Revenue			158,937
(8) Total Company Letters Subclass			\$ 162,907,533
Total pieces			558,117,962
(9) Revenue per piece			0.292

(a) Revenue Adjustment factor not required because customer specific revenue presented

(1) CBCIS 2003 Bank One Volume Data

(2) Rate Schedule

(3) (1) * (2)

(4) Single Piece Revenue * Revenue Adjustment Factor

(5) Nonautomated Presorted Revenue * Revenue Adjustment Factor

(6) Automation Presort Letter Revenue * Revenue Adjustment Factor

(7) Automation Carrier Route Revenue * Revenue Adjustment Factor

(8) (4) + (5) + (6) + (7)

(9) (8) / Total pieces

Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE MAIL MIX						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS																
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,000	2,673,332,468	5.8%	0.254	16,896,034	3.4%				
Automation Presort Letters																
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.123	2,504,846,824	2,820,696,002	6.1%	0.123	3,462,228	0.7%				
Automation AADC		0.046	0.044	0.018	0.107	0.111	2,680,656,176	2,636,650,800	5.7%	0.111	5,935,849	1.2%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,888	48.6%	0.108	321,218,301	64.4%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	150,886,728	30.3%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,333,000	802,292,628	1.7%	0.107	115,591	0.0%				
WEIGHTED AVERAGE / TOTAL	\$0.115	0.050	0.045	0.018	0.113	0.113	44,562,599,000	46,415,243,896	100.0%	0.109	498,514,731	100.0%	\$ (0.0049)	0.104	\$ (0.0049)	0.104
													(17)	(18)		
														0.107		0.107

(1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3
 (2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS", page 1
 (3) Docket No. R2001-1, PRC LR-7, Page 2
 (4) MC2002-2/USPS-T-3, Attachment A, pg. 2
 (5) (2) + (3) + (4)
 (6) (5) * (1 + inflation cost adjustment factor)
 (7) Docket No. R2001, PRC, LR-4, FCM base year volumes from FCM letter model.
 (8) Revenue, Pieces, and Weight (RPW) Report.
 (9) (8) / [Sum (8)]
 (10) Line Item (6), Weighted Average weighted by percentages in (12).
 (11) CBCIS 2003 Bank One Volume Data
 (12) (11) / [Sum (11)]
 (13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail
 (10) + (13)
 (14) ((ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate)) /
 (15) After Rates Statement Mail - USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
 (16) (10) + (15)
 (17) (14) * Contingency Factor (Assumptions)
 (18) (16) * Contingency Factor (Assumptions)

Bank One Model
 Negotiated Service Agreement
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Rate Category	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX									DOCKET NO. R2001-1 PRC FIGURES - BANK ONE MAIL MIX						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	TYBR 2003 Total Unit Cost (Dollars)	TYBR 2003 Mail Proc Unit Cost (Dollars)	TYBR 2003 Delivery Unit Cost (Dollars)	TYBR 2003 Other Unit Cost (Dollars)	TYBR 2003 Total Unit Cost (Dollars)	FY 2004 Total Unit Cost Dollars	BY 2000 Mail Volume (Pieces)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	TY 2004 Total Unit Cost (Dollars)	FY 2003 Mail Volume (Pieces)	FY 2003 Mail Volume (Percent)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS																
Nonautomation Presort Letters		0.163	0.063	0.018	0.244	0.254	3,748,977,000	2,673,332,468	5.8%	0.254	5,469	0.0%				
Automation Presort Letters																
Automation Mixed AADC		0.055	0.045	0.018	0.118	0.123	2,504,846,824	2,820,696,002	6.1%	0.123	159,789	0.3%				
Automation AADC		0.046	0.044	0.018	0.107	0.111	2,680,656,176	2,636,650,800	5.7%	0.111	157,854	0.3%				
Automation 3-Digit		0.042	0.043	0.018	0.104	0.108	21,832,339,000	22,571,247,888	48.6%	0.108	20,459,211	34.3%				
Automation 5-Digit		0.032	0.041	0.018	0.091	0.095	12,720,447,000	14,911,024,110	32.1%	0.095	38,358,545	64.4%				
Automation Carrier Route		0.021	0.064	0.018	0.103	0.107	1,075,333,000	802,292,628	1.7%	0.107	462,363	0.8%				
WEIGHTED AVERAGE / TOTAL	\$0.115	0.050	0.045	0.018	0.113	0.113	44,562,599,000	46,415,243,896	100.0%	0.099	59,603,231	100.0%	0.0428	0.142	0.0269	0.126
														(17)		(18)
														0.146		0.129

