

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

UNITED STATES POSTAL SERVICE NOTICE OF THIRD ERRATUM TO
RESPONSE OF WITNESS AYUB TO INTERROGATORY OF VALPAK DIRECT
MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-14) (ERRATUM)
(September 3, 2004)

The United States Postal Service hereby provides notice that is filing a third erratum to the Response of United States Postal Service Witness Ayub to Interrogatory of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., VP/USPS-T1-14, originally filed on August 16, 2004. The first erratum, filed on August 17, 2004, corrected a few pages that were missing a header. The second erratum, filed on August 20, 2004, clarified the responses to VP/USPS-T1-14(a), (b) and (d) to express the fact that the Postal Service was confirming the questions with the exceptions therein noted. It also clarified the response to subpart (a) to indicate the source of a figure. This third erratum reflects an amended response to subpart (a), resulting from errata filed to Appendix A of witness Ayub's testimony on September 2, 2004.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 3, 2004

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VP/USPS-T1-14.

The attached spreadsheets (Attachments 1-3) compare the returns that the Postal Service receives in 2005 (Year 1) (Attachment 1) and 2007 (Year 3) (Attachment 2) when DFS Standard Mail converts to First-Class Mail. Column (1) of Attachments 1 and 2 shows the return for Standard Mail, column (2) shows the return from un-discounted First-Class Mail, and columns (3)-(7) compute the returns at the various discount levels contained in the NSA. For ease of comparison, the data in each column assume an incremental volume of 10,000,000 pieces.

a. Rows (2)-(8) of Attachments 1 and 2 compute the total contribution and the per piece contribution for each respective column. Please review the data in this part of Attachments 1 and 2 and confirm that the entries accurately reflect the assumptions made by the Postal Service in this docket as to price and unit cost. If you do not confirm, please indicate what changes should be made in order to conform with the assumptions made by the Postal Service in this docket.

b. Rows (9)-(23) of Attachments 1 and 2 compute the cost of handling returns of UAA mail for each respective column. Please review the data in this part of Attachments 1 and 2 and confirm that the entries accurately reflect the assumptions made by the Postal Service in this docket as to return rates (both manual and ACS), as well as the unit costs for manual and ACS returns. If you do not confirm, please indicate what changes should be made in order to conform with the assumptions made by the Postal Service in this docket.

c. The unit costs of destruction on shown on row (20) of Attachments 1 and 2 are somewhat arbitrary entries. If you have a better estimate for the unit cost of destruction, please provide.

d. Rows (24)-(35) of Attachments 1 and 2 compute the cost of providing forwarding service and electronic ACS returns for each respective column. Please review the data in this part of Attachments 1 and 2 and confirm that the entries accurately reflect the assumptions as to forwarding rates and ACS returns, as well as the unit costs for forwarding and ACS returns, made by the Postal Service in this docket. If you do not confirm, please indicate what changes should be made in order to conform with the assumptions made by the Postal Service in this docket.

e. If you believe that any further adjustment(s) should be made with respect to the costs of forwarding and/or ACS returns for forwarded mail in Attachments 1 and 2, please explain clearly and fully the nature of each such adjustment, and indicate how it would affect (*i.e.*, increase of decrease) the costs shown in rows (34)-(35).

