

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

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE
AGREEMENT WITH CAPITAL ONE SERVICES,
INC.

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BIZZOTTO
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
(APWU/USPS-T1-8)

The United States Postal Service hereby provides the response of witness Bizzotto to the following interrogatory of American Postal Workers Union, AFL-CIO: APWU/USPS-T1-8, filed on October 31, 2002. Interrogatories APWU/USPS-T1-1-7 were redirected to witness Plunkett.

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 12, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BIZZOTTO
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

APWU/USPS-T1-1. Under the proposed Negotiated Service Agreement between Capital One and the USPS, what is your understanding of the actions that will be taken by Capital One to update their databases within two days of the receipt of electronic ACS information? Will these actions include mailing lists of Capital One and the lettershops it employs? Will it include both First Class and Standard mailing lists or only First Class Mailing lists? Does this mean that Capital One will endeavor to notify the owners of the mailing lists that Capital One has purchased or rented of incorrect information? What does the Postal Service expect Capital One to do with newly purchased or rented mailing lists in order to meet these requirements?

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-2. If the proposed Negotiated Service Agreement between Capital One and the USPS does not begin at the beginning of a USPS fiscal year, when will the reconciliation and adjustments referred to in paragraph III, J-5 first take place? If the reconciliation and adjustments take place during PFY2003 Q4, how will the reconciliation and adjustments be calculated? If the reconciliation and adjustments are calculated during PFY2003 Q4, how will volumes mailed before the beginning of the agreement be treated, and specifically how will the reconciliation and adjustments count volumes mailed before the beginning of the agreement toward the thresholds and the volumes used for the discounts?

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-3. Under the proposed Negotiated Service Agreement between Capital One and the USPS,

- (a) What is your understanding of key condition I., F. "Capital One's mail relates to its products and services, including but not limited to sales and other promotions run in conjunction with Capital One's strategic partners or as a part of strategic alliances with other entities."
- (b) How will this condition be monitored in order to prevent a violation of condition III, K "Capital One may not use the threshold permit to mail on behalf of any other company or entity."
- (c) Please identify Capital One's strategic partners and all strategic alliances Capital One has with other entities that could result in mailings covered by the Agreement.
- (d) Please identify Capital One's products and services that could result in mailings covered by the Agreement.

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-4. Please confirm that the Postal Service does not intend for the mail volume of any entities merged with or acquired by Capital One during the course of this agreement be eligible for Capital One's block discounts. Thresholds for those discounts will be adjusted upward to exclude such mail from qualifying for those discounts during any period of this agreement. If this is not the intention of the Postal Service please explain, in detail, the exceptions.

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-5. When did the Postal Service begin serious discussions with Capital One on the details of this proposed Negotiated Service Agreement? When did Capital One know the approximate date of the filing of the NSA? When did Capital One know which time periods might be considered to be baseline volume measures for its mail for this proposed Negotiated Service Agreement?

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-6. Why are block discounts considered to be a necessary part of this proposed Negotiated Service Agreement since the changes proposed to undelivered mail handling seem to benefit both the Postal Service and Capital One?

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-7. Of what benefit is it to the Postal Service to include an incentive for Capital One to reduce its mail volume in the first year of the agreement in order to qualify for additional discounts on even lower volumes the next year?

RESPONSE:

Redirected to witness Plunkett.

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APWU/USPS-T1-8. On page 5 of your testimony you state, “I recognize that the Postal Service cannot and -- due to the unique position that we hold in American society -- should not differentiate unreasonably and inequitably among our customers.” By allowing Capital One to essentially trade a normal part of First Class mail delivery service for a special service that everyone else pays for, do you anticipate making such trades available to your other customers? Will all customers be allowed to do that? If not, what will determine whether a particular customer will be allowed to make such trades?

RESPONSE:

The proposed Negotiated Service Agreement between Capital One and the Postal Service is not a simple “trade” of service features, as the question suggests. Rather, the NSA is an agreement that embodies several elements arising out of a complex operational, service, and financial relationship between the Postal Service and one of its most prominent and distinct customers. In this regard, the NSA incorporates a number of features, including additional discounts for First-Class Mail volume above the stated thresholds; zero-fee, electronic address correction service; requirements for Capital One to update address databases more frequently than required of other customers; provisions allowing the Postal Service to audit compliance with the terms of the Agreement; as well as other provisions. See also, Response to OCA/USPS-T3-14 (November 4, 2002).

Capital One is unique as one of the Postal Service’s largest First-Class Mail customers. I do not believe that there are other such customers who have the same mail and operational characteristics. However, if another customer (1) were willing to commit to all of the same terms and conditions included in the Capital One Negotiated Service Agreement, including the required volume thresholds, and (2) could demonstrate that it would generate equal or greater

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savings from the changes in addressing procedures outlined in the Capital One agreement, the Postal Service would consider seeking an extension of the terms of this NSA to that customer. In all likelihood, other mailers' situations would differ in one or more material respects. Consequently, a similar, but not identical, NSA would likely better suit other customers. Since the terms and conditions of an NSA agreement are considered as a whole by the Postal Service, each NSA must be negotiated as the sum of its own parts. Other customers should not view the Capital One NSA as a menu of services from which only certain options may be selected. Allowing customers to pick and choose options from the Capital One NSA would undermine the cumulative benefits of reduced costs and incentives that encourage unprecedented use of the mails which are at the core of the agreement.

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.

Kenneth N. Hollies

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