- (1) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3.
- (2) Docket No. R2001-1, PRC LR-4, "FCLETPRCFA.XLS".
- (3) Docket No. R2001-1, PRC LR-7, Page 2.
- (4) MC2002-2/USPS-T-3, Attachment A, pg. 2
- (5) (2) + (3) + (4)
- (6) (5) * (1 + inflation cost adjustment factor)
- (7) Docket No. R2001, PRC, LR-4, FCM base year volumes from FCM letter model.
- (8) Revenue, Pieces, and Weight (RPW) Report.
- (9) (8) / [Sum (8)]
- (10) Line Item (6), Weighted Average weighted by percentages in (12).
- (11) CBCIS 2003 Bank One Volume Data
- (12) (11) / [Sum (11)]
- (13) (Manual Letter Returns Unit Cost * After Rates Statement Mail) * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate) / After Rates Statement Mail
- (14) (10) + (13)
- (15) ((ACS Success Rate * Electronic Letter Returns Unit Cost + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost) * After Rates Statement Mail * (Statement Mail Return Forecast - USPS FCM Avg. Return Rate)) / After Rates Statement Mail - USPS FCM Avg. Return Rate * (Manual Letter Returns Unit Cost - Electronics Letter Returns Unit Cost) * ACS Success Rate
- (16) (10) + (15)
- (17) (14) * Contingency Factor (Assumptions)
- (18) (16) * Contingency Factor (Assumptions)

Agreement Structure

Year 1			Year 2			Year 3		
Threshold	Discount		Threshold	Discount		Threshold	Discount	
535,000,000	560,000,000	\$ 0.025	535,000,000	560,000,000	\$ 0.025	535,000,000	560,000,000	\$ 0.025
560,000,000	585,000,000	\$ 0.030	560,000,000	585,000,000	\$ 0.030	560,000,000	585,000,000	\$ 0.030
585,000,000	610,000,000	\$ 0.035	585,000,000	610,000,000	\$ 0.035	585,000,000	610,000,000	\$ 0.035
610,000,000	645,000,000	\$ 0.040	610,000,000	645,000,000	\$ 0.040	610,000,000	645,000,000	\$ 0.040
645,000,000	680,000,000	\$ 0.045	645,000,000	680,000,000	\$ 0.045	645,000,000	680,000,000	\$ 0.045
680,000,000		\$ 0.050	680,000,000		\$ 0.050	680,000,000		\$ 0.050

Discount on volume above threshold

(1) Before Rates Forecast	571,080,000	571,080,000	571,080,000
(2) After Rates Forecast	590,135,000	670,135,000	670,135,000
Discount in first tier	\$ 625,000	\$ 625,000	\$ 625,000
Discount in second tier	\$ 750,000	\$ 750,000	\$ 750,000
Discount in third tier	\$ 179,725	\$ 875,000	\$ 875,000
Discount in fourth tier	\$ -	\$ 1,400,000	\$ 1,400,000
Discount in fifth tier	\$ -	\$ 1,131,075	\$ 1,131,075
Discount in sixth tier	\$ -	\$ -	\$ -
(3) Discount Earned	\$ 1,554,725	\$ 4,781,075	\$ 4,781,075

Exposure on volume above threshold

(4) Threshold	535,000,000	535,000,000	535,000,000
(5) Before Rates Rorecast	571,080,000	571,080,000	571,080,000
(6) Exposed Pieces	36,080,000	36,080,000	36,080,000
(7) After Rates Forecast	590,135,000	670,135,000	670,135,000
Exposure in first tier	\$ 625,000	\$ 625,000	\$ 625,000
Exposure in second tier	\$ 332,400	\$ 332,400	\$ 332,400
Exposure in third tier	\$ -	\$ -	\$ -
Exposure in fourth tier	\$ -	\$ -	\$ -
Exposure in fifth tier	\$ -	\$ -	\$ -
Exposure in sixth tier	\$ -	\$ -	\$ -
(8) Total Exposure	\$ 957,400	\$ 957,400	\$ 957,400

- (1) Before Rates Total Volume (Volume calcs)
- (2) After Rates Total Volume (Volume calcs)
- (3) Sum of discounts earned in first tier to sixth tier
- (4) Agreement Structure Beginning Threshold
- (5) (1)
- (6) Before rates - Threshold: The number of total pieces on which leakage occurs
- (7) (2)
- (8) Sum of leakage in first tier to sixth tier

Bank One Model
Negotiated Service Agreement
Appendix A, page 7

Year 1 Year 2 Year 3

Return Costs

UAA Rate

(1)	Operational Mail	0.3%	0.3%	0.3%
(2)	Marketing mail letter	9.0%	9.0%	9.0%
(3)	Marketing mail flat	11.0%	11.0%	11.0%

Before Rates Forecast

(4)	Operational Mail	506,650,000	506,650,000	506,650,000
(5)	Marketing mail letter	29,387,000	29,387,000	29,387,000
(6)	Marketing mail flat	35,043,000	35,043,000	35,043,000

After Rates Forecast

(7)	Operational Mail	506,650,000	506,650,000	506,650,000
(8)	Marketing mail letter	48,442,000	128,442,000	128,442,000
(9)	Marketing mail flat	35,043,000	35,043,000	35,043,000

Return Forecast

(10)	Operational Mail	1,722,610	1,722,610	1,722,610
(11)	Marketing mail letter	2,644,830	2,644,830	2,644,830
(12)	Marketing mail flat	3,854,730	3,854,730	3,854,730