DFS FCM vs STD Comparison for 2005		(1)	(2)	(3)	(4)	(5)	(6)	(7)
	STD	FCM	FCM	FCM	FCM	FCM	FCM	FCM
(1) (Discount)	(No discount)	(No discount)	\$0.0250	\$0.0300	\$0.0350	\$0.0400	\$0.0450	
(2) Marketing Volume (millions)	10	10	10	10	10	10	10	10
(3) Price per Piece	\$0.175	\$0.292	\$0.267	\$0.262	\$0.257	\$0.252	\$0.247	
(4) Total Revenue (millions)	\$1.75	\$2.92	\$2.67	\$2.62	\$2.57	\$2.52	\$2.47	
(5) Cost per Piece including 1.23% return rate	\$0.085	\$0.109	\$0.109	\$0.109	\$0.109	\$0.109	\$0.109	\$0.109
(6) Total Cost including 1.23% return rate (millions)	\$0.85	\$1.09	\$1.09	\$1.09	\$1.09	\$1.09	\$1.09	\$1.09
(7) Contribution Millions	\$0.900	\$1.830	\$1.580	\$1.530	\$1.480	\$1.430	\$1.380	
(8) Incremental Contribution/per piece	\$0.090	\$0.183	\$0.158	\$0.153	\$0.148	\$0.143	\$0.138	
(9) Return Rate	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%
(10) Systemwide Return Rate	0.00%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
(11) Excess Return Rate	0.00%	8.07%	8.07%	8.07%	8.07%	8.07%	8.07%	8.07%
(12) UAA Volume (millions)	0.93	0.807	0.807	0.807	0.807	0.807	0.807	0.807
(13) Electronic Returns (millions)	0.000	0.000	0.686	0.686	0.686	0.686	0.686	0.686
(14) Manual Returns (millions)	0.000	0.807	0.121	0.121	0.121	0.121	0.121	0.121
(15) Electronic Return Cost per Piece	\$0.340	\$0.340	\$0.340	\$0.340	\$0.340	\$0.340	\$0.340	\$0.340
(16) Manual Return Cost per Piece	\$0.550	\$0.550	\$0.550	\$0.550	\$0.550	\$0.550	\$0.550	\$0.550
(17) Total electronic return cost (millions)	\$0.000	\$0.000	\$0.233	\$0.233	\$0.233	\$0.233	\$0.233	\$0.233
(18) Total manual return cost (millions)	\$0.000	\$0.444	\$0.067	\$0.067	\$0.067	\$0.067	\$0.067	\$0.067
(19) Total Return Cost	\$0.000	\$0.444	\$0.300	\$0.300	\$0.300	\$0.300	\$0.300	\$0.300
(20) Cost of Destruction per Piece	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015
(21) Total Cost of destruction (millions)	\$0.014	\$0.000	\$0.010	\$0.010	\$0.010	\$0.010	\$0.010	\$0.010
(22) Contribution after return cost adjustments (millions)	\$0.886	\$1.386	\$1.270	\$1.220	\$1.170	\$1.120	\$1.070	
(23) Incremental Contribution/pc after return cost adjustment	\$0.089	\$0.139	\$0.127	\$0.122	\$0.117	\$0.112	\$0.107	
(24) Assumed Forwarding Rate	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
(25) Systemwide Forwarding Rate	0.00%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%
(26) Excess Forwarding Rate	0.00%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
(27) Excess Forward pieces from conversion (millions)	0	0.004	0.004	0.004	0.004	0.004	0.004	0.004
(28) Cost per Forward, Year 1	\$0.345	\$0.345	\$0.345	\$0.345	\$0.345	\$0.345	\$0.345	\$0.345
(29) Total Excess Cost of Forwards, Year 1	\$0.000	\$0.001	\$0.001	\$0.001	\$0.001	\$0.001	\$0.001	\$0.001
(30) ACS Notices for forwarded mail (millions)	0	0	0.2	0.2	0.2	0.2	0.2	0.2
(31) Cost per ACS notice, Year 1	\$0.074	\$0.074	\$0.074	\$0.074	\$0.074	\$0.074	\$0.074	\$0.074
(32) Total Cost ACS notices for Forwarded Mail (millions)	\$0.000	\$0.000	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015
(33) Contribution after forwards cost adjustment (millions)	\$0.886	\$1.385	\$1.254	\$1.204	\$1.154	\$1.104	\$1.054	
(34) Incremental Contribution/pc after forward cost adjustment	\$0.0886	\$0.138	\$0.125	\$0.120	\$0.115	\$0.110	\$0.105	
(35) Incremental Contribution of Standard Mail (millions)	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886
(36) Contribution after Standard Mail conversion (millions)	\$0.000	\$0.499	\$0.368	\$0.318	\$0.268	\$0.218	\$0.168	
(37) Incremental Contribution/PC after forward cost adjustment	\$0.000	\$0.050	\$0.037	\$0.032	\$0.027	\$0.022	\$0.017	

