

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

RESPONSES OF THE UNITED STATES POSTAL SERVICE WITNESS
PLUNKETT TO INTERROGATORIES OF VALPAK DIRECT MARKETING
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-23-30)

The United States Postal Service hereby provides its responses to the following interrogatories Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. VP/USPS-T1-23-30, filed on August 5, 2004.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

By its attorneys:

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VP/USPS-T1-23.

In recent years, has the Postal Service conducted any special studies or analyses to determine whether First-Class Mail returned as Undeliverable as Addressed ("UAA") was in fact non-deliverable as addressed? That is, to the Postal Service's knowledge, for First-Class Mail that was returned, could some portion of it in fact have been delivered as addressed but, for whatever reason, instead was returned to sender? If so, please provide a summary of the results of such studies or analyses, or else provide the studies or analyses as library references.

RESPONSE:

I'm not aware of any such studies.

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VP/USPS-T1-24.

Please refer to Docket No. MC2002-2, Response of Postal Service witness Charles L. Crum to APWU/USPS-T3-4(e-g) (Tr. 2/268), where he (i) develops the average forwarding rate for all First-Class Mail of 1.96 percent, and (ii) states that information is not available separately on the forwarding rate for single-piece and discounted First-Class Mail.

- a. Please confirm that the source of witness Crum's 1.96 percent datum was developed from data in Tables 4.2 and 4.3.3 in USPS-LR-J-69, of Docket No. R2001-1.
- b. Since the time of witness Crum's above-cited reply, has the Postal Service developed any data on the forwarding rate for single-piece First-Class Mail? If so, please indicate what that rate is, and provide the source of the data.
- c. Since the time of witness Crum's above-cited reply, has the Postal Service developed any data on the forwarding rate for discounted First-Class Mail? If so, please indicate what that rate is, and provide the source of the data.

RESPONSE:

- a. Confirmed
- b. I'm not aware of any studies that have been conducted in this area.
- c. I'm not aware of any studies that have been conducted in this area.

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VP/USPS-T1-25.

- a. Since single-piece First-Class Mail is never subject to National Change of Address ("NCOA"), is it reasonable to believe that returns of single-piece First-Class Mail would be higher than the First-Class Mail systemwide average of 1.23 percent (USPST-1, App. A, p. 1, I. (4))?
- b. First-Class solicitation mail appears to have returns that average between 9 and 10 percent, which is approximately 7 to 8 times the systemwide average. In the absence of any data, analysis, or study, would it be reasonable to estimate that returns of single piece and discounted First-Class Mail are in proportion to their respective shares of the total volume of First-Class Mail? If not, please state what you believe to be the most reasonable assumption regarding the share of returns generated by discounted First-Class Mail, and explain why.

RESPONSE:

- a. While use of NCOA is not a qualifying condition for the entry of single piece First-Class Mail, that does not mean that no single-piece First-Class Mail is improved as a result of NCOA processing. For example, First-Class presort mailers often send some portion of their First-Class Mail at single piece rates. Assuming these customers use a single source of address information, NCOA processing will improve the addresses that are placed on single-piece First-Class Mail.
- b. I'm not aware of any study that identifies the return rate separately for single-piece and discounted First-Class Mail. In the absence of such an analysis, the assumption that the return rates for single-pieces and discounted First-Class Mail are the same appears plausible. I would further note that Bank One's return rate of 9 percent is not typical of all discounted First-Class Mail.

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VP/USPS-T1-26.

Your response to VP/USPS-T1-8 indicates that the total costs of handling UAA mail in TY 2003 was estimated to be \$1.9 billion.

a. If discounted First-Class Mail accounts for approximately half of all First-Class UAA returns, would it be reasonable to assume that discounted First-Class Mail accounted for about half, or \$950,000,000, of the total cost of handling UAA mail in TY 2003?

If not, please state what you believe to be the most reasonable estimate for the total cost of handling UAA returns of discounted First-Class Mail in TY 2003, and explain the basis for your answer.

b. If the Postal Service's unit cost to return a letter manually in Year 3 is 60 cents, and the unit cost for an electronic return is 37 cents (USPS-T-1, App. A, p. 1, ll. (7) and (9)), and the Postal Service saves 23 cents, or approximately 38 percent of the cost of a manual return, would it be reasonable to assume that the Postal Service could save approximately \$364,000,000 if all manual returns of discounted First-Class Mail were replaced with electronic Address Correction Service ("ACS") returns? If you do not agree with this estimate, please provide what you believe to be the potential savings that the Postal Service could realize by having all discounted First-Class Mail convert to electronic ACS.

RESPONSE:

- a. I can't confirm this calculation, though the assumption appears to be plausible.
- b. I have not analyzed customers' willingness or ability to adopt electronic ACS, nor have I analyzed which customers make use of electronic ACS solely as a means to qualify to automation discounts. Without this kind of information, a reliable estimate of the potential net savings is not possible.

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VP/USPS-T1-27.

Please refer to your response to VP/USPS-T1-7(a), in which you state that there were 1.9 million electronic ACS returns during FY 2003 and that there were approximately 1.2 billion pieces of First-Class UAA mail that were returned to sender.

a. During FY 2003, how many mailers used electronic ACS for their First-Class Mail?

That is, how many mailers accounted for the 1.9 million electronic ACS returns discussed in your response?

b. Were all, or approximately all, of the 1.9 million electronic ACS returns for First-Class Mail provided at the rate of 20 cents each during FY 2003 (excluding any that may have been provided to Capital One Services, Inc. ("Capital One"))? If not, how many (or what percentage) were provided for less than 20 cents?

c. Would it be correct to presume that in FY 2003 the Postal Service collected approximately \$380,000 in fees from First-Class mailers for electronic ACS? If not, how much did the Postal Service collect in fees for electronic ACS returns for First-Class Mail during FY 2003?

d. In your opinion, does the 20 cent fee which the Postal Service charges for electronic ACS returns, versus free manual return, act as a disincentive to adoption of electronic ACS by First-Class bulk mailers? If your answer is negative, please explain why not.

