

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

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BANK OF AMERICA CORPORATION

Docket No. MC2007-1

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-2-4, 5, PARTS (A)-(D), (F)-(G), 6, PARTS (A)-(D), 7, 11-16)
(March 30, 2007)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatories of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc.: VP/USPS-T1-2-4, 5, parts (a)-(d), (f)-(g), 6, parts (a)-(d), 7, 11-16, filed on March 9, 2007. The interrogatories are stated verbatim and are followed by the response. The Postal Service's response to VP/USPS-T1-1, 5, part (e), 6, part (e), 8-10, 17-20 will be forthcoming.

UNITED STATES POSTAL SERVICE

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VP/USPS-T1-2. Please refer to your testimony at page 4, lines 1-3, where you state that, in the traditional process, “customers interact with the Postal Service **only** through proceedings before the Postal Regulatory Commission, published tariff rules and related procedures.” (Emphasis added.)

- a. In your opinion, does the Mailers Technical Advisory Committee (“MTAC”) fall under the rubric of “related procedures” as you use that term in your testimony?
- b. Do you consider that meetings of MTAC, as well as subcommittees and working groups thereof, constitute interaction with the Postal Service? Please explain any negative answer.
- c. If your answer to preceding part b is affirmative, please explain the basis for your above-quoted statement.

RESPONSE:

- a. No. The Mailers Technical Advisory Committee does not fall under the rubric of “related procedures” in the sense of related to pricing, classification and ratemaking.
- b. Yes. But generally not about pricing, classification and ratemaking.
- c. My statement at page 4 lines 1-3 refers to the “traditional process” by which customers interact with the Postal Service over issues related to pricing, classification, and ratemaking. MTAC meetings generally do not include discussions with the Postal Service on issues related to pricing, classification and ratemaking.

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VP/USPS-T1-3. Please refer to your testimony at page 9, lines 21-24, where you discuss Seamless Acceptance.

- a. At what stage of development is Seamless Acceptance?
- b. When is Seamless Acceptance scheduled for field testing?
- c. When does the Postal Service anticipate that it will begin deploying Seamless Acceptance?
- d. When does the Postal Service anticipate that deployment of Seamless Acceptance will be complete?
- e. Please describe all respects in which the Bank of America Corporation ("BAC") is being compensated by the Postal Service via this NSA for adopting Seamless Acceptance after it is deployed. If BAC is not being compensated in any way for its agreement to adopt Seamless Acceptance, please explain:
 - (i) The import of your testimony in Section III.B.5 on page 12; and
 - (ii) Whether the Postal Service expects widespread adoption of Seamless Acceptance by other bulk mailers without benefit of reduced rates under NSAs. If so, what inducement (if any) does the Postal Service expect to offer other mailers who do not have an NSA to adopt and use Seamless Acceptance?

RESPONSE:

- a. It is my understanding that the Postal Service is designing and pilot testing Seamless Acceptance, and expects it to be fully operational in 2009.
- b. It is my understanding that the Postal Service is currently pilot testing Seamless Acceptance with mailers. To my knowledge, the Postal Service has not scheduled a specific date to begin the field test for Seamless Acceptance.
- c. To answer this part, I assume that the term "deploying" means making Seamless Acceptance generally available after testing is completed. I anticipate that the Postal Service will begin deploying Seamless Acceptance by the beginning of 2009.
- d. To answer this part, I assume that the term "deploying" means making Seamless Acceptance generally available after testing is completed. To my knowledge, the Postal Service has not scheduled a specific deadline for completing the deployment of Seamless Acceptance.

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- e. BAC is not being compensated in this NSA for adopting Seamless Acceptance after it is deployed.
 - (i) Section III.B.5 of my testimony discusses the FAST and eDropShip programs. I will answer this subpart based on my testimony at Section III.B.4, which discusses Seamless Acceptance. The import of Section III.B.4 of my testimony is to emphasize that this NSA will require BAC to adopt what I consider to be the optimal mailing practices available to BAC at this point in time.
 - (ii) The Postal Service does not expect to offer any inducements to bulk mailers to adopt and use Seamless Acceptance.

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VP/USPS-T1-4. Please refer to your testimony at page 10, line 16, where you state that one objective of Seamless Acceptance is to “[e]nsure higher quality levels.”

