

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
)
EXPERIMENTAL RATE AND SERVICE) Docket No. MC2002-2
CHANGES TO IMPLEMENT)
NEGOTIATED SERVICE AGREEMENT)
WITH CAPITAL ONE SERVICES,)
INC.)

Volume 3

Pages: 402 through 667
Place: Washington, D.C.
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POSTAL RATE COMMISSION

In the Matter of:)
)
EXPERIMENTAL RATE AND SERVICE) Docket No. MC2002-2
CHANGES TO IMPLEMENT)
NEGOTIATED SERVICE AGREEMENT)
WITH CAPITAL ONE SERVICES,)
INC.)

Room No. 300
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C.

Volume 3
Wednesday, December 4, 2002

The above-entitled matter came on for hearing,
pursuant to notice, at 9:30 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. DANA B. COVINGTON, VICE-CHAIRMAN
HON. RUTH Y. GOLDWAY, COMMISSIONER
HON. TONY HAMMOND, COMMISSIONER

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C O N T E N T S

WITNESSES APPEARING:
 ANITA J. BIZZOTTO
 JAMES D. WILSON

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by Ms. Catler	--	452 502	--	--	--
by Mr. Baker	--	455 501 528	--	--	--
by Mr. Costich	--	483 502	--	--	--
by Mr. Olson	--	485	--	--	--
by Mr. May	--	504 527	--	--	--
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P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN OMAS: Good morning. Today we will continue hearing testimony in support of the request to establish rate classifications agreed to in a negotiated service agreement between the Postal Service and Capital one Services, Inc.

Before we begin, I have two procedural matters this morning. The Postal Service has responded to a number of discovery requests as an institution. Participants that are not sponsoring the request may designate institutional responses for incorporation into the evidentiary record.

The date for the designation of institutional responses is Friday, December 13.

Additionally, the Postal Service has agreed to provide additional information for the record during these hearings. Participants that are not sponsoring this request that wish to add to any of this material to the evidentiary record should also file designations by December 13.

Ms. Reporter, please indicate these two dates at the front of today's transcript.

The next procedural matter concerns tomorrow's hearing. As you know, the weather service is predicting that it will start snowing tonight and accumulate a number of inches before the morning rush hour. One way to deal

1 with this potential problem would be to reschedule Witness
2 Plunkett to appear this afternoon following Witness Wilson.

3 I realize that such a schedule change at this late
4 date could seriously interfere with counsel's ability to
5 prepare cross-examination. It could also interfere with
6 witness' preparation for cross-examination. I would like
7 now counsel to comment on the pros and cons of adjusting the
8 schedule.

9 MR. BAKER: Mr. Chairman, Bill Baker for the
10 Newspaper Association of America. I was not truly prepared
11 to cross-examine Mr. Plunkett today. I might suggest we
12 consider tomorrow afternoon, starting later tomorrow, or I
13 don't know what his availability is for Friday.

14 MS. CATLER: Good morning, Mr. Chairman. Susan
15 Catler for the American Postal Workers Union. I, too, am
16 not prepared to cross-examine Witness Plunkett this
17 afternoon and agree with the suggestions of Mr. Baker.

18 CHAIRMAN OMAS: Thank you very much. I'll take
19 this under advisement, and we'll get back to this later in
20 the day.

21 Excuse me. Mr. Reiter?

22 MR. REITER: Just to address the question that was
23 raised, the witness would be available on Friday, although
24 later tomorrow, later in the morning, would be acceptable to
25 us as well.

1 CHAIRMAN OMAS: All right. I'll discuss it with
2 counsel, and we'll see what we can come up with. Maybe
3 tomorrow afternoon might be something we can resolve, maybe
4 at 2:00 p.m. or something like that. I'll get back to
5 everyone later.

6 Mr. Reiter, would you call your first witness,
7 please?

8 MR. REITER: Yes, Mr. Chairman. Our next witness
9 today is Anita Bizzotto.

10 CHAIRMAN OMAS: Would you please stand and raise
11 your right hand?

12 Whereupon,

13 ANITA J. BIZZOTTO

14 having been duly sworn, was called as a witness
15 and was examined and testified as follows:

16 CHAIRMAN OMAS: Thank you. Please be seated.

17 (The document referred to was
18 marked for identification as
19 Exhibit No. USPS-T-1.)

20 DIRECT EXAMINATION

21 BY MR. REITER:

22 Q Ms. Bizzotto, I've handed you a copy of a document
23 entitled USPS-T-1, Direct Testimony of Anita J. Bizzotto on
24 behalf of the United States Postal Service. Was this
25 testimony prepared by you or under your direction?

1 A Yes, it was.

2 Q And if you were to testify orally today, would
3 your testimony be the same?

4 A Yes, it would.

5 CHAIRMAN OMAS: Are there any objections?

6 (No response.)

7 CHAIRMAN OMAS: Hearing none, I will direct
8 counsel to provide the reporter with two copies of Corrected
9 Direct Testimony of Anita Bizzotto. That testimony is
10 received into evidence, and, as is our practice, the direct
11 testimony of the Postal Service witnesses will not be
12 transcribed.

13 (The document referred to,
14 previously identified as
15 Exhibit No. USPS-T-1, was
16 received in evidence.)

17 CHAIRMAN OMAS: Ms. Bizzotto, have you had an
18 opportunity to examine the packet of the designated written
19 cross-examination that was made available to you in the
20 hearing room this morning?

21 THE WITNESS: Yes, I did.

22 CHAIRMAN OMAS: If the questions contained in that
23 packet were posed to you orally today, would your answers be
24 the same as those you previously provided in writing?

25 THE WITNESS: Yes, they would.

1 CHAIRMAN OMAS: Are there any corrections?

2 THE WITNESS: With some corrections, yes. I'm
3 sorry. Yes. I have three corrections.

4 The first is a correction to the response to
5 OCA/USPS-T-1-1, Part A. In line 5 of the second paragraph,
6 the word "discounts" should be changed to "rates." I should
7 note that this correction has already been made in the
8 packet of designated interrogatory responses.

9 In addition, the provided packet of interrogatory
10 designations did not include the errata to APWU/USPS-T-1-8,
11 which was filed on November 19, 2002, and the errata to
12 NAA/USPS-T-1-10 filed December (sic) 12, 2002. We have
13 substituted the corrected pages in the packet.

14 CHAIRMAN OMAS: Counsel, would you please provide
15 two copies of the corrected designated written cross-
16 examination of Witness Bizzotto to the reporter? That
17 material is received into evidence and is to be transcribed
18 into the record.

19 (The document referred to,
20 previously identified as
21 Exhibit No. USPS-T-1, was
22 received in evidence.)

23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

413

Experimental Rate and Service Changes to
Implement Negotiated Service Agreement with
Capital One Services, Inc.

Docket No. MC2002-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS ANITA BIZZOTTO
(USPS-T-1)

<u>Party</u>	<u>Interrogatories</u>
American Postal Workers Union, AFL-CIO	APWU/USPS-T1-8
Capital One Services, Inc.	NAA/USPS-T1-7, 8a-h, j, 9-11
Newspaper Association of America	APWU/USPS-T1-8 NAA/USPS-T1-1, 2d, 4-8, 8a-h, j, 9-15 OCA/USPS-T1-1
Office of the Consumer Advocate	APWU/USPS-T1-8 OCA/USPS-T1-7 VP/USPS-T1-3-5
Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association Inc.	APWU/USPS-T1-8 OCA/USPS-T1-1 VP/USPS-T1-1-5

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS ANITA BIZZOTTO (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

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Interrogatory

APWU/USPS-T1-8

NAA/USPS-T1-1

NAA/USPS-T1-2d

NAA/USPS-T1-4

NAA/USPS-T1-5

NAA/USPS-T1-6

NAA/USPS-T1-7

NAA/USPS-T1-8

NAA/USPS-T1-8a

NAA/USPS-T1-8b

NAA/USPS-T1-8c

NAA/USPS-T1-8d

NAA/USPS-T1-8e

NAA/USPS-T1-8f

NAA/USPS-T1-8g

NAA/USPS-T1-8h

NAA/USPS-T1-8j

NAA/USPS-T1-9

NAA/USPS-T1-10

NAA/USPS-T1-11

NAA/USPS-T1-12

NAA/USPS-T1-13

NAA/USPS-T1-14

NAA/USPS-T1-15

OCA/USPS-T1-1

OCA/USPS-T1-7

VP/USPS-T1-1

VP/USPS-T1-2

VP/USPS-T1-3

VP/USPS-T1-4

VP/USPS-T1-5

Designating Parties

APWU, NAA, OCA, Val-Pak

NAA

NAA

NAA

NAA

NAA

Capital One, NAA

NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

Capital One, NAA

NAA

NAA

NAA

NAA

NAA, Val-Pak

OCA

Val-Pak

Val-Pak

OCA, Val-Pak

OCA, Val-Pak

OCA, Val-Pak

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BIZZOTTO
TO INTERROGATORY OF THE
AMERICAN POSTAL WORKERS UNION, AFL-CIO

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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

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TO INTERROGATORY OF THE
AMERICAN POSTAL WORKERS UNION, AFL-CIO

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thresholds, and (2) could demonstrate that it would generate equal or greater 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.

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TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T1-1. Please refer to the list of "potential agreements" presented at page 4,⁴¹⁷ lines 21-23 of your testimony. Is it your testimony that, in the absence of the NSA that is the subject of this proceeding, Capital One would "decide to pursue nonmail alternatives"? If your answer is anything other than an unqualified no, please provide all evidence upon which you base a belief that Capital One would pursue "nonmail alternatives" in the absence of the NSA that it will not pursue due to the NSA.

RESPONSE:

No. The cited portion of my testimony referring to "nonmail alternatives" reads:

Our customers have clearly indicated that they support creative, cost-effective rates and classifications meeting their needs. In a rapidly changing world, and with increasing financial challenges, the Postal Service must work with its customers, before our customers decide to pursue nonmail alternatives. Customized pricing and classifications will give the Postal Service a valuable tool to meet our customers' needs in an increasingly complex market place.

USPS-T-1 at 4, lines 18-24.

While I am not aware of any plans that Capital One may have to pursue nonmail alternatives, all our customers (including Capital One) have alternatives to using the mail. If the Postal Service does not work to develop innovative pricing and product solutions (of which one example is the proposed Capital One NSA), I am concerned that some customers may opt for nonmail alternatives. The proposed NSA encourages Capital One to continue high-volume use of First-Class Mail through the proposed additional discounts for volume above the stated threshold. In addition, it proposes a solution that will reduce the overall return costs for Capital One's First-Class Mail solicitations, thus benefiting the Postal Service and nonparticipating customers.

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TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

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NAA/USPS-T1-2. Please refer to Page 5, lines 19-21 of your testimony, where you state: "nonparticipating customers will see a reduction in their institutional cost burden as the total net contribution from Capital One increases."

- a. Please confirm that witness Crum estimates that the total net contribution from this NSA is approximately \$8.2 million.
- b. Please confirm that, according to the Commission's Opinion and Recommended Decision in Docket No. R2001-1, the total institutional costs to be recovered from all mail was more than \$28.041 billion.
- c. Please confirm that \$8.2 million is approximately 0.029 percent of \$28.041 billion.
- d. Please explain how nonparticipating mailers will "see a reduction in their institutional cost burden" as a result of this NSA.

RESPONSE:

- a. Redirected to witness Crum.
- b. Redirected to witness Crum.
- c. Redirected to witness Crum.
- d. Your question implies that increases in contribution below a certain level are of no value to the Postal Service or other postal customers. Using this logic, any rate or classification change that was deemed to have an "insignificant" effect on total contribution should not be recommended by the Postal Rate Commission even if it was considered to be beneficial by the participating customers and did not harm nonparticipating customers. In evaluating the Capital One NSA proposal, the Postal Service's criterion was that the agreement not decrease the *net contribution to institutional costs* from Capital One's mail and thereby increase the institutional cost burden of nonparticipating mailers. I would also note that *positive effects on the Postal Service's bottom line, and thus benefits*

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TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

for its customers, can accrue from the cumulative effect of many initiatives as 419
well as from one "big-ticket" item.

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TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

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NAA/USPS-T1-4. Were you the Postal Service officer with principal supervisory authority over the negotiations with Capital One?

RESPONSE:

No. The Postal Service officer with principal supervisory authority over the negotiations with Capital One was Stephen M. Kearney, Vice-President, Pricing and Classification.

As Chief Marketing Officer and Senior Vice-President, I am responsible for the overall strategic direction of the Postal Service's marketing initiatives including negotiated service agreements; however, I do not directly supervise contract negotiations.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ANITA J. BIZZOTTO
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

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NAA/USPS-T1-5. Please describe the review process by which the Postal Service internally considered the Capital One NSA and contrast that to the process for an omnibus rate case. In particular, please summarize the major ways in which that review was similar to, and different from, the review accorded the preparation of an omnibus rate case filing.

RESPONSE:

The process used to review the Capital One NSA is the same process used to review an omnibus rate case or any other rate or classification request filed with the Postal Rate Commission. Any proposed rate or classification request including the Capital One NSA is:

1. Discussed with senior management for review of the proposal and the projected impact on the Postal Service's finances.
2. Presented to the Executive Committee for review prior to submission to the Board of Governors.
3. Presented to the Board of Governors with a financial summary, the policy rationale, and a Management recommendation for a Postal Rate Commission filing.
4. Approved for filing by a vote of the Governors of the Postal Service.
5. Filed with the Postal Rate Commission for review as required by the Postal Reorganization Act.

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NAA/USPS-T1-6. Did the Postal Service prepare, for internal purposes, an analysis of the return on investment of the Capital One NSA? If so, please describe how the Postal Service and/or the Governors used that analysis.

RESPONSE:

No. The Postal Service does not generally prepare an analysis of the return on investment for rate or classification proposals, including the Capital One NSA. The Postal Service's objective in developing new rates or classifications is not to maximize the return on investment; rather, it is to meet the policy goals set out in the Postal Reorganization Act. Therefore, as with any rate or classification proposal, the Postal Service carefully evaluated the Capital One NSA for consistency with the statutory criteria (USPS-T-2 at 8-10), and developed a financial analysis evaluating the estimated net contribution from the proposal and ensuring that no cross-subsidies exist (USPS-T-3.) As described in the response to NAA/USPS-T1-5, the results of these analyses are presented to senior management and the Board of Governors.

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TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

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NAA/USPS-T1-7. As the Chief Marketing Officer of the Postal Service, do you believe that, as a general policy applicable to all NSAs, an NSA for a specific customer should be based on postal costs applicable to the mail of that specific customer, or on average costs for all mail of the relevant type?

- a. Should the Capital One NSA be based on postal costs applicable to the mail of that specific customer, or average costs for all mail of the relevant type?
- b. Do the "unique circumstances" of the Capital One NSA warrant any departure from what you would advocate as a general policy? Please explain your answer.

RESPONSE:

I believe that any rate or classification proposal, including negotiated service agreements such as the Capital One agreement, should be developed using the best data available including the Postal Service's understanding of the characteristics and requirements of specific mailers.

- a. To the extent that data are available on the specific cost characteristics of serving an individual customer, that data should be used in evaluating a negotiated service agreement. At the same time it is not practical to expect that the Postal Service's data systems can be used to measure the costs for selected customers in the same way they are designed to measure costs for entire classifications in the aggregate.

In the case of the Capital One NSA, the Postal Service has used data about Capital One's mailing and returns profile as a fundamental input in developing the financial analysis of the agreement. However, it is appropriate to take and to appropriately adjust aggregate cost data to reflect customer-specific information. Analysis of any NSA must take a reasoned approach, balancing the need for customer-specific information with the difficulty and expense in developing customer-specific cost studies. Finally, this hybrid approach to developing NSAs

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ANITA J. BIZZOTTO
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

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must be measured against our understanding of the customer and its mailing operations and requirements. Informed judgment has always played a role in postal ratemaking, especially in evaluating the policy implications of a proposal, and we cannot ignore this in a quest for a formulaic approach to the evaluation of NSAs.

- b. No. The approach used to develop the Capital One NSA was consistent with the general policy that I describe in the response to NAA/USPS-T1-7(a). This policy considers the specific attributes of a customer and along with the practical restrictions of collecting sampling data or developing entirely customer specific models.

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TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

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NAA/USPS-T1-8. In your response to ABA/USPS-T1-1, you quote witness Plunkett as saying:

In the course of developing the [Capital One] NSA, the Postal Service has not identified any other customers with Capital One's combination of attributes that makes this agreement uniquely valuable. The Postal Service recognizes that if there were other mailers that use First-Class Mail as an advertising medium, and that if they exhibited similar mail usage and growth potential, it could be beneficial to enter into a similar agreement with those mailers. (Emphasis added.)

- a. Please itemize and explain each specific attribute in Capital One's "combination of attributes" that make the Capital One NSA uniquely valuable.
- b. If the fact that Capital One has the largest volume in the First-Class Mail Subclass is one of the attributes in this "combination of attributes," by definition no other mailer in the country would have the same "combination of attributes"?
- c. Please explain the steps the Postal Service has taken to determine whether other mailers have the combination of attributes similar to that of Capital One, except, perhaps, for its uniquely large First-Class Mail volume.
- d. Is it your opinion that very few mailers, other than Capital One, use First-Class Mail for solicitation purposes?
- e. Is one of the unique attributes of Capital One that it is willing to have its mail pieces destroyed if they cannot be delivered, provided that the ACS service is provided free of charge?
- f. Is one of the unique attributes of Capital One that the proportion of its solicitation pieces that are UAA and cannot be forwarded is approximately eight times the national average for First-Class Mail?
- g. Is one of the unique attributes of Capital One that it does not participate in the Postal Service's ACS service, which is designed to be a computerized, electronic way to improve the quality of addresses on a list?
- h. Do you believe that Capital One's decision not to participate in the Postal Service's ACS service is irrelevant to the decision to enter into this NSA?
- i. Please explain the analysis the Postal Service performed to determine whether Capital One had "growth potential."
- j. Consider a mailer who was not viewed by the Postal Service as having "growth potential" but who would send additional volume if given declining

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block discounts, and that both the Postal Service and the mailer would consider that growth to be a positive development. Please explain the extent to which you would argue that this mailer is a poor candidate for an NSA involving declining block discounts.

RESPONSE:

- a. It is important to recognize that respective attributes in isolation do not necessarily make the agreement valuable, but, as indicated in the testimony of witness Plunkett (USPS-T-2), it is the combination of attributes that is crucial. The Agreement itself identifies many conditions, or attributes, that were sufficiently critical to warrant inclusion. See Attachment G to the Request at Sections I and II and witness Plunkett's responses to VP-T2-1 and 2. In addition to those, I would also point to the willingness of Capital One to work with the Postal Service to develop a mutually beneficial agreement. This includes cooperation in identifying opportunities for rates and classifications that increase contribution for the Postal Service, in sharing company-specific mailing data, and in actively appearing before the Postal Rate Commission.
- b. Capital One's large volume of First-Class Mail was a pertinent attribute. While, by definition, only one mailer can be the "largest" mailer of First-Class Mail, First-Class Mail volume alone was not the only consideration for entering into the NSA and the Postal Service does not consider being the largest "mailer in a specific class or subclass to be a prerequisite for an NSA.
- c. The Postal Service is having ongoing discussions with potential NSA partners. The fact that we have not, as of now, entered into agreements with

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other customers does not imply that we have eliminated them from consideration. Witness Plunkett (USPS-T-2) explains why the Postal Service believes that no other customers have the same combination of attributes as Capital One. However, this does not imply that the Postal Service would not consider entering into mutually beneficial NSAs with other customers based on those customers' attributes.

- d. No. However, it is my understanding that Capital One does use First-Class Mail for solicitations quite extensively.
- e. No.
- f-h. No. All of Capital One's mail characteristics combined to provide the Postal Service and Capital One a unique opportunity to reduce Postal Service costs and provide incentives for Capital One to continue to use the mail. The Postal Service's goal was to develop an agreement that reduced operational costs, thereby providing a benefit to postal ratepayers as a whole. Obviously, any one characteristic is likely similar to that of some as-of-yet unidentified mailer who, for example, may have a return rate equal to that of Capital One. However, I do not believe that mere speculation that some mailer, somewhere, could have similar attributes is sufficient reason not to proceed with the proposed negotiated service agreement. In addition, it is not clear that the return rate for Capital One's solicitation mail volume differs from that of other mailers using First-Class Mail for solicitations.
- i. Redirected to witness Plunkett.

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- j. If a mailer does not have "growth potential," I am not sure how it could appreciably increase its mail volume. In evaluating a potential NSA, I believe Postal Service should look not only at the customer's mail volume, but also at the characteristics of that mail volume, potential opportunities for reducing Postal Service costs, opportunities for providing enhanced services or combinations of services not currently contemplated by today's classification schedule, as well as the customer's capabilities and willingness to work with the Postal Service to develop a mutually-beneficial agreement.

