

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-18-24)  
(May 8, 2009)**

The United States Postal Service hereby provides its responses to the following interrogatories of the Public Representative, originally filed on April 16, 2009, and revised on April 20, 2009: PR/USPS-18-24. Each interrogatory is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Pricing and Product Support

Elizabeth A. Reed

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1135  
(202) 268-3179; Fax -6187  
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**PR/USPS-18.**

- a. For Fiscal Year 2008, please provide the read and accept rates in the same format as provided in the response to PR/USPS-1 ("FY2008 read/accept rates are being compiled for the Annual Compliance Report (ACR) and will be submitted when finalized.").
- b. For Fiscal Year 2008,
  - i. please provide for First Class Mail a single read and accept rate that represents the systemwide average of all the separate read and accept rates provided in your response to part a., above.
  - ii. please provide for Standard Mail a single read and accept rate that represents the systemwide average of all the separate read and accept rates provided in your response to part a., above.

**RESPONSE:**

a.

Out Prim Auto	96.91%
Out Sec Auto	97.92%
Inc MMP Auto	98.50%
Inc SCF/Prim Auto	98.52%
Inc Sec 1 Pass Auto	98.44%
Inc Sec 2 Pass Auto - Pass 1	99.15%
Inc Sec 2 Pass Auto - Pass 2	99.28%
Inc Sec 3 Pass Auto - Pass 1	99.15%
Inc Sec 3 Pass Auto - Passes 2,3	99.28%

b. i. 98.68%

ii. 98.79%

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**PR/USPS-19.** In its *Amended Answer of the United States Postal Service* (September 16, 2008), the Postal Service admitted Paragraph 42 of the Capital One Complaint. Paragraph 42 states:

42. Mr. Kearney explained that the Capital One NSA would have to use mailer specific baselines and that the discounts would have to be reduced to reflect that Capital One was not the “first” adopter. Mr. Kearney argued that the changes in the baselines and discount schedules were justified by changes in circumstances. When asked whether those changes had occurred since the date of implementation (April 1, 2008), he said that they had not.

- a. Please identify and discuss in detail the “changes in circumstances” that occurred prior to the date of implementation (April 1, 2008) that would justify the changes in the baselines and discount schedules that would be applicable to the Capital One NSA as compared to the Bank of America NSA.
- b. Please confirm that the “changes in circumstances” referenced by Mr. Kearney are a consequence of the passage of time between the “first” adopter and a subsequent similarly situated mailer, such as Capital One Services, Inc. If not confirmed, please explain.
- c. Please explain in detail how any similarly situated mailer, such as Capital One Services, Inc., that seeks a NSA subsequent to the “first” adopter can satisfy all of the criteria, tests, conditions, etc., that have been identified by the Postal Service as being associated with the “first” adopter.

**RESPONSE:**

- a. There are a number of circumstances that changed between the negotiation of the Bank of America NSA and its implementation. Among the most important changes relevant to the evaluation of any agreement similar to the Bank of America NSA are changes in the cost estimates related to letter-mail processing activities and changes in the implementation strategy for IT infrastructure related to Full Service IMb.

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Because increases in mail-processing efficiency were realized between the time that the Bank of America NSA was negotiated and its implementation, systemwide estimates of costs, cost avoidances, and the difference in cost between manual handling and automated processing of letter mail changed. These changes in turn alter the expected value of any potential similar agreement.

In addition, changes in the development of the Postal Service's IT infrastructure alter both the expected cost of administering a similar agreement as well as the potential benefit to the Postal Service of implementing some of the requirements of the Bank of America contract.

- b. Not confirmed. The changes are not a "consequence of the passage of time" as such, but of improved operational efficiency (in the case of processing costs), and of changes in strategic priorities and goals (in the case of IT infrastructure).
- c. In certain circumstances, other mailers can create additional value to the Postal Service by being early adopters of systems, processes, or technologies, even if those mailers are not the first adopter. However, as explained above, changes in the development of the Postal Service's IT infrastructure limit the expected additional benefit in the case of the Bank of America NSA.