If your answer is positive, please (i) explain how large a disincentive the current fee is, and (ii) explain all reasons for the Postal Service's reluctance to offer electronic ACS for the same fee (*i.e.*, as an optional free service) as manual returns.

e. Please explain how the Postal Service markets its electronic ACS to users of First-Class Mail (other than Capital One, Bank One Corporation ("Bank One"), and Discover Financial Services, Inc.). In particular, please explain what inducements the Postal Service offers to overcome resistance created comparing the price of electronic ACS to free physical return of UAA mail.

RESPONSE:

- a. As of September 19, 2003 there were 1786 First Class ACS mailers.
- b. Yes.
- c. Yes.
- d. In general, customers appear to prefer the free option.
- e. Over the last 15 years or so, the Postal Service's National Customer Support Center has provided training and presentations to many USPS Sales/Marketing groups, local and national Postal Customer Councils,

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held Postal Forum sessions, and attended numerous meetings. Articles
have also appeared in Memo To Mailers, the Mailers Companion and
other trade publications.

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VP/USPS-T1-28.

Please refer to your Appendix A, page 1. For the unit costs shown in rows (6) through (9), please indicate the fiscal years to which the three columns labeled Years 1, 2, and 3 apply.

That is, have the unit cost data shown under Year 1 been inflated to FY 2004, or to FY 2005?

RESPONSE:

Year 1 refers to 2004.

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VP/USPS-T1-29.

- a. Please refer to the response of Postal Service witness Ali Ayub to VP/USPS-T1-3 in Docket No. MC2004-4 and confirm that, according to that response, if a Standard Mailing of 10,000,000 pieces can be anticipated to have 9.0 percent that is UAA and non-forwardable, then based on the data provided in that response, should the mailer request ACS and forwarding service, on average, for (i) each 900,000 pieces returned, (ii) an additional 1,324,800 (*i.e.*, 1.472 x 900,000) pieces would be forwarded. That is, for Standard Mail, if the return rate averages 9.0 percent, the forward rate would be expected to average 13.2 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 Bank One, the Postal Service projects that 900,000 (9.0 percent) pieces will be returned as UAA, 200,000 (2.0 percent) will be forwarded, and the number of pieces forwarded will be 1,124,800 less than would be projected for 10,000,000 pieces of Standard Mail using the ratio in the above-cited 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 other address hygiene requirements for Standard Mail that are 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 the requirement for discounted First-Class mailings.
- 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 1,324,800 forwards to 200,000, which is a reduction of 1,124,800, or 84.9 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 Bank One mail that converts from Standard to First-Class marketing mail — *i.e.*, from 1,324,800 to 200,000 — what additional measures will Bank One be **required** to take under the proposed Negotiated Service Agreement ("NSA") that account for the reduction in forwards?
- h. When Bank One converts Standard Mail to First-Class Mail, if the measures that Bank One 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 Bank One expected to take that account for the expected reduction in forwards from 1,368,960 to 200,000?

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RESPONSE:

a. Not confirmed. The rates for Standard Mail Forwarding and Return Service are based upon the nationwide average ratio of forwards to returns. While this assumption is used in pricing a service, the nationwide average ratio of forwards to returns is not expected to hold true for individual mailers. For example, Capital One's ratio of forwarded First-Class Mail to returned First-Class Mail is approximately 0.2. I expect a similar ratio of forwards to returns for Bank One's solicitations.

b. Not confirmed. As I mentioned in my response to subpart (a) above, one cannot assume that Bank One's ratio of forwardable UAA to non-forwardable UAA for Standard Mail is equal to the nationwide average ratio. Also, my expectation is that the forwarding rate for Bank One's First-Class Mail solicitations will be close to the average forwarding rate for all First-Class Mail (1.96%), which is similar to Capital One's 2.0% forwarding rate.

c. Confirmed.

d. Confirmed.

e. I'm not aware of any other regulations that bear on this issue, though I would point out that customers pay a significant premium for First-Class Mail relative to a comparable piece of Standard Mail. To the extent that customers place a premium on the timeliness of delivery of their messages, they would have an added incentive to minimize the number of pieces that would need to be forwarded prior to delivery.

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f. I don't know, but as I indicated in response to subparts (a) and (b) of this interrogatory, I don't believe that Bank One's rate of forwardable UAA for its Standard Mail solicitations is as high as you suggest.

g. Not applicable since your interrogatory is based upon faulty assumptions regarding Bank One's rate of forwardable UAA for its Standard Mail solicitations.

Please see my responses to subparts (a), (b), and (f) of this interrogatory.

h. Not applicable since your interrogatory is based upon faulty assumptions regarding Bank One's rate of forwardable UAA for its Standard Mail solicitations.

Please see my responses to subparts (a), (b), and (f) of this interrogatory.

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VP/USPS-T1-30.

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 Bank One 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)-(8) 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 and Bank One 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).

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RESPONSE:

(a)-(e) I found two errors in your spreadsheets. First, the values in row (5) of both spreadsheets and the related footnote are incorrect. The cost of Bank One's First-Class Mail marketing letters is in Appendix A, Page 5 (not Page 4). Using the correct figures reduces the cost per piece for First-Class Mail marketing letters by 0.7 cents and increases the corresponding contribution per piece by 0.7 cents per piece. Second, the years noted in your spreadsheet are incorrect. Year 1 is 2004 (not 2005). Year 3 is 2006 (not 2007).

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.

Nan K. McKenzie

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August 16, 2004