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NAA/USPS-T1-9

- a. Please confirm that First-Class Mail, without an endorsement to the contrary, is given "free" forwarding (in the sense that there is no additional charge beyond the postage rate to the mailer or the recipient) for 12 months and if an undeliverable-as-addressed piece cannot be forwarded, or is beyond the 12-month period, it is returned to the sender at no additional charge.
- b. Do you agree that the arrangement described in (a) involves intentional rate averaging among mailers in the sense that the cost to the Postal Service of providing this service to some mailers is much higher than the cost of providing it to others?
- c. Do you agree that mailers that cause the Postal Service to incur higher-than-average costs (due to having higher-than-average proportions of pieces either forwarded and/or returned) are, at least with respect to forwarding, being cross subsidized (perhaps implicitly) by other mailers? If you do not agree, then state the definition of cross-subsidy on which you base your answer and explain how the phenomenon in question coincides with that definition.
- d. Would charging each mailer of First-Class bulk mail a rate that recognizes the degree to which its mail uses forwarding and return services be fairer than the current pricing of First-Class mail? Please explain.
- e. If each mailer of bulk First-Class Mail were charged according to its use of forwarding and return services, possibly through a code placed on the mail piece, would an NSA of the kind and character of the instant proposal still be worth considering? Please explain.

RESPONSE:

- a. Confirmed. See DMM 57 F010.5.1.
- b. Yes, rate averaging across different mailer and mail characteristics, including use of forwarding, exists within First-Class Mail as well as all other classes of mail. While the standard First-Class Mail product offerings provide a specified level of service with known characteristics, this should not preclude the Postal Service from taking opportunities to reduce costs through customer-specific product and pricing initiatives. In

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this instance, the Postal Service has worked with Capital One to develop an agreement that will reduce the Postal Service's costs for handling Capital One's UAA mail.

- c. No, Postal Service rates and fees are designed to avoid cross-subsidy and to meet the requirements of the Postal Reorganization Act. See, for example, Docket No. R2001-1, PRC Op. and Rec. Dec. at 37-40; and Docket No. R2000-1, PRC Op. and Rec. Dec. at 193-199.

As a policy decision, the Postal Service has decided to provide forwarding and return services as an integral part of First-Class Mail. On an ongoing basis, we re-evaluate the characteristics of all our product offerings including consideration of whether deaveraging rates based on varying cost characteristics is appropriate. Opinions about whether deaveraging First-Class Mail rates based on differential use of forwarding and return services would be "fair" would likely depend on whether a customer's postage rates would be more likely to increase or decrease with deaveraging. However, in developing the Capital One NSA, the Postal Service has identified an opportunity to increase the contribution from an individual customer (with that customer's agreement) through the proposed NSA structure.

- d. Not necessarily. The Postal Service has not evaluated the effect of this type of rate and fee design on each of the thousands of affected customers.. The Capital One NSA was developed as a mutually beneficial agreement as compared to the current rate structure; not as compared to

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every possible alternate hypothetical rate structure. In this instance, the proposal permits the Postal Service to achieve some savings without having to change the forwarding and return features of all presorted First-Class Mail.

- e. As described in the response to (d), the Postal Service evaluated the Capital One NSA agreement in comparison to the current rate and fee structure and determined that, in comparison to the current rate and fee structure, the proposed NSA provided an opportunity to reduce Postal Service costs and thus was beneficial.

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NAA/USPS-T1-10. Does Capital One currently receive a substantial implicit subsidy from its dramatically above-average usage of the forwarding and return services of the Postal Service? Please explain any negative answer.

RESPONSE:

No. With the high implicit cost coverage for presorted First-Class Mail, it is extremely unlikely that the rates paid by Capital One or any other customer mailing presorted First-Class Mail do not cover the cost of providing mail services. See Docket No. R2001-1, PRC Library Reference 1, Workpaper "All_r01", Worksheet "Rev" at 8 (Cell AQ13) presorted First-Class Mail cost coverage of 265.91 percent (PRC methodology).

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NAA/USPS-T1-11. Do you believe that, in this NSA, Capital One could be said to agree to forego an implicit subsidy from its above-average usage of forwarding and return services if the Postal Service will use the savings to provide it with free ACS service and with declining block discounts that start well below projected volume levels?

- a. Please explain any disagreement you have with this question, including, but not limited to, any statement of fact you contend is incorrect.
- b. Please explain why the Postal Service's arrangement with Capital One is fair to mailers who are paying the same postal rates but are not receiving dramatically above-average returns and therefore do not receive the same implicit subsidy.

RESPONSE:

- a. As explained in my responses to NAA/USPS-T1-9 and NAA/USPS-T1-10, I do not believe that Capital One is receiving an "implicit subsidy." In addition, your characterization of the NSA agreement's terms and conditions is incomplete and I would not necessarily agree that the proposed thresholds are "well below" projected volume levels.
- b. All postage rates and fees involve averaging across some cost-causing characteristics. However, the Capital One NSA identifies and works with a customer to reduce Postal Service costs in a way that benefits that customer, other customers, and the Postal Service. The Capital One agreement results in a reduction of the costs associated with the current level of cost averaging within First-Class Mail. This is possible because we were able to work with Capital One to develop a comprehensive proposal that provided benefits to not only the Postal Service and Capital One, but also to other customers by reducing the overall level of costs.

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NAA/USPS-T1-12. As the Postal Service's Chief Marketing Officer, is it your belief that the use of declining block discounts depends upon the size of the mailer? Please explain your answer. ⁴³⁴

RESPONSE:

I assume that your question refers to the declining block rates (not discounts) incorporated in the Capital One agreement.

I do not think that the use of declining block rates necessarily depends upon the size of the mailer. Declining block rates are one tool that can be used in an NSA to the mutual benefit of a customer and the Postal Service. Any potential agreement incorporating declining block rates (or any other rate design) must be evaluated as a whole.

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NAA/USPS-T1-13. If 10 percent of the addresses in a particular mailing list are UAA and cannot be forwarded, would you consider mail using that mailing list to be of poor quality or "dirty"? Please explain any negative answer.

RESPONSE:

No. Address quality is a relative concept and only one characteristic of many (barcode quality, presortation, automation-compatibility) that affect the Postal Service's costs of handling a given mail piece. It is my understanding that Capital One currently complies with the Postal Service's mail preparation requirements for presorted First-Class Mail. The proposed agreement requires Capital One to comply with additional conditions not required of other mailers to reduce the Postal Service's costs of processing Capital One's mail. While I am not an expert in mailing lists, I do not believe it is always appropriate to believe that mailing lists used for solicitations can be expected to have the same return or forwarding rates as those mailings such as billings where there may be an ongoing relationship with the customer.

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NAA/USPS-T1-14. If a large First-Class mailer could demonstrate that 12 to 15 percent of its mail is UAA and cannot be forwarded, would such fact help qualify that mailer for an NSA similar to the Capital One NSA? Please explain any negative answer.

RESPONSE:

The Capital One NSA cannot be oversimplified as an agreement whose sole requirement is a reduction in UAA mail. It must be viewed as a comprehensive whole of which Capital One's pre-implementation UAA percentage is only one component. In evaluating other potential NSAs, the Postal Service will determine whether the terms and conditions of those potential NSAs would result in a net benefit to the Postal Service. While it is possible that a customer's existing UAA percentage may be a factor in that evaluation, neither a high nor a low UAA percentage would necessarily qualify or disqualify a mailer from consideration for an NSA.

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NAA/USPS-T1-15. If a large First-Class mailer could demonstrate that 3 to 4 percent of its mail is UAA and cannot be forwarded, would such fact reduce that mailer's likelihood of qualifying for an NSA similar to the Capital One NSA? Please explain any affirmative answer.

RESPONSE:

See response to NAA/USPS-T1-14.

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OCA/USPS-T1-1. Please refer to your testimony at page 5, lines 15-17, where you state "Capital One's volume is expected to grow over the term of the contract."

- (a) Please provide any forecasts that support the basis for your understanding that Capital One's volume is expected to grow during the three-year term of the Negotiated Service Agreement (NSA).
- (b) Is it your understanding that Capital One's volume is expected to grow during the next three years even in the absence of the proposed NSA? Please explain.

RESPONSE:

- (a) Capital One has provided volume forecasts in the testimonies of witnesses Jean (COS-T-1) and Elliott (COS-T-2). The Postal Service does not have any other forecasts of Capital One mail volume.

My expectation that Capital One's volume will grow during the three-year term of the negotiated service agreement is based on my understanding of discussions with Capital One management. In developing this agreement, the Postal Service believes that it has offered Capital One a combination of rates and services (including incremental, "declining block" ^{rates} ~~discounts~~ for large-volume use of First-Class Mail) that will encourage Capital One to continue to use First-Class Mail. In general, rate reductions tend to increase mail volume. In his testimony, witness Jean (COS-T-1) indicates that this tendency is applicable to Capital One stating,

This Agreement offers the potential for greater volume of First-Class Mail (through growth and decreased attrition) Incremental First-Class Mail marketing volume has a multiplier effect by creating Business Reply Mail and subsequent First-Class Mail statements and correspondence.

COS-T-1 at 7, lines 6-9.

While increasing First-Class Mail volume is a desirable result, it was not the primary criterion for entering into the agreement with Capital One. The Postal Service was interested in developing an agreement that increased overall contribution to institutional costs from Capital One's mail. As demonstrated in the testimony of witness Crum (USPS-T-3), all provisions of this negotiated service agreement, taken together, are projected to result in a positive incremental contribution to institutional costs.

- (b) As witness Jean indicates, Capital One does not typically forecast solicitation mail volume more than six months in the future. COS-T-1 at 5, lines 4-7. Therefore, it is my understanding that a forecast of mail volume in the absence of this agreement is not available for the period beyond the Test Year 2003.

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OCA/USPS-T1-7. Please refer to Section V. of your testimony at pages 5-6, The Agreement with Capital One. Please provide your understanding of the role, if any, of the Postal Rate Commission in reviewing or overseeing decisions made by the USPS on appeals taken by Capital One pursuant to the NSA.⁴⁴⁰

RESPONSE:

Section IV(B) of the NSA Agreement with Capital One (Attachment G to the Request at 7) establishes an administrative appeal process for issues raised under the terms and conditions of the proposed NSA. Any appeals decided by the Manager of the Rates and Classification Service Center in New York will be final.

The appeal procedure agreed to in the Capital One NSA follows established Postal Service administrative procedures for customer appeals of Postal Service decisions on the application of established mailing standards. These administrative decisions are not reviewed by the Postal Rate Commission.

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VP/USPS-T1-1. Your testimony (at p. 4, l. 24 through p. 5, l. 2) states: "We should not be afraid to move forward, particularly when remaining in the current 'comfortable' spot will not necessarily resolve the Postal Service's inherent difficulties."

Please state whether you believe the merits of the instant proposal and the justification for Negotiated Service Agreements ("NSAs") in general depend on the extent to which the Postal Service is facing economic difficulties, and explain in detail the basis for your answer.

RESPONSE:

Negotiated service agreements are a tool that can allow the Postal Service to address our customers' needs through targeted rate and classification initiatives. I hope that NSAs will provide opportunities to increase the value of the mail and thereby encourage our customers to continue to send messages, correspondence, and other transactions through the mail. This goal is not dependent on the financial state of the Postal Service at any particular time, but is an outgrowth of fulfilling our mission of providing postal services to bind the nation together. NSAs have been discussed for many years, through financial ups and downs.

Nevertheless, I am mindful of our responsibility to maintain a viable Postal Service and the additional challenges resulting from economic and financial uncertainty. Although the proposed legislation regarding the Postal Service's ongoing CSRS retirement funding obligation, if enacted, would mitigate some financial pressures, the Postal Service still must operate in a continually changing environment. Our customers are interested in innovative solutions to their mailing requirements. These requirements are driven by their business needs, not by the financial condition of the Postal Service. I intend to continue working with interested customers develop mutually beneficial NSAs and other rate and classification proposals to meet their business needs and to help

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maintain a Postal Service that will remain viable and able to meet the needs of our
customers and the nation at large for many years to come.

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VP/USPS-T1-2. Your testimony (at p. 5, ll. 15-17) states: "Capital One's mail volume is⁴⁴³ expected to grow over the term of the contract, thus offsetting some of the decline in volume expected in other segments of the mail stream."

Please state whether you believe the merits of the instant proposal and the justification for NSAs in general depend on the extent to which the Postal Service may be facing declining volume in other segments of the mail stream, and explain in detail the basis for your answer.

RESPONSE:

As described in my response to VP/USPS-T1-1, NSAs are one tool for meeting customers' needs. Successfully doing so will help increase the value of the mail for customers who might otherwise look for nonmail alternatives. Declines in mail volume alone are not the sole reason for pursuing NSAs, but, if we do not continue to address our customers' needs, customers will continue to look for alternatives to the mail, including ones they may not be currently contemplating.

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VP/USPS-T1-3. As the policy witness for the Capital One NSA, please explain the extent to which the attractiveness of the NSA to the Postal Service and the justification for the proposal depend on the absolute magnitude of Capital One's First-Class Mail volume.

RESPONSE:

The Postal Service's decision to enter into the Capital One NSA was based on a consideration of possible rate and product changes that would not only increase contribution from Capital One's mail, but would also provide a product offering that Capital One would find attractive. Clearly, the absolute magnitude of Capital One's volume presented some opportunities that may not necessarily exist with smaller customers. However, by no means does this imply that size alone makes a customer a potential candidate for a negotiated service agreement. As we work to develop future NSAs, the Postal Service will look to tailor any subsequent agreements to the individual customer's needs, the potential for reducing Postal Service costs, and consistency with the overall policy goals set forth in the Postal Reorganization Act

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VP/USPS-T1-4. In your testimony (at p. 3, l. 20), you state that your view NSAs as '[a]⁴⁴⁵
natural next step in the evolution of postal pricing "

- a. In terms of the direction you provide in the areas of pricing and marketing, do you see any fundamental difference between an NSA with one customer and a niche classification that might be used by only a few (e. g., two, three, or four) mailers? If so, please explain what that difference is.
- b. Do you see any difference in the pricing principles that you would apply to an NSA with one customer and a niche classification that might be used by only a few (e. g., two, three, or four) mailers? If so, please explain what that difference is.

RESPONSE:

- a. Yes. A negotiated service agreement addresses needs specific to one customer and works to tailor a solution that is mutually beneficial for both the customer and the Postal Service. Because of the unique, tailored nature of an NSA, that agreement is made between the Postal Service and one individual customer only. A "niche" classification is a classification that we expect to be used by only a small number of customers; however, it is generally available to any customer that chooses to use the classification. The Postal Service views an NSA as the outcome of a cooperative partnership between the Postal Service and one mailer to identify combinations of product and customer attributes that offer the potential for unique solutions to the customer's mailing requirements. However, working to develop these cooperative agreements will not prevent the Postal Service from proposing broader classifications if an identified opportunity can reasonably be extended to other customers.
- b. No. The criteria that are used to develop and evaluate postal rates and classifications are set forth in the Postal Reorganization Act. These criteria apply

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regardless of whether the proposal is for an NSA with an individual customer or for a
broader classification.

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VP/USPS-T1-5. Within the framework of the direction you provide for rate setting for the Postal Service, consider the following policy statement:

By providing discounts for volume beyond projected levels, or for volume that would not otherwise be sent, declining block discounts can promote volume growth, benefit the mailer (who voluntarily uses the discounts), and benefit the Postal Service (in the sense that the overall contribution to fixed costs is higher after the discounts than before).

- a. Please explain the extent to which you agree with this statement.
- b. Do you agree that declining block discounts can make economic and policy sense without tying them to any funding that might be associated with a change in forwarding arrangements? Please explain any negative answer.
- c. Do you have any reason for not supporting declining block discounts as an effective mechanism for promoting growth? Please explain any affirmative answer.
- d. In your opinion, do any of the benefits of declining block discounts depend on the expected growth rate (negative, zero, or positive) of the volume of the mailer involved? Please explain your answer.

RESPONSE:

- a. I don't think you meant to say declining block discounts, since that implies rates become higher as volume increases. I agree that declining block rates, by stimulating new volume, can benefit the mailer, the Postal Service, and all mailers by increasing contribution.
- b. Yes, declining block rates are a viable rate design tool in and of themselves and the decision to use this tool will depend on the specific nature of the rate design challenge. In developing the Capital One NSA, the Postal Service determined that declining block rates in conjunction with the other terms and conditions of the agreement provided a mutually beneficial solution addressing Capital One's mailing needs.
- c. See responses to VP/USPS-T1-5(a) and (b).

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- d. The benefits of any rate proposal, including the declining block rate proposals incorporated in the Capital One agreement, will depend on many factors. In this proposal, the opportunities presented by Capital One's extensive use of First-Class Mail for solicitation, the high volume of First-Class Mail it presents every year, the opportunities available because of the relative level of UAA mail combine to present an opportunity to develop an agreement that provides benefits to both the Postal Service and Capital One. The evaluation of the Capital One agreement should not proceed by singling out a limited number of factors (e.g., rate structure and forwarding arrangements or rate structure and expected growth rates) of the many components of the agreement and trying to piecewise determine if each potential combination of factors would make good economic and policy sense. The Postal Service did not do this in its evaluation of the agreement and would not expect that this process would lead to a reasonable evaluation of the agreement as a whole. The various elements of the Capital One NSA could conceivably be combined in many different ways to reach product and rate solutions that might make good economic and policy sense in some as-of-yet unexamined circumstance. For instance, there may be a case where declining block rates would make sense for a customer with relatively little growth in mail volume. However, those possibilities must be examined in the context of a specific product or rate initiatives and not as hypothetical examples.

1 CHAIRMAN OMAS: As presiding officer, I will add
2 one of Witness Bizzotto's written discovery responses into
3 the record.

4 Ms. Bizzotto, earlier this morning I provided your
5 counsel with two copies of your response to ABA/USPS-T-1-1.
6 If you were asked that question orally this morning, would
7 your answer be the same as the one you previously provided
8 in writing?

9 THE WITNESS: Yes. Yes, it would.

10 CHAIRMAN OMAS: I have handed the reporter two
11 copies of that response, and I direct that it be admitted
12 into evidence as transcribed.

13 Is there any additional written cross-examination
14 for Witness Bizzotto?

15 (No response.)

16 CHAIRMAN OMAS: There being none, without
17 objection the material is admitted into evidence, and I
18 direct that it be transcribed.

19 (The document referred to was
20 marked for identification as
21 Exhibit No. ABA/USPS-T-1-1 and
22 was received in evidence.)

23 //

24 //

25 //

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ABA/USPS-T-1-1: In Section IV of your testimony, starting at page 3, line 19, you discuss "Customer-Specific Agreements:"

- a) Your discussion of this issue indicates that this is the first of many rate and classification change requests, denominated as negotiated service agreements (NSA) and based on negotiations with specific customers, which the Postal Service expects to submit to the Postal Rate Commission. Is this understanding correct?
- b) This request is for experimental rate and classification changes. If experimental rate and classification changes based on an NSA are considered to be successful and the Postal Service submits a request to make the changes permanent, does the Postal Service intend to request that the permanent rate and classification changes be limited to one customer, or that the permanent rates and classifications be made available to all customers who qualify?

RESPONSE:

- a) To clarify, Section IV of my testimony (USPS-T-1 at 3, line 19 – 5, line 6) discusses the potential use of Negotiated Service Agreements (NSA) to meet the needs of the Postal Service's customers and describes some possible types of NSAs. I would not necessarily agree that the Postal Service expects to file "many" customer-specific, rate and classification requests or NSAs with the Postal Rate Commission. It is too early to tell whether we will file "many" or "few" NSA-based, rate and classification requests.
- b) It is not possible at this early stage to determine what form any request for rates and classifications extending the Capital One NSA experiment proposed in this Docket (or any other proposed NSA) would take or to whom they would be applicable. As witness Plunkett indicates in his testimony,

In the course of developing the [Capital One] NSA, the Postal Service has not identified any other customers with Capital One's combination of attributes that makes this agreement uniquely valuable. The Postal Service recognizes that if there were other

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mailers that use First-Class Mail as an advertising medium, and that if they exhibited similar mail usage and growth potential, it could be beneficial to enter into a similar agreement with those mailers.

USPS-T-2 at 8, lines 1 - 6.

1 CHAIRMAN OMAS: This brings us to oral cross-
2 examination. Four parties have requested oral cross-
3 examination, the American Postal Workers Union, AFL-CIO, Ms.
4 Catler; Newspaper Association of America, Mr. Baker; Office
5 of the Consumer Advocate, Mr. Costich; and Val-Pak Direct
6 Marketing Systems, Inc. and Val-Pak Dealers Association, Mr.
7 Olson.

8 MS. CATLER: Thank you, Mr. Chairman.

9 Ms. Catler, would you please begin?

10 CROSS-EXAMINATION

11 BY MS. CATLER:

12 Q Witness Bizzotto, I'd like to ask you about some
13 of the terms of the agreement. Specifically, the agreement
14 provides for something called a Change Service Requested
15 Option 2 by February 1, 2003. First of all, is that CSR
16 Option 2 currently available?

17 A I don't know that it is currently available, but
18 it is under development.

19 Q Is there a CSR Option 1 currently available?

20 A I'm not that familiar with that particular option.
21 I know that there are some changes being made to the options
22 for address correction service. That is one of them, but I
23 can't comment on what is available now and what might be
24 available later.

25 Q Okay. Do you know what the difference is between

1 the current change service request endorsement and the one
2 that is proposed to be added as a result of the negotiated
3 service agreement?

4 A Not in any great detail, no.

5 Q In the agreement which was signed it says the
6 Postal Service will make the programming and regulation
7 changes necessary to implement CSR Option 2 by February 1,
8 2003. This is in Section II(D). Do you know if the
9 regulation changes necessary to implement CSR Option 2 by
10 February 1, 2003, are in process?