DFS FCM vs STD Comparison for 2007		(1)	(2)	(3)	(4)	(5)	(6)	(7)
	STD	FCM	FCM	FCM	FCM	FCM	FCM	FCM
(1) (Discount)	(No discount)	(No discount)	\$0.0250	\$0.0300	\$0.0350	\$0.0400	\$0.0450	
(2) Marketing Volume (millions)	10	10	10	10	10	10	10	10
(3) Price per Piece	\$0.177	\$0.292	\$0.267	\$0.262	\$0.257	\$0.252	\$0.247	
(4) Total Revenue (millions)	\$1.77	\$2.92	\$2.67	\$2.62	\$2.57	\$2.52	\$2.47	
(5) Cost per Piece including 1.23% return rate	\$0.092	\$0.118	\$0.118	\$0.118	\$0.118	\$0.118	\$0.118	
(6) Total Cost including 1.23% return rate (millions)	\$0.92	\$1.18	\$1.18	\$1.18	\$1.18	\$1.18	\$1.18	
(7) Contribution Millions	\$0.851	\$1.741	\$1.491	\$1.441	\$1.391	\$1.341	\$1.291	
(8) Incremental Contribution/per piece	\$0.085	\$0.174	\$0.149	\$0.144	\$0.139	\$0.134	\$0.129	
(9) Return Rate	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%
(10) Systemwide Return Rate	0.00%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
(11) Excess Return Rate	0.00%	8.07%	8.07%	8.07%	8.07%	8.07%	8.07%	8.07%
(12) UAA Volume (millions)	0.93	0.807	0.807	0.807	0.807	0.807	0.807	0.807
(13) Electronic Returns (millions)	0.000	0.000	0.686	0.686	0.686	0.686	0.686	0.686
(14) Manual Returns (millions)	0.000	0.807	0.121	0.121	0.121	0.121	0.121	0.121
(15) Electronic Return Cost per Piece	\$0.368	\$0.368	\$0.368	\$0.368	\$0.368	\$0.368	\$0.368	\$0.368
(16) Manual Return Cost per Piece	\$0.595	\$0.595	\$0.595	\$0.595	\$0.595	\$0.595	\$0.595	\$0.595
(17) Total electronic return cost (millions)	\$0.000	\$0.000	\$0.252	\$0.252	\$0.252	\$0.252	\$0.252	\$0.252
(18) Total manual return cost (millions)	\$0.000	\$0.480	\$0.072	\$0.072	\$0.072	\$0.072	\$0.072	\$0.072
(19) Total Return Cost	\$0.000	\$0.480	\$0.324	\$0.324	\$0.324	\$0.324	\$0.324	\$0.324
(20) Cost of Destruction per Piece	\$0.016	\$0.016	\$0.016	\$0.016	\$0.016	\$0.016	\$0.016	\$0.016
(21) Total Cost of destruction (millions)	\$0.015	\$0.000	\$0.011	\$0.011	\$0.011	\$0.011	\$0.011	\$0.011
(22) Contribution after return cost adjustments (millions)	\$0.836	\$1.261	\$1.156	\$1.106	\$1.056	\$1.006	\$0.956	
(23) Incremental Contribution/pc after return cost adjustment	\$0.084	\$0.126	\$0.116	\$0.111	\$0.106	\$0.101	\$0.096	
(24) Assumed Forwarding Rate	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
(25) Systemwide Forwarding Rate	0.00%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%
(26) Excess Forwarding Rate	0.00%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
(27) Excess Forward pieces from conversion (millions)	0	0.004	0.004	0.004	0.004	0.004	0.004	0.004
(28) Cost per Forward, Year 1	\$0.374	\$0.374	\$0.374	\$0.374	\$0.374	\$0.374	\$0.374	\$0.374
(29) Total Excess Cost of Forwards, Year 1	\$0.000	\$0.001	\$0.001	\$0.001	\$0.001	\$0.001	\$0.001	\$0.001
(30) ACS Notices for forwarded mail (millions)	0	0	0.2	0.2	0.2	0.2	0.2	0.2
(31) Cost per ACS notice, Year 1	\$0.080	\$0.080	\$0.080	\$0.080	\$0.080	\$0.080	\$0.080	\$0.080
(32) Total Cost ACS notices for Forwarded Mail (millions)	\$0.000	\$0.000	\$0.016	\$0.016	\$0.016	\$0.016	\$0.016	\$0.016
(33) Contribution after forwards cost adjustment (millions)	\$0.836	\$1.259	\$1.138	\$1.088	\$1.038	\$0.988	\$0.938	
(34) Incremental Contribution/pc after forward cost adjustment	\$0.0836	\$0.1259	\$0.1138	\$0.1088	\$0.1038	\$0.0988	\$0.0938	
(35) Incremental Contribution of Standard Mail (millions)	\$0.836	\$0.836	\$0.836	\$0.836	\$0.836	\$0.836	\$0.836	\$0.836
(36) Contribution after Standard Mail conversion (millions)	\$0.000	\$0.424	\$0.303	\$0.253	\$0.203	\$0.153	\$0.103	
(37) Incremental Contribution/pc after Standard Mail adjust.	\$0.000	\$0.042	\$0.030	\$0.025	\$0.020	\$0.015	\$0.010	

FOOTNOTES

Shaded footnotes indicate that the calculation for the Standard Mail column is different.