- a. Please explain the extent to which the higher quality levels that are the objective of Seamless Acceptance refer to:
 - (i) The acceptance process itself, or
 - (ii) Mail processing subsequent to being accepted, or
 - (iii) Delivery.
- b. Please explain how the Postal Service plans to measure and assess changes in the level of quality associated with Seamless Acceptance, as described in your response to preceding part a.

RESPONSE:

- a. The objective of Seamless Acceptance is to, among other things, promote higher quality levels in (i) the acceptance process, (ii) mail processing subsequent to the acceptance process, and (iii) delivery.
- b. The Postal Service has no plans to measure and assess changes in quality specifically from Seamless Acceptance under this NSA. Furthermore it is my understanding that the Postal Service does not intend to measure or quantify the mail processing improvements attributable to Seamless Acceptance.

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VP/USPS-T1-5. Please refer to your testimony at page 11, lines 5-6, where you state that one of the changes BAC agrees to incorporate in its mailing practices is to use the Centralized Automated Payment System ("CAPS") for all transactions.

- a. How many mailers have and use CAPS accounts, based on the most recent data available?
- b. What percentage of all First-Class and Standard Mail is now paid for through CAPS?
- c. What percentage of BAC's First-Class and Standard Mail is currently entered and paid for through CAPS?
- d. Please identify the principal means now used by BAC to pay for its bulk mailing transactions?
- e. Please provide the approximate percentage of BAC's bulk mail volume that for which payment is made using means other than electronic payment.
- f. What incentives does the Postal Service now give mailers in order to induce them to begin using CAPS?
- g. Please describe the principle benefits to the Postal Service from having mailers use CAPS.

RESPONSE:

- a. As of February 2007, there are 6,125 CAPS accounts. Because some customers have multiple accounts, this number does not represent the number of customers that have and use CAPS accounts.
- b. A majority of all First-Class and Standard Mail is currently entered and paid for through CAPS. Other types of mail currently entered and paid for through CAPS include BRM, mail entered through Express Mail Corporate Accounts, and mail containing International and Address Element Correction.
- c. According to BAC, postage is paid through CAPS for approximately 25% of the First-Class Mail entered directly by BAC and over 95% of the Standard Mail entered directly by BAC. Neither BAC nor the USPS has data on the extent to which CAPS is used to pay postage on BAC mail entered by third-party vendors on behalf of BAC, although third-party vendors tend to be major users of CAPS.

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- d. Based on representations made to me by BAC representatives, the principal means BAC currently uses to pay for its bulk mailing transactions include meters, CAPS, and invoices provided by its mail service providers.
- f. The Postal Service does not currently offer specific financial incentives to mailers to induce them to begin using CAPS.
- g. The primary benefit of CAPS to the Postal Service is that it reduces Postal Service costs for processing payments made by customers with permit accounts. The CAPS program streamlines the payment process for USPS customers with permit accounts. Customers with permit accounts tend to mail larger volumes of mail than the average USPS customer mails. Prior to the implementation of CAPS, customers with permit accounts were required to submit postage payments in the form of a check to each location their mail was tendered for delivery. The development and implementation of CAPS enabled these customers to electronically transfer funds to a centralized trust account via an Automated Clearing House (ACH), Credit Account, or Wire transfer to pay for the postage on all of the mailings connected to customer's CAPS account. As a result, the labor costs of processing hard copy payments are significantly reduced.

Additionally, the CAPS program allows customers to authorize the Postal Service to use the ACH to debit their bank accounts directly for the amount owed to the Postal Service for the daily mailings of all customers connected to a specific CAPS account. Because processing ACH payments costs the Postal

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Service less than processing checks and credit cards, the CAPS program affords the Postal Service additional savings.

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VP/USPS-T1-6. Please refer to your testimony at page 11, lines 7-8, where you state that one of the changes BAC agrees to incorporate in its mailing practices is to present electronic manifest for all pallets, trays and pieces in either a Mail.dat or web services file.

- a. What percentage of BAC's bulk **First-Class Mail** is currently entered on a Mail.dat or web services file?
- b. What percentage of BAC's **Standard Mail** is currently entered on a Mail.dat or web services file?
- c. In general, how extensive and expensive will these changes required by the NSA be for BAC?
- d. In what ways, and to what extent, can this NSA be deemed to compensate BAC for using CAPS and presenting electronic manifest for all pallets, trays and pieces in either a Mail.dat or web services file?
- e. Will this NSA become a precedent by which other large bulk mailers will expect or demand an NSA in return for continuing to use operational practices such as entering mail on a Mail.dat or web services file?

