Postal Rate Commission
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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

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT (OCA/USPS-T1-36-45)
August 5, 2004

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/BOC-T1-1-10, dated June 28, 2004, are hereby incorporated by reference.

Respectfully submitted,

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OCA/USPS-T1-36. Please refer to your response to OCA/USPS-T1-19, and the attachment to this interrogatory.

a. Please refer to Table 1, Year 1 – ACS Related Savings in the attachment. Please confirm that BOC's Year 1 ACS unit cost saving for letters is $0.01591200 [($0.55 – 0.34) * 0.09 * 0.85 * 1.00], where ($0.55 – 0.34) represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation mail as a percent of extra BR volume. If you do not confirm, please explain and show all calculations.

b. Please refer to Table 1, Year 1 – ACS Related Savings in the attachment. Please confirm that BOC's Year 1 ACS unit cost saving for flats is $0.05726308 [($1.06 – 0.45) * 0.11 * 0.85 * 1.00], where ($1.06 – 0.45) represents the difference between manual return unit costs and electronic return unit costs, 0.11 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation flats eligible for ACS. If you do not confirm, please explain and show all calculations.

c. Please refer to Table 1, Year 1 – ACS Related Savings in the attachment. Please confirm that BOC's BR Equilibrium First-Class Letter Volume is 610,040,414 [645,040,414 – (35,043,000 - 43,000)]. If you do not confirm, please explain and show all calculations.

d. Please refer to Table 1, Year 2 – ACS Related Savings in the attachment. Please confirm that BOC's Year 2 ACS unit cost saving for letters is

$0.01654848 [($0.57 – 0.36) * 0.09 * 0.85 * 1.00], where ($0.57 – 0.36) represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation mail as a percent of extra BR volume. If you do not confirm, please explain and show all calculations.

e. Please refer to Table 1, Year 2 – ACS Related Savings in the attachment. Please confirm that BOC's Year 2 ACS unit cost saving for flats is $0.05955361 [($1.10 – 0.47) * 0.11 * 0.85 * 1.00], where ($1.10 – 0.47) represents the difference between manual return unit costs and electronic return unit costs, 0.11 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation flats eligible for ACS. If you do not confirm, please explain and show all calculations.

f. Please refer to Table 1, Year 2 – ACS Related Savings in the attachment. Please confirm that BOC's BR Equilibrium First-Class Volume is 615,174,506 [650,174,506 – (35,043,000 - 43,000)]. If you do not confirm, please explain and show all calculations.

g. Please refer to Table 1, Year 3 – ACS Related Savings in the attachment. Please confirm that BOC's Year 3 ACS unit cost saving for letters is $0.01721042 [($0.60 – 0.37) * 0.09 * 0.85 * 1.00], where ($0.60 – 0.37) represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation mail as a

percent of extra BR volume. If you do not confirm, please explain and show all calculations.

h. Please refer to Table 1, Year 3 – ACS Related Savings in the attachment. Please confirm that BOC's Year 3 ACS unit cost saving for flats is $0.06193575 [($1.15 – 0.48) * 0.11 * 0.85 * 1.00], where ($1.15 – 0.48) represents the difference between manual return unit costs and electronic return unit costs, 0.11 represents BOC's physical return rate, 0.85 represents the ACS success rate, and 1.00 represents BOC's solicitation flats eligible for ACS. If you do not confirm, please explain and show all calculations.

i. Please refer to Table 1, Year 3 – ACS Related Savings in the attachment. Please confirm that BOC's BR Equilibrium First-Class Volume is 620,763,439 [655,763,439 - (35,043,000 - 43,000)]. If you do not confirm, please explain and show all calculations.

OCA/USPS-T1-37. Please refer to the last sentence in your response to OCA/USPS-T1-19, which states "For example, if 100% of the incremental volume consists of solicitation mail, then a volume of 616.6 million pieces would produce ACS savings for letters under the NSA of approximately $3.2 million with a combined ACS savings for letters and flats of $9.5 million." Please provide all calculations showing the derivation of the figures used in your example.

