

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

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS  
PLUNKETT TO INTERROGATORY OF THE OFFICE OF THE CONSUMER  
ADVOCATE (OCA/USPS-T1-48)  
(August 19, 2004)

The United States Postal Service hereby provides its response to the following follow-up interrogatory of the Office of Consumer Advocate: OCA/USPS-T1-48, filed on August 9, 2004.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 19, 2004

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO  
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-48. Please refer to your response to OCA/USPS-T1-30(b) and (e), and your response to POIR No. 2, Question 5, in Docket No. MC2002-2, which states

Once discounts intended to influence mailer behavior are established, it is not possible to “observe” what mailer behavior would have been without such discounts.

a. Your response to part (b) states

Confirmed, although to the extent that one compares AR and BR volumes during the same period, exogenous impacts could be considered identical such that any difference between AR and BR volumes would be the result of a difference in postage prices.

Please confirm that it is not possible to know the effect of exogenous variables on a mailer’s BR volumes after price discounts are offered. If you do not confirm, please explain.

b. Your response to part (e) states

If, in the unlikely circumstance that the Before Rates volumes will be materially higher than projected, it is probable that the exposure or ‘discount leakage’ has been underestimated. However, by that same token the projected ACS cost savings will also have been underestimated, thus mitigating the loss from the additional leakage.

Please confirm that to the extent Before Rates volumes are materially higher, as you posit, the discount leakage cannot be eliminated. If you do not confirm, please explain.

c. Please confirm that to the extent Before Rates volumes are materially higher in Year 3, the discount leakage at a \$0.050 discount will be \$0.033 [Discount - Net Contribution less Discount, \$0.050 - \$0.017]. If you do not confirm, please explain.

**RESPONSE:**

a. Confirmed that when analyzing changes in a customer’s mail volume, it is not possible to precisely identify causal relationships between specific factors and such changes. However, “exogenous” in this context means things that are outside the scope of the agreement between Bank One and the Postal

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Service. Thus, for any period of time under consideration, exogenous factors would presumably affect both AR and BR volumes in the same manner. For example, an exogenous factor that results in an increase in BR volume would also result in a similar increase in the AR volume as well.

- b. Confirmed.
- c. Confirmed, with two caveats. First, it is highly unlikely that there will be any Before-Rates volume in the 5-cent discount block in any year of the agreement. Moreover, if this unanticipated development occurred, it is likely that whatever exogenous factor caused it would also cause a comparable increase in the After-Rates volume above the level projected for the same year. Second, the terminology "Discount - Net Contribution less Discount" is misleading. A more accurate description of the per-unit values is "Discount – Cost Savings". See Attachment to OCA/USPS-T1-36, page 3, Row 13, cell W23

## **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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