Return Costs

(13)	Operational Mail	\$ 949,503	\$ 987,483	\$ 1,026,982
(14)	Marketing mail letter	\$ 1,457,830	\$ 1,516,144	\$ 1,576,789
(15)	Marketing mail flat	\$ 4,085,206	\$ 4,248,614	\$ 4,418,559
(16)	Total	\$ 6,492,539	\$ 6,752,241	\$ 7,022,330

After Rates Return Costs

(17)	Operational Mail	\$ 949,503	\$ 987,483	\$ 1,026,982
(18)	Marketing mail letter	\$ 990,224	\$ 1,029,833	\$ 1,071,027
(19)	Marketing mail flat	\$ 2,078,536	\$ 2,161,677	\$ 2,248,145
(20)	Total	\$ 4,018,263	\$ 4,178,993	\$ 4,346,153

(21) Return Cost Savings

\$ 2,474,276 \$ 2,573,247 \$ 2,676,177

- (1) MC 2004-3 BOC T-1 at page 9
- (2) MC 2004-3 BOC T-1 at page 9
- (3) MC 2004-3 BOC T-1 at page 9
- (4) MC 2004-3 BOC T-1 at page 5 - 6
- (5) MC 2004-3 BOC T-1 at page 5 - 6
- (6) MC 2004-3 BOC T-1 at page 5 - 6
- (7) MC 2004-3 BOC T-1 at page 5 - 6
- (8) MC 2004-3 BOC T-1 at page 5 - 6
- (9) MC 2004-3 BOC T-1 at page 5 - 6
- (10) (1) * (4)
- (11) (2) * (5)
- (12) (3) * (6)
- (13) (10) * Manual Letter Returns Unit Cost (Assumptions)
- (14) (11) * Manual Letter Returns Unit Cost (Assumptions)
- (15) (12) * Manual Flats Returns Unit Cost (Assumptions)
- (16) (13) + (14) + (15)
- (17) (10) * Manual Letter Returns Unit Cost (Assumptions)
- (18) ((11) * ACS Success Rate * Electronic Letter Returns Unit Cost) + (1 - ACS Success Rate) * Manual Letter Returns Unit Cost * (11)
- (19) ((12) * (1 - ACS Success Rate) * Manual Flat Returns Unit Cost) + ((12) * ACS Success Rate * Electronic Flat Returns Unit Cost)
- (20) (17) + (18) + (19)
- (21) (16) - (20)

Bank One Model
Negotiated Service Agreement
Appendix A, page 8

(1) Standard Mail Regular Revenue per piece

Mail Category	Revenue per piece	Volume	Weighted Avg.
Mixed AADC Auto	\$ 0.211	13,191,188	2,789,495
AADC Auto	\$ 0.199	27,941,526	5,574,178
3-Digit Auto	\$ 0.183	215,575,750	39,531,174
5-Digit Auto	\$ 0.166	201,585,157	33,493,187
Basic Nonauto	\$ 0.259	4,056,643	1,050,661
3/5 Digit Nonauto	\$ 0.237	1,927,253	456,643
Total Volume		464,277,517	82,895,338
Revenue per piece			\$ 0.179

(2) Standard Mail ECR Revenue per piece

Mail Category	Revenue per piece	Volume	Weighted Avg.
Basic Nonauto Letters	\$ 0.182	1,008,992	183,324
Basic Auto Letters	\$ 0.148	25,001,012	3,702,239
High-Density Letters	\$ 0.164	12,771	2,094
Saturation Letters	\$ 0.152	699,186	106,276
Total Volume		26,721,961	3,993,933
Revenue per piece			\$ 0.149

(3) Average Revenue per piece

\$ 0.177

- (1) Rate Schedule
- (2) Rate Schedule
- (3) (Standard Mail Regular Revenue + Standard Mail ECR Revenue) /
(Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)

Standard Regular Unit Cost

	From Docket No. R2001-1									BANK ONE		
	TYBR 2003 Total Unit Cost (Dollars) (1)	TYBR 2003 Mail Proc Unit Cost (Dollars) (2)	TYBR 2003 Delivery Unit Cost (Dollars) (3)	TYBR 2003 Other Unit Cost (Dollars) (4)	TYBR 2003 Total Unit Cost (Dollars) (5)	FY 2004 Total Unit Cost (Dollars) (6)	BY 2000 Mail Volume (Pieces) (7)	FY 2003 Mail Volume (Pieces) (8)	FY 2003 Mail Volume (Percent) (9)	TY 2004 Unit Cost (Dollars) (10)	FY 2003 Mail Volume (Pieces) (11)	FY 2003 Mail Volume (Percent) (12)
LETTERS												
Nonauto Basic		0.130	0.042	0.01	0.18	0.19	1,322,401,662	1,411,242,831	3.2%	0.19	4,056,643	0.9%
Nonauto 3/5-Digit		0.121	0.044	0.01	0.17	0.18	4,476,247,838	2,481,782,907	5.7%	0.18	1,927,253	0.4%
Auto Mixed AADC		0.050	0.039	0.01	0.10	0.10	2,354,963,527	2,687,599,740	6.1%	0.10	13,191,188	2.8%
Auto AADC		0.043	0.038	0.01	0.09	0.09	2,875,476,520	2,848,635,910	6.5%	0.09	27,941,526	6.0%
Auto 3-digit		0.040	0.038	0.01	0.08	0.09	15,600,801,986	17,815,958,778	40.6%	0.09	215,575,750	46.4%
Auto 5-digit		0.031	0.037	0.01	0.07	0.08	11,222,413,732	16,604,952,264	37.9%	0.08	201,585,157	43.4%
Total/Average	0.10	0.05	0.04	0.01	0.10	0.09	37,852,305,265	43,850,172,430	100.0%	0.09	464,277,517	100.0%
Company average letter cost 2003		\$ 0.09										

