

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

RATE AND SERVICE CHANGES TO) Docket No. MC2004-3
IMPLEMENT FUNCTIONALLY EQUIVALENT)
NEGOTIATED SERVICE AGREEMENT WITH)
BANK ONE CORPORATION)

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
RESTATE REQUEST FOR HEARING AND
PRELIMINARY STATEMENT OF ISSUES
(July 23, 2004)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
("Valpak"), hereby restate in writing their request for a hearing originally requested orally on
July 15, 2004, as well as set out a preliminary statement of issues.

Background

Valpak's request for a hearing was originally made verbally at the prehearing
conference held herein on July 15, 2004. At that time, Valpak's view of the need for
additional time to determine whether a hearing would be requested was explained. However,
some stated the view that a hearing must be requested at the outset. Counsel for Valpak stated
that, if a request had to be made that early in these proceedings, Valpak requests a hearing.
(Related discussions on these procedural matters occurred in the Discover Financial Services,
Inc. ("DFS") prehearing conference, Docket No. MC2004-4.)

Since then, counsel for Valpak had other conversations and e-mails with counsel for the
Postal Service and Bank One Corporation ("Bank One"), participated in a conference call with
Ali Ayub, who supported Postal Service witness Michael K. Plunkett (USPS-T-1), to discuss
the financial model relied on by the Postal Service, propounded written discovery to Postal

Service witness Plunkett (VP/USPS-T1-1-22) and Bank One witness Brad Rappaport (VP/BOC-T1-1-15), and participated in the settlement conference held on July 21, 2004. Nevertheless, the Report of Settlement Coordinator filed on July 22, 2004 states that no agreement was made on holding a hearing (at 1). Valpak also participated in a conference call with Postal Service witness Plunkett, Bank One witness Lawrence G. Buc (BOC-T-2), and Ali Ayub on July 23, 2004. Valpak makes this preliminary statement of factual issues, reserving the right to supplement this list.

Valpak would like to reiterate that it would like to avoid the need to orally cross-examine any witnesses of the co-proponents, and avoid the need to file any testimony. In the event that there proves no need for such oral cross-examination or testimony, the request for a hearing would be withdrawn, and depending on the position of other parties, the case could proceed rapidly, perhaps within the alternative 60-day period set out in the Commission rules.

Preliminary Statement of Issues

A. Factual Differences between Capital One NSA and Bank One NSA

Significant factual differences appear to exist between the Capital One baseline NSA and this functionally-equivalent NSA for Bank One. Most of these issues relate to the financial impact of the NSA on the Postal Service.

1. The Capital One NSA involved only new First-Class volume, but the Bank One NSA involves only migrated Standard Mail, raising the issue of whether the Postal Service properly compared the contribution to institutional costs under Bank One's current use of Standard Mail with the future situation in which Bank One would be using First-Class Mail. A number of other specific questions are presented by this fact, including:

a. Has the Postal Service correctly calculated both the total cost and the marginal cost of electronic Undeliverable as Addressed (“UAA”) information for the new First-Class volume?

b. Is it appropriate for the Postal Service model to omit the cost of free-forwarding and free electronic Address Correction Service (“ACS”) for forwarded mail?

c. Both on average and at the margin, could the Postal Service actually suffer a reduction in contribution to institutional costs as a result of the migration from Standard Mail to First-Class Mail that is being encouraged by this NSA?

2. The Capital One NSA involved a mailer which maintained its own solicitation list, while Bank One apparently relies more heavily on rented lists, raising the issue of whether any use that Bank One could possibly make of the expensive electronic UAA information is of low value, far below the cost of providing the information. A number of other specific questions are presented by this fact, including:

a. Is there any value whatsoever to the Postal Service or Bank One of Bank One obtaining UAA electronic return information, and, if so, what is that value, and how does it compare to the Postal Service’s cost of providing this information?

b. How have anticipated benefits to the Postal Service of Bank One obtaining this UAA electronic return information been incorporated into this NSA?

3. Stated differently, when Bank One achieves its maximum discount, will the **marginal** contribution to the Postal Service’s overhead from First-Class solicitation mail that converts from Standard Mail be significantly less than the average contribution when mailed at

Standard Mail rates? That is, at the margin, will the Postal Service suffer a reduced contribution to overhead as a result of implementing the NSA? If so, by how much? And, worse, will it suffer a reduced contribution to overhead even before the maximum discount is reached?

B. Other Factual issues

1. Does implementation of this NSA make a systemwide fix of the UAA pricing problem more difficult for the Postal Service, and hence, less likely?
2. Does the Postal Service now have in place the systems which it testified it did not have in place when the Capital One NSA was considered, that would allow this NSA to be offered as a niche classification, available to all similarly situated mailers who meet certain generalized criteria, rather than just this one mailer (in this docket), as the Commission anticipated could occur in the future after the Capital One NSA was in place?
3. Does the absence of any cap in the Bank One NSA violate the principles established by the Commission with its Capital One stop-loss provision?

Respectfully submitted,

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