11 A It's my understanding that work is progressing on
12 all of the implementation issues surrounding the potential
13 agreement, yes.

14 Q But do you have any knowledge of how the
15 regulatory changes are being made to implement CSR Option 2
16 by February 1, 2003?

17 A We have a fairly significant team of people that
18 are working on all of the issues about the implementation of
19 this particular agreement, and it's my understanding that
20 the work is moving forward.

21 Q In your considering this negotiated service
22 agreement with Capital One and the address correction
23 features of it, did you consider that this service would be
24 valuable to other mailers of the Postal Service?

25 A Which service are you talking about, the Option 2

1 service?

2 Q Yes.

3 A It's my understanding that that is a service that
4 will be available to any users of the Postal Service who
5 wish to choose it.

6 Q Do you know what the price will be for any user
7 other than Capital One who chooses to use CSR Option 2 once
8 it's made available?

9 A I presume -- I mean, I can't say specifically, but
10 there are prices available for address correction services
11 today. These options are simply additional options to the
12 current list of options that customers can choose, and I
13 don't believe that it would be reflected in any difference
14 in price.

15 Q The negotiated service agreement proposes to
16 provide this option to Capital One for free. Is it your
17 understanding that when CSR Option 2 is made available to
18 other mailers it will also be made available for free?

19 A No.

20 Q Do you have any idea what price will be charged to
21 other mailers who choose to take advantage of CSR Option 2
22 once it's made available?

23 A I'm not certain.

24 MS. CATLER: I have no other questions for this
25 witness at this time.

1 CHAIRMAN OMAS: Thank you, Ms. Catler.
2 Mr. Baker?

3 CROSS-EXAMINATION

4 BY MR. BAKER:

5 Q Good morning, Ms. Bizzotto.

6 A Good morning.

7 Q Which party to the NSA first broached the idea of
8 negotiating one?

9 A To be honest, I'm not certain because I wasn't the
10 person that was approached --

11 Q Okay.

12 A -- or began the discussions, so I can't say for
13 certain.

14 The Postal Service has had a number of
15 conversations with a number of different mailers over the
16 past couple of years about the possibility of negotiated
17 service agreements, many resulting from conversations at,
18 you know, trade meetings and things like that, so I can't
19 say for certain who first brought up the notion of an
20 agreement with Capital One.

21 Q And is it fair to say that the Postal Service saw
22 this as an opportunity to do something to reduce the amount
23 of physical returns that Capital One gets and that you saw
24 this as a way to address that in some manner?

25 A Well, actually I think the Postal Service saw this

1 more as an opportunity to continue to retain a very
2 significant customer in the first class mail stream; not
3 only retain their business, but grow their business. That
4 was what I believe is the biggest opportunity and the most
5 exciting thing to me about this potential agreement.

6 Q And can you say at what point in the discussions
7 the Postal Service said a big part of this deal for the
8 Postal Service is to reduce the amount of UAA mail that Cap
9 One sends?

10 A No, I can't say because I was not involved in the
11 actual negotiations with Capital One about the terms of the
12 agreement.

13 Q Do you have your testimony with you?

14 A I do.

15 Q On page 5 of that testimony at lines 19 and 20
16 after a paragraph in which you discuss in general terms some
17 of the benefits of the NSA you state, "Lastly, and most
18 importantly, non-participating customers," by which I assume
19 you mean other mailers, --

20 A Uh-huh.

21 Q -- "will see a reduction in their institutional
22 cost burden as the total net contribution from Capital One
23 increases."

24 If you could also turn to your response to our
25 Question No. 2 to you? You answered subpart D. We had

1 asked a question going to the amount of the net contribution
2 here, but in the passage near the bottom of that answer you
3 state, "In evaluating the Capital One NSA proposal, the
4 Postal Service's criterion was that the agreement not
5 decrease the net contribution to institutional cost from
6 Capital One's mail and thereby increase the institutional
7 cost burden of non-participating mailers."

8 Is that the same thing? Is no net decrease the
9 same as a net increase?

10 A I'll have to think about that for a minute. I
11 mean, our criterion, perhaps stated a different way, was
12 that no other customer be harmed by this.

13 In many of the discussions that we had about NSAs
14 with customers prior to finally filing an opportunity, we
15 thought it was very important, and we heard from many
16 customers, that as long as there was no decrease in the
17 contribution from a particular customer that that was a good
18 thing.

19 Q So then is it your testimony that an NSA that is
20 contribution neutral would be acceptable to the Postal
21 Service?

22 A To be honest, we've not had any discussions around
23 the potential of a contribution neutral negotiated service
24 agreement. Every discussion we have had has been with the
25 intention of increasing contribution, helping grow the

1 Postal Service's business and continue the Postal Service as
2 a viable organization well into the future.

3 Q Well, if somehow someone could show in this
4 particular case that the net contribution were zero
5 hypothetically, would that change your support of this NSA?

6 A I don't know that I can answer that as a question
7 in isolation. I mean, one of the things that results from
8 this agreement is an increase or a continued use of the
9 first class mail by a customer. I think that's a good
10 thing. Any way that we can continue the viability of the
11 first class mail stream is good for the Postal Service and
12 good for all of our customers.

13 You know, I don't know that I can answer that
14 question in isolation without understanding exactly what
15 would lead to that particular conclusion.

16 Q Well, at what point would the net positive
17 contribution from an NSA be so low as to not warrant the
18 effort on the part of the Postal Service to negotiate one?

19 A Well, I think any potential contribution is
20 certainly worth looking at. We have classes of mail whose
21 total contributions to the Postal Service are under \$1
22 million. They are important to the customers that use them,
23 and they're important services for the Postal -- you know,
24 they're important services for the Postal Service.

25 Taken, you know, in relation to our entire revenue

1 stream they may seem very small, but for that particular
2 customer or group of customers and for that class of mail
3 it's very important that that service be provided.

4 Q So if some other mailer came to you and proposed
5 an NSA that would work out a contribution of \$1 million,
6 you'd consider that?

7 A We have classes of mail that provide total
8 contribution of less than \$1 million.

9 Q What if the net contribution was only \$500,000?

10 A We would have to look at -- you know, it's very
11 hard to be hypothetical about this. You have to understand
12 what the value is to the Postal Service, what the value is
13 to the customer, what the opportunity is for the Postal
14 Service and our customers in total.

15 It might very well be that there are instances
16 where small increases in contribution are well worth the
17 time and effort. I think any increase in contribution is
18 important, again for not only the Postal Service, our
19 customers, but the people in America who receive postal
20 services every day.

21 Q Negotiating an NSA does require some time and
22 effort on the part of Postal Service staff. To allocate
23 staff to do an NSA you have to have some reason to think
24 their time is better spent talking to this mailer rather
25 than another mailer, wouldn't you? How would you make that

1 decision?

2 A We make those decisions as we talk to customers
3 all the time about what we're going to pursue in an omnibus
4 case. I don't think -- when we're offering a new service or
5 a new opportunity in an omnibus case, for example, it often
6 takes a fair amount of work for people on the staff, you
7 know, in all of the departments that are involved in rate
8 making to do that.

9 I would also believe that as we have gotten better
10 and more efficient at negotiating with customers that those
11 costs would be lower. You know, it costs us something to do
12 anything, which I think is better than doing nothing.

13 Q Well, if a couple mailers came to you and Mailer A
14 was a small volume subclass with small contribution but was
15 proposing something that might increase net contribution by
16 \$10 million, and Mailer B is proposing something that could
17 make an \$8 million contribution effort, and Mailer C is
18 talking about something that might be worth \$50,000, are you
19 going to have your people talk to all of them equally? How
20 are you going to decide who gets the time?

21 A Well, we're going to make those decisions as we go
22 along. It's too soon to say.

23 First of all, you know, you walk down the path a
24 little bit before you understand what the opportunity is.
25 We will make decisions about how to prioritize the customers

1 that we work with, the agreements that we take forward, as
2 we get more experience with this whole process. This is the
3 first time we've tried something like this. We're trying to
4 get an understanding of what all the requirements might be.

5 If we can work with a customer and increase the
6 contribution, even if a small amount, with a minimum amount
7 of effort I see no reason not to do that. Again, it's good
8 for the Postal Service, and it's good for our customers.

9 Q Testimony yesterday indicated that the discussions
10 with Capital One I believe have been occurring at least
11 since May. I remember that time. In the course of time
12 from May to now, what have you learned from this process
13 that would help you decide how to prioritize future NSA
14 discussions?

15 A Well, first of all, you'd have to talk to the
16 people that actually did the negotiations. I think it's too
17 soon to say that this one experience gives us a set of
18 definite criteria about how we're going to approach any
19 future opportunities.

20 We had spoken to a number of customers prior to
21 Capital One, and in fact some of those discussions about
22 potential negotiated service agreements in fact led instead
23 to niche classifications because we thought there were
24 opportunities to provide other customers with access to
25 those rates, so I think, you know, it's something we're

1 going to learn as we go, and we're going to make the right
2 choices based on the economics and the opportunity.

3 Q I understand that you may not have yet developed a
4 set of definite criteria, but have you identified any
5 preliminary criteria?

6 A The staff that has been working on this has been
7 putting together documents about how customers might
8 approach us. I mean, one of the things we absolutely
9 learned in this particular negotiation was the type of
10 questions we needed to ask in future negotiations with
11 customers, and certainly there has been learning from that,
12 understanding what information you need as early in the
13 process as possible, but there's no definite set of, you
14 know, A, B, C, D and E.

15 The fact is each one of these is unique. That's
16 why they are customized for the individual customer with
17 whom we are negotiating, and while a certain amount of the
18 work that we do I suppose will be somewhat regular in
19 nature, depending on the customer, depending on the
20 opportunity, the type of information we'll need, the type of
21 work that needs to be done both by us and our customer will
22 be different.

23 Q There are, you know, literally 200 million first
24 class mailers and others in other classes as well. How is a
25 mail customer going to know that the Postal Service might be

- 1 interested in an NSA with it?

2 A Well, if what you're asking is how is a customer
3 going to know that the Postal Service is interested in doing
4 something with them particularly, I think it is more likely
5 that a customer will come to the Postal Service with an
6 opportunity that they have identified.

7 It is not easy for the Postal Service to
8 understand the mailing characteristics, practices,
9 marketing, how marketing decisions are made for all 200
10 million of our customers, so it will more than likely be a
11 situation when customers come to the Postal Service with
12 proposals.

- 13 Q For a mailer who might be interested in
14 negotiating an NSA, is there a menu of service features that
15 they would understand the Postal Service might find
16 negotiable?

17 A There is no menu of service features. Certainly
18 all of the features that are available in our service today
19 are worth discussing, but again these are customized
20 agreements to take advantage of customers' particular
21 situations and their particular needs, and we will identify
22 those opportunities and evaluate those opportunities as they
23 arise.

24 This isn't about, you know, pick one from Column A
25 and pick one from Column B and pick one from Column F, and

1 you should have, you know, the perfect agreement. This is
2 about customizing the situation for the mailer that you're
3 dealing with.

4 Q Is a savvy, professional mailer more likely to
5 negotiate an NSA than someone whose contact with the Postal
6 Service is not much beyond a mailing permit and occasional
7 entry?

8 A Yes. You know, a savvy, professional mailer. I
9 think the types of customers that are likely to come to the
10 Postal Service to talk about NSA opportunities are customers
11 that understand what opportunities might be out there, but I
12 don't know characterizing them as savvy, professional
13 mailers and somehow a customer who is not, you know, at MTEC
14 every quarter as being disadvantaged in terms of an NSA. I
15 don't think that's an appropriate characterization.

16 Q I want to switch gears a second. Are you familiar
17 with Mr. Crum's testimony in this case?

18 A I have read Mr. Crum's testimony, but I am not a
19 costing person.

20 Q I understand that. Are you familiar with the
21 basic concept that he has testified that because of the
22 declining block rate structure on the rate side, the
23 revenue, the Postal Service is giving up about \$4.9 million
24 in institutional cost contributions from Capital One from
25 mail that the Postal Service projects to receive and intends

1 to more than make that up through cost savings to the
2 reduction of physical returns? Do you understand that?

3 A I understand that point, yes.

4 Q Okay. Back on page 5 of your testimony in the
5 sentence we discussed earlier about non-participating
6 customers will see a reduction in their institutional cost
7 burden as a total net contribution from Capital One's
8 increases, I was struck by that.

9 I understand you're not a costing expert, but, to
10 your knowledge, does the Postal Service have a way of
11 tracking institutional cost contributions from a particular
12 mailer that happens when costs are avoided?

13 A Well, you know, certainly we do not have costing
14 systems that track individual mailers, but I think through
15 these agreements we're going to develop ways to identify the
16 cost characteristics of the individual customer and work
17 with them to identify the opportunities to increase
18 contribution from the arrangement.

19 Here you have a situation where we are again
20 insuring the continued viability of first class by insuring
21 that we retain or grow the first class business.

22 Q Do your responsibilities as the chief marketing
23 officer at the Postal Service extend to international mail
24 services as well?

25 A Yes, they do.

1 Q And do you supervise the international mail
2 contract negotiations?

3 A No, I do not.

4 Q You do not. Do you happen to know whether the
5 criteria that the Postal Service applies there have any
6 bearing or relationship to the ones that you applied in this
7 domestic NSA here?

8 A We approached this particular NSA in a totally
9 different way than the international folks I think have
10 approached the customized agreements, most of which are --
11 at least it's my understanding the type of agreements that
12 they enter into are in very competitive situations, and they
13 approach it as a way of maintaining the volume. They're not
14 dealing with a monopoly product. They're dealing in a very
15 competitive environment.

16 We did not look to the international experience as
17 sort of the baseline for how we would approach and negotiate
18 a service agreement in the context of our domestic services
19 or the fact that we were bringing, you know, these
20 agreements to the Rate Commission.

21 Q As part of the negotiations with Capital One that
22 led to this NSA, was there separately an international
23 agreement with it?

24 A I was not involved in the negotiations, and
25 whether or not we have -- I don't know if we have any sort

1 of agreement with Cap One in the international arena.

2 Q Could you turn in your response to NAA
3 Interrogatory 8 to you and particularly subpart J? This was
4 a question having to do with the use of the declining block
5 rate structure to mailers who might not be identified as
6 having growth potential.

7 In your response to J you said some things I want
8 to ask you about, so take a moment to take a look at that.

9 A Uh-huh.

10 (Pause.)

11 Q Have you had a chance to review that?

12 A Uh-huh.

13 Q As I read it, you stated that in evaluating a
14 potential NSA you believe the Postal Service should look not
15 only at the mail volume, but you went on to list I count
16 five other things -- the characteristics of that volume,
17 potential opportunities to reduce costs for the Postal
18 Service, opportunities for providing enhanced services,
19 combinations of services not currently contemplated and, of
20 course, the customers' capabilities and willingness to work
21 with the Postal Service. Is that about six or so there?

22 A Uh-huh.

23 Q I assume the last one, the customers' willingness
24 to work with the Postal Service, is indispensable for an
25 NSA. Without that you can't have one.

1 A Well, it's a negotiated --

2 Q Right.

3 A There is an agreement that is customized to an
4 individual mailer, so that would be pretty hard.

5 Q But aside from that, are any of those other
6 factors there essential for an NSA?

7 A I don't think you can look at them as individual
8 elements. I think that these are just examples of things
9 that we might talk with customers about or customers might
10 be interested in as part of a customized arrangement.

11 That's not to say that every customer, for
12 example, would want an opportunity for enhanced service or
13 be willing to pay for an opportunity for enhanced service,
14 understanding that, you know, negotiated service agreements
15 are not just potentially about lower rates, but in fact
16 could be customers willing to pay for services not otherwise
17 available.

18 Q On the subject of growth potential now, you expect
19 Capital One's volume to grow over the term of the NSA in
20 first class mail?

21 A It's my understanding that Capital One expects
22 their volume to grow, yes.

23 Q And your understanding, is that based on what they
24 have told you?

25 A Yes.

1 Q They have not guaranteed to you that volumes will
2 in fact increase, have they?

3 A They've not guaranteed that volumes will increase.

4 Q Is that prospect of growth in volume essential
5 from your perspective?

6 A I think the potential of retaining first class
7 volume is important to the Postal Service. Opportunities to
8 grow first class volume I think is something that is very
9 important to us. The first class mail stream is an
10 important one for the Postal Service, and I am excited that
11 we have customers that see growth potential in a class of
12 mail that many believe will decline over time.

13 Q Would you consider the purpose of this NSA
14 achieved if Capital One in fact did not increase its first
15 class mail volume, but merely maintained it at its current
16 level?

17 A Given the trends in first class mail, I would be
18 happy to retain the amount of first class mail that Capital
19 One currently gives us. It's good for us. It's good for
20 other customers.

21 Q Under the NSA, you have agreed to extend to
22 Capital One declining block rates at certain volume levels.
23 Is that correct?

24 A Uh-huh.

25 Q Is it your understanding that the threshold for

1 those volume levels is above or below or equal to Capital
2 One's current expected mail volume?

3 A It is above mail volumes for the past two years
4 and below their expected volume for this particular year.

5 Q Could you repeat that?

6 A It is higher than their volumes. If you go back
7 three years, it's higher than the first two years and lower
8 than what they're expected to mail over this fiscal year.

9 Q Do you believe a declining block volume discount
10 that kicks in at a volume threshold below currently expected
11 levels is necessary to retain volume?

12 A Well, I think we need to look at why their volumes
13 over this year were higher. As I believe Don Jean's
14 testimony indicated and perhaps he indicated yesterday
15 during his testimony, this last year will serve as an
16 anomalous one for Capital One.

17 They saw an opportunity in the market to do some
18 additional solicitation, and they took advantage of that,
19 but it was something that was unusual and something that
20 they did not expect to continue. There was a fair amount of
21 negotiation over what the level of that threshold could be
22 or should be, taking into account the very issue that you
23 raised.

24 Q So whatever growth you obtain from Capital One
25 under this NSA would be at less than full rates? Is that

1 correct?

2 A It's compared to the past year's volume.

3 Q Right.

4 A Yes.

5 Q Was a unique part, a unique feature, of Capital
6 One's mailing characteristics that made the NSA attractive
7 to the Postal Service the fact of its return rate?

8 A Well, in isolation, no. I mean, their return rate
9 was part of the package of things that were put together to
10 design the ultimate agreement, and certainly the return rate
11 had an impact on some of the cost savings opportunities.

12 Q Do you regard Capital One's return rate as high?

13 A Not for a solicitation mailer.

14 Q Are you aware of whether you have any other first
15 class mailers who have return rates equal to or about
16 Capital One's level of solicitation mail?

17 A I'm not aware of any particular customer because I
18 don't know the mailing habits of every one of our first
19 class customers, but it's my understanding that Capital One
20 is somewhat unusual in that they use first class mail in a
21 fairly significant way for solicitations. I think that's a
22 good thing again.

23 Q If you regard Capital One's level of returns as
24 not high in the context of solicitation mailers, does that
25 mean that their return rate is acceptable to the Postal

1 Service? It's not a problem to the Postal Service?

2 A I think that the Postal Service is happy that
3 Capital One is using first class mail to build their
4 business.

5 They use first class mail because they believe in
6 their business model that they get a higher response rate.
7 If they get a higher response rate, they get more customers.
8 if they get more customers, that means an additional mail
9 stream for the Postal Service, and I think that is a very
10 good thing.

11 Q If that's a very good thing, are its rate of
12 returns then not a problem for the Postal Service?

13 A Its rate of returns is something that exists and
14 is allowable under the mailing standards that exist today,
15 so from that particular perspective it's not a problem.
16 It's something that is a way that the first class rates are
17 designed.

18 Q If it's consistent with first class rates and the
19 mailing regulations, then it's not a problem?

20 A Right.

21 Q Okay. In NAA 14 to you we asked if a large first
22 class mailer could demonstrate that 12 to 15 percent of its
23 mail is undeliverable as addressed and could not be
24 forwarded or could be forwarded, would that help quality
25 that mailer for an NSA similar to Cap One's. You said well,

1 that's too simple a way of looking at the question.

2 Let me ask you this. When the Postal Service is
3 considering whether to negotiate an NSA let's say with
4 another credit card company that mails a high level of
5 solicitations, a hypothetical company I'll call Capital Two,
6 if their return rate were 12 to 15 percent would that make
7 it more or less likely that they would get an NSA?

8 A I don't think I can answer that question. It
9 depends on all of the other mailing characteristics and the
10 issues that the mailer brought to the table around the
11 negotiated service agreement.

12 Q Well, I would say that this Capital Two looked a
13 lot like Capital One, only it had even higher return rates.
14 Would that make them more or less attractive to you?

15 A Well, what it would mean is that there would be a
16 cost savings opportunity. There would be a potential cost
17 savings opportunity for that customer just like there is a
18 cost savings opportunity for Capital One, but whether or not
19 the other characteristics or attributes of their particular
20 mailing process or way of doing business was the same, you
21 know, it's hard to say.

22 Q If a mailer wants to negotiate an NSA, a first
23 class mailer wants to negotiate an NSA, and it's looking at
24 its mailing characteristics to say, you know, what about its
25 mail characteristics would be an asset in the negotiations

1 with the Postal Service, would having a high level of
2 undeliverable as addressed mail be an asset because there is
3 something that you could negotiate about?