Standard ECR Unit Cost

	TY 2004 Unit Costs (cents)		
Total ECR letter unit cost	0.080	(14)	
Total ECR letter delivery unit cost	0.059	(15)	
	TY 2004 Delivery Unit Costs (cents) (16)	FY 2003 Mail Volume (Pieces) (17)	FY 2003 Mail Volume (Percent) (18)
ECR Basic Auto Letters	0.048	25,001,012	93.6%
ECR Basic Letters	0.066	1,008,992	3.8%
ECR High Density Letters	0.049	12,771	0.0%
ECR Saturation Letters	0.035	699,186	2.6%
Total		26,721,961	
Company Average letter ECR Unit Delivery Cost			0.048 (19)
Company Delivery Cost Adjustment			-0.011 (20)
Company ECR total letter unit cost			0.069

(20) Average Cost per piece 0.084 (21)

- (1) Docket No. R2001-1, LR-J-58, LR58AREG.xls, total unit letter costs
- (2) Docket R2001-1, LR-J-60 Revised 11/15/01
- (3) Docket R2001-1, LR-J-60 Revised 11/15/01
- (4) (1) - average from (2) - average from (3)
- (5) (2) + (3) + (4)
- (6) (5) * (1 + inflation cost adjustment factor)
- (7) Docket No. R2001, PRC, LR-4, SM base year volumes from SM letter model.
- (8) Revenue, Pieces, and Weight (RPW) Report.
- (9) Each row in (8) divided by total in (8)
- (10) (6)
- (11) CBCIS 2003 Bank One Volume Data
- (12) Each row in column (11) divided by total in column (11)
- (13) Weighted average costs calculated by multiplying column (10) by column (12)
- (14) Docket No. R2001-1, LR-J-58, LR58AECR.xls, total TY2003 ECR unit letter costs
- (15) Docket No. R2001-1, LR-J-58, LR58AECR.xls, sum of TY2003 ECR unit letter delivery costs
(Cost segments 6, 7 and 10) * inflationary cost adjustment factor (Assumptions)
- (16) Docket No. R2001-1, LR-J-117, Revised 1/22/02, TY2003 unit delivery costs * inflationary cost adjustment factor (Assumptions)
- (17) CBCIS 2003 Bank One Volume Data
- (18) Percent of volume in each row of (17) divided by total in (17)
- (19) Weighted average of the unit costs in (16) weighted by the volume percents in (18)
- (20) (15) - (19)
- (21) (18) + (20)
- (22) ((13 * 11) + (21 * 17)) / (11 + 17)

Bank One Model

Negotiated Service Agreement

Appendix A, page 10

	(13)	(14)
Year 1	Year 2	Year 3

First Class Letter

(1) Avg Revenue First-Class Letters	0.292	0.292	0.292
(2) First-Class Operational Letter cost per Piece Before Rates	0.104	0.108	0.112
(3) First-Class Operational Letter cost per Piece After Rates	0.104	0.108	0.112
(4) First-Class Operational Letter avg. Contribution Before Rates	0.104	0.184	0.179
(5) First-Class Operational Letter avg. Contribution After Rates	0.188	0.184	0.179
(6) First-Class Marketing Letter cost per Piece Before Rates	0.142	0.148	0.154
(7) First-Class Marketing Letter cost per Piece After Rates	0.126	0.131	0.137
(8) First-Class Marketing Letter avg. Contribution Before Rates	0.150	0.144	0.138
(9) First-Class Marketing Letter avg. Contribution After Rates	0.166	0.161	0.155

Standard Mail

(10) Standard Revenue per Piece	0.177	0.177	0.177
(11) Standard Cost per Piece	0.084	0.088	0.091
(12) Standard Letter Contribution per Piece	0.093	0.089	0.086

