

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

RATE AND SERVICE CHANGES TO) Docket No. MC2004-4
IMPLEMENT FUNCTIONALLY EQUIVALENT)
NEGOTIATED SERVICE AGREEMENT WITH)
DISCOVER FINANCIAL SERVICES, INC.)

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
SECOND INTERROGATORIES AND REQUESTS FOR PRODUCTION OF
DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS ALI AYUB (VP/USPS-T1-12-14)
(August 5, 2004)

Pursuant to sections 25 through 27 of the Rules of Practice of the Postal Rate
Commission, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
hereby submit the following interrogatories and requests for production of documents.

Respectfully submitted,

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VP/USPS-T1-12.

Please refer to your response to VP/USPS-T1-3(d), where you explain the correct interpretation of the 2.472 ratio of Standard Mail pieces forwarded to pieces returned (*see* Domestic Mail Classification Schedule (“DMCS”), Sec. 353 and Domestic Mail Manual (“DMM”) F010.5.3; *see also* Docket No. MC2002-2, response of Postal Service witness Charles L. Crum to OCA/USPS-T3-25, Tr. 2/337).

- a. In what docket was that ratio first established?
- b. What was the source of data used to determine that ratio?
- c. Please confirm that the Postal Service charges a fee for Standard Mail address correction and return services based on that ratio. If you do not confirm, please explain the basis for the current fee.

VP/USPS-T1-13.

- a. Please refer to your response to VP/USPS-T1-3 and confirm that, according to that response, if a Standard mailing of 10,000,000 pieces can be anticipated to have 9.3 percent that is Undeliverable as Addressed (“UAA”) and non-forwardable, then based on the data provided in your response, should the mailer request Address Correction Service (“ACS”) and forwarding service, on average, for (i) each 930,000 pieces returned, (ii) an additional 1,368,960 (*i.e.*, $1.472 \times 930,000$) pieces would be forwarded. That is, if the return rate averages 9.3 percent for Standard Mail, the forward rate would be expected to average 13.7 percent. If you do not confirm, please explain.

- b. Please confirm that for every 10,000,000 pieces of First-Class Marketing mail sent by Discover Financial Services, Inc. (“DFS”), the Postal Service projects that 930,000 (9.3 percent) pieces will be returned as UAA, 200,000 (2.0 percent) will be forwarded, and the number of pieces forwarded will be 1,168,960 less than would be projected for 10,000,000 pieces of Standard Mail using the ratio in your response to VP/USPS-T1-3(d). If you do not confirm, please explain.
- c. Please confirm that currently some Standard Mailings need to be Coding Accuracy Support System (“CASS”) certified with respect to address hygiene or address quality checks, but none are required to be run against National Change of Address (“NCOA”). If you do not confirm, please explain any other address hygiene requirements for Standard Mail more strict than CASS certification.
- d. Please confirm that discounted First-Class mailings need to be run against NCOA within six months prior to mailing. If you do not confirm, please explain.
- e. As between mailings entered as Standard and First-Class, are there any differences (other than those set out in preceding parts c and d) in **Postal Service-required** address hygiene or address quality measures that could account for some or all of the reduction in forwards when Standard solicitation mailings convert to First-Class Marketing mail. If so, please endeavor to quantify both the individual and cumulative effect of whatever factors you describe.
- f. If a CASS-certified list were to be run against NCOA, would the use of NCOA be expected to reduce the expected 1,368,960 forwards to 200,000, which is a reduction of 1,168,960, or 85.4 percent? Please explain why or why not.

- g. To the extent that your responses to preceding parts e and f do not fully account for the expected reduction in forwards of DFS mail that converts from Standard to First-Class Marketing mail — *i.e.*, from 1,368,960 to 200,000 — what additional measures will DFS be **required** to take under the proposed Negotiated Service Agreement (“NSA”) that account for the expected reduction in forwards?
- h. When DFS converts Standard Mail to First-Class Mail, if the measures that DFS will be **required** to take, both by virtue of being entered as First-Class Mail and under the proposed NSA, do not account fully for the expected reduction in forwards, what **optional** address hygiene measures is DFS expected to take that account for the expected reduction in forwards from 1,368,960 to 200,000?

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 or 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	
(6) Total Cost including 1.23% return rate (millions)	\$0.85	\$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
(33) Total Cost ACS notices for Forwarded Mail (millions)	\$0.000	\$0.000	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015
(34) Contribution after forwards cost adjustment (millions)	\$0.886	\$1.385	\$1.254	\$1.204	\$1.154	\$1.104	\$1.054	
(35) Incremental Contribution/pc after forward cost adjustment	\$0.0886	\$0.138	\$0.125	\$0.120	\$0.115	\$0.110	\$0.105	
(36) Incremental Contribution of Standard Mail (millions)	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886	\$0.886
(37) Contribution after Standard Mail conversion (millions)	\$0.000	\$0.499	\$0.368	\$0.318	\$0.268	\$0.218	\$0.168	
(38) 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) $(37) / (2)$