4 A No. I think having a high -- I think anything
5 that they bring to the table is a result of their particular
6 mailing practices. Whether or not it would or would not be
7 an important consideration in the negotiated service
8 agreement again I think is dependent on what the other
9 components of that negotiated service agreement are.

10 I guess, you know, in a general sense what the
11 Postal Service is particularly interested in particularly in
12 regard to the first class mail stream is to look for ways to
13 continue to keep customers in the first class mail stream
14 and in fact to perhaps find new uses for first class as a
15 way for customers to do business with their customers, and
16 if there are opportunities to reduce cost to take advantage
17 of those opportunities to reduce cost.

18 It's good for the customer, it's good for the
19 Postal Service, and it's good for the general rate paying
20 public.

21 Q If in my hypothetical Capital Two came to the
22 Postal Service and said our volumes are comparable to
23 Capital One's and our solicitation levels are comparable to
24 Capital One's; the only difference between us and them
25 really is that we participate in CSR Option 2 so we have a

1 much lower level of returns, we think, would an NSA with
2 them be as attractive to you as the one with Capital One?

3 A I can't say. We'd be happy to sit down and talk
4 with them and look at the opportunities and evaluate it
5 based on the situation.

6 Q Why should a mailer work today to reduce its
7 undeliverable as addressed mail if one of the largest first
8 class mailers and perhaps one of the largest originator of
9 returns is going to get CSR Option 2 for free and volume
10 declining block rates to boot?

11 A Well, I think what we have to do here is
12 understand what is different about Capital One from other
13 first class mailers to begin with, and that is that because
14 most first class mailers are using the mail to communicate
15 with their customers, with their regular customers, they're
16 communicating with them on a regular basis. They are
17 sending them bills. They are sending them statements. They
18 are sending them financial information generally.

19 Capital One has a business model in which they use
20 first class mail to do solicitations. Most customers choose
21 the lower cost/lower contribution standard mail stream in
22 order to do that. It is because of that that Capital One
23 has a high rate of returns.

24 You know, it's likely there are customers who are
25 also using first class mail for solicitations and

1 experiencing returns as well.

2 Q Counsel for APWU asked you a few questions about
3 CSR Option 2 previously. Are you familiar with the fee that
4 will be charged for the use of electronic address
5 confirmation services under CSR Option 2?

6 A I believe the charge today is 20 cents.

7 Q Twenty cents. Okay. Let's use that figure.

8 A That's about the level of my familiarity.

9 Q All right. That's fine. During the course of
10 internal review of the NSA, did you ever ask what the value
11 in dollars was of the fee waiver that's part of this
12 agreement?

13 A I don't know that I -- I certainly did not
14 personally specifically ask that question. There was a fair
15 amount of financial review, and a lot of questions were
16 raised by a lot of people about all of the financial pieces
17 of this agreement, but, you know, I was neither there to ask
18 nor heard an answer.

19 Q Okay. So to your knowledge, the issue never came
20 up as far as you know?

21 A Oh, I would say it is quite likely that those
22 issues did come up. I assure you that the Postal Service
23 staff spent a considerable amount of time evaluating this
24 request and all the associated implications of this
25 negotiated service agreement.

1 It is the first one we did. It is the first time
2 we've done something like this. We took considerable care
3 to insure that everything that we did and all the evaluation
4 was appropriate.

5 Q I want to ask you to assume for the moment that
6 Capital One were to participate in CSR Option 2 and pay the
7 20 cent fee. Do you have any idea what its fee payments
8 would total?

9 A No.

10 Q Okay. Do you think it would be in excess of \$10
11 million?

12 A I have no idea.

13 Q Okay. Do you have an idea of how much returned
14 mail it physically gets?

15 A I've seen the number, but I can't comment on that
16 now.

17 Q Okay. Can we use a figure of about 70 million
18 pieces? Does that ring a bell?

19 A Maybe.

20 Q Maybe?

21 A Yes.

22 Q And if we --

23 A You don't want me to do the math.

24 Q No. I know. If we assumed about 85 percent of
25 that goes through this CSF and generates an electronic

1 message, we'd have I calculated about 59 million pieces. If
2 you multiply that times 20 cents, you get a figure of about
3 \$10 million. I just wondered if that figure rang any bells
4 with you.

5 A No. I'd have to take your word for that.

6 Q Okay. If we add in the costs of the fees that are
7 not being charged for forwarding information, we have to
8 look at the figure Mr. Crum provided us yesterday for the
9 volume of forwards, which was about \$12 million, and add
10 that in as well, wouldn't we?

11 A (Non-verbal response.)

12 Q So under that analysis, I could calculate the
13 Postal Service is waiving around \$12 million to \$14 million
14 in fees to the largest first class mailer for CSR Option 2.
15 Do you have any reason to disagree with that?

16 A I have no reason to agree or disagree with that
17 because you lost me about midway through your calculations.

18 Q Okay.

19 A And I'm probably the wrong person to be asking
20 this question to.

21 Q Okay. Would it trouble you if the Postal Service
22 had some chance of getting that \$14 million in fees from
23 Capital One, but chose to waive it instead?

24 A Well, I think what we are looking at again is an
25 agreement that combines many different factors. To look at

1 any one factor in total isolation is inappropriate. This is
2 an agreement that includes a number of different
3 characteristics, and what makes it unique is the combination
4 of attributes.

5 Q I want to switch gears slightly and ask you about
6 a couple of the things Capital One has agreed to do as far
7 as the NSA.

8 For its first class mail solicitations, is it your
9 understanding that they have agreed to use only addresses
10 processed against the National Change of Address System
11 within the 60 days previous to the mailing?

12 A Yes, I believe that's correct.

13 Q Do you have an understanding of whether or not
14 they do that today anyway?

15 A I don't know exactly what they do today. I know
16 today that they at minimum meet the requirement and may in
17 fact update their address list more frequently than
18 currently required, but they are not required to do that
19 today. If they're doing it more frequently, they're doing
20 it voluntarily.

21 Q Okay. They already have the Richmond facility
22 MPTQM certified and have agreed to have its Seattle one
23 done.

24 A Uh-huh.

25 Q I don't know what MPTQM is. I understand that's a

1 good thing, right?

2 A Yes. Mail piece total quality control. It's a
3 process by which we insure that the mailer has built quality
4 standards into their mail production operation to insure
5 minimal chance of anything going wrong or any mail not
6 meeting the requirements for the rates that are being
7 claimed.

8 Q Is it your understanding that Capital One's
9 solicitation mail is sent out from its Richmond and Seattle
10 facilities, or is it sent out elsewhere?

11 A To be honest, I don't know.

12 Q Could you turn to your answer to Val-Pak 4 to you?
13 Now I need to turn to it too. I found Mr. Plunkett's
14 answer. I want yours.

15 Have you had a chance to review that answer yet?

16 A Yes.

17 Q Okay. Here Val-Pak asks you the difference
18 between a niche classification and an NSA. Is that right?

19 A Uh-huh.

20 Q And you gave actually a fairly straightforward
21 answer here.

22 A I'm a fairly straightforward person.

23 Q I appreciate that. That's why this is going so
24 well.

25 Under the agreement before the Commission now, if

1 my hypothetical Capital Two came along and it was in fact a
2 twin of Capital One, they would have to negotiate an NSA
3 with you, have it approved by the Governors, filed with the
4 Commission and the whole process again, right?

5 A Possibly, yes.

6 Q Is that your understanding?

7 A That would be my understanding, yes.

8 Q They couldn't simply file an application and get a
9 mailing permit in the same way as someone, say, applies for
10 a mailing permit?

11 A No. We would contemplate bringing another
12 customer, the twin, to the Commission for the Commission to
13 validate that in fact it was a twin and it was the
14 appropriate agreement for the Postal Service to enter into.

15 Q Okay. I have a question about the declining block
16 rate structure here, which we've talked about a few times in
17 passing. You've referred to it in several places as a tool
18 that's used.

19 Is it a fair paraphrase of what you said that the
20 declining block rate structure is viewed by you as a way of
21 retaining Capital One's current first class mail volume and
22 possibly giving incentive possibly to increase it?

23 A In the context of this particular agreement, the
24 declining block rate, again in combination with the other
25 factors, serves that purpose.

1 Q Is first class mail so poor a product that the
2 Postal Service must offer declining block rates in order to
3 preserve volume?

4 A Our first class mail stream is in fact I would
5 suggest our premiere product, but you are aware, as I
6 suppose everyone in this room is, about some of the current
7 trends in first class mail and some of the continued
8 discussion about electronic alternatives and the potential
9 viability of the first class mail stream into the future.

10 Q Was the declining block rate structure something
11 Capital One wanted from the Postal Service as part of the
12 deal?

13 A I was not part of the negotiations, so that was
14 part of the negotiations. How that was brought to the table
15 and the nature of the negotiations is not something I was
16 involved in.

17 Q Okay. So you don't know whether it was the Postal
18 Service's idea to offer that or at their request to have --

19 A I really don't know.

20 Q You don't know? Okay. This NSA is for a three-
21 year period, correct?

22 A Yes.

23 Q Did the Postal Service conduct an internal
24 analysis of the net revenues and costs of this NSA for the
25 second and third years?

1 A We did that for the test year.

2 Q Only for the test year? So the Postal Service has
3 not conducted an internal analysis of the out years?

4 A The Postal Service did what we were required to do
5 under the Commission's rules, which would be to look at the
6 test year. Whether or not some work has been done beyond
7 that, I can't say.

8 Q Do you believe it is standard practice in the
9 business world to negotiate a three-year contract without
10 looking at the second and third year costs and revenues?

11 A I don't know.

12 MR. BAKER: Okay. I have no more questions, Mr.
13 Chairman.

14 CHAIRMAN OMAS: Thank you, Mr. Baker.

15 Mr. Costich?

16 MR. COSTICH: Thank you, Mr. Chairman.

17 CROSS-EXAMINATION

18 BY MR. COSTICH

19 Q Good morning, Ms. Bizzotto.

20 A Good morning.

21 Q I just have a couple of followup questions.
22 Counsel for NAA asked you some questions about the high
23 return rate of Capital One, and you indicated that you did
24 not think Capital One had a particularly high return rate
25 for solicitation mail. Is that right?

1 A Right. I would -- perhaps high. Perhaps I
2 shouldn't have said a high rate of return in regard to
3 solicitation mail, but it is my understanding that
4 solicitation mail by itself, its nature is going to result
5 in a higher number of returns because the mailer does not
6 already have a relationship with the customer that would
7 allow them to insure that they knew that Rand Costich, for
8 example, was still at this address.

9 Q Do you have any data on return rates for standard
10 mail solicitations?

11 A Well, standard mail is not returned.

12 Q Oh, that's right. It's destroyed.

13 A Standard mail is destroyed, yes.

14 Q Any notion of how much of that goes on in terms of
15 percentage of what's mailed out?

16 A No. I don't know.

17 Q What is the basis for your saying that
18 solicitations by their nature have a high return or
19 undeliverable --

20 A My comment was intended to compare solicitations
21 in the first class mail stream with other first class mail.
22 As I said earlier, most, you know, large first class mailers
23 who use the mail are using it to send bills or statements or
24 other business type materials to their customers. They have
25 an ongoing relationship with them. They usually mail to

1 them on a monthly or a semi-regular basis, and there are
2 reasons for the customers to keep the mailer involved or
3 aware of where they now live.

4 Because of the fact that they are using first
5 class mailing lists to do solicitations, they would
6 certainly have a higher rate of return than a mailer who was
7 mailing to the regular customer. It's simply the nature of
8 how they choose to use first class mail to do business,
9 which is different than most other large first class
10 mailers.

11 Q But do you have any reason to believe that the 9.6
12 percent return rate for Capital One would be comparable to
13 the undeliverable for reasons other than move rate for
14 standard mail?

15 A No, I don't. It's just by nature of the type of
16 lists. I would expect it to be somewhat comparable.

17 MR. COSTICH: Thank you. I have no further
18 questions.

19 CHAIRMAN OMAS: Thank you, Mr. Costich.

20 Mr. Olson?

21 MR. OLSON: Thank you, Mr. Chairman.

22 CROSS-EXAMINATION

23 BY MR. OLSON:

24 Q Ms. Bizzotto, William Olson, --

25 A Good morning.

1 Q -- Val-Pak Direct Marketing Association and Val-
2 Pak Dealers Association.

3 I think you probably understand that there are
4 mailers, perhaps some in this room or represented in this
5 room, that are concerned with the policies that the Postal
6 Service will apply to this NSA, as well as future NSAs, and,
7 this being the first, are concerned about the proper
8 policies being established by the Postal Service and by the
9 Commission, correct?

10 A Certainly.

11 Q That's what I want to focus on. I want to ask you
12 to begin by looking at your response to our Val-Pak
13 Interrogatory 3. This is just a clarification issue.

14 In the sixth line of your response, and I'll have
15 several questions about size and how important size was in
16 your decision to go with this particular NSA. We asked you
17 about the significance of the absolute magnitude of the
18 volume of Cap One's first class mail, and you say that by no
19 means does this imply that size alone makes the customer a
20 potential candidate for an NSA, correct?

21 A Uh-huh.

22 Q If you could answer yes or no, I think the
23 reporter would appreciate it.

24 A I'm sorry. Yes.

25 Q I may be splitting hairs, but it looks like that's

1 a big ambiguous. I just want to ask you to clarify. When
2 you say that it doesn't imply that size alone makes a
3 customer a potential candidate, are you saying that you have
4 to have large size and you need something else, or are you
5 saying you don't need large size?

6 A I'm saying you don't need large size in order to
7 talk to the Postal Service or potentially be an NSA
8 candidate. Size is just one of the attributes that a
9 customer would bring to the table as part of their unique
10 characteristics.

11 Q So large size in and of itself is not essential?

12 A Uh-uh. No. I'm sorry.

13 Q Right. If you could turn then to No. 4?

14 A You're in Val-Pak's No. 4?

15 Q Yes, Val-Pak No. 4. Thank you. Mr. Baker asked
16 you some questions about this. This has to do with the
17 difference between a niche classification and an NSA.

18 Of course, you do have the history of having had
19 some niche classifications like the non-automatable business
20 reply mail --

21 A Yes.

22 Q -- that you're well familiar with. I'm wondering
23 if you considered or the Postal Service considered the use
24 of a niche classification for the situation presented by Cap
25 One or whether you just believe that is so unique that there

1 is no possible niche classification lurking here behind this
2 fact pattern?

3 A Well, we do believe that Capital One is unique,
4 and, therefore, it did not seem appropriate to create a
5 niche classification.

6 We have created niche classifications as a result
7 of discussions that began as potential negotiated service
8 agreements, but when it became clear to us that there were
9 many other customers or a number of other customers who
10 might want to access the same service opportunity we in fact
11 filed niche classifications and said, the Priority Presort
12 case being one example of that and the Periodicals Co-
13 Palletization case that's currently in front of the
14 Commission.

15 Q So I take it that based on those two illustrations
16 that it is something the Postal Service considers each time
17 it looks at an NSA whether it's more suitable for a niche
18 classification?

19 A Yes. Yes.

20 Q I know that every effort thus far has not
21 succeeded to reduce this to a couple of factors, but I'm
22 going to try, too, and ask you to just think about this as
23 the Postal Service saving money from Cap One not requiring
24 the physical delivery of the mail. That results in
25 something like 30 cents a piece in cost savings to the

1 Postal Service, correct?

2 A I don't recall the exact number, but --

3 Q Well, it obviously costs much less to provide the
4 ACS service free than it does to return the mail physically.
5 I mean, that's the essence of what your proposal is about,
6 right?

7 A That's part of it, yes.

8 Q Okay. Is there any reason to believe that that
9 doesn't apply to other mailers as well as Cap One; that
10 principle that ACS is cheaper than physical return, and,
11 therefore, people who wanted ACS it would be better for the
12 Postal Service and for the mailer?

13 A I don't think we know enough about how ACS is used
14 or the return volume for other mailers as a whole to make a
15 determination on that. We know how it is used and what the
16 impact is in this particular situation, but, as you know,
17 mailers are very unique, and we've not studied that
18 opportunity in a way that would suggest that it is or is not
19 appropriate.

20 Q But it certainly is an appropriate issue possibly
21 for further study irrespective of what happens in this
22 docket, would you say?

23 A Certainly.

24 Q Let me ask you to take a look at your response to
25 APWU No. 8 and particularly the first paragraph. APWU asked

1 you about the issue that is sort of implied, questions about
2 the issue of discrimination. You answered and said that
3 this is not all that simple.

4 At the end of that paragraph you say, "In this
5 regard, the NSA incorporates a number of features, including
6 additional discounts for first class mail volumes above the
7 stated threshold, zeroes the electronic address correction
8 service and requirements for Capital One to update address
9 databases more frequently than required of other customers."

10 When you're talking about other customers, you're
11 talking about mailers who get physical return of the pieces?

12 A I'm talking about customers who are required to
13 use address correction services as part of their eligibility
14 for the first class automation rates where there are
15 requirements around use of NCOA, move update requirements
16 and other things.

17 Q Well, I guess what I'm trying to figure out is not
18 working in the world of first class mail all that often, I'm
19 not sure what it means when it says that it requires Capital
20 One to update address databases more frequently than
21 required of other customers. You're referring to the
22 requirement that every six months they run it by NCOA?

23 A Right. Right. Every 180 days I believe is the
24 requirement that 180 days prior to mailing your address list
25 be run against NCOA or another process. They use Fast

1 Forward in some cases for customers that use that type of
2 equipment. This NSA does require them to do that on a more
3 frequent basis.

4 Q For customers who choose to use ACS, there's no
5 requirement that they use the information that they're
6 purchasing at 20 cents a piece from you, is there?

7 A I'm not sure if we actually require it, but it
8 would seem to me that customers who receive address
9 information would want to use it in order to update their
10 mailing lists to insure that they are able to reach the
11 customer they're trying to reach.

12 Q Well, presumably you wouldn't pay for it if you
13 weren't going to use it, but stranger things have happened.

14 A That's true.

15 Q Yes. I'm just trying to get at the issue of
16 whether there was a requirement. You've identified what you
17 mean by that requirement.

18 A Yes. About three years ago I could have probably
19 answered that question in great detail, but I'm afraid I'm a
20 little more removed from the details of that requirement
21 than I used to be.

22 Q Take a look at the beginning of the next paragraph
23 there.

24 A Okay.

25 Q It says, "Capital One..." -- the most overused

1 word use today is "unique", I guess. "Capital One is unique
2 as one of the Postal Service's largest first class mail
3 customers." Do you see that?

4 A Yes.

5 Q It has been established I think on the record that
6 Cap One is the largest first class mail user in the country
7 today. Is that not correct?

8 A Yes.

9 Q Okay. So when you say I guess it's technically
10 unique, it can't be qualified. When you say it's unique as
11 one of the largest mail customers, are you saying there's a
12 group of large first class mailers who are unique?

13 A No. I think, again back to our overused word
14 "unique", we're referring to the fact that they use first
15 class mail as a solicitation medium, as opposed to strictly
16 using first class mail as a way to communicate or to
17 transact business with current customers.

18 Q Right. I understand that in other aspects they
19 may be unique or the largest first class solicitation
20 mailer, for example, as you discussed with Mr. Baker, but
21 I'm just trying to see.

22 When you look at an NSA and you come to the
23 Commission and you say this one deserves an NSA because it
24 is unique, I'm trying to help us all understand what that
25 means. If it's part of a group that's unique, then does

1 that mean that the biggest four or five first class mailers
2 are eligible for NSAs because they're sufficiently unique?

3 A If it were part of a group that were unique, I
4 mean, and had all of the same characteristics, then likely
5 we would be proposing a niche classification, as opposed to
6 an individual customized agreement.

7 I think what we're really trying to get to here is
8 they are different, given how they do business and how they
9 use the mail, than, at least as far as we know, the majority
10 of other first class customers, large or small.

11 Q Okay.

12 A If Cap Two, its exact twin, showed up and said
13 essentially me, too, we would be more than happy to spend
14 some time with them.

15 Q Well, I guess what I'm suggesting is that in each
16 class of mail there is a largest mailer.

17 A Sure. Yes.

18 Q In each subclass of mail there's a largest mailer.

19 A Yes.

20 Q In that sense, they are unique because they are
21 the largest mailer, correct?

22 A Well, I don't know if they're unique because
23 they're the largest mailer. They're just the largest
24 mailer.

25 Q Okay. I guess what I'm trying to get you to say

1 is that it's not essential that they be unique in the sense
2 of being the largest mailer in a class or subclass --

3 A Goodness, no.

4 Q -- to be eligible for an NSA?

5 A No. Certainly not.

6 Q Okay.

7 A I think I said earlier both in my testimony
8 responses and perhaps even earlier today that you don't have
9 to be the largest mailer in order to come to the Postal
10 Service and talk to us about an NSA.

11 Q Yes, but where you said things that were a little
12 different --

13 A Okay.

14 Q -- we just want to clarify that.

15 A Okay.

16 Q That's what I was trying to get you to clarify. I
17 appreciate you taking advantage of the opportunity. That
18 saved a couple of pages.

19 Let me ask you to look at the same answer, but at
20 the bottom of the page there where you begin with the word,
21 "However..." You say, "However...", and this may be gilding
22 the lily, and if you cut to the chase and tell me not to
23 worry I'll accept that as an answer.

