

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

COMPLAINT OF CAPITAL ONE SERVICES, INC.

Docket No. C2008-3

**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF PUBLIC REPRESENTATIVE  
(PR/USPS-8-9)  
(August 26, 2008)**

The United States Postal Service hereby provides its responses to the following interrogatories of the Public Representative, filed on August 12, 2008:

PR/USPS-8-9.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE  
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**PR/USPS-8.** In “Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission Approving Negotiated Service Agreement with Bank of America Corporation, Docket No. MC2007-1,” at 2, it states

The NSA is intended to encourage BAC to undertake certain activities that would reduce the costs associated with processing BAC’s First-Class Mail and Standard Mail letters by providing BAC with “performance-based” discounts.

Please define and discuss the phrase “performance-based” as used by the Governors with respect to the Bank of America NSA.

**RESPONSE:**

The concept of a “performance-based” NSA was outlined by witness Ayub in his testimony before the Commission. Witness Ayub defined “performance-based” incentives to mean that:

...the Postal Service [is not required] to pay any incentives to BAC unless and until it achieves a measurable improvement in actual mail processing performance—i.e., the read and accept rate of mail processing, and the percentage of UAA mail that must be returned, forwarded, or destroyed.

USPS-T-1, Docket No. MC2007-1 (revised June 6, 2007), at 13. Witness Ayub goes further to define “performance-based” as:

...offering rate incentives to Bank of America for improvements in the read/accept rates of letter-rated mailpieces entered by the Bank at First-Class Mail and Standard Mail rates. Improvement will be measured by increases in read/accept rates for BAC mail. The purpose of these incentives is to encourage BAC to improve the readability of the barcodes it places on mail.”

Id.

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**PR/USPS-9.** In “Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission Approving Negotiated Service Agreement with Bank of America Corporation, Docket No. MC2007-1,” at 5, it states

We conclude that the potential benefits of the variety of operational commitments made by BAC provide a convincing reason, despite any estimated reduction in contribution, for proceeding with implementation of the NSA.

- a. Please explain the meaning of the phrase “despite any estimated reduction in contribution” in the statement quoted above.
- b. If the potential benefits associated with the variety of operational commitments made by BAC “provide a convincing reason . . . for proceeding with implementation of the [BAC] NSA,” please explain why the Postal Service should not conclude and implement an NSA with Capital One if Capital One agrees to the same operational commitments as made by BAC, “despite any estimated reduction in contribution.”

**RESPONSE:**

A. This phrase indicates that, in the Governors’ view, the potential benefits of the Bank of America NSA outweighed the financial risk involved. The Governors recognized the possibility for a reduction in contribution, but concluded that the potential benefits arising from Bank of America’s operational commitments, and its status as an early adopter of the NSA’s requirements, weighed in favor of implementing the agreement.

B. The key distinction here is the scope of the “potential benefits” in the Bank of America NSA, as compared to any functionally equivalent NSA. As stated in the Postal Service’s response to COS/USPS-1, there are numerous, yet unquantifiable, benefits to the Postal Service that have arisen directly and solely from BAC being the “first” adopter of the key terms of the NSA. Please see the Postal Service’s response to COS/USPS-1 for a list of some of those benefits.

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And as the Postal Service has discussed previously, there are changes in circumstances which the Postal Service must consider with any potential NSA proffered as functionally equivalent to the Bank of America NSA. Bank of America assumed considerable risk in becoming the first adopter of the NSA's requirements. Bank of America was confronted with numerous unknowns, particularly in dealing with unproven technological and mail processing initiatives. Any subsequent functionally equivalent NSA would present less risk and fewer unknowns to the customer and the Postal Service. Hence, the marginal value of any functionally equivalent NSA would be lower to the Postal Service, a factor which would have to be considered during the course of negotiating any functionally equivalent agreement.

Additionally, given Bank of America's tremendous size, the postal industry was motivated to adopt new technologies. Bank of America faced the arduous task of moving vendors from all facets of the mail forward at least one year prior to the industry implementation date. The entire industry will accordingly benefit from Bank of America's efforts. Since Bank of America has already undertaken many of the major tasks to move the industry forward, the same effort would not be needed from other industry players. Therefore, the "potential benefits" of any functionally equivalent agreement would be different, and must be taken into account by the Postal Service during the course of NSA negotiations.