- (1) Revenue per piece (FCM rev calc)
- (2) Current Total Unit Cost Estimates, Including Contingency (Ops unit cost)
- (3) After Rates Total Unit Cost Estimates, Including Contingency (Ops unit cost)
- (4) (1) - (2)
- (5) (1) - (3)
- (6) Current Total Unit Cost Estimates, Including Contingency (Mktg unit cost)
- (7) After Rates Total Unit Cost Estimates, Including Contingency (Mktg unit cost)
- (8) (1) - (6)
- (9) (1) - (7)
- (10) Average Revenue per Piece (SM rev calcs)
- (11) Average Cost per Piece (SM cost calcs)
- (12) (10) - (11)
- (13) Year 1 * Inflation cost adjustment factor Year 2 (Assumptions)
- (14) Year 2 * Inflation cost adjustment factor Year 3 (Assumptions)

Bank One Model
Negotiated Service Agreement
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	Year 1	Year 2	Year 3	Total
ACS Savings				
(1) Operational Mail	\$ -	\$ -	\$ -	-
(2) Marketing Mail Letter	\$ 467,606	\$ 486,310	\$ 505,763	1,459,679
(3) Marketing Mail Flat	\$ 2,006,670	\$ 2,086,937	\$ 2,170,414	6,264,022
Contribution from New Volume				
(4) Operational Mail	\$ -	\$ -	\$ -	-
(5) Marketing Mail Letter	\$ 1,392,856	\$ 7,074,861	\$ 6,554,808	15,022,525
(6) Total Exposure	\$ 957,400	\$ 957,400	\$ 957,400	2,872,200
(7) Total Incremental Discounts	\$ 597,325	\$ 3,823,675	\$ 3,823,675	8,244,675
(8) Total USPS Value	\$ 2,312,407	\$ 4,867,033	\$ 4,449,910	11,629,350

- (1) Operational Mail After Rates Return Costs (UAA calcs)
- (2) Marketing Mail Letter Return Costs -Marketing Mail Letter After Rates Return Costs (UAA calcs)
- (3) Marketing Mail Flats - Marketing Mail Flats After Rates Return Costs (UAA calcs)
- (4) (Operational Mail After Rates - Operational Mail Before Rates) * FCM Operational Letter avg. Contribution After Rates
- (5) (Marketing Mail Letter After Rates - Marketing Mail Letter Before Rates) * FCM Marketing Letter avg. Contribution After Rates
- (6) Total Exposure (Disc&Leak)
- (7) Discount Earned - Total Exposure (Disc&Leak)
- (8) (1) + (2) + (3) + (4) + (5) - (6) - (7)

**Special Services Update
 Address Change Service (ACS Flats)**

	Total cost/piece		Frequency		Weighted Cost/Piece	
ACS COA Notification						
Mechanized Terminal	\$0.0660	[1]	0.00	[7]	\$0.0000	[14]
Non-Mechanized Terminal	\$0.2691	[2]	1.00	[8]	\$0.2691	[15]
					\$0.2691	[16]
ACS Nixie Processing						
Nixie Clerk handling	\$0.0000	[3]	1.00	[9]	\$0.0000	[17]
ACS Nixie Keying	\$0.2074	[4]	1.00	[10]	\$0.2074	[18]
					\$0.2074	[19]

			% of ACS Volume		Volume Weighted Cost per Piece	
ACS COA notification	\$0.2691	[5]	58.03%	[11]	\$0.1561	[20]
ACS Nixie processing	\$0.2074	[6]	41.97%	[12]	\$0.0870	[21]
TOTAL COST PER PIECE			100.00%	[13]	\$0.243	[22]

- | | |
|---|------------------------------------|
| [1] USPS LR-I-110, Table 5.2.2, cell J31 | [12] Nixie Pieces/Total ACS Volume |
| [2] USPS LR-I-110, Table 5.2.2, cell J32 | [13] [11]+[12] |
| [3] These costs are treated as institutional. | [14] [1]*[7] |
| [4] USPS LR-I-110, Table 5.2.2, cell J29 | [15] [2]*[8] |
| [5] [16] | [16] [14]+[15] |
| [6] [3]+[4] | [17] [3]*[9] |
| [7] USPS LR-I-110, Table 5.2.2, cell L31 | [18] [4]*[10] |
| [8] USPS LR-I-110, Table 5.2.2, cell L32 | [19] [17]+[18] |
| [9] All nixies subject to clerk processing. | [20] [5]*[11] |
| [10] All nixies subject to keying. | [21] [6]*[12] |
| [11] ACS "keyed only" pieces/Total ACS Volume | [22] [20]+[21] |

Physical Return Costs
 Cost for UAA Mail Being Returned to Sender
 Physical Flat Mailpieces Returned

	A Annual Volume (Thousands)		B <u>Cost/Piece</u>		C Annual Cost (Thousands)		D <u>Frequency</u>		E Weighted <u>Cost/Piece</u>
1.	69,209	(1)	\$0.0545	(2)	\$3,771		1.00		\$0.0545
2.	33,866	(3)	\$0.2711	(4)	\$9,181		0.49	(5)	\$0.1327
3.	24,021	(6)	\$0.5831	(7)	\$14,007		0.35	(8)	\$0.2024
4.	69,209	(1)	\$0.6295	(9)	\$43,567		1.00		\$0.6295
5. Total									\$1.0190