24 You say, "However, if another customer, one, were
25 willing to commit to all the same terms and conditions

1 included in the Cap One NSA, including the required volume
2 thresholds, and could demonstrate that it would generate
3 equal or greater savings...the Postal Service would consider
4 an extension to that customer," correct?

5 A Correct.

6 Q Okay. When you talk about equal or greater
7 savings, the thing that I don't want you to be misunderstood
8 as saying is that you have to hit the same volume threshold
9 as Cap One. Do you see? You don't have to hit exactly the
10 same volume threshold or the exact savings threshold of this
11 NSA to be eligible in the future for NSAs?

12 A Oh, certainly not. Certainly the thresholds and
13 the savings that are characteristics of the Capital One NSA
14 are characteristics of the Capital One NSA and are not
15 necessarily required characteristics of the next NSA, which
16 might not even be with the first class mailer.

17 Q Okay. Well, you know why I'm trying to get this
18 out because when you talk about --

19 A Yes.

20 Q -- if it has equal or greater then we'll go do it.

21 A Right. I understand.

22 Q I want to make sure if it has a little less maybe
23 you'd go do it too.

24 A Absolutely. If I could just mention, I said
25 earlier the Co-Palletization case or Periodicals grew out of

1 NSA discussions. We are happy to talk to any customer of
2 any size who believe that there is an opportunity for some
3 sort of customized arrangement with the Postal Service.

4 Q I hope you don't regret having said that. You may
5 have a few people call.

6 A We've already had plenty of people calling.

7 Q Let me ask you to turn to OCA's Interrogatory No.
8 1. This goes back to what Mr. Baker was asking about with
9 respect to increased contribution as a criteria for an NSA.

10 In OCA-T-1-1, in your answer on page 2 at the top
11 you say, "While increasing first class mail volume is a
12 desirable result, it was not the primary criterion for
13 entering into the agreement with Cap One. The Postal
14 Service was interested in developing an agreement that
15 increased overall contribution to institutional costs from
16 Cap One's mail." Correct?

17 A Correct.

18 Q Okay. If I put those two sentences together, does
19 that mean you're saying the primary criterion for the Cap
20 One NSA was increased contribution to institutional cost?

21 A I think that the primary criteria for any of the
22 NSAs that the Postal Service is interested in pursuing is
23 customizing our services for our customers in a way that
24 increases -- that is good for the Postal Service, good for
25 the customer and good for all other rate payors, and that

1 means increased contribution through additional volume,
2 through additional cost savings or whatever the combination
3 of those things might be.

4 Q Okay.

5 A Clearly the industry would be opposed to the
6 Postal Service entering into any sort of arrangement that
7 resulted in the end result of which was total reduction in
8 contribution.

9 Q Right, but --

10 A We've heard that many times over.

11 Q I want to go back and pick up where Mr. Baker left
12 off on this because I want to challenge your policy --

13 A Okay.

14 Q -- and ask you to defend it in this sense. I
15 understand why all mailers would be concerned about a very
16 large mailer having an NSA that resulted in their
17 contributions to institutional cost reducing and thereby the
18 burden on other mailers increasing. Everyone can see that,
19 correct?

20 A Yes. Yes.

21 Q The issue of revenue neutrality, however, it seems
22 to me is something that in your testimony and in your
23 answers you have dismissed that. You have pretty much said
24 we would never do an NSA where it was revenue neutral. I
25 can tell you where you said it.

1 A Okay.

2 Q In your testimony on page 1, line 9, you talk
3 about the increased contribution to institutional cost that
4 would come from this NSA.

5 A I'm sorry. I'm sorry, Mr. Olson. What page are
6 we on here?

7 Q Page 1, line 9.

8 A Yes.

9 Q So it sounds like increased contribution was
10 important. Then on page 3, lines 22 and 23, you talk about
11 providing a positive net contribution.

12 A Yes.

13 Q On page 4, line 15, you talk about additional net
14 contribution, correct?

15 A Yes.

16 Q On page 5, on lines 15 and 21 you talk about
17 benefits to non-participating customers from increased
18 contribution and total net contribution increases, correct?

19 A Yes.

20 Q Okay.

21 A That's pretty consistent.

22 Q Well, actually it's on page 6 too, lines 6 and 7.
23 You talk about, "An agreement without a net increase in
24 contribution would be inequitable."

25 I'm going to challenge that with you and ask you

1 if that is really your position. I mean, you've said it six
2 times, but I'm not sure that it should be your position.

3 A So you want me to go back and think about this
4 again?

5 Q Well, let me give you a very simple hypothetical
6 for you to consider. If there were a mailer that could do
7 certain additional work that the Postal Service would find
8 valuable and wanted them to do and let's say it cost the
9 mailer \$1 million to do the work and the Postal Service
10 saved \$1 million in doing the work and the mailer had an
11 additional benefit from it in that there was greater speed
12 or greater reliability.

13 It looked like a benefit to both, and there was,
14 therefore, \$1 million you could provide to them by declining
15 block grants or some other method to offset the costs that
16 they were incurring. That's a revenue neutral situation.

17 A Or a contribution neutral situation.

18 Q I'm sorry. Excuse me.

19 A Yes.

20 Q Exactly. Of course. Contribution neutral
21 situation. I'm suggesting to you is that not good enough
22 for you to consider for an NSA?

23 A Well, I certainly think it would be worth
24 considering. Again, we certainly do not want to harm other
25 customers as a result of a negotiated service agreement, so

1 a reduction in cost for the Postal Service, the potential of
2 perhaps retention of volume, growth in volume, an
3 opportunity for a customer to grow their business with no
4 harm to other customers, is certainly something we would
5 evaluate and make a decision on the merits of the particular
6 case. I mean, contribution neutral would not necessarily be
7 a bad thing.

8 Q Actually, when I read your testimony it seemed
9 like each time you were trying to get across the point that
10 no other customers would be harmed, and as proof of that
11 then in this NSA we're making money.

12 A Right.

13 Q We're getting more contributions.

14 A Yes.

15 Q That seemed to be the thrust of it, so I wanted to
16 give you a chance to --

17 A Yes.

18 Q -- think about that because there may be such NSA
19 proposals, and it seems to me if it's a benefit to the
20 mailer, if it has benefit to the Postal Service, if it
21 results, putting aside the issue of growth of volume, if it
22 at least maintains volume that's a good thing too for the
23 Postal Service, is it not?

24 A Yes, it is.

25 Q Okay. As a matter of fact, the overall policy of

1 the Postal Service as established by the Postal
2 Reorganization Act is break even, is it not?

3 A Yes, it is.

4 Q And if it's good for everyone, is it not perhaps a
5 fairly decent policy for NSAs as well?

6 A Could be.

7 MR. OLSON: I think I'll take that. Thank you.
8 Thank you, Commissioner Covington. Thank you, Ms. Bizzotto.

9 THE WITNESS: Thank you.

10 VICE-CHAIRMAN COVINGTON: Is there any followup
11 cross-examination, Mr. Baker?

12 FURTHER CROSS-EXAMINATION

13 BY MR. BAKER:

14 Q Ms. Bizzotto, I want to turn to that line of
15 questioning Mr. Olson just finished with. So is it your
16 testimony now that a net positive contribution of
17 institutional costs is not a necessary criterion for an NSA?

18 A Certainly we would hope for a net positive
19 contribution in any agreement, but I would not rule out a
20 contribution neutral agreement if there were other things
21 about the agreement that were appropriate for the Postal
22 Service and for the customer.

23 MR. BAKER: Thank you.

24 VICE-CHAIRMAN COVINGTON: Thank you, Mr. Baker.

25 Ms. Catler?

FURTHER CROSS-EXAMINATION

BY MS. CATLER:

Q Witness Bizzotto, you mentioned that NSA discussions in other situations had led to the Postal Service proposing a niche classification rather than going forward with an NSA.

Did the Postal Service consider a niche classification in an attempt to try and avoid large volumes of returned mail when they were in discussions with Capital One?

A Not to my knowledge.

Q Are you aware of the other mailers that have large volumes of returned mail?

A First class mailers.

MS. CATLER: Okay. Thank you.

CHAIRMAN OMAS: Are there any other questions?
Mr. Costich?

MR. COSTICH: Thank you, Mr. Chairman.

FURTHER CROSS-EXAMINATION

BY MR. COSTICH:

Q Ms. Bizzotto, I'd like to ask you again about the contribution neutral arrangement. When the Commission considers work sharing discounts, it will initially pass through less than 100 percent of the estimated cost avoidance. Is that your understanding?

1 A That is my understanding, yes.

2 Q And the stated reason for that is that there's a
3 certain amount of uncertainty associated with a new
4 discount? Is that correct?

5 A Yes.

6 Q Wouldn't the same principle apply with respect to
7 NSAs that are based on cost avoidance; that there would be a
8 certain amount of risk associated with passing through the
9 entire estimated savings immediately?

10 A Well, I think that there probably -- you know,
11 that's probably very likely. I mean, that would be up to
12 the Commission to decide, and the Postal Service would take
13 those risks into account as we determined whether or not we
14 wanted to bring an NSA forward.

15 Again, you know, absent a specific agreement in a
16 situation to be talking about, it's hard to, you know, make
17 decisions hypothetically about what we might do in the
18 future, but certainly we would take risks into account as we
19 were making decisions about what type of agreement to bring
20 to the Commission.

21 We are trying to -- as I said earlier, we've been
22 very careful about the construct of this. We would be very
23 careful about the construct of any future negotiated service
24 agreement with any customer.

25 MR. COSTICH: Thank you.

1 MR. MAY: Mr. Chairman?

2 CHAIRMAN OMAS: Yes?

3 MR. MAY: A followup to OCA's last question.

4 CROSS-EXAMINATION

5 BY MR. MAY:

6 Q Ms. Bizzotto, could you tell me? Is it not the
7 case that the Postal Service is not proposing to pass
8 through 100 percent of the cost savings in the form of
9 discounts in this NSA?

10 A That would be true.

11 Q So it's just like what the Commission does --

12 A Yes.

13 Q -- on the first time approval of new discounts?

14 MR. MAY: Thank you.

15 CHAIRMAN OMAS: Thank you.

16 Ms. Catler, are you finished?

17 MS. CATLER: (Non-verbal response.)

18 CHAIRMAN OMAS: Thank you.

19 Ms. Bizzotto, before I go to my other colleagues,
20 I'd like to ask you a couple of questions. Were you present
21 when the NSA was presented to the Board of Governors?

22 THE WITNESS: Yes, I was.

23 CHAIRMAN OMAS: Was there any information at all
24 provided to them, financial information, on the outer years,
25 years two and three?

1 THE WITNESS: No. We provided information in the
2 way we normally provide information for any rate case, and
3 that was test year information.

4 CHAIRMAN OMAS: And nothing else?

5 THE WITNESS: No.

6 CHAIRMAN OMAS: So the Postal Service has no idea
7 what will happen in year two and three of this experiment?

8 THE WITNESS: We believe that Capital One -- I
9 wouldn't say that we have no idea. It's just a question of
10 whether or not we have gone through the rigorous analysis
11 that would normally -- you know, such as the evaluation that
12 was done for the test year, which has been submitted with
13 the case. Certainly Capital One has indicated their volume
14 will continue to grow.

15 CHAIRMAN OMAS: All right. Thank you. In
16 negotiating the agreement, did the Postal Service consider
17 including a risk sharing provision with Capital One such as,
18 you know, putting certain requirements on them on volume?

19 It seems to me that there's no risk at all. It's
20 a win/win for Capital One. In other words, there are no
21 volume requirements or anything.

22 THE WITNESS: There are. There are some
23 requirements around the free address correction, for
24 example, where they're required if they do not --

25 CHAIRMAN OMAS: But that's a reduced volume from

1 the current volume. I think the volume last year was 1.4
2 billion, and you're stating, and I stand to be corrected on
3 these numbers just as you are, but --

4 THE WITNESS: Yes.

5 CHAIRMAN OMAS: -- I think that the NSA as
6 presented to us is 1.25 billion.

7 THE WITNESS: Yes. There are a couple provisions,
8 for example. If they mail less than 750 million first class
9 mail pieces they agree to pay for the ACS fees. You know, I
10 think a lot of those issues were worked out as part of the
11 negotiations, but I didn't do the negotiation personally
12 with Cap One, so I think risk and the factors around risk
13 were likely a part of the discussion around the final terms
14 of the agreement.

15 CHAIRMAN OMAS: All right. Thank you.

16 Commissioner Goldway?

17 COMMISSIONER GOLDWAY: The premise for your
18 argument when you began your testimony this morning was
19 volume growth is good for the Postal Service.

20 THE WITNESS: Continued viability of the first
21 class mail stream.

22 COMMISSIONER GOLDWAY: No. Volume growth is what
23 you said. We need to grow volume. That's what you said.
24 Grow volume.

25 THE WITNESS: Maintain and grow.

1 COMMISSIONER GOLDWAY: But if you have a situation
2 where you have block discounts that are in fact reducing the
3 income of first class mail for the Postal Service as volume
4 grows, it doesn't strike me that that's necessarily a good
5 thing.

6 Volume growth, when you're losing money or making
7 less money, is not necessarily a good business goal, and I
8 don't quite understand, and I've said this many times in
9 these hearings, why the Postal Service needs to look for
10 volume growth when it's not at all sure that that growth
11 increases institutional return or makes the same profit that
12 its current operations do.

13 In this case, it seems quite clear even from your
14 own testimony that at least in the first year there's a
15 leakage of at least 4.9 million. If we assume the same kind
16 of volume growth that Capital One has had in previous years
17 over year two and three, the leakage becomes quite
18 significant, so the business model for growing volume and
19 making less money on it doesn't seem to me to make sense.

20 I want your real honest opinion about what you
21 think about volume growth and what the economic rationale is
22 for the Postal Service to grow volume.

23 THE WITNESS: I think it is absolutely critical
24 for the Postal Service to find ways to retain the current
25 volume stream and, if possible, grow the volume.

1 While it is true that it is part of this
2 agreement, for example, as the customer mails more the
3 contribution from that particular customer and those
4 particular mail pieces is less than it would have been,
5 there is no guarantee we would have had that mail piece
6 absent this particular agreement or the declining block
7 rates.

8 COMMISSIONER GOLDWAY: There is no guarantee in
9 this agreement you're going to get that volume.

10 THE WITNESS: There's no guarantee in life.

11 COMMISSIONER GOLDWAY: Well, there are NSAs that
12 other countries we've heard about have where there is a
13 guarantee, or there's a penalty if they don't produce the
14 volume.

15 THE WITNESS: My familiarity with what some of the
16 other administrations do, their agreements are based
17 strictly on volume criteria and customers meeting those
18 volume criteria, which is different than this.

19 COMMISSIONER GOLDWAY: Right. One of the problems
20 that we have in this case is that we don't see where there's
21 any cost savings for the Postal Service in growing volume.
22 We just see losses.

23 Now, if you can demonstrate that this particular
24 customer presents you with mail and a mail stream that in
25 fact is less expensive than most first class mail so in fact

1 you've got more of a margin to play with and you can reduce
2 it at the end, that might be an argument for justifying
3 these discounts, but I find it really difficult to accept
4 this because then if we accept this we come up against the
5 problem of price discrimination for all other mailers, and
6 our job at the Postal Service, at the Postal Commission, is
7 to deal with fairness. We have not seen a cost basis for
8 the volume growth here.

9 I think it's a policy problem, and I think it may
10 be possible for you to justify this given the big volumes
11 that this mailer presents you with; that in fact their mails
12 are more efficient, but you haven't argued that to us and so
13 what we get is a prima facie case anyway of price
14 discrimination.

15 Now I'll go on to another issue, and I don't think
16 this was argued well in your testimony until today when you
17 brought it up, which is the issue of wanting to provide an
18 opportunity for solicitation mailers to use first class
19 mail.

20 I would think if you could create some
21 justification for all solicitation mailers to use first
22 class mail by coming up with a niche classification that
23 included these benefits you might then be able to justify
24 this joining of price discounts and address corrections, but
25 I think we have a dilemma here in terms of how we justify

1 this particular NSA under the system.

2 If you could say that solicitation mail, because
3 of its nature, generates more other kinds of first class
4 mail and that brings you more volume and revenue into the
5 system, if you could justify the revenue and the reduced
6 costs and contributions to the Postal Service in some way
7 that focuses more directly on the qualifications of this
8 particular customer so that we're not just faced with block
9 discounts and no guarantee I think we might find a
10 rationale, but it certainly wasn't something that was
11 presented in the written testimony.

12 The notion for generating more solicitation mail
13 on a first class basis is an interesting marketing question,
14 and I think you should explore that more. I'm not
15 comfortable with how it's presented in this case.

16 Those are my comments. Thank you.

17 CHAIRMAN OMAS: Commissioner Covington?

18 VICE-CHAIRMAN COVINGTON: Good morning, Ms.
19 Bizzotto.

20 THE WITNESS: Good morning.

21 VICE-CHAIRMAN COVINGTON: I'm going to try to keep
22 from jumping around, but I have several questions I wanted
23 to pose to you.

24 There have been reports in the press that the
25 Postal Service is either basically prepared to enter into

1 negotiations, you know, for NSAs with other mailers or may
2 very well be entertaining that thought in the future. The
3 first question I'd like to pose to you is what would NSA
4 futures be as it relates to other classes of mail?
5 Remember, we're only talking about first class here now.

6 THE WITNESS: Right. I mean, it's hard to say
7 given, you know, it would be unique, customized for the
8 particular customer who's interested in it, but it might be
9 additional work sharing that a customer was willing to do in
10 return for a reduced rate, work sharing that doesn't exist
11 or that goes beyond the type of work sharing that exists
12 today. It might be an issue around service. I mean, there
13 are any number of things it might be.

14 We started out with the Periodicals Co-
15 Palletization case began with a discussion about
16 opportunities for additional work sharing as part of a
17 negotiated service agreement, so there are any number of
18 things that a customer might be interested in or might be
19 able to do to reduce Postal Service costs, reduce their
20 costs, that would be an opportunity for a customized
21 agreement.

22 VICE-CHAIRMAN COVINGTON: Okay. Say, Witness
23 Bizzotto, that I'm a saturated mailer or a major mailer, and
24 my bread and butter is in the standard arena. You know,
25 what kind of hand can you deal me on that? I'm not a

1 Capital One.

2 THE WITNESS: That would depend on what the
3 characteristics of your mail were and what you thought the
4 opportunity was. If you said I can prepare my mail
5 differently, bring it into the Postal Service in a different
6 way that reduces Postal costs, there might be an opportunity
7 for us to, you know, fashion an agreement.

8 VICE-CHAIRMAN COVINGTON: Okay.

9 THE WITNESS: It's just hard to say. We've had a
10 lot of discussions with people with a lot of ideas, frankly,
11 most of them starting with work sharing type discussions.

12 VICE-CHAIRMAN COVINGTON: And I know you're a
13 strong believer in work sharing just from looking at your
14 background.

15 You know, going back to my last question, and I
16 don't want to go back so much as 25 years, but can you give
17 me a general idea as to how and when the Postal Service
18 started evolving to a customer specific agreement mode and
19 particularly when you first heard about the fact that this
20 niche classification case would end up over here at the
21 Commission.

22 THE WITNESS: I guess I can speak only from my own
23 experience. It's my understanding that there have been
24 discussions about negotiated service agreements or the
25 opportunity for something like that for perhaps the last ten

1 years.

2 I first heard the term and became familiar with
3 the notion of negotiated service agreement I guess in late
4 1999 when I was appointed the vice president of pricing, and
5 there was a lot of debate, given Postal reform and other
6 things that were going on at the time, about negotiated
7 service agreements.

8 In terms of this particular NSA, certainly I was
9 aware that discussions had begun, but it wasn't until we
10 brought the case to the Commission -- I mean to the
11 Governors -- and they voted to file the case here at the
12 Commission was when we knew that we would actually be
13 bringing a negotiated service agreement to the Commission.

14 We've been in discussions with customers both
15 philosophically and specifically about NSAs for the last
16 three years, I mean, that I've personally been involved in.

17 VICE-CHAIRMAN COVINGTON: Okay. So about a three
18 year time frame.

19 THE WITNESS: For me.

20 VICE-CHAIRMAN COVINGTON: Yesterday, Witness
21 Bizzotto, I posed a question to Witness Crum, and I asked
22 him. I said will this proposal honestly have a positive
23 financial impact on the United States Postal Service? I'd
24 like to ask you the same question, and then I have a
25 followup to that question. Will this proposal honestly have

1 a positive financial impact on the United States Postal
2 Service?

3 THE WITNESS: Yes.

4 VICE-CHAIRMAN COVINGTON: Okay. Has this been an
5 objective process with Capital One from day one?

6 THE WITNESS: I'm not sure what you mean by --

7 VICE-CHAIRMAN COVINGTON: In other words, not only
8 objective, but the data. How verifiable has been the data
9 that you've gotten from Capital One?

10 THE WITNESS: You would have to ask the folks that
11 were involved in the negotiation and the evaluation and the
12 evaluation work around the agreement.

13 I can't speak specifically to that, but I know
14 that our staff is very careful. They spend a lot of time,
15 spent a lot of time, evaluating this, and it is unlikely
16 that they would bring us anything that they didn't feel
17 passed their rigorous process.

18 VICE-CHAIRMAN COVINGTON: Okay. So in other
19 words, we're talking about a potentially mutually beneficial
20 NSA, and I'm quite sure you stated previously that the
21 Postal Service is willing to talk with any mailer who wants
22 to enter into a like agreement.