OCA/USPS-T1-38. This is a hypothetical question. Please make the following assumptions. (1) Unit cost saving for solicitation letters is $0.0159. (2) Unit cost saving

for solicitation flats is $0.0573. (3) Pre-NSA customer volume is 506,650,000. (4) Pre-NSA solicitation letter-shaped volume is 29,387,000. (5) Pre-NSA solicitation flat-shaped volume is 35,043,000. (6) The difference in contribution between Bank One's First Class and Standard mail is $0.07. (7) There is no quarterly settlement of discounts earned by Bank One. (8) Discount-induced volume does not appear until Bank One mails 103,368,725 solicitation pieces.

a. Do you agree that if Bank One enters 500,000,000 customer pieces in Year One, it will receive no discounts and generate no cost savings? If you do not agree, please explain.

b. Do you agree that if Bank One enters, in addition to the above 500,000,000 pieces, 35,000,000 solicitation flats, it will receive no discounts but will generate cost savings of $2,005,500? If you do not agree, please explain.

c. Do you agree that if Bank One enters, in addition to the above 535,000,000 pieces, 43,000 solicitation flats, it will receive discounts of $1,075 (43,000 * $0.025) because the threshold has been exceeded and up to 35,000,000 flats are eligible for discounts? Do you also agree that the 43,000 solicitation flats will generate additional cost savings of $2,464, for a net total benefit to the Postal Service of $2,006,889? If you do not agree, please explain.

d. Do you agree that if Bank One enters, in addition to the above 535,043,000 pieces, 6,650,000 customer pieces, it will receive additional discounts of $166,250 (6,650,000 * $0.025) and generate no additional cost savings, for a net total benefit to the Postal Service of $1,840,639? If you do not agree, please explain.

e. Do you agree that if Bank One enters, in addition to the above 541,693,000 pieces, 18,307,000 solicitation letter-shaped pieces, it will receive additional discounts of $467,675 (18,307,000 * $0.025) and generate additional cost savings of $291,081, for a net total benefit to the Postal Service of $1,674,045? If you do not agree, please explain.

f. Do you agree that if Bank One enters, in addition to the above 560,000,000 pieces, 11,080,000 solicitation letter-shaped pieces, it will receive additional discounts of $332,400 (11,080,000 * $0.030) and generate additional cost savings of $176,172, for a net total benefit to the Postal Service of $1,517,817? If you do not agree, please explain.

g. Do you agree that if Bank One enters, in addition to the above 571,080,000 pieces, 13,920,000 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $417,600 (13,920,000 * $0.030) and generate additional cost savings of $221,328, for a net total benefit to the Postal Service of $1,321,545? If you do not agree, please explain.

h. Do you agree that if Bank One enters, in addition to the above 585,000,000 pieces, 25,000,000 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $875,000 (25,000,000 * $0.035) and generate additional cost savings of $397,500, for a net total benefit to the Postal Service of $844,045? If you do not agree, please explain.

i. Do you agree that if Bank One enters, in addition to the above 610,000,000 pieces, 35,000,000 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $1,400,000 (35,000,000 * $0.040) and

generate additional cost savings of $556,500, for a net total benefit to the Postal Service of $545? If you do not agree, please explain.

j. Do you agree that if Bank One enters, in addition to the above 610,000,000 pieces, 18,725 exogenously-generated solicitation letter-shaped pieces, it will receive additional discounts of $843 (18,725 * $0.045) and generate additional cost savings of $298, for a net total benefit to the Postal Service of $0? If you do not agree, please explain.

k. Do you agree that the financial consequences to the Postal Service of Bank One's entering the above 610,018,725 pieces are independent of the order in which the various types of mail are entered? If you do not agree, please explain.