- (1) Price incentive level.
- (2) Marketing letter volume.
- (3) Revenue per piece from Appendix A page 3 at (9) less price incentive for First Class Mail; and page 8 at (3) for Standard Mail .
- (4) $(2) * (3)$
- (5) In Appendix A page 1 change return rates for Marketing mail - Letters (3) to 1.23%. Cost from Appendix A page 4 at (18).
Standard Mail = page 9 at (21) * contingency.
- (6) $(2) * (5)$
- (7) $(4) - (6)$
- (8) $(7) / (2)$
- (9) Appendix A page 1 at (2)
- (10) Appendix A page 1 at (4)
- (11) $(9) - (11)$
- (12) $(11) * (2)$
- (13) $.85$ (ACS success rate) * (12)
- (14) $.15$ (ACS failure rate) * (12)
- (15) Appendix A page 1 at (7)
- (16) Appendix A page 1 at (9)
- (17) $(13) * (15)$
- (18) $(14) * (16)$
- (19) $(17) + (18)$
- (20) Place holder. I have no estimate for the cost of destruction however because the same procedures for FCM and Standard the cost is the same.
- (21) For FCM = $(13) * (20)$ and for Standard Mail = $(12) * (20)$
- (22) $(7) - (19) - (21)$
- (23) $(22) / (2)$
- (24) Unaudited Postal data from Capital One and expected for this customer.
- (25) MC2002-2 POIR-2, Q7 (Tr. 2/319.)
- (26) $(24) - (25)$
- (27) $(26) * (2)$
- (28) FCM forwarding costs from MC2002-2, POIR-2, Q7 $(.307 * 1.04^3)$ inflated to 2005, and $(.307 * 1.04^5)$ to 2007. For Standard Mail is destruction cost because no forwards, only destruction. (Tr. 2/320.)
- (29) $(27) * (28)$
- (30) $(2) * (24)$
- (31) ACS notices costs from MC2002-2, POIR-2, Q7 inflated by 4% for 3 years to 2005, and 5 years to 2007. (Tr. 2/320.)
- (33) $(30) * (31)$
- (34) $(22) - (29) - (33)$
- (35) $(33) / (2)$
- (36) Total Contribution of Standard Marketing pieces
- (37) $(34) - (36)$
- (38) $(37) / (2)$

RESPONSE:

- a) Confirmed, except for the following exceptions. The cost per piece for marketing letters including the 1.23% return rate for Year 1 is \$0.104 from page 5 of Appendix A, and not \$0.109 as referenced in line (5). This is the result if you change the forecast for marketing mail – letters (2) to 1.23% as noted in footnote 5. The correct value for the third year of the agreement is \$0.112 against \$0.118 presented. In addition based on the errata to Appendix A of my testimony filed on September 2, 2004, the following changes occur:
1. The Standard Cost per piece in Year was increased from \$0.085 to \$0.087 cents in Year 1. This was done so that contingency of 3% is now included on both the FCM and Standard Mail cost calculations
 2. The manual return cost per piece and electronic return cost per pieces were also increased by the contingency factor. Raising the price of manual return cost per piece from \$0.340 to \$0.350 and for electronic return cost per piece to \$0.567 from \$0.550. This was done so that contingency of 3% is included on the cost calculations. This affects Year 3 because Year 3 is based on inflating Year 1.
 3. The net effect is an increase in incremental contribution per piece as presented in Year 1 at the \$0.045 discount from \$0.017 to \$0.023 and in Year 3 to \$0.018 from \$0.010.
- b) Confirmed, however it should be noted that line (19) Total Return Cost should be referenced as million(s).

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS AYUB
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

REVISED 9-3-2004

- c) I have no knowledge of any studies that calculate the destruction of the UAA pieces. However for the needs of this analysis \$0.015 is an acceptable placeholder because the cost of destruction of UAA for both classes is the same.
- d) Confirmed, although the assumed forwarding rate for DFS Standard Mail is assumed at 0% and the comparisons provided would be misleading if you were not to provide an estimated cost of destruction for Standard Mail pieces that could have been forwarded but have been destroyed. The Return Rate of 9.3% used in line (9) does not address mail that could or has been forwarded. As I describe in VP/USPS-T-13 it is my opinion that the forwarding rate for DFS Standard Mail and First Class Mail is expected to be in line with the forwarding projections for First-Class Mail and a 2% forwarding rate should be applied to the Standard Mail calculations at line (24). However, because Standard Mail that does not use CSR is not forwarded but destroyed, the proper cost for this estimate would be the cost of destruction used in line (20).
- e) The estimated incremental contribution per piece after Standard Mail adjustment is expected to increase if the value of avoided forwarding costs could be calculated at this time. However, it is not possible to provide an accurate estimate at this time of that value. It is very likely given that DFS mails multiple times to a prospective customer that an ACS notice may result in the elimination of a future piece from being forwarded. In Year 1 of the agreement the benefits of eliminating one forward at \$0.345 would cover the expense of providing 4.5 ACS notices for forwarded mail.

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.

Brian M. Reimer

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September 3, 2004