23 THE WITNESS: Yes.

24 VICE-CHAIRMAN COVINGTON: Okay. Does the Postal
25 Service have adequate resources to negotiate with the

1 potentially dozens or even hundreds of other mailers that
2 would want to come in maybe at the same time?

3 THE WITNESS: Today? Probably not, but, you know,
4 if in fact the Commission finds that this negotiated service
5 agreement is acceptable and we begin talking to other
6 customers, we will work on the issues around staffing. It's
7 not just for us.

8 It's probably a Commission issue as well should we
9 start bringing over, you know, a number of small cases, but
10 we'll deal with that once the demand is actually there.

11 VICE-CHAIRMAN COVINGTON: I knew that, Anita. I
12 knew we couldn't deal with a hundred mailers.

13 THE WITNESS: As much as you would enjoy it, yes.

14 VICE-CHAIRMAN COVINGTON: We would enjoy that.
15 Okay. Who do we deal with first?

16 THE WITNESS: Well, you know --

17 VICE-CHAIRMAN COVINGTON: I'm saying okay, just
18 say you've got some major mailers, or just say you've got
19 some other people in the financial arena like Capital One.
20 Who gets to the table first?

21 THE WITNESS: Well, I think it becomes a question
22 of, I mean, first of all we don't even have enough people in
23 the queue right now for that to be a problem so we've not
24 even attempted to establish criteria yet about who would be
25 first or how would we go about this.

1 I think it would be a combination of the
2 characteristics and the opportunity and our ability to move
3 the data, the customers' willingness to come to the
4 Commission, the Governors' willingness to support a
5 proposal. It might or might not be the one that presents,
6 you know, the most financial opportunity.

7 VICE-CHAIRMAN COVINGTON: But say what if your
8 largest standard A mailer comes in next week or after we
9 issue a recommended decision in this case? What are you
10 going to do with your number one saturation or, you know,
11 major mailer?

12 THE WITNESS: We would sit down and talk with them
13 about the opportunity, determine if the opportunity was
14 one -- I mean, it's sort of a multi-stage process, at least
15 some of the discussions we've had so far. You just sit down
16 with the customer. You talk about the opportunities.

17 You mutually determine whether or not the
18 opportunity is large enough to go to the next step. If it
19 is, you go to the next step. Decisions are made and have
20 been made in this case at every step along the way about
21 whether or not it's appropriate to continue, both by the
22 Postal Service, by Capital One.

23 We've had negotiations with customers that have
24 stopped because of the fact that we've gotten to a point
25 where it didn't seem that the opportunity was there or the

1 customer made a decision that they just didn't want to deal
2 with it or that, you know, there was something else that was
3 more critical for them. Customers have resource issues
4 certainly as far as rate proceedings as well.

5 VICE-CHAIRMAN COVINGTON: Correct. So what
6 criteria or guidelines will the United States Postal Service
7 use to select those customers with whom it will try to
8 negotiate an NSA?

9 THE WITNESS: Our vice president of pricing has
10 established some processes.

11 VICE-CHAIRMAN COVINGTON: Would that be Mr.
12 Kearney?

13 THE WITNESS: Yes. It's my understanding that he
14 and his folks are working on a process for customers to
15 essentially apply, but again choosing from multiple
16 customers has not been a dilemma that we have faced up to
17 this point.

18 VICE-CHAIRMAN COVINGTON: Okay. All right, Ms.
19 Bizzotto. After Mr. Kearney and the pricing people decide
20 who it is that would apply, will the guidelines be made
21 publicly available so that mailers will know what factors
22 the Postal Service considers the most important?

23 THE WITNESS: To the extent that we can
24 communicate to customers what is most important, what sort
25 of information is necessary, we will absolutely do that

1 because it makes our customers' lives and our lives easier.

2 VICE-CHAIRMAN COVINGTON: All right. I'm a
3 mailer, and I think, Anita, that I've been unable to
4 successfully negotiate an NSA with you. Not only with you,
5 but with the U.S. Postal Service. I feel that I've been
6 treated unfairly. How do you plan to handle my grievance if
7 that should occur?

8 THE WITNESS: I haven't contemplated that before,
9 but we have a fairly well-established process for customers
10 who feel that there is an issue with how they've been
11 treated by the Postal Service.

12 Our Rates and Classification Service Centers
13 adjudicate disputes between the Postal Service and
14 customers, and at some point those disputes move up the
15 ladder. I presume that if something got beyond a certain
16 point that I or the Law Department or someone else would
17 deal with the issues arising from that.

18 I mean, it's really hard to speculate on what that
19 might be or what the issues might be at this point, but, you
20 know, we've got well-established processes of dealing with
21 customers and issues that customers have. We've been very
22 successful at working with customers about these kinds of
23 disputes.

24 VICE-CHAIRMAN COVINGTON: Okay. Do you think the
25 Postal Service will be negotiating and approving NSAs with

1 every customer every few years as conditions change? What
2 you're saying is that if a customer doesn't like an offer,
3 you know, does he have an alternative?

4 THE WITNESS: Well, certainly a customer always
5 has an alternative to use the rate opportunities that exist
6 today, but certainly if we made a decision to not move
7 forward for a particular customer the customer would
8 understand the reasons why we chose not to do them.

9 If it meant that they had to change a mailing
10 practice or had to do something different or needed to
11 provide information or data that they weren't currently
12 capable of providing, we would let them know that. Again,
13 absent a situation it's hard to speculate.

14 VICE-CHAIRMAN COVINGTON: Okay. You're probably
15 familiar with all the stuff that's been going back and forth
16 about threshold qualifications. How consistent and how firm
17 are we to expect those to be? Are we talking about
18 rigidity, or are we talking about flexibility? Do you
19 believe some eligibility thresholds are going to need to be
20 changed?

21 THE WITNESS: First of all, I don't believe that
22 every type of agreement that we might even bring over to the
23 Commission would involve necessarily some threshold. As I
24 mentioned earlier, a negotiated service agreement might
25 simply be a new form of work sharing. It might be a

1 customer who wants to pay for an additional service that
2 doesn't exist today.

3 There was a fairly rigorous negotiation around, it
4 was my understanding anyway, the threshold issue in this
5 particular case, and I would anticipate that thresholds,
6 were they appropriate to the agreement, would be negotiated,
7 you know, fairly carefully.

8 VICE-CHAIRMAN COVINGTON: Okay. Fairly carefully.
9 Okay, Witness Bizzotto. As chief marketing officer, you
10 have stated that you're responsible for the overall
11 strategic direction of the U.S. Postal Service's marketing
12 initiative, which happens to include negotiated service
13 agreements.

14 THE WITNESS: Yes, it does.

15 VICE-CHAIRMAN COVINGTON: Okay. You've also
16 stated that a United States Postal Service objective in
17 developing new rates or classifications, which this is, is
18 not to maximize the return on investment. Rather, it is to
19 meet the policy goals set out in the Postal Reorganization
20 Act.

21 I think this kind of goes back to what
22 Commissioner Goldway was saying. Can you clarify that for
23 me a little bit? I mean, it's one thing to say you don't
24 want to maximize the return on your investment, but then if
25 you say that all you want to do is meet the policy goals, as

1 a marketer, I mean, can you differentiate what you're saying
2 here?

3 THE WITNESS: Well, you know, as a marketer there
4 is certainly a difference in the Postal Service and dealing
5 in an environment such as this that is different than most
6 marketers in the private sector.

7 You know, we are always trying to balance the
8 opportunities for customers, the opportunities to introduce
9 rates and classifications, with all of the criteria of the
10 Act; you know, fairness, equity, the impact on competition,
11 the type of consideration we give any case that we would
12 bring over here.

13 Sometimes that means that we're not from a
14 marketing perspective able to be -- it may not be
15 appropriate to be as creative as we would like.

16 VICE-CHAIRMAN COVINGTON: But you've got to deal
17 with that Postal Reorganization Act.

18 THE WITNESS: Yes. You know, pricing --

19 VICE-CHAIRMAN COVINGTON: That old, 1971 fuddy-
20 duddy.

21 THE WITNESS: Yes. You know, it is what it is,
22 and we're trying to take advantage of it, you know, the best
23 advantage of it for us and our customers.

24 As you know, pricing is a common tool in most
25 marketers' tool boxes. It is somewhat different for us, but

1 we think that there are plenty of opportunities within the
2 system in which we work, and we're trying to take advantage
3 of those opportunities because we think it's the right thing
4 to do for us and for our customers.

5 VICE-CHAIRMAN COVINGTON: Okay. As chief
6 marketing officer, do you agree that competition may lose
7 market share to Capital One and mail less because of this
8 initiative?

9 THE WITNESS: No, I don't. I don't, no. I don't
10 agree with that statement.

11 VICE-CHAIRMAN COVINGTON: Okay. Do you agree that
12 without a market little is known particularly about a
13 supplier, about the customer's demands and what they want?

14 THE WITNESS: I'm not sure I understand the
15 question.

16 VICE-CHAIRMAN COVINGTON: Okay. In other words, I
17 would imagine that Capital One, you know, they do
18 solicitation mail. I mean, they do different things.

19 THE WITNESS: Uh-huh.

20 VICE-CHAIRMAN COVINGTON: They just don't mail to
21 me three times a week for nothing.

22 THE WITNESS: Right. If you take that credit card
23 offer they wouldn't mail you any more.

24 VICE-CHAIRMAN COVINGTON: That's my point. That's
25 my point. In other words, you're saying yes, customer

1 demand does dictate how much a customer is going to mail?

2 THE WITNESS: Well, certainly, but other banks,
3 other credit card issuers, choose to use different means of
4 getting customers. They use standard mail. They may use
5 telemarketing. They may use other methods of trying to get
6 to customers.

7 Capital One's business model is such that they are
8 trying to get to a particular level of customer, and they're
9 doing everything they can, as the good marketers that they
10 are, to try and entice you. Obviously they haven't done a
11 very good job yet of taking up one of their offers.

12 VICE-CHAIRMAN COVINGTON: As chief of marketing,
- 13 ultimately you have to have told Steve Kearney, Steve,
14 before you enter into this agreement you had better have
15 reasonably accurate information about what Capital One
16 customer demands are. I mean, that never came up?

17 THE WITNESS: Certainly. The folks that dealt
18 with Capital One learned a whole lot about the Capital One
19 business model. It's about the needs. It's Capital One's
20 business model and their desire to reach their customers. I
21 mean, that is what's different about them is that they use
22 first class to do that primarily.

23 VICE-CHAIRMAN COVINGTON: To do that.

24 THE WITNESS: Yes.

25 VICE-CHAIRMAN COVINGTON: Which is a good thing.

1 From a marketing standpoint of view, Ms. Bizzotto, given all
2 the broad policy issues that are involved with this NSA
3 proposal, have you honestly got any particular area of
4 concern that you would want to maybe officially or
5 unofficially point out to us here on the bench?

6 I mean, is it the concept overall? Would it be
7 the declining block discount? Would it be the address
8 correction system arrangement? Would it be the fact that
9 there might be possible pricing discrimination? I mean,
10 would any of that stuff happen to concern you?

11 THE WITNESS: No.

12 VICE-CHAIRMAN COVINGTON: Okay. So you feel
13 comfortable --

14 THE WITNESS: Absolutely.

15 VICE-CHAIRMAN COVINGTON: -- in the concept that
16 is being presented?

17 The last question I have for you is, you know, and
18 I go back to what the Chairman just said, and Mr. Baker even
19 asked this question. My position is this. I want to know
20 whether the Postal Service is going to be as committed to
21 this NSA proposal as say a pig is to breakfast.

22 THE WITNESS: The mere fact that we are here with
23 this case before the Commission would imply that we are
24 committed not only to its success and the success of perhaps
25 using NSAs as a way of meeting our customer needs in the

1 future.

2 VICE-CHAIRMAN COVINGTON: The reason I say that --

3 THE WITNESS: Now you're making me hungry.

4 VICE-CHAIRMAN COVINGTON: The reason I say that
5 with that pig is he becomes the bacon.

6 THE WITNESS: That's right.

7 VICE-CHAIRMAN COVINGTON: It's almost like the
8 chicken can lay the egg.

9 THE WITNESS: Right.

10 VICE-CHAIRMAN COVINGTON: He's not giving up.

11 THE WITNESS: You know, I have a pig on the corner
12 of my desk, and on it it says, "I'm committed."

13 VICE-CHAIRMAN COVINGTON: Okay. Committed. Okay.
14 The reason why, on a closing note, and this concerns me and
15 my colleagues, is that this is a three-year experimental --

16 THE WITNESS: Yes.

17 VICE-CHAIRMAN COVINGTON: -- test request that
18 you're making. There is an absence of a forecasted mail
19 volume beyond test year 2003. You realize that. Okay.

20 Even when the Chairman asked you, we're kind of
21 wondering what type of financial summary could have been
22 presented to the Board of Governors prior to you even filing
23 this case?

24 THE WITNESS: As I said, we followed the
25 Commission's rules around the test year for this particular

1 case, and all the analysis was based on the test year just
2 as we do for, you know, anything that we bring over here.
3 Capital One obviously indicated that their volume would
4 continue to grow. The question didn't come up.

5 VICE-CHAIRMAN COVINGTON: Well, you may have been
6 absent yesterday, but I would just note that you answered
7 like everybody else did.

8 THE WITNESS: I wasn't here.

9 VICE-CHAIRMAN COVINGTON: Thanks, Mr. Chairman.
10 That's all I have.

11 Thanks, Ms. Bizzotto.

12 THE WITNESS: Thank you.

13 CHAIRMAN OMAS: Commissioner Hammond?

14 COMMISSIONER HAMMOND: I've just got one followup
15 from Commission Covington's questions which you've already
16 partially answered. I just want to make sure it's
17 understood.

18 There may be as many as 40 or so banks across the
19 country that issue large numbers of credit cards. I don't
20 frankly know the exact number. I haven't looked it up. Is
21 the Postal Service ready and willing to negotiate an NSA
22 with each one of them if this NSA is approved?

23 THE WITNESS: We are ready and willing to
24 negotiate an NSA with anyone who is interested in talking to
25 us about an opportunity, yes, but their NSAs would be

1 different likely than this particular one.

2 COMMISSIONER HAMMOND: But you're willing to --

3 THE WITNESS: Certainly.

4 COMMISSIONER HAMMOND: -- talk to any of them --

5 THE WITNESS: Certainly.

6 COMMISSIONER HAMMOND: -- and try to work out
7 something?

8 THE WITNESS: Yes.

9 COMMISSIONER HAMMOND: Okay. Great. Thanks.

10 CHAIRMAN OMAS: Mr. May?

11 MR. MAY: Yes. A followup.

12 FURTHER CROSS-EXAMINATION

13 BY MR. MAY:

14 Q The Chairman, as well as other Commissioners, has
15 asked you, as they have others, about the lack of data in
16 this case for the out years of the agreement, years two and
17 three.

18 It's a fact, isn't it, that you're in charge of
19 putting rate cases together?

20 A Yes.

21 Q Over the 30 years, haven't most rates been in
22 effect for at least two years and more likely three years?

23 A Yes.

24 Q And that's been well known to the Commission over
25 the years?

1 A Yes.

2 Q To your knowledge, has this Commission ever a
3 single time asked for the Postal Service to provide data
4 beyond the test year, even though everybody knew that those
5 rates were going to be in effect for more than that one test
6 year?

7 A Not that I'm aware of.

8 MR. MAY: Thank you.

9 CHAIRMAN OMAS: Mr. Baker?

10 FURTHER CROSS-EXAMINATION

11 BY MR. BAKER:

12 Q I have a followup to a question asked by
13 Commissioner Covington. He posed a situation of the
14 aggrieved mailers who do not get an NSA with the Postal
15 Service because the Postal Service for whatever reason
16 chooses not to do so, and he asks how would their grievance
17 be dealt with. You suggested internal reviews at the Postal
18 Service.

19 Apart from the interesting situation that we would
20 have of perhaps having the regional staff of reviewing
21 decisions at headquarters, has it occurred to you that maybe
22 those aggrieved mailers would file a complaint with this
23 Commission?

24 A Well, certainly they would have a right to do
25 that.

1 Q Yes. And so if we have a lot of mailers talking
2 to you and they're getting really upset, there could be a
3 lot of complaint cases filed here possibly?

4 A I would hope not.

5 MR. BAKER: No more.

6 CHAIRMAN OMAS: Mr. Reiter, it seems as though
7 there are no other followup questions. Would you like some
8 time with your witness?

9 MR. REITER: Yes, I would.

10 CHAIRMAN OMAS: Ten minutes?

11 MR. REITER: At least. We didn't get a break at
12 all this morning.

13 CHAIRMAN OMAS: Okay. All right. Why don't we
14 come back about ten minutes of 12:00? Okay.

15 (Whereupon, a short recess was taken.)

16 CHAIRMAN OMAS: Back on the record. Before we
17 begin redirect, I want to resolve the issue of tomorrow's
18 hearing. I think it's best to err on the side of caution
19 and, therefore, tomorrow's hearing will begin at 1:00 p.m.
20 Is that all right with everyone? I know it's a problem for
21 you, Mr. Olsen.

22 MR. OLSEN: That's fine. I appreciate your
23 consideration, but go ahead with 1:00 tomorrow.

24 CHAIRMAN OMAS: All right. Thank you for your
25 understanding, Mr. Olsen. Mr. Reiter, do you have any

1 redirect?

2 MR. REITER: Yes, just one question, Mr. Chairman.

3 CHAIRMAN OMAS: Proceed.

4 REDIRECT EXAMINATION

5 BY MR. REITER:

6 Q Ms. Bizzotto, earlier in response to a couple of
7 questions, you commented about Capital One's potential for
8 volume growth. Do you want to qualify that comment?

9 A I just want to clarify that I was referring to the
10 growth described by Capital One in Donald Jean's testimony,
11 the growth associated with the implementation of this NSA.

12 MR. REITER: Thank you. That's all I have, Mr.
13 Chairman.

14 CHAIRMAN OMAS: Thank you, Mr. Reiter, and thank
15 you, Ms. Bizzotto.

16 THE WITNESS: Thank you.

17 CHAIRMAN OMAS: I'm sorry I've been mispronouncing
18 your name. I'll just correct and I apologize.

19 THE WITNESS: Thank you.

20 CHAIRMAN OMAS: We thank you for your presentation
21 here today and your testimony and you are now excused.

22 (Witness excused.)

23 CHAIRMAN OMAS: Ms. McKenzie, welcome back. Would
24 you introduce your next witness, please.

25 MS. MCKENZIE: Okay. Although I do note, it's

1 five minutes before 12:00.

2 CHAIRMAN OMAS: I think what we'll do is we'll get
3 him sworn in and then we'll break for lunch. How is that?

4 MS. MCKENZIE: Okay, that's fine. We call James
5 D. Wilson.

6 CHAIRMAN OMAS: I'm not that bad of a slave
7 driver.

8 Whereupon,

9 JAMES D. WILSON

10 having been duly sworn, was called as a witness
11 herein and was examined and testified as follows:

12 CHAIRMAN OMAS: Please be seated.

13 DIRECT EXAMINATION

14 BY MS. MCKENZIE:

15 Q It's still good morning. Good morning. What is
16 your current position, Mr. Wilson?

17 A I'm an employee at the Office of Address
18 Management, the National Customer Support Center with the
19 United States Postal Service.

20 Q All right. I have handed you one of two copies of
21 a document titled, "the direct testimony of James D. Wilson
22 on behalf of the United States Postal Service," marked
23 USPS-T-4.

24 //

25 //

(The document referred to was
marked for identification as
Exhibit No. USPS-T-4.)

BY MS. MCKENZIE:

Q Have you had a chance to examine it?

A I have.

Q Was this testimony prepared by you?

A It was.

Q If you were to testify orally today, would your
testimony be the same?

A Yes.

MS. MCKENZIE: Mr. Chairman, I would ask that the
testimony of James D. Wilson be entered into the record as
evidence.

CHAIRMAN OMAS: Is there any objection?

(No response.)

CHAIRMAN OMAS: Hearing none, I will direct
counsel to provide the reporter with two copies of the
corrected direct testimony of James Wilson. That testimony
is received into evidence.

(The document referred to,
having been previously marked
for identification as Exhibit
No. USPS-T-4, was received in
evidence.)

1 CHAIRMAN OMAS: Mr. Wilson, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination.

4 THE WITNESS: Yes, sir, I have.

5 CHAIRMAN OMAS: If questions contained in that
6 packet were asked of you today, would your response -- posed
7 to you orally today, would your answers be the same as
8 previous?

9 THE WITNESS: Yes, they would.

10 CHAIRMAN OMAS: Are there any corrections or
11 additions you would like to make?

12 THE WITNESS: I would note that there was one
13 minor correction necessary to one of the designated
14 questions, OCA 7. There was a typographical error in the
15 paragraph alignment. There were two paragraph reference As
16 in the answer. We've corrected that and listed the second
17 as paragraph B and have corrected it in the packet that has
18 been submitted.

19 CHAIRMAN OMAS: Okay. Counsel, would you, please,
20 provide two copies of the corrected designated written
21 cross-examination of witness Wilson to the reporter? The
22 material is received into evidence and it is to be
23 transcribed into the record.