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**PR/USPS-20.** Please refer to the Postal Service's response to COS/USPS-11(c), which states, in part:

In this context, the value of Bank of America's implementation does not depend on its impact on specific attributable acceptance, mail-processing, or delivery operations as they exist today, but rather on the information and experience the Postal Service has gained as a result of a controlled and measured early implementation of these systems and processes. This value is independent of the exact volume of mail sent by Bank of America, and any attempt to assign or attribute it on a per-piece basis is necessarily arbitrary, and would not provide a good indication of the value of additional "test" pieces.

- a. Please define "value" as used in the quote above, and explain the role of costs incurred by the Postal Service in the definition of value.
- b. Please confirm that the phrase "additional 'test' pieces" in the quote above refers to eligible mail pieces as defined pursuant to the Bank of American NSA on which rebates (i.e., discounted rates) are paid by the Postal Service. If not confirmed, please explain.
- c. What is the cost (and the sources of those costs) to the Postal Service of obtaining the "information and experience the Postal Service has gained as a result of a controlled and measured early implementation of these systems and processes." Please explain.
- d. Please estimate the "value" of the "information and experience the Postal Service has gained as a result of a controlled and measured early implementation of these systems and processes" in total and on a per piece basis. Please provide the estimate in Excel (or similar electronic spreadsheet format), showing all calculations and providing citations to all sources used. If an estimate is not provided, please explain the reasons why such an estimate is not being provided.
- e. Please explain in detail what qualitative or quantitative methods of evaluation, analysis, or measurement would "provide a good indication of the value of additional 'test' pieces."
- f. Please explain why it would not be possible to estimate the unit (or per piece) costs associated with "value" as estimated in response to part d., above.

**RESPONSE:**

- a. "Value" here refers to the usefulness of information and experience gained by the Postal Service as a result of Bank of America's implementation of the

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requirements of the NSA. Postal Service costs do not figure into this definition, rather they are what value should be measured against.

- b. Partially confirmed. "Test pieces" here refers to any pieces entered into the postal system in the same or an analogous way as those entered by Bank of America through the NSA and intended, at least in part, to test any or all of the systems and processes included in the Bank of America NSA. Pieces entered under the Bank of America NSA on which rebates are paid are "test pieces," but they are not the only possible "test pieces."
- c. In part, these costs are the costs incurred by the Postal Service in administering the Bank of America NSA, but to the extent that other activities have been performed as part of this early implementation, those costs are not measured or reported separately.
- d. An estimate of the type requested cannot be developed because the "value" in question could be measured only in comparison to the cost of problems or failures avoided as a result of having the information and experience. Since such failures and problems cannot be quantified, it is impossible to measure their cost.
- e. A quantitative measure is impossible to develop for the reasons stated in part (d), but in general, the value of additional pieces is related to the opportunity for acquiring new, different information or extending experience through the introduction of those pieces. For example, should additional pieces provide information about the functioning of a process or technology on a different

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type of equipment, or the viability of a different type of file format or delivery, these pieces likely would provide additional value. Similarly, there may be value in having pieces that would test a refinement or improvement of the process or technology under consideration. Pieces that replicate a test on a process, technology, or piece of equipment, however, or that only provide additional information on a system that is on hold or no longer under active development, or has been fully rolled out, may have less value.

- f. See the response to part (d).

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**PR/USPS-21.** Please refer to Answer of United States Postal Service in Opposition to Motion of Capital One Services, Inc. for an Order Bifurcating Proceedings or for an Expedited Schedule (June 26, 2008), at 6-7, which states, in part, that the:

knowledge [the Postal Service] gained by undertaking regulatory and internal reviews of the BAC NSA can and should inform its judgment regarding any functionally equivalent NSA negotiated on that foundation.