- (1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
- (2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
- (3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
- (4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
- (5) This is the portion of return to sender mail that is returned by the Nixie clerk at the delivery unit, along with the portion of ACS Nixie that is returned at the CFS unit. This is the ratio of Rows 2 and 1, Column A.
- (6) Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", Total Returned.
- (7) Refer to Table 5.2.2, Column G, (Non-ACS) Total. Non Mach terminal cost/piece is used.
- (8) This is the portion of return to sender mail returned from the CFS unit, along with the portion of ACS Nixie that is returned from the CFS unit. This is the ratio of Rows 3 and 1, Column A, Table 5.2.2.
- (9) Refer to Table 5.2.4.1, Row 2, Column F. This Number was calculated based on data obtained from USPS Cost Attribution

Electronic "Return" Costs
 Cost of UAA Mail Being Returned to Sender
 Bank One Accepts ACS Flats

	A Annual Volume (Thousands)		B Cost/Piece (1)		C Annual Cost (Thousands)		D Frequency		E Weighted Cost/Piece
1.		69,209 (1)	\$0.0545 (2)		\$3,771		1.00		\$0.0545
2.		33,866 (3)	\$0.2711 (4)		\$9,181		0.49 (5)		\$0.1327
3. eACS									\$0.2430 (6)
4. Total									\$0.4301

- (1) Refer to Table 5.2.1.2, Row 3.a, Column D (USPS LR-J-69).
- (2) Refer to Table 5.2.1.2, Row 3.a, Column G (USPS-LR-J-69).
- (3) Refer to Table 5.2.1.3.1 (USPS-JR-J-69). This is the sum of Row 1, Column A and a portion of Row 3, Column A. Refer to Volume Section, Volume Profile, Table 4.3, "Disposition at CFS Unit", of the portion of mail that is returned to sender.
- (4) This is the ratio of Table 5.2.1.3, Column H, and Table 5.2.1.3.1, Column A, Row 4 (USPS-LR-J-69).
- (5) This is the cost of the Nixie clerk preparing mail for the CFS unit (USPS-LR-1/MC2002-2, page 1, row 2 as proxie).
- (6) From Tab 3 of USPS LR-J-69.

1 **IX. DATA AND APPENDICES**

2 **Appendix B**

3 **EXPLANATION OF FINANCIAL MODEL**

4

5 The Bank One Model incorporates all of the cost and revenue per piece
6 information into one comprehensive workbook. It serves as a presentation mechanism
7 for the customer-specific revenue and cost calculations. The model was essentially
8 built upon the same revenue and cost assumptions (discount and exposure (leakage)
9 calculations) as the Capital One NSA. The historical and forecasted volumes are
10 provided by Bank One witness Rappaport (BOC-T-1 at 5-6). All of these inputs provide
11 the basis for calculating the value of the NSA.

12

13 **Assumptions**

14 The assumptions contain the returns rate of UAA returns for Bank One's mail mix
15 as provided by witness Rappaport (BOC-T-1 at 9). The inflation cost adjustment factor,
16 a weighted average of inflationary factors, represents the inflationary cost growth
17 projected by the Postal Service. Currently, that factor is 4 percent. The Capital One
18 manual and electronic return unit costs for letters, adjusted for inflation, serve as proxies
19 in the Bank One Model (USPS-LR-1/MC2002-2). The manual and electronic return unit
20 costs for flats are the adjusted subclass averages (USPS-LR-1/MC2002-2). Costs for
21 Years 1, 2 and 3 of the agreement are adjusted by the inflationary cost growth of 4
22 percent. The Address Change Service (ACS) success rate was explained by USPS
23 witness Wilson (Docket No. MC2002-2, USPS-T-4 at 7) and is assumed to be constant

1 throughout the life of the agreement. The Bank One model assumes 100 percent of the
2 incremental mail volume growth to come from migrating Standard Mail to First-Class
3 Mail for all marketing letters. The contingency¹ is a multiplicative factor applied to all
4 forecasted postal costs. The application of the contingency is uniform across all unit
5 costs.

6

7 **Volume Calculations**

8 The Volume Calculations contain Bank One's mailing mix, consisting of
9 operational mail, marketing mail letters, and marketing mail flats. The mailing mix for
10 2001 through 2003 provides a historical view of Bank One's past mailing profile. To
11 illustrate the volume response to incentives, Bank One witness Rappaport has provided
12 the volume forecasts for Bank One, both in the absence of an agreement (BR) and in
13 the presence of an agreement (AR). BOC-T-1 at 5-6.

14

15 **First-Class Mail Revenue Calculations**

16 Appendix A, page 3 of the model shows the First-Class Mail profile of Bank One.
17 It is similar to the profile in the Capital One NSA (MC2002-2, USPS-T-3). It provides a
18 representation of the estimated revenue per piece for Bank One marketing and
19 operational mail pieces.