RESPONSE:

- a. Based on representations made to me by BAC representatives, 0 percent.
- b. Based on representations made to me by BAC representatives, 0 percent.
- c. I do not know how much these changes will cost BAC because that information is proprietary business information maintained by BAC, but I expect those costs to be significant.
- d. Under this NSA, BAC must use CAPS and present electronic manifest for all pallets, trays, and pieces to be eligible for the incentives set forth in this NSA.

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VP/USPS-T1-7. Please refer to your testimony at page 12, lines 6-8.

- a. When will the design and development of eDropShip be completed?
- b. When is eDropShip scheduled for field testing?
- c. When does the Postal Service anticipate that it will begin deploying eDropShip?
- d. When does the Postal Service anticipate that deployment of eDropShip will be complete?
- e. Please describe all respects in which BAC is being compensated by the Postal Service via this NSA for adopting eDropShip after it is deployed. If BAC is not being compensated in any way for its agreement to adopt eDropShip, please explain:
 - (i) The import of your testimony in Section III.B.5 on page 12; and
 - (ii) Whether the Postal Service expects widespread adoption of eDropShip by other bulk mailers without any resort to NSAs. If so, what inducement (if any) does the Postal Service expect to offer other mailers who do not have an NSA to adopt and use eDropShip?

RESPONSE:

- a. It is my understanding that the Postal Service expects to have the design and development of eDropShip completed by 2009. Its completion will coincide with the completion of Seamless Acceptance.
- b. It is my understanding that the Postal Service is currently pilot testing eDropShip with mailers. Field testing of the production system will only occur once the production system is developed. To my knowledge, the Postal Service has not scheduled a specific date to begin the field test for eDropShip.
- c. To answer this part, I assume that the term "deploying" means making eDropShip generally available after testing is completed. I anticipate that the Postal Service will begin deploying eDropShip by the beginning of 2009.
- d. To answer this part, I assume that the term "deployment" means making eDropShip generally available after testing is completed. To my knowledge, the Postal Service has not scheduled a specific deadline for completing the deployment of eDropShip.

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- e. BAC is not being compensated in this NSA for adopting eDropShip after it is deployed.
 - (i) The import of Section III.B.5 on page 12 of my testimony is to emphasize the fact that this NSA will require BAC to adopt what I consider to be the optimal mailing practices available to BAC at this point in time. Adopting eDropShip, however, will not entitle BAC to additional discounts. To earn greater discounts (or, indeed, any discounts at all), BAC must improve the UAA and/or read/accept rates of its mail.
 - (ii) The Postal Service does not expect to offer any inducements to bulk mailers to adopt eDropShip.

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VP/USPS-T1-11. Please refer to your testimony at page 16, lines 9-14, where you explain the data that will be used to ascertain, or measure, the read/accept rate for BAC letters. Are the definitions of the numerator and denominator used to ascertain the read/accept rate for BAC letters identical to the definitions used to determine the benchmark read/accept rate of 96.8 percent? If the definition for the data in either the numerator or the denominator are not identical, please explain all differences.

RESPONSE:

Yes. The definitions of the numerator and denominator used to ascertain the read/accept rate for BAC letters are identical to the definitions used to determine the benchmark read/accept rate of 96.8 percent.

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VP/USPS-T1-12. Please refer to your testimony at page 17, lines 19-21, where you state, "The estimated cost savings to the Postal Service over duration of the agreement is ... \$1.4 million for delivery operations [for First-Class Mail]." Appendix A, page 1, line 7, shows \$1,554,257 in total savings for delivery of First-Class Mail. Please reconcile the difference.

RESPONSE:

The correct value is \$1,554,257. The Postal Service will file erratum to my testimony to correct the discrepancy.

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VP/USPS-T1-13. Please refer to your testimony at page 18, lines 8-10, where you state that "BAC has agreed to waive physical return of ... all Standard Mail volume."

- a. For the most recent 12 months for which data are available, what is the volume of BAC's Standard Mail that has received physical return?
- b. Please explain why the volume of Standard Mail reported in preceding part a received physical return.

RESPONSE:

- a. - b. Based on representations made to me by BAC representatives, BAC has not received physical returns for its Standard Mail in the most recent 12 months.