24 //

25 //

(The document referred to was
marked for identification as
Exhibit No. USPS-T-4 and
received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

535

Experimental Rate and Service Changes to
Implement Negotiated Service Agreement with
Capital One Services, Inc.

Docket No. MC2002-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS JAMES D. WILSON
(USPS-T-4)

Party

Interrogatories

American Postal Workers Union,
AFL-CIO

APWU/USPS-T4-3-4, 7-10, 16

APWU/USPS-T3-2a-c redirected to T4

Newspaper Association of America

APWU/USPS-T4-3-4, 6-12

APWU/USPS-T2-8 redirected to T4

NAA/USPS-T4-1-12

OCA/USPS-T4-1, 4-6, 8-9, 13, 16-17, 25

Office of the Consumer Advocate

APWU/USPS-T4-1-2, 5, 16

OCA/USPS-T4-2, 7, 13, 18, 20-21, 24, 26-27

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS JAMES D. WILSON (T-4)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

536

<u>Interrogatory</u>	<u>Designating Parties</u>
APWU/USPS-T4-1	OCA
APWU/USPS-T4-2	OCA
APWU/USPS-T4-3	APWU, NAA
APWU/USPS-T4-4	APWU, NAA
APWU/USPS-T4-5	OCA
APWU/USPS-T4-6	NAA
APWU/USPS-T4-7	APWU, NAA
APWU/USPS-T4-8	APWU, NAA
APWU/USPS-T4-9	APWU, NAA
APWU/USPS-T4-10	APWU, NAA
APWU/USPS-T4-11	NAA
APWU/USPS-T4-12	NAA
APWU/USPS-T4-16	APWU, OCA
APWU/USPS-T2-8 redirected to T4	NAA
APWU/USPS-T3-2a redirected to T4	APWU
APWU/USPS-T3-2b redirected to T4	APWU
APWU/USPS-T3-2c redirected to T4	APWU
NAA/USPS-T4-1	NAA
NAA/USPS-T4-2	NAA
NAA/USPS-T4-3	NAA
NAA/USPS-T4-4	NAA
NAA/USPS-T4-5	NAA
NAA/USPS-T4-6	NAA
NAA/USPS-T4-7	NAA
NAA/USPS-T4-8	NAA
NAA/USPS-T4-9	NAA
NAA/USPS-T4-10	NAA
NAA/USPS-T4-11	NAA
NAA/USPS-T4-12	NAA
OCA/USPS-T4-1	NAA
OCA/USPS-T4-2	OCA
OCA/USPS-T4-4	NAA
OCA/USPS-T4-5	NAA

OCA/USPS-T4-6
OCA/USPS-T4-7
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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T4-1: Please provide a detailed explanation of any changes the Postal Service has made to its processes for handling Undeliverable-As-Addressed mail since the time period studied in the September 1999 report entitled "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail" and indicate when each change was implemented.

538

RESPONSE:

I am unaware of any operational process changes in the handling of UAA mail the Postal Service has already made. The Postal Service is in the process of implementing the Postal Automated Redirection System (PARS) program, which is intended to automate many of the manual functions performed in the handling and processing of UAA mail. Phase I implementation of the PARS program is scheduled to commence in July 2003.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T4-2: On page 7 of your testimony you mention recent enhancements to the Address Change Service (ACS) program that will impact the percent of mail that will receive electronic notification through the ACS system. Please describe each of those enhancements, when it was or will be implemented, and how each factored into the estimates of the percent of mail that will receive electronic notification that you presented on page 7 of your testimony.

539

RESPONSE:

There are two enhancements that will impact the percentage of mail that receive electronic notices through the ACS system. The first enhancement was a modification made to the Computerized Forwarding System software related to change of address records that were older than 18-months. The system is designed to expunge those records once a month. Prior to the modification, a hardcopy notification was generated for a mail piece with an ACS endorsement sent to an address where the record was greater than 18-months but had not yet been expunged from the CFS database. In the summer of 2002, the software was changed to permit an electronic notice for such records. The effect of this change is a projected increase in the total volume of ACS notifications of 5 percent.

In FY 2002 and FY 2003, the Postal Service issued a series of communications, including training videos, intended to focus attention by field personnel on the need for proper handling of undeliverable-as-address mail, and specifically UAA mail that also participates in the ACS program. The result of this enhanced focus on accurate fulfillment of ACS notifications is another projected increase of ACS notifications of about 5 percent.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T4-3: Will PARS affect handling and costs associated with Undeliverable-As-Addressed mail pieces? If so, please describe process changes associated with PARS, when these process changes will be implemented and their effect on costs.

540

RESPONSE:

My understanding is that PARS will lower costs associated with the handling and processing of undeliverable-as-address mailpieces. PARS will automate the process of handling UAA mail where deployed, utilizing computer-based solutions to automate a significant portion of the current manual handling. Phase I of the PARS deployment is scheduled to begin in July 2003.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T4-4: What other enhancements to the handling of Undeliverable-As-Addressed mail pieces is the Postal Service currently testing/planning that could impact any of the costs associated with handling Undeliverable-As-Addressed mail or the percent of Undeliverable-As-Addressed mail that will receive electronic notification through the Address Change Service (ACS) system? What is the time frame anticipated for deploying each of these enhancements?

541

RESPONSE:

I am not aware of any enhancements, other than PARS.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

542

APWU/USPS-T4-5: (a) Was the introduction of Change Service Requested option 2 a direct result of the Postal Service's negotiations for this proposed Negotiated Service Agreement? (b) Was Change Service Requested option 2 being considered prior to the commencement of negotiations leading to the proposed Negotiated Service Agreement between Capital One Services, Inc. and the United States Postal Service?

RESPONSE:

a) No.

b) Yes, the idea of Change Service Requested Option 2 originated during 2001.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T4-6: Will the fees charged for Change Service Requested option 2 ⁵⁴³
(for users other than Capital One) differ from the fees charged for the current
Change Service Requested option? If not, what will be charged and will the
institutional cost coverage for this service change based on the fact that the mail will
be forwarded instead of destroyed?

RESPONSE:

No, the address correction fee for pieces seeking the service associated with
Change Service Requested Option 2 will be \$.20, the same as the current
electronic address correction service fee.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

Revised 11/25/02
544

APWU/USPS-T4-7: (a) How many and what proportion of current users of Change Service Requested (CSR) are expected to change to CSR option 2 once the Postal Service begins to offer it? What proportion of the volume of the current users of CSR does this represent? (b) Does the Postal Service anticipate that First Class users of other endorsements will change to CSR option 2? If so, what other endorsements are they now using and how many and what proportion of users of each endorsement are anticipated to change? What proportion of the volume of current First Class users of other endorsements does this represent? (c) Does the Postal Service anticipate that other First Class mailers who, like Capital One, are not currently using any endorsements, will start using CSR option 2? (d) What is the expected volume of CSR option 2?

RESPONSE:

- (a) It is expected that a majority, if not all, of the existing Change Service Requested users will opt for use of Change Service Requested Option 2, as it restores the forwarding service not available with the current Change Service Requested endorsement.
- (b) Users of other First-Class Mail endorsements are expected to change to Change Service Requested Option 2. The endorsements these users are currently using are Address Service Requested and Change Service Requested. I have no research that indicates how many ASR endorsers will switch to CSR, Option 2. While I know the number of ASR endorsers who participate in the ACS program, there are others who do not participate. See my response to OCA/USPS-T4-5, as revised on November 25, 2002.
- (c) Yes, we anticipate that other First Class mailers not currently using any endorsement will start using Change Service Requested Option 2 and pay the \$ 0.20 fee associated with the ACS notification.
- (d) The expected volume of ACS notifications fulfilled under the Change Service Requested Option 2 scenario has not been calculated.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

545

APWU/USPS-T4-8: In what ways does the information provided by Address Change Service (ACS) differ from information available through the National Change-of-Address (NCOA) system? What are the sources of information that are used for each of these systems? Are these systems updated at different times? Is updated information in these two systems available at different times?

RESPONSE:

ACS notifications are provided based upon information in the CFS unit database. The information in the NCOA database differs from the information in CFS database in a number of ways.

--NCOA has a 4-year historical compilation of customer move information while the CFS database only covers an 18-month period.

--NCOA only contains move-related information. ACS notifications may be provided to participating mailers whenever a mailpiece cannot be delivered regardless of whether the reason is due to a customer's move or not.

-- NCOA is based on the customer provided change-of-address information. NCOA only provides a new address update when a strict match exists between name and address data contained in a mailer's electronic address file and a moving customer's old address residing in the source NCOA data. If the mailer's file has a variation of the name in the NCOA file, it will not be updated.

--By comparison, the CFS unit database is used to forward mail after the carrier has determined that the addressee has moved. Thus the CFS database is not as sensitive to variations in the name. Even if the name on the mail piece varies from the customer provided change-of address information, the CFS unit

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

will still forward it to the new address and, for pieces with an ACS endorsement, 546
send the appropriate address change notice.

--The ability to provide an ACS notification is available immediately
following the entry of a customer change-of-address data. NCOA data is
compiled and distributed on a weekly basis and is available for use upon
installation into the host computer system.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

547

APWU/USPS-T4-9: (a) In your response to OCA/USPS-T4-6, you state that volume data for First Class mail physically returned and forwarded through the Computerized Forwarding System (CFS) unit are not available for FY2000. Please explain why such data are not available. (b) In the same answer you imply that total First Class mail returned volumes and forwarded volumes are larger than the volumes worked through the Computerized Forwarding System (CFS). Please describe the circumstances in which First Class returned or forwarded mail is not worked through CFS and estimate the non-CFS volume for each. (c) You indicate presort volumes cannot be identified separately through the CFS. Is there any other method by which the volume of physically returned presort mail can be identified?

RESPONSE:

(a) In February 2001, a change was implemented within the hardware and software products used in the Computerized Forwarding System. I am advised that as a result of this migration, data from CFS of forwarded and returned volumes for FY 2000 are incomplete.

(b) First Class Mail may be forwarded locally by carriers within the same delivery units without being processed through the CFS unit. An estimated 4—5 percent of mail is handled through local forwarding. Mail pieces requiring return to sender handling that are not related to a move or are not participating in the ACS program, are not worked at the CFS unit. Return to sender volume worked directly by the mail processing facility and not by the CFS unit accounts for approximately two-thirds of the total volume of return to sender mail.

(c) I am unaware of any method by which the volume of physically returned presort mail can be identified.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

548

APWU/USPS-T4-10: Please reconcile the First Class physically returned volumes you report in your response to OCA/USPS-T4-6 with USPS witness Crum's 1.23% average presort letter return percentage shown in Attachment A, page 2 of USPS-T-3.

RESPONSE:

The 1.23 percent average presort letter return percentage shown in Attachment A, Page 2 of USPS-T-3 was derived using the "Combined Disposition at Delivery and CFS Units" of First-Class Mail that is returned to sender. The volume I reference in my response to OCA/USPS-T4-6 is *only* the volume of First-Class Mail that is returned to sender through the CFS units. Accordingly, the volume of mail physically returned through the CFS units that I reported in my response to OCA/USPS-T4-6 is a subset of the 1.23 percent figure.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T4-11: The volumes for both First Class physically returned mail and First Class forwarded mail in FY 2002 declined from their levels in FY 2001. Can this decline be attributed solely to the decline in First Class mail volume in FY 2002 or were there improvements in the system or processes used that also impacted these numbers? If there were improvements in the system or processes used that also impacted these numbers, please detail each improvement and indicate when it was implemented. ⁵⁴⁹

RESPONSE:

No, the drop in volumes of First-Class Mail physically returned and forwarded between FY 2002 and FY 2001 cannot be attributed solely to the decline in First-Class Mail volumes overall. In FY 1996, the Postal Service adopted the "Move Update Requirement" for all First-Class mailers seeking automation or presort discounts which requires that these mailers perform an update to their address files for customer change-of-address within 180 days of the mail entry date. The ongoing address hygiene improvements resulting from the Move Update Requirement is another contributing factor to the overall decline of both returned and forwarded volumes for First-Class Mail from FY2001 to FY2002.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

550

APWU/USPS-T4-12: (a) Please confirm that in your response to OCA/USPS-T4-5, your answer to (b) is only for First Class mail. If you cannot confirm this, please identify all classes of mail that are included. (b) Are the FY 2002 numbers for (b) and (c) available? If they are, please provide them. If they are not, please provide them when they are available.

RESPONSE:

(a) Confirmed, the answer to (b) only refers to First-Class Mail.

(b) The FY 2002 ACS program numbers for First-Class Mail alone are:

First-Class ACS Notifications:	32,211,995
First-Class ACS Participants:	1,502

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

551

APWU/USPS-T4-16. In your response to APWU/USPS-T4-9 (b) you state that 4-5 percent of mail is handled through local forwarding.

- (a) Please confirm that this is 4-5 percent of forwarded mail volume.
- (b) Is First Class mail with the current CSR endorsement forwarded locally now?
- (c) Will First Class mail bearing a CSR Option 2 endorsement be forwarded locally without generating an ACS notification?

RESPONSE:

- (a) Confirmed.
- (b) I believe this to be the case, on the assumption that local forwarding may be inappropriately performed for mail bearing the CSR endorsement.
- (c) Mail bearing the Change Service Requested Option 2 endorsement will not generate an ACS electronic notification if it is forwarded locally, as it would not be handled within the CFS unit where ACS electronic notifications are generated.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON TO
INTERROGATORY OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO,
REDIRECTED FROM WITNESS PLUNKETT

552

APWU/USPS-T2-8. On page 7 of your testimony, you state that any mailer whose return or forwarding volumes exceed the average imposes a larger cost burden than mailers whose return and forwarding volumes are below average. Can the Postal Service provide information on how much of Capital One's mail is forwarded? If so, please provide any and all data you have for any time period on how much of Capital One's mail is forwarded. Is the forwarding volume of Capital One's mail above average for First Class Mail? If Capital One's forwarding volume is above average, was that factor considered in determining the benefits to the Postal Service of creating a CSR Option 2, which, unlike Option 1, the current option, will forward mail that is forwardable, instead of destroying it, continuing the costs associated with Capital One's above average forwarding rate?

RESPONSE:

No, the Postal Service does not track an individual mailer's forwarding volume, thus it does not know how much of Capital One's mail is forwarded. While the Postal Service has no way of knowing Capital One's forwarding rate, it is likely at or below average because of Capital One's address management practices. Capital One processes its customer mail addresses through the National Change of Address (NCOA) database every 30 days and its solicitation mail addresses every 60 days. For First-Class mailers who use NCOA to comply with the Move Update requirement, the Postal Service only requires that databases be processed every 180 days. Since Capital One processes its address database through NCOA and does so at a rate more frequent than most mailers, I would anticipate that Capital One First-Class Mail is forwarded at or below the average forwarding rate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION, AFL-CIO,
REDIRECTED FROM WITNESS CRUM

553

APWU/USPS-T3-2: (a) What changes in the processes for handling of Undeliverable As Addressed (UAA) mail is the USPS currently testing or studying? (b) Are there changes in how the Postal Service will physically return pieces that are currently under consideration or in the process of being implemented? If so, please detail all such changes. (c) Are there changes in how the Postal Service will forward pieces that are currently under consideration or in the process of being implemented? If so, please detail all such changes.

RESPONSE:

(a) The major change to the handling of undeliverable-as-addressed mail that the Postal Service is testing is the Postal Automated Redirection System (PARS) program. PARS is intended to automate the handling and processing of undeliverable as address mail.

(b) I am unaware of any changes currently under consideration that would affect how mail is physically returned other than the PARS program effort. PARS will automate the return to sender functions, making real-time decisions when a mailpiece requires return to sender processing as well as handling the return to sender process resulting from carrier determination that the mailpiece should be returned.

(c) I am unaware of any changes currently under consideration that would affect how mail is forwarded other than the PARS program effort. PARS will make real-time decisions where appropriate concerning the forwarding of a mailpiece. In instances where a mailpiece is identified by the carrier as requiring forwarding, PARS will use an automated as well a manual processed to determine the forwarding address and relabel the mailpiece with the new address.

MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

554

NAA/USPS-T4-1: Please refer to Page 6, lines 1 through 8, of your testimony and USPS Publications "Address Change Service" (pages 6-7). By what technology (e.g., email, discs, accessible databases) will electronic ECS notifications be provided to Capital One under the NSA?

RESPONSE:

The media options presently available for ACS fulfillment are cartridge tape, CDROM disc, diskette, paper reports, or via electronic file transfer. Capital One has not yet advised the Postal Service of their choice of fulfillment media.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

555

NAA/USPS-T4-2: Please refer to Page 7, line 4, of your testimony, where you provide your estimate that, in FY2003, "85 percent of mail bearing an ACS endorsement, including the CSR, Option 2 endorsement, will receive electronic notification." Please confirm that your statement applies only to UAA mail.

RESPONSE:

Confirmed. The statement was meant to apply only to UAA mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

556

NAA/USPS-T4-3: Under the NSA, will electronic notification be provided to Capital One in all instances of UAA other than the types of circumstances summarized at Page 6, lines 12-25, of your testimony?

RESPONSE:

Assuming correct handling of the UAA mailpiece by Postal Service personnel and, assuming the mailpiece bears proper ACS markings, Capital One will receive all possible notices via ACS, with the exception of those notices for UAA mailpieces that are not handled within the ACS program. The following reasons for non-delivery define where the UAA-mailpiece is physically returned to the mailer:

- Deceased
- Delivery Suspended to Commercial Mail Receiving Agency
- No Such Office in State
- Outside Delivery Limits
- Returned for Better Address
- Returned for Postage
- Returned to Sender Due to Addressee's Violation of Postal False Representation Law

- Returned to Sender Due To Addressee's Violation of Postal Lottery Law
- Undeliverable as Addressed, Missing PMB or # Sign

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

557

NAA/USPS-T4-4: Do you have any reason to believe that, in Fiscal Year 2003, the percentage of Capital One First-Class solicitation mail that bears an ACS endorsement and that receives electronic notification will be other than 85 percent? If you believe that the percentage will be other than 85 percent, please provide the basis for that belief.

RESPONSE:

My estimate of 85 percent remains my projection of the volume of UAA notices in FY 2003 that will be provided electronically via the ACS program.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

558

NAA/USPS-T4-5: Please confirm that Capital One First-Class solicitation mail that is returned to Capital One under the proposed NSA will receive processing above the level of processing they would receive without the ACS endorsement (for example, the manual application by the carrier of "Deceased" when the recipient is deceased). If you do not confirm, please explain.

RESPONSE:

Not confirmed. The level of manual processing for pieces returned to Capital One will be the same as that provided to all mailers regardless of their participation in the ACS program.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

559

NAA/USPS-T4-6: If your answer to NAA/USPS-T4-4 is confirmed, please estimate the percent of Capital One's FY2005 First-Class solicitation mail that will receive this additional level of processing.

RESPONSE:

See response to NAA/USPS-T4-5.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILSON
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NAA/USPS-T4-7: Please confirm that Capital One First-Class solicitation mail that is forwarded currently, as a feature of First-Class service, will continue to be forwarded under the terms of the NSA. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed.

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NAA/USPS-T4-8: If you confirm NAA/USPS-T4-6, please confirm that this forwarded mail:

- a. Does not currently receive ACS; and
- b. Will receive electronic ACS under the terms of the NSA.

If you cannot confirm (a) or (b), please explain why not.

RESPONSE:

The reference to NAA/USPS-T4-6 appears to be in error. Assuming the intended reference is to NAA/USPS-T4-7, my response is:

- a.) Confirmed. Capital One does not currently participate in the ACS program for First-Class Mail and is not currently receiving ACS notifications.
- b.) Confirmed, assuming Capital One utilizes the ACS participant code and service endorsement established for use under the terms of the NSA agreement as part of the mailpiece.

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NAA/USPS-T4-9: Please refer to your response to OCA/USPS-T4-6. Please describe the circumstances in which First-Class Mail would be either returned or forwarded through the Computerized Forwarding System, and the circumstances in which forwarded or returned First-Class Mail would not use the Computerized Forwarding System.

RESPONSE:

Assuming correct handling of UAA mailpieces by Postal Service personnel and the presence of proper ACS markings on the UAA mailpiece, then forwarding or return processing would occur via the Computerized Forwarding System unit. If handling of the UAA mailpiece fails to follow published policy, then forwarding or return processing might not occur through the Computerized Forwarding System unit. If forwarding or return processing is performed via the Postal Automation Redirection System (PARS) program then the CFS unit will not be involved. PARS will begin deployment in July 2003.

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NAA/USPS-T4-10: Do you expect that Capital One mail under the NSA would be returned or forwarded through the Computerized Forwarding System?

RESPONSE:

Yes, to the extent described in the answer to NAA/USPS-T4-9.

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NAA/USPS-T4-11: To what extent do Capital One's mailpieces that are returned physically through the CFS units, or through some other means, have a Capital One return barcode on them? Does the CFS unit place such a return barcode on some or all of the returned pieces?

Response:

I believe that a majority of Capital One return-to-sender mail will have a barcode placed on it by the mail processing facility. It is my understanding that CFS does not place a barcode but delivers it to processing plant where the barcode is applied to the piece.

NAA/USPS-T4-12: Please state the proportion of Capital One's returned pieces that go through a CFS unit as opposed to being handled manually, such as by a nixie clerk, and compare this proportion with the average proportions for all returned First-Class Mail.