l. Do you agree that so long as (1) total Bank One customer volume in Year One is 506,650,000 pieces and (2) total Bank One solicitation volume in Year One is less than 103,368,725 pieces, the Postal Service makes money on the NSA ***even if*** no discount-induced volume appears? If you do not agree, please explain.

m. Do you agree that if the NSA discounts induce Bank One to mail one new piece of solicitation mail, in addition to the above 103,368,725 pieces, the Postal Service obtains $0.07 in new contribution and $0.0159 in cost savings while paying $0.045 in discounts, for a net gain of $0.0409? If you do not agree, please explain.

n. Do you agree that if, in addition to the above 103,368,725 pieces, Bank One mails one discount-induced piece for every exogenously-generated piece, the Postal Service obtains $0.07 in new contribution and $0.0318 (2 pieces *

$0.0159) in cost savings while paying $0.09 (2 pieces * $0.045) in discounts, for a net gain of $0.0118? If you do not agree, please explain.

o. Do you agree that if Bank One mails 103,368,726 pieces of exogenously-generated solicitation mail and only one piece of discount-induced solicitation mail, the Postal Service makes money? If you do not agree, please explain.

p. What is the probability that the Postal Service loses money on the Bank One NSA?

OCA/USPS-T1-39. The following interrogatory concerns Bank One's "free rider" volumes.

a. Please confirm that in PRC Op. MC2002-2, para. 8016, the Commission described "free riders" as "mail that would have been sent even absent the NSA . . . ." If you do not confirm, then explain why not.

b. Using the definition cited in part a., please confirm that the Bank One NSA contains 36,080,000 "free riders," determined as follows;

   i. The NSA (§III.D.) provides for a threshold for the first year of 535 million, at which point discounts of 2.5 cents will be paid; these discounts continue to be paid up to 560 million pieces.

   ii. The Before Rates volume forecast is 571,080,000 (Attachment A, page 6 (USPS-T- 1)). Discounts of 3 cents are paid up to the 571 million-piece level (and beyond).

iii. The Before Rates volume forecast of 571,080, 000 falls within the Commission's description of "volume that would have been sent even absent the NSA."

iv. If you do not confirm, then state the number of "free riders" in the Bank One NSA. Show all calculations and provide all source documents.

c. Please confirm that the Commission concluded that, absent a stop-loss provision, "there is a serious risk that discounts given to 'free riders' will exceed savings to the Postal Service and that other mailers will be worse off because of the NSA."

OCA/USPS-T1-40. For Bank One, 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 Bank One's estimated First-Class Mail (FCM) solicitation volumes in Year One of the NSA are approximately 11% 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), Bank One is given a longer period of time – 7 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 Bank One's estimated annual volumes of First-Class Mail solicitations (for Year One of the NSA) – 83.5 million – yields an implied average number of pieces per delivery point of 0.62? 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 0.62, suggest that the Postal Service is much less likely to benefit from avoided forwards in the case of Bank One than it does in the case of Capital One? If you do not agree, please explain.

f. Please provide discussions comparable to those requested in parts d. and e. for Year Two and Year Three of the Bank One NSA.

g. Please confirm that an obligation to update address lists within 7 days (Bank One) compared to 2 days (Capital One) is likely to result in higher costs for the Postal Service for forwarding and returning Bank One's UAA mail as compared to Capital One. If you do not confirm, please explain.

OCA/USPS-T1-41. For J.P. Morgan Chase, 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.

OCA/USPS-T1-42. Please confirm that Capital One has an obligation to process its customer account mail addresses against CASS/NCOA within 30 days prior to mailing. (§II.H.1). If you do not confirm, please explain why not.

a. Also confirm that Bank One has an obligation to process its customer account mail addresses against CASS/NCOA much less often than Capital One, *i.e.,* within 90 days prior to mailing. (§II.G.1). If you do not confirm, please explain why not.

b. Isn't it correct that Capital One's processing of customer account mail addresses against CASS/NCOA 3 times more frequently than Bank One is more likely to result in fewer forwards for Capital One customer mail as compared to Bank One customer mail? If you do not agree, please explain why not.