Separately identify and describe the Postal Service knowledge gained from the “regulatory and internal reviews of the BAC NSA” referenced in the quote above, and explain how that knowledge has informed the Postal Service’s judgment regarding a functionally equivalent NSA with Capital One Services, Inc.

**RESPONSE:**

Knowledge gained from review of the BAC NSA includes a more complete understanding of the effort required to implement and administer the BAC NSA, improved estimates of the mail-processing benefits associated with improvements in read/accept rates, and updated qualitative estimates of the value to the Postal Service of the operational commitments contained in the BAC NSA. Together, this knowledge has allowed the Postal Service to improve and refine its expectations of the potential financial and operational value of potential new agreements similar to the BAC NSA.

See also the Postal Service’s responses to PR/USPS-19-20, VP/USPS 5-11, and Docket No. ACR2008, CIR No. 5, Question 7.

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**PR/USPS-22.** Postal Service response to COS/USPS-33, 34 and 35 references the response to Commission Information Request (CIR) No. 5, Question 7 in Docket No. ACR2008. Please refer to the Postal Service's Supplemental Response to CIR No. 5, Question 7 (March 16, 2009), the Zip file, CIR.5Q.7.Financ.Impact.zip, and the Excel files therein.

- a. Please refer to the Excel file, BACQ12Value.xls, worksheet USPS Value. In line [9], the Postal Service reports Total Cost Savings of (\$550,390). Please confirm that Total Cost Savings that are negative represent an increase in costs to the Postal Service of \$550,390. If not confirmed, please explain. If confirmed, please explain for each of the negative cost savings how the incentives provided in the NSA caused an increase in the costs of Bank of America's mail.
- b. Please refer to the Excel file, BACQ12Value.xls, worksheet DPS Summary FC STD.
  - i. For the First-Class Mail and Standard Mail categories Automation Mixed AADC, Automation AADC, Automation 3-Digit, and Automation 5-Digit, please confirm that the percentages in Column C represent the systemwide average DPS percentages at acceptance. If not confirmed, please explain.
  - ii. For the First-Class Mail and Standard Mail categories Automation Mixed AADC, Automation AADC, Automation 3-Digit, and Automation 5-Digit, please confirm that the percentages in Column D represent the Bank of America's average DPS percentages at acceptance. If not confirmed, please explain.
  - iii. Please explain why Bank of America's total weighted average DPS percentage at acceptance for First-Class Mail and Standard Mail (90.39% and 89.99%, respectively) is less than the total systemwide weighted average DPS percentage at acceptance for First-Class Mail and Standard Mail (90.68% and 90.88%, respectively), given that Bank of America's mail processing read and accept rates exceed the systemwide average read and accept rates for First-Class Mail and Standard Mail.

**Response:**

- a. Confirmed. When examining the results of the NSA so far, it is not necessary to assume a causal relationship between the terms of the Negotiated Service

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Agreement and Bank of America's reported mail volume and characteristics. No customer-specific baseline figures for Bank of America were measured or developed or used, so it is not actually possible to compare Bank of America's cost-causing behavior and mail characteristics prior to the NSA to the cost-causing behavior and mail characteristics after the NSA given that the value being examined relies heavily on such measures as accept rates and DPS percentages. Because there were no customer-specific starting points for these measures, the Commission and the Postal Service relied on the national systemwide averages as the starting point. However, in the future, it will be possible to compare Bank of America's scan rates to its scan rates in this early stage of the NSA. Furthermore, as described throughout the NSA case, the "accept" rates in the systemwide averages used as the benchmark for determining the valuation thus far are accept rates as measured and summarized in the end-of-run reports from letter-sorting equipment, relatively stable measures, whereas the "read/accept" rates being reported for Bank of America are actually the IMB scan rates. In the initial stages of a program such as IMB, there are often glitches in software and data transmission that may occur as the Postal Service and the mailer attempt to coordinate their systems and as the data transmission protocols are worked out. It is this type of coordination that early adopters help to smooth out prior to the full implementation of such a system. At this point, it is not possible to know based on scan rates if Bank of America's actual

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accept rate is higher than or equal to or lower than the national average.

