

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH DISCOVER
FINANCIAL SERVICES, INC.

Docket No. MC2004-4

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS AYUB
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-39) (ERRATA)
(August 25, 2004)

The United States Postal Service hereby provides its amended response to the following interrogatory: Office of the Consumer Advocate Interrogatory to United States Postal Service Witness Ali Ayub (OCA/USPS-T1-39), filed on August 5, 2004. The first response to this interrogatory, filed on August 16, 2004, inadvertently omitted the response to subpart (f) of that interrogatory.

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 25, 2004

OCA/USPS-T1-39. For Discover Financial Services (DFS), please provide an analysis equivalent to that submitted by witness Crum at Tr. 2/318-22 (Docket No. MC2002-2), in response to POIR 2, question 7.

- a. In your analysis, address specifically the fact that DFS' estimated First-Class Mail (FCM) solicitation volumes are approximately 23% of Capital One's FCM solicitation volumes.
- b. Also, address specifically the fact that in contrast to Capital One, which had an obligation to update its address lists within two days of receipt of electronic ACS notices (Tr. 2/321), DFS is given a longer period of time – 30 days – to update its address lists.
- c. Isn't it generally correct that dividing Capital One's annual volumes of FCM solicitations – 768 million – by the number of delivery points in the United States (witness Crum used a figure of 137,682,00, from the Postal Service's 2001 Annual Report; Tr. 2/320) yielded an implied average number of pieces per delivery point of 5.6? If you do not agree, please explain.
- d. Isn't it generally correct that dividing DFS' estimated annual volumes of FCM solicitations – 174 million – yields an implied average number of pieces per delivery point of 1.27? If you do not agree, please explain.
- e. Doesn't a comparison of the figures set forth in parts c. and d., *i.e.*, 5.6 versus 1.27, suggest that the Postal Service is much less likely to benefit from avoided forwards in the case of DFS than it does in the case of Capital One? If you do not agree, please explain.
- f. Please confirm that an obligation to update address lists within 30 days (DFS) compared to 2 days (Capital One) is likely to result in higher costs for the Postal Service for forwarding and returning DFS' UAA mail as compared to Capital One. If you do not confirm, please explain.

RESPONSE:

As Witness Crum stated in cross examination in Docket No. MC2002-2, Transcript Volume 3, page 363, lines 20-21, the Postal Service provided the information in POIR2-7 from that case in “response and not part of testimony” as a general baseline analysis of what the minimum savings for eliminating future forwards could be calculated as. This is also the reason any benefits from forwarding are not calculated as a savings, or presented as savings, in my testimony. Witness Crum identified that the information was not presented in “testimony because I (witness Crum) didn't believe there was solid support of a

number.” (Transcript, Volume 3, page 363, lines 23-25). The Postal Service, in the case of DFS, is similarly unable to provide data other than the “averages” provided by witness Crum. Below, I will address the specific points identified by the OCA.

(a) DFS's estimated FCM solicitation volume is approximately 23% of Capital One's FCM solicitation volume, which would indicate that the potential pool of ACS savings for DFS is smaller than for Capital One.

(b) Confirmed that DFS's obligation to update its list is within 30 days, as compared to Capital One's obligation of 2 days. This change reflects the difference in operating structure between DFS and Capital One, and that the two mailers have unique business rules and practices.

(c) Confirmed that dividing the number of FCM solicitations for Capital One by the number of delivery points in the United States, yields an implied average number of pieces per delivery point of 5.6. However, as Witness Crum stated in oral cross examination, Volume 3, lines 24-26, “Certainly we don't know that Capital One mails to every domestic delivery point. I would seriously doubt they do but we had to try to make some calculations to respond to their (POIR request 2) request.” This implies that the analysis provided in response to POIR 2 was the most conservative estimate of savings from eliminating repeat forwards.

(d) Confirmed that dividing DFS's annual FCM solicitation volume of 174 million by the total number of delivery points yields an implied average of 1.27. However, as Witness Giffney has indicated, DFS may mail multiple times to a

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prospective customer. Moreover, not every household fits the characteristics (which are variables which could range from credit scores to income) that would meet DFS customer requirements. For these reasons, it is highly unlikely that DFS mails to every delivery point in the United States. Applying the average methodology employed by Witness Crum in response to the POIR to provide a framework for calculating estimated savings from repeat forwards, while applying the same values for all the variables, does not provide a meaningful analysis for smaller FCM solicitation mailers.

(e) Not confirmed. Please see my response to (d) above.

(f) Not confirmed. While it is possible that more frequent updates may result in earlier detection, and thus the avoidance of future UAA mailings, we do not know the timing of Discover's repeat mailings to prospective customers. Therefore, I cannot estimate whether the cost is higher as a result of the 30 day obligation. The basis for an assumption that costs would be higher is if one assumes that Discover makes multiple mailings to the same prospective customer within a 30 day period. If, however, the repeat mailings are normally distributed over the year, the potential savings from eliminating future forwards would provide substantial savings for the Postal Service.

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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