OCA/USPS-T1-43. Please confirm that Capital One has an obligation to process its solicitation mail addresses against CASS/NCOA within 60 days prior to mailing. (§II.H.2). If you do not confirm, please explain why not.

a. Also confirm that Bank One has an obligation to process its solicitation mail addresses against CASS/NCOA less often than Capital One, i.e., within 90 days prior to mailing. (§II.G.2). If you do not confirm, please explain why not.

b. Isn't it correct that Capital One's processing of solicitation mail addresses against CASS/NCOA more frequently than Bank One is more likely to result in fewer forwards for Capital One solicitation mail as compared to Bank One solicitation mail? If you do not agree, please explain why not.

OCA/USPS-T1-44. Please reproduce Appendix A of USPS-T-1 for J.P. Morgan Chase.

OCA/USPS-T1-45. Please reproduce Appendix B of USPS-T-1 for J.P. Morgan Chase.

BANK ONE NSA
Stop Loss Estimate

TABLE 1
Year 1 - ACS Related Savings

[1]	Manual Letter Returns Unit Cost	$0.55
[2]	Manual Flat Returns Unit Cost	$1.06
[3]	Electronic Letter Returns Unit Cost	$0.34
[4]	Electronic Flat Returns Unit Cost	$0.45
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC BR Customer Mail Volume	506,650,000
[9]	BOC BR Solicitation Letter Volume	29,387,000
[10]	BOC BR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of Extra BR Letter Volume	100.0000%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.01591200
[14]	BOC ACS Unit Cost Savings - Flats	$0.05726308
[15]	BOC BR Equilibrium First-Class Letter Volume	610,040,414
[16]	BOC BR Solicitation Letter Volume	103,390,414
[17]	Total ASC Cost Savings - Letters	$1,645,148
[18]	Total ASC Cost Savings - Flats	$2,006,670
[19]	Total ASC Savings	$3,651,818

TABLE 2
Year 1 - Discount Leakage

Volume Block			Incremental Volume	Discount	Discount Leakage
[1]			[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
[a]		[b]			
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	645,000,000	34,999,999	$0.040	$1,400,000
645,000,001	to	645,040,414	40,413	$0.045	$1,819
680,000,001	to			$0.050	$0
		Total			$3,651,818

BANK ONE NSA
Stop Loss Estimate

TABLE 1
Year 2 - ACS Related Savings

[1]	Manual Letter Returns Unit Cost	$0.57
[2]	Manual Flat Returns Unit Cost	$1.10
[3]	Electronic Letter Returns Unit Cost	$0.36
[4]	Electronic Flat Returns Unit Cost	$0.47
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC BR Customer Mail Volume	506,650,000
[9]	BOC BR Solicitation Letter Volume	29,387,000
[10]	BOC BR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of Extra BR Letter Volume	100.0000%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.01654848
[14]	BOC ACS Unit Cost Savings - Flats	$0.05955361
[15]	BOC BR Equilibrium First-Class Letter Volume	615,174,506
[16]	BOC BR Solicitation Letter Volume	108,524,506
[17]	Total ASC Cost Savings - Letters	$1,795,916
[18]	Total ASC Cost Savings - Flats	$2,086,937
[19]	Total ASC Savings	$3,882,853

TABLE 2
Year 2 - Discount Leakage

Volume Block [1]			Incremental Volume	Discount	Discount Leakage
[a]		[b]	[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	645,000,000	34,999,999	$0.040	$1,400,000
645,000,001	to	650,174,506	5,174,505	$0.045	$232,853
680,000,001	to			$0.050	$0
		Total			$3,882,853
		Difference - ACS Savings and Discount Leakage			$0