¹ The contingency is applied to all forecasted postal costs to protect against unforeseen circumstances. It is applied as the very last step in development of the roll-forward costs. It needs to be incorporated in NSA calculations for two reasons. First, the existing rates from which the NSA rates or discounts are being derived include contingency. In the absence of an NSA, the rates that Bank One would be paying would have been set so as to recover the contingency. Furthermore, the NSA financial analyses are projections into the future, and the further into the future the projections are made, the more appropriate the application of the contingency.

1

2 Operational Unit Cost and Marketing Unit Cost

3 The unit cost estimates for operational mail were built on the same assumptions
4 as the First-Class Mail Presort Letters/Flats Unit Cost Estimate of witness Crum (Docket
5 No. MC2002-2, USPS-T-3, "Atta2.xls") for the Capital One NSA. Estimates for the Bank
6 One NSA differ from those of the Capital One NSA in the Test Year (TY) calculations,
7 the Bank One volumes, and the total unit cost (sources 17 and 18). The TYBR 2003
8 unit cost is based on Docket No. R2001-1, with the weighted distributions calculated
9 from Base Year (BY) 2000 FCM volumes from the FCM letter model from Docket No.
10 R2001-1, PRC, LR-4. The TY 2004 cost estimates were derived by multiplying the
11 TYBR 2003 total unit cost by the inflationary growth rate of 4.0 percent.² FY 2003 Mail
12 Volume for Bank One was used because it was the latest full year historical volume
13 available. The Total Unit Cost estimates, including Contingency (Appendix A, page 4,
14 sources 17 and 18) are equal, based on the assumption that the before and after rates
15 forecasts of operational mail remain the same.

16 The Marketing Unit Cost is built on the same assumptions as the Operational
17 Unit Cost. The major difference is electronic diversion from ACS and the cost
18 differential between manual and electronic returns for UAA mail. Operational mail does
19 not receive the Change Service Requested (CSR) endorsement, because it needs to be

² Columns are labeled as "TYBR 2003" in these sheets because those figures are drawn from Docket No. R2001-1, in which FY 2003 was the test year. Columns are labeled as "TY 2004" because FY 2004 is the first of the three years in which the instant NSA is assumed to be in effect. Estimates for the last two years of the agreement, Years 2 and 3, are presented in the subsequent sheets. FY 2004 is not the exclusive "test year" in this proceeding in the sense that FY 2003 was the test year in the Capital One proceeding. It is, rather, one of three relevant years for which estimates are presented and evaluated.

1 physically returned to Bank One. Marketing mail receives the endorsement, and
2 information is returned from UAA mail electronically 85 percent of the time. This
3 explains why the Total Unit Cost, including Contingency, differs in sources 17 and 18
4 (Appendix A, page 5); the after-rates unit cost is 1.6 cents less than the before-rates
5 unit cost.

6

7 **Discount and Exposure**

8 The declining block rate structure for the proposed NSA begins at 535,000,000
9 pieces, with a discount of 2.5 cents per piece. Exposure (to the Postal Service)
10 measures the discounted revenue associated with declining block rates for mail volume
11 that Bank One would have mailed in the absence of the proposed NSA. For each year,
12 Bank One's BR forecast falls within the second tier of the discount structure. Total
13 exposure is therefore calculated by adding the first tier to the second tier. Because the
14 first tier exposure must be maximized before discount calculations apply, the ending
15 threshold is reduced by the beginning threshold (560,000,000 – 535,000,000), and that
16 difference is multiplied by the corresponding discount (2.5 cents). The first tier
17 exposure equals \$625,000. The second tier exposure is the remaining volume less the
18 beginning threshold (571,079,992 – 560,000,001), multiplied by the discount (3.0 cents),
19 equaling (\$332,400). Thus, the total exposure in each year in this case is \$957,400
20 (\$625,000+\$332,400).

21 Based on the Y1AR Forecast, Bank One could achieve discounts in the first,
22 second and third tiers of the agreement, equaling \$1,554,725, using the same formula
23 as exposure. Discounts are given on pieces mailed above the threshold. Double

1 counting of the 36,080,000 (Y1BR – Beginning Threshold: 571,080,000 – 535,000,000)
2 mail pieces occurs in the discount and exposure calculations, because the 36,080,000
3 pieces are in the exposure calculation. The Y1AR volume of 590,135,000 is made up of
4 the Y1BR volume plus the 19,055,000 additional marketing pieces. To account for this
5 double counting, the Postal Service subtracts the discount from the exposure, to get the
6 “real” discount calculation of \$597,325 (Appendix A, page 11).

7

8 **UAA Calculations**

9 In lieu of receiving physical returns, Bank One will accept electronic diversion of
10 address changes or corrections, as Capital One does. This results in cost savings to
11 the Postal Service by replacing costly physical returns with the less costly transmission
12 of electronic information. The estimated Capital One physical and electronic return unit
13 costs described in USPS-LR-1/MC2002-2 will be used in the Bank One model. The
14 total return costs savings vary from the Capital One model because of the different
15 marketing mail volumes and return rate forecasts (9 percent for Bank One’s marketing
16 mail letters).