Therefore, the negative valuations, the development of which can be traced through the associated letter cost models, are based on the scan rates and the DPS percentages associated with those scan rates relative to the national accept rates and the DPS percentages associated therewith.

b. The phrase “DPS percentages at acceptance” is not one commonly used, nor is it meaningful. However, the responses below interpret that phrase to mean the DPS percentages at delivery, based on the accept rates used in the letter models. These accept rates are as measured and summarized in the end-of-run reports on all of the letter-sorting equipment.

i. Confirmed

ii. Confirmed

iii. The premise of the question is incorrect: as measured and reported by use of scan rates, the Bank of America “mail processing read and accept rates” do not exceed the systemwide average read and accept rates for First-Class Mail and Standard Mail as summarized in the end-of-run reports. That is why the two files “FCM Letters Costs -1174.xls” and “STD Reg Letter Costs -065.xls” show a decrease in the accept rates relative to the national average. That is why the figures shown in cells E8 in tabs “ACCEPT” in both of these spreadsheets are negative numbers.

However, as can be seen in the “DPS Summary FC STD” tab, the 90.39% and 89.99% are simply volume-weighted averages. At each

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presort level, as can be seen at the same location, the Bank of America  
DPS percent is lower than the systemwide national average. Therefore, it  
should be no surprise that the Bank of America figures thus calculated are  
lower than the systemwide averages.

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**PR/USPS-23.** In Docket No. ACR2008, please refer to the Postal Service’s response to CIR No. 5, Question 7 (March 6, 2009), the Excel workbook CIR.5.Q.7.BAC\_DATA\_COLLECTION\_FY08.xls, and worksheet Rebate Calcs. Consider the following scenario: Assume, for the quarterly period 10/1/08 thru 12/31/08, the “Rate” in column E for Schedule 630A, 630B, 630D and 630E is less “favorable” than the previous quarterly period, i.e., 7/1/08 thru 9/30/08, as shown in the following table:

			Period	Period
			7/1/08 - 9/30/08	10/1/08 - 12/31/08
<u>Schedule</u>	<u>Description</u>	<u>NSA Baseline</u>	<u>Rate</u>	<u>Rate</u>
630A	Scan Rate 1st	96.8%	98.8%	98.4%
630B	Return Rate 1st - Sch B	2.7%	2.5%	2.6%
630D	Scan Rate Std	96.9%	98.5%	98.0%
630E	UAA Std	6.4%	3.0%	4.0%

Please confirm that Bank of America would receive rebates for its eligible mail pieces in the quarterly period 10/1/08 thru 12/31/08. If not confirmed, please explain.

**RESPONSE:**

Confirmed.

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**PR/USPS-24.** Please refer to 39 USC 3622(c)(10), and Section 3001.196 of the Commission's Rules.

- a. Please confirm that pursuant to Section 3622(c)(10), the applicable legal standard is that the Postal Service must make NSAs available "on public and reasonable terms to similarly situated mailers." If not confirmed, please explain.
- b. Please confirm that Section 3001.196 of the Commission's Rules, concerning "functionally equivalent" NSAs, is a procedural standard for the expedited review of a NSA proffered as "functionally equivalent" to an existing NSA. If not confirmed, please explain. The explanation should address how the procedural standard of Section 3001.196 of the Commission's Rules has a bearing on the legal standard of Section 3622(c)(10).

**RESPONSE:**

- a. Partially confirmed. Section 3622(c)(10) indicates that agreements between the Postal Service and mail users should be available "on public and reasonable terms to similarly situated mailers," but NSAs must also meet the criteria contained in Sections 3622(c)(10)(A) and 3622(c)(10)(B).
- b. Confirmed that Rule 196 contains procedural standards for the expedited review of functionally equivalent NSAs.