BANK ONE NSA
Stop Loss Estimate

TABLE 1
Year 3 - ACS Related Savings

[1]	Manual Letter Returns Unit Cost	$0.60
[2]	Manual Flat Returns Unit Cost	$1.15
[3]	Electronic Letter Returns Unit Cost	$0.37
[4]	Electronic Flat Returns Unit Cost	$0.48
[5]	BOC Return Rate - Solicitation Letters	9%
[6]	BOC Return Rate - Solicitation Flats	11%
[7]	Address Change Service (ACS) Success Rate	85%
[8]	BOC BR Customer Mail Volume	506,650,000
[9]	BOC BR Solicitation Letter Volume	29,387,000
[10]	BOC BR Solicitation Flats Volume	35,043,000
[11]	Solicitation Letters % of Extra BR Letter Volume	100.0000%
[12]	Solicitation Flats %	100%
[13]	BOC ACS Unit Cost Savings - Letters	$0.01721042
[14]	BOC ACS Unit Cost Savings - Flats	$0.06193575
[15]	BOC BR Equilibrium First-Class Letter Volume	620,763,439
[16]	BOC BR Solicitation Letter Volume	114,113,439
[17]	Total ASC Cost Savings - Letters	$1,963,940
[18]	Total ASC Cost Savings - Flats	$2,170,414
[19]	Total ASC Savings	$4,134,355

TABLE 2
Year 3 - Discount Leakage

Volume Block [1]			Incremental Volume	Discount	Discount Leakage
[a]		[b]	[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
535,000,001	to	560,000,000	24,999,999	$0.025	$625,000
560,000,001	to	585,000,000	24,999,999	$0.030	$750,000
585,000,001	to	610,000,000	24,999,999	$0.035	$875,000
610,000,001	to	645,000,000	34,999,999	$0.040	$1,400,000
645,000,001	to	655,763,439	10,763,438	$0.045	$484,355
680,000,001	to			$0.050	$0
		Total			$4,134,355
		Difference - ACS Savings and Discount Leakage			$0

TABLE 1

Notes & Sources

[1] USPS-T-1 (Plunkett), Appendix A, page 1
[2] USPS-T-1 (Plunkett), Appendix A, page 1
[3] USPS-T-1 (Plunkett), Appendix A, page 1
[4] USPS-T-1 (Plunkett), Appendix A, page 1
[5] USPS-T-1 (Plunkett), Appendix A, page 1
[6] USPS-T-1 (Plunkett), Appendix A, page 1
[7] USPS-T-1 (Plunkett), Appendix A, page 1
[8] USPS-T-1 (Plunkett), Appendix A, page 2
[9] USPS-T-1 (Plunkett), Appendix A, page 2
[10] USPS-T-1 (Plunkett), Appendix A, page 2
[11] Assumes all extra BR letter volume is solicitation letters.
[12] Percent of solicitation flats eligible for ACS
[13] = ([1] - [3]) * [5] * [7] * [11]
[14] = ([2] - [4]) * [6] * [7] * [12]
[15] = Table 2 [1b] - ([10] - 43,000)
[16] = [15] - [8]
[17] = [13] * [16]
[18] = [14] * [10]
[19] = [17] + [18]

TABLE 2

Notes and Sources:

[1] Request, Attachment B
[3] Request, Attachment B

BANK ONE NSA

TABLE 3
Calculation of Total Stop Loss Estimate

	Volume [1]	Discount Leakage [2]	Return Cost Savings [3]
Year 1	645,040,414	$3,651,818	$3,651,818
Year 2	650,174,506	$3,882,853	$3,882,853
Year 3	655,763,439	$4,134,355	$4,134,355
			$11,669,026
Passthrough Percent			95%
STOP LOSS ESTIMATE			$11,085,574

Notes and Sources
[1] & [2] TABLE 2, for the year indicated
[3] TABLE 1, for the year indicated