17 To calculate the cost savings, multiply the expected volume of Bank One’s UAA
18 mail times the unit costs savings for each piece processed through the ACS times the
19 percentage of Bank One’s UAA mail that will be processed. The calculation relies upon
20 the evidence in Docket No. MC2002-2 for (1) the estimated percentage of Bank One’s
21 UAA mail that will be processed through the ACS system (85 percent) and (2) the unit
22 savings for each UAA piece processed through the ACS system.

23

1 **Standard Mail Revenue Calculations and Standard Mail Cost Calculations**

2 The Standard Mail Regular and Enhanced Carrier Route (ECR) Revenues are
3 based on the Standard Mail Regular and ECR billing determinants of Bank One. The
4 revenue per piece for both Regular and ECR is a weighted average of the revenue per
5 piece and the percent of Bank One volume. The Standard Regular and ECR unit costs
6 are based on Docket No. R2001-1 for TY 2003 unit costs (Docket No. R2001-1, USPS
7 LR-J-58). These data are based on the USPS version of the cost models, due to the
8 fact that a PRC-version is not available for some of the data. Specifically, the total unit
9 costs of Standard letters and Standard ECR letters are needed for this analysis. These
10 data are found in the USPS Weight Study (Docket No. R2001-1 USPS LR-J-58), and
11 there is no PRC version of this document. The format for 2004 unit costs follows the
12 First-Class Mail Unit Cost estimates on pages 4 and 5 of Appendix A. This provides the
13 customer-specific revenue and cost data on Bank One's Standard Mail.

14

15 **Contribution Inputs**

16 The Contribution Inputs calculate the contribution per piece of Bank One's
17 operational mail and marketing mail letters. This per piece calculation provides the
18 Postal Service with before and after rates revenue, cost, and contribution for First-Class
19 Mail and Standard Mail on a customer-specific basis. It also allows for forecasting future
20 contribution per piece in the out-years of the agreement by allowing the inflationary
21 growth to be multiplied by the cost of each subclass. Unit revenue remains constant
22 over the three-year agreement.

23

1

2 USPS Value

3 The total USPS value looks at the value determinants, less the discount and
4 exposure associated with the declining block rate structure. “Contribution from New
5 Volume” is any volume above the before rates forecast multiplied by the difference
6 between the First-Class Mail and the Standard Mail estimated contributions. This is so
7 because Bank One indicates that all of its new First-Class Mail volume will be switched
8 from Standard Mail (100 percent conversion). BOC-T-1 at 8.

9

10 Flats Adjustment

11 Estimating the savings associated with conversion to ACS requires several
12 steps. First, the physical return cost needs to be calculated. As shown in Appendix A,
13 page 13, the estimated Postal Service cost of physically returning Bank One’s flat-size
14 First-Class Mail is \$1.0190 per piece, derived as follows. I adjusted the base UAA cost
15 in Docket No. R2001-1 (USPS-LR-J-69) by removing the costs associated with
16 collection of postage due. This follows the methodology employed by witness Crum in
17 Docket No. MC2002-2 for Capital One’s letter-size First-Class Mail.

18 Second, the cost of electronic “returns” must be calculated. Appendix A, page 14
19 shows that the estimated cost of electronically handling UAA mail from point of return is
20 43.01 cents per piece. This cost is calculated by adjusting the electronic Address
21 Correction Service costs provided in Docket No. R2001-1 by Postal Service witness
22 Abdirahman (USPS-LR-J-69) to include costs that these mail pieces incur prior to actual
23 electronic Address Correction Service processing. The difference between the cost of

- 1 physically returning the mail piece and electronically handling the UAA mail piece via
- 2 ACS is the estimated unit cost savings of 58.89 cents. This follows the methodology
- 3 employed by witness Crum in Docket No. MC2002-2 for Capital One's letter-size First-
- 4 Class Mail.

Appendix C

BANK ONE CORPORATION NSA PROPOSED DATA COLLECTION PLAN

The Postal Service plans to collect the following data pertaining to the NSA with Bank One Corporation (Bank One):

1. The volume of First-Class Mail solicitations by rate category in eligible Bank One permit accounts;
2. The volume of First-Class Mail customer mail by rate category in eligible Bank One permit accounts;
3. The amount of discounts paid to Bank One for First-Class Mail by incremental volume block;
4. The volume of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to Bank One;
5. The number of electronic address correction notices provided to Bank One for forwarded solicitation mailpieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. The number of electronic address correction notices provided to Bank One for solicitation mailpieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First-Class Mail solicitation mailing list run against NCOA, Bank One will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of Bank One solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.

As part of each data collection plan report, the Postal Service will provide an evaluation of the impact on contribution. It will also provide an assessment of trends of Bank One's First-Class Mail volume as compared to overall First-Class Mail volume.

- 1 Data collected under the plan shall be reported annually following the end of the fiscal
- 2 year, with the first report being made available at the end of FY 2004. The Postal
- 3 Service shall provide the data in a PC-available format.