

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 ERRATA TO
RESPONSES OF WITNESS AYUB TO INTERROGATORIES OF VALPAK DIRECT
MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-12-14)(ERRATA)
(August 17, 2004)

The United States Postal Service hereby provides notice that is filing errata to the Response of United States Postal Service Witness Ayub to Interrogatories of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., VP/USPS-T1-12-14. A few pages were missing a header. This error has been corrected in the attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 17, 2004

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.

RESPONSE:

- a) The method used to calculate the ratio was first established in Docket No. R84-1.

The actual numbers used to calculate the ratio were first established by rulemaking. See 50 Fed. Reg. 7049 (1985). In 1988, however, the Postal Service initiated a review of the forwarding/return ratio. The Postal Service conducted a special field survey in which data were collected from a sample of 2,303 representative delivery units distributed throughout all five postal regions, for six days spread over a test period of a month. Undeliverable-as-addressed Standard Mail pieces endorsed "Forwarding and Return Postage Guaranteed," or "Forwarding and Return Postage Guaranteed, Address Correction Requested" were counted at carrier cases, box sections, or general delivery sections, and at sampled CAG K and L post offices. The reasons for nondelivery were noted, and piece counts were done separately for forwarded pieces and returned pieces. The raw data were then weighted by factors based on the number of similar delivery units each sample unit represented. The inflated data yielded a forwarding/return factor of 1.472. Thus, the ratio was changed so that the

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postage charged a returned piece of endorsed Standard Mail would be the applicable single-piece rate multiplied by 2.472 (one plus the new forwarding return factor of 1.472). This change was implemented by rulemaking. See 55 Fed. Reg. 3985 (1990).

- b) Please see (a) above.
- c) Confirmed, although with a slight correction of interpretation. The "fee" is not a "fee", per se, but rather, it is a multiple of an existing rate, with the multiple designed to cover the postage that would have been charged of the actual pieces forwarded and returned were we able to individually identify and charge for those pieces. The fee for this service is in the DMCS.

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 x 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?

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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?

RESPONSE:

- a) Based on the numbers provided for the average that is confirmed. However there is no evidence to suggest that DFS Standard Mail will follow the same ratio as identified above. It is likely that DFS Standard volume that shifts to FCM will have a similar forwarding rate as existing FCM solicitation volume
- b) Confirmed if you make the assumptions in provided in part (a) of this interrogatory.
- c) Confirmed.
- d) Not confirmed. Discounted First-Class mailings must comply with the Move Update requirement. There are several alternative means of compliance; use of NCOA is one of the allowable options. Any allowable option must have been performed no less than 180 days prior to the mail entry date.
- e) I am not aware nor am I an expert on causes in difference between the UAA composition between Standard and FCM. However it is more likely the result of the composition in terms of use of the mail than any other factor.
- f) The current forward rate on DFS FCM solicitation volume which is subject to NCOA is expected at 2%. However there is no indication that the Standard forwarding rate for DFS is as high as presented. However it is very likely that NCOA will decrease the number of forwards in comparison to CASS-certified lists.

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- g) Please refer to section II of the NSA contract between the Postal Service and
DFS.
- h) Please see e, f and g above.

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).

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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