BAC has simply waived the right to receive the physical return of its Standard Mail mailpieces, with certain narrow exceptions which would allow BAC to use different ACS service endorsements.

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VP/USPS-T1-14. Please refer to your testimony at page 22, lines 19-22, where you discuss revenues on Address Change Service (“ACS”) notices from BAC’s Standard Mail.

- a. Does BAC currently put ACS notices on some or all of its Standard Mail? If so, approximately what percentage?
- b. Does BAC agree in this NSA to increase its use of ACS notices on its Standard Mail?
- c. What incremental revenue does the Postal Service expect that it will receive from BAC from an increase usage of ACS notices on Standard Mail?

RESPONSE:

- a. No.
- b. Yes. Please see section III.B. of the NSA (Attachment F to the Request).
- c. BAC is only using the ACS on its Standard Mail to meet its operational commitments under this NSA. All revenue received in connection with BAC’s use of ACS on its Standard Mail should be considered “incremental.”

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VP/USPS-T1-15. Please refer to your testimony at page 4, lines 3-6, where you state that the “novel and innovative ideas” incorporated in this NSA with BAC have “potential for broad applicability.”

- a. Please elaborate on what you mean by “broad applicability.” In particular, please explain whether some of these “novel and innovative ideas” could become future candidates for (i) inclusion in the regular rate structure, or (ii) new mailing requirements for bulk letter mail, or (iii) one or more possible niche classifications. In your response, please explain with particularity which ideas contained in the NSA would be candidates for (i), or (ii), or (iii) above.
- b. If your response to part a excludes some of the “novel and innovative ideas” incorporated in this NSA with BAC, please identify and discuss (i) which “novel and innovative ideas” do not have, potentially, broad applicability, or (ii) those other “novel and innovative ideas” that do have, potentially, broad applicability, but whose implementation is limited to NSAs because they are not amenable to implementation on a broad scale other than via NSAs.

RESPONSE:

- a. The phrase “broad applicability” as I use it in my testimony refers to my assessment that the operational requirements identified in this NSA can represent optimal mailing practices. With this phrase, I intended to emphasize that the concepts and ideas that are generated in the course of NSA discussions may in the future be the basis for classification changes. It is possible that at least some, and perhaps all of the novel and innovative ideas incorporated in this NSA could become future candidates for (i) inclusion in the regular rate structure, or (ii) new mailing requirements for bulk letter mail, or (iii) one or more possible niche classifications. However, I cannot identify which specific ideas contained in the NSA would be candidates for (i), or (ii), or (iii) above because the Postal Service has not yet decided which of these ideas would warrant implementation on a broad scale. The results of this NSA could help us to make such determinations in the future.

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- b. My response to part a does not exclude any of the novel and innovative ideas incorporated in this NSA with BAC.

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VP/USPS-T1-16. Please refer to your testimony at page 26, lines 21-23, where you state that “the Postal Service recognizes an affirmative obligation to make comparable terms available to companies that are deemed functionally equivalent...”

- a. What would be the major characteristics of bulk letter mailers “deemed to be functionally equivalent” to BAC?
 - (i) Would “functional equivalence” be restricted to banks?
 - (ii) Would “functional equivalence” be restricted to financial institutions, including, but not limited to, banks?
 - (iii) Would “functional equivalence” include any mailer which submits First-Class bulk letters?
 - (iv) Would “functional equivalence” include any mailer which submits Standard commercial letters?
 - (v) Would “functional equivalence” include any mailer which submits Standard ECR letters?
 - (vi) Would a mailer have to submit both First-Class and Standard bulk letters in order to be deemed “functionally equivalent” to BAC?
- b. Please explain the major distinguishing characteristics of bulk letter mailers which, in your view, would not be deemed to be “functionally equivalent” to BAC, and therefore not eligible for a similar NSA.
- c. Please explain all distinguishing differences between (i) mailers that are “functionally equivalent” to BAC, and (ii) mailers that are “similarly situated” to BAC.

RESPONSE:

When I used the phrase “functionally equivalent”, I did not have in mind any particular characteristics that would be used to determine whether a particular company had functionally equivalent characteristics. Indeed, a functionally equivalent mailer might even include Valpak. We certainly would welcome the opportunity to talk with your business people to explore the possibility of either a functionally equivalent or a baseline NSA.

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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