Response:

The only Capital One mail that the CFS units would currently return is move-related mail processed in months 13-18 after the customer's move-effective date. For First-Class Mail non-ACS participants, this is the only type of mail that the CFS unit returns. I do not know the proportion of Capital One's mail that is UAA for a move-related reason and occurs in the 13 – 18 month time period. I understand that approximately 4 percent of all move-related UAA First-Class Mail occurs in the time period of 13 – 18 months. Based upon my understanding of its address hygiene practices, I would expect the percent of Capital One's volume of move-related UAA First-Class Mail that is returned to sender because it occurs in the time period 13 – 18 months, to be less than or equal to the average.

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OCA/USPS-T4-1. Please confirm your testimony at page 3, lines 15-16.

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- (a) Please confirm that pursuant to the Address Service Requested (ASR) for months 1 through 12, a First-Class mailer that inserts a keyline into the address block for the purpose of receiving move-related address changes has provided sufficient information (because of the keyline) to receive electronic notification for undeliverable-as-addressed (UAA) pieces that are not move-related. If you do not confirm, please explain.
- (b) Under Address Service Requested for months 1 through 12, is it possible for a First-Class mailer that inserts a keyline into the address block to receive only electronic notification of move-related address changes but not electronic notification for UAA pieces that are not move-related? Please explain.
- (c) With respect to Address Service Requested for months 1 through 12, does the Postal Service physically return to the mailer First-Class pieces that are UAA and can't be forwarded. Please explain.

RESPONSE:

(a) Confirmed. A mailer who inserts a valid ACS Participant Code and keyline into the address block has potentially provided sufficient information to receive electronic notification of UAA pieces. However, the insertion of these values does not generate an electronic notification for ASR-endorsed UAA pieces that are not move-related. Since First-Class Mail bearing the ASR endorsement that cannot be delivered as addressed or forwarded must be returned, the piece is instead manually marked with the reason for non-delivery and returned-to-sender without creation of an ACS electronic notification.

(b) Yes, this is the purpose of the use of the Address Service Requested endorsement in conjunction with the ACS program. The mailer is specifically indicating its desire to be notified electronically if the piece is UAA due to a move-related reason,

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and to have the mailpiece physically returned if the piece is UAA for a non-move-related reason.

(c) Yes, First-Class Mail pieces bearing the Address Service Requested endorsement are physically returned when the pieces are UAA and cannot be forwarded.

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OCA/USPS-T4-2.

Please refer to your testimony at page 3, lines 15-16.

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- (a) Please confirm that under the Negotiated Service Agreement (NSA), the Postal Service is providing Change Service Requested, Option 2, to Capital One at no charge. If you do not confirm, please explain.
- (b) Please confirm that in January 2003 the Postal Service will offer Change Service Requested, Option 2, to all First-Class mailers at no charge. If you do not confirm, please explain.
- (c) Please confirm that in the absence of the NSA, the Postal Service will offer Change Service Requested, Option 2, to Capital One at no charge. If you do not confirm, please explain.

RESPONSE:

(a) Please see proposed DMCS 610.2 for conditions of waiver of address correction fees.

(b) Not confirmed. It is not the intention of the Postal Service to offer all First-Class Mail participants in the ACS program the ability to utilize the ancillary endorsement Change Service Requested, Option 2, at no charge. Those participants in the ACS program using Change Service Requested, Option 2, will incur the normal ACS fees.

(c) Not confirmed. The Postal Service would not offer to Capital One the use of Change Service Requested, Option 2, at no charge in the absence of the NSA.

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OCA/USPS-T4-4. Please refer to your testimony at page 2, lines 17-18. At the present time, Capital One has chosen to physically receive the returns of its First-Class Mail that is undeliverable-as-addressed (UAA) at no charge. Please explain manual correction (for which a \$0.70 fee is charge, pursuant to Fee Schedule 911) and how it differs from the physical return of First-Class Mail that is undeliverable-as-addressed (UAA) at no charge presently received by Capital One. 569

RESPONSE: Undeliverable First-Class Mail pieces bearing the Change Service Requested endorsement that cannot or do not generate an electronic notice are returned to the sender. No manual correction fee is charged because First-Class Mail provides returns at no additional charge. The mail pieces themselves would be marked with the reason for the non-delivery and would therefore look the same as the UAA pieces that Capital One currently receives.

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OCA/USPS-T4-5. Please refer to your testimony at page 3, lines 21-23

- (a) For First-Class Mail, please provide the volume that bears the endorsement Address Service Requested (ASR) or Change Service Requested (CSF) in FY 2000 and 2001.
- (b) For First-Class Mail, please provide the volume that bears the endorsement ASR or CSR on which the electronic correction fee was charged in FY 2000 and FY 2001.
- (c) Please provide the number of First-Class mailers that were charged an electronic correction fee, and the volume and amount charged for each mailer in FY 2000 and FY 2001.

RESPONSE:

(a) The USPS does not track the total volume of First-Class Mail entered into the mailstream bearing either an Address Service Requested or a Change Service Requested endorsement. The endorsement Address Service Requested may be used separately or in conjunction with ACS participation. The endorsement Change Service Requested upon First-Class Mail requires mailer participation in the ACS program.

(b) The below information was retrieved from raw data archived by the ACS program office at the National Customer Support Center (NCSC). The raw data represents transaction records received from CFS units. The raw data does not equal the total number of ACS notices provided to customers due to quality control processes performed as part of the ACS fulfillment, such as elimination of duplicate notices or removal of records not matching the expected format. Since the raw data of ACS notices and the actual ACS notices fulfilled differs only slightly, the below data is perceived to closely approximate the information sought.

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Total approximate volume of First-Class Mail bearing the Change Service

Requested endorsement that received an electronic ACS notification in:

FY 2000	Not available, data incomplete
FY 2001	2,783,320

Total approximate volume of First-Class Mail bearing the Address Service

Requested (ASR) endorsement that received an electronic ACS notification in:

FY2000	Not available, data incomplete
FY2001	24,224,939

(c) The number of First-Class mailers that were provided electronic ACS
notices via the ACS program are:

FY 2000	=	Not available
FY 2001	=	819

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OCA/USPS-T4-6. Please refer to your testimony at page 1, lines 14-18.

- (a) For FY 2000, FY 2001 and FY 2002, please provide the total volume of First-Class Mail that was physically returned.
- (b) For FY 2000, FY 2001 and FY 2002, please provide the total volume of presorted First-Class Mail that was physically returned.
- (c) For FY 2000, FY 2001 and FY 2002, please provide the total volume of First-Class Mail that was forwarded.
- (d) For FY 2000, FY 2001 and FY 2002, please provide the total volume of presorted First-Class Mail that was forwarded.

RESPONSE:

- (a) The total of all First-Class Mail physically returned is not available. The total volume of First-Class Mail physically returned through the Computerized Forwarding System (CFS) unit is:

FY 2000	Not available
FY 2001	384,040,959
FY 2002	367,191,524

- (b) The total of all presorted First-Class Mail physically returned is not available.
- (c) The total of all First-Class Mail forwarded is not available. The total volume of First-Class Mail forwarded through the Computerized Forwarding System (CFS) unit is:

FY 2000	Not available
FY 2001	1,878,519,905
FY 2002	1,839,557,232

- (d) The total of all presorted First-Class Mail forwarded is not available.

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OCA/USPS-T4-7. Please refer to your testimony at page 3, lines 3-4.

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- (a) For FY 2000, FY 2001 and FY 2002, please provide the total number of electronic Address Change Service notifications for First-Class Mail endorsed "Address Service Requested."
- (b) For FY 2000, FY 2001 and FY 2002, please provide the total number of electronic Address Change Service notifications for First-Class Mail endorsed "Change Service Requested" by type of notice, i.e., new address, or reason for nondelivery.
- (c) For FY 2000, FY 2001 and FY 2002, please provide the total number of manual corrections (for which a \$0.70 fee is charged, pursuant to Fee Schedule 911) for First-Class Mail.

RESPONSE: (a) Please see Response to OCA/USPS-T4-5, as revised on

November 25, 2002. The total number of electronic ACS notifications provided for First-Class Mail bearing the Address Service Requested (ASR) endorsement are:

FY 2000	Not available
FY 2001	24,224,939
FY 2002	30,397,065

~~(b)~~

~~(a)~~ Please see Response to OCA/USPS-T4-5. The total number of electronic ACS notifications provided for First-Class Mail bearing the Change Service Requested endorsement are:

	Total	Move-Related	Not-Move-Related
FY 2000	Not available		
FY 2001	2,783,320	1,774,662	1,008,658
FY 2002	3,632,164	2,331,721	1,300,443

- (c) It is my understanding that the only time that the 70 cent manual correction fee is charged for First-Class Mail pieces is under the following circumstance. If a piece is endorsed "Address Service Requested," and is not participating in the ACS program,

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then a separate manual correction notice is provided to the mailer when a piece is⁵⁷⁴
forwarded. The manual correction fee is collected through the individual delivery
unit. The total number of manual corrections provided that incurred the address
correction fee for First-Class Mail that was forwarded through the CFS units are:

FY 2000	Not available
FY 2001	159,739,470
FY 2002	147,159,881

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OCA/COS-T4-8. Please refer to your testimony at page 1, lines 14-18.

(a) Please provide the percentage of Capital One's First-Class solicitation mail that was forwarded in FY 2000, FY 2001 and FY 2002.

(b) Please provide the percentage of Capital One's First-Class customer account mail that was forwarded in FY 2000, FY 2001 and FY 2002.

RESPONSE:

(a)-(b) The Postal Service does not track the amount of mail forwarded for a particular customer and therefore the information is unavailable.

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OCA/USPS-T4-9. Please refer to your testimony at page 3, lines 7-10.

- (a) Please explain in detail the activities a First-Class mailer must undertake and complete to become enrolled in the Address Change Service (ACS) program.
- (b) Please explain in detail the activities the Postal Service's National Customer Support Center must undertake and complete to activate a First-Class mailer as a participant in the ACS program.
- (c) Please confirm that a First-Class mailer must pay a fee that covers the costs of the Postal Service associated with enrolling and activating such a mailer in the ACS program. If you do not confirm, please explain.
- (d) Please provide the cost to the Postal Service associated with enrolling and activating each First-Class mailer in the ACS program.
- (e) Please provide the form(s) to be completed by a First-Class mailer in order to be enrolled in the ACS program.

RESPONSE:

- (a) The process of enrolling in the ACS program is clearly documented in Publication 8.

Address Change Service, which can be found at

<http://www.usps.com/cpim/ftp/pubs/pub8.pdf>. See Testimony of James D. Wilson, at page 3, line 6. The application process can be found at page 31 of Publication 8.

- (b) Once the customers' ACS application is completed a participant code is assigned and the code is electronically transmitted to all CFS sites across the country. The activities performed at the NCSC involve:

- Providing technical assistance and telephone support
- Reviewing sample mailpieces to evaluate accuracy of information
- Data entry of customer information into master data set of ACS participants
- Transmittal of updates to CFS units

- (c) As stated in Publication 8, there is no activation or enrollment fee associated with the ACS program.

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(d) The cost to the Postal Service to enroll and activate a First-Class mailer into the

ACS program is approximately \$15.00 per First-Class Mail enrollee in the ACS

program. (Labor costs * % of time on enrollment * % First-Class of ACS / First-Class

ACS participants.)

(e) The ACS application form is found at the end of Publication 8.

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OCA/USPS-T4-13. Please refer to your response to OCA/USPS-T4-6.

- (a) Please confirm that in FY 2001, for every First-Class mailpiece physically returned through the Computerized Forwarding System (CFS) unit, 4.89 (384,040,959/1,878,519,905) pieces were forwarded. If you do not confirm, please explain and provide the correct ratio.
- (b) Please confirm that in FY 2002, for every First-Class mailpiece physically returned through the CFS unit, 5.00 (367,191,524/1,839,557,232) pieces were forwarded. If you do not confirm, please explain and provide the correct ratio.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.

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OCA/USPS-T4-16 Please refer to your testimony at page 3, lines 15-16, where it states "Keylines are required if the mailer wants to receive electronic ACS notifications for UAA mail pieces that are not move-related." Also, please refer to your response to OCA/USPS-T1-1(a), where it states "the insertion of these values [ACS Participant Code and keyline] does not generate an electronic notification for ASR-endorsed UAA pieces that are not move-related." Please reconcile or clarify these statements. ⁵⁷⁹

RESPONSE:

Across all mail classes, ACS participants must provide a keyline if they want to receive electronic notifications of UAA mailpieces for a reason other than a customer move. However, First-Class Mail ACS participants using the Address Service Requested endorsement are not provided an ACS electronic notification when the mailpiece is UAA for a non-move-related reason. Instead, the physical mailpiece is returned with the reason for non-delivery shown upon the face of the mailpiece. Only First-Class Mail ACS participants using the Change Service Requested endorsement who have included a keyline are provided an electronic ACS notification when the mail piece is UAA for a non-move-related reason. The piece is then discarded.

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OCA/USPS-T4-17. Please refer to Section V. of your testimony on pages 6-7.

- (a) Please confirm that 15 (1-0.85) percent of mail bearing an ASC endorsement will not receive electronic notification. If you do not confirm, please explain.
- (b) Please state whether the following types of mail pieces are included in the 15 percent of ACS-endorsed pieces not receiving electronic notification:
 - vii. CSR pieces that are move-related, but which are in a region of the country not served by a CFS unit.
 - viii. CSR pieces that are move-related, within 18 months of a recipient's move, and which are in a region of the country served by a CFS unit.
 - ix. CSR pieces that are not move-related and which are in a region of the country not served by a CFS unit.
 - x. CSR pieces that are not move-related, within 18 months of a recipient's move, and which are in a region of the country served by a CFS unit.
- (c) For each type of mailpiece described in part (b), i. – x., above, state whether the mailpiece would be forwarded (accompanied by an electronic notice of the new address), forwarded (but not accompanied by an electronic notice of the new address), physically returned (accompanied by an electronic notice of the reason for the return), physically returned (but not accompanied by an electronic notice of the reason for the return), or not physically returned (but an electronic notice of the reason for the return would be provided).
- (d) Please state the 10 most common reasons (non-move-related) for mail to be UAA.
- (e) For each of the types of mailpieces listed in part (b), i. – x., above, state how the Postal Service handles each type of piece from the time the piece is received by the carrier through and including the last operation performed by the Postal Service.
- (f) If possible, break down the 15 percent figure cited in part (b) above by the 10 types of ACS pieces (i.e., part (b), i. – x.) listed. If precise figures are unavailable, then based upon your knowledge (USPS-T-4 at 7), rank the types of pieces by their frequency of occurrence. Also based upon your knowledge, give a ballpark-estimate-type breakdown of the 15 percent figure if precise figures are unavailable.

RESPONSE:

- (a) Confirmed.
- (b) In formulating my estimate of the number of UAA mail pieces that would receive an ACS electronic notification I did not specifically include or exclude any category of UAA mail based on the reason for non-delivery or its origin. My estimate of 85% electronic ACS address correction notifications was based upon

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the percentages of electronic versus hardcopy notices typically reported by ACS customers and after adjustment for planned enhancements.

- (c) Objection filed on November 16, 2002 for subparts (i – vi). For First-Class Mail pieces submitted to the CFS unit, under Change Service Requested, Option 2, the following services would be provided: where the address on the mail piece has a forwarding order in effect, the piece would be forwarded and the mailer would receive the forwarding address electronically; where the piece cannot be forwarded, the pieces would be disposed of at the CFS unit and an ACS electronic notice of the reason for non-delivery would be provided. For First-Class Mail UAA pieces not submitted to CFS unit, forwardable pieces would be forwarded while others would be physically returned to sender. In neither case is an electronic notice provided.

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- (d) The 10 most common non-move related reasons a mail piece is UAA are:

Not Deliverable as Addressed – Unable to Forward (Forwarding Order Expired)
Attempted – Not Known
Refused
No Such Number
Insufficient Address
Moved – Left No Address
Temporarily Away
No Such Street
No Mail Receptacle

- (e) Objection filed on November 16, 2002 for subparts i. – vi. See answer to OCA/USPS-T4-17(c) and also my testimony, pp. 1-6.
- (f) See answer to OCA/USPS-T4-17(b). I am unable to estimate how the 15 percent of the ACS-endorsed pieces not receiving an electronic notification would be distributed according to the scenarios described in there. Each has the potential to explain why an ACS-electronic notice may not be provided, but I did not base the 15 percent figure on these specific scenarios. Based upon my personal experience, an approximate ranking of the reasons why a mailpiece does not generate an ACS-electronic notification, in descending order of frequency, is as follows:

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- 1) Addressed to a centralized delivery point such as military bases, 583
colleges/universities, or commercial mail receiving agencies. If the piece
is UAA, the institution marks the reason for non-delivery and places the
piece back in the mail stream thus bypassing the CFS unit.
- 2) Misrouted by the delivery unit, which fails to send the piece to the CFS
unit.
- 3) Addressed to an area not served by a CFS unit.
- 4) Other miscellaneous reasons such as incorrect mail piece insertion by
mailers which obscures the address block, illegible keylines, addressee
deceased handling policy which requires physical return to sender, and
CFS handling errors.

OCA/USPS-T4-18. Please refer to your testimony at page 6, lines 4-5, where it states, "The ACS participant then can download the information and perform an automated process to update its address files."

- (a) Is an ACS participant required to download ACS information daily, or on some other regular basis? Please explain.
- (b) Does the Postal Service automatically transmit electronic ACS information to ACS participants daily, or on some other regular basis? If so, please explain the process.
- (c) When an ACS participant downloads ACS information, is the "automated process" to update that participant's address files accomplished automatically upon completion of the download? Please explain.
- (d) Does the Postal Service make software available to permit the ACS participant to perform the automated process to update its address files? Please explain.
- (e) Please list the commercial vendors (if any) that offer software to permit the ACS participant to perform the automated process to update its address files.

RESPONSE:

- (a) The frequency that an ACS participant retrieves, or is provided, electronic notification records is at its discretion, absent a commitment to retrieve the records at a stated frequency. The methods by which the ACS participant receives their ACS records include download or physical media fulfillment.
- (b) The ACS participant establishes the frequency during the enrollment process and the Postal Service outputs the ACS notifications at the appropriate times.
- (c) The process of performing address file updates from an ACS notification is separate from the ACS fulfillment process. The ACS participant mailer is responsible for performing the address file update.
- (d) No, the Postal Service does not provide any software that facilitates update of mailer address files based upon ACS notifications.
- (e) Typically, commercial software vendors who are Coding Accuracy Support System (CASS)-certified will offer add-on products that perform ACS service management, including file updating. A complete listing of CASS-certified

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software vendors is available at <http://ribbs.usps.com/files/vendors>. The Postal⁵⁸⁵

Service does not maintain a list of all vendors that offer file update service.

OCA/USPS-T4-20. Please refer to your testimony at page 1, lines 24, through page 2, line 1.

- (a) What do you mean by “the carrier returns the piece to the mailstream?” Please explain.
- (b) How is a piece returned to the mailstream handled; and how does this compare to the handling of a typical First-Class mailpiece that is not UAA? Please explain.

RESPONSE:

- (a) My intent was to indicate that UAA mail pieces that are non-move related are typically returned to the mail processing plant for return-to-sender processing.
- (b) My understanding of this operation within the mail processing plant is that UAA mail to be returned to sender is processed by:
 - 1. Placing a label over the original barcode, if required.
 - 2. Running the mail piece across automation equipment to capture the image of the mail piece for transmittal to Remote Encoding Center (REC) operators who key the return address.
 - 3. Applying a barcode to the mail piece representing the sender’s return address.
 - 4. Sorting the barcoded mail piece for delivery to the sender’s address.

OCA/USPS-T4-21. Please refer to your testimony at page 4, lines 19 – 23.

- (a) Does the carrier handling of Address Service Requested (ASR)- or Change Service Requested (CSR)-endorsed UAA First-Class Mail differ in any way from the carrier handling of non-endorsed UAA First-Class Mail? Please describe in detail any differences.
- (b) Does the Nixie unit clerk handling of ASR- or CSR-endorsed UAA First-Class Mail differ in any way from the Nixie unit clerk handling of non-endorsed UAA First-Class Mail? Please describe in detail any differences.

RESPONSE:

- (a) No, my understanding is that the carrier handling is not different. Whether or not a UAA piece has an ACS endorsement, the carrier separates move-related mail from non-move-related mail.
- (b) Yes, but only for UAA mail pieces that also contain an ACS participant code. For ACS mail pieces that bear the ASR or CSR endorsements and an ACS participant code, the Nixie clerk must separate the mail pieces by ZIP Code and nixie reason prior to dispatch to CFS. Non-ACS mail pieces are directed to the mail processing facility for Return-to-Sender processing.

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OCA/USPS-T4-24. Please refer to your testimony at page 1, lines 5-7, where you 588
discuss the Address Change Service (ACS) program. In the case of First-Class Mail,
please confirm that only mailers of First-Class presort mail may become ACS
participants. If you do not confirm, please explain.

RESPONSE:

Not confirmed. Any First-Class mailer, as well as any mailer within any mail class, may
participate in the ACS program.

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OCA/USPS-T4-25. Please refer to your testimony at page 4, lines 8-10.

- (a) How many ACS participant mailers used the Change Service Requested (CSR) endorsement on First-Class in FY 2000 and 2001? State the source for this answer.
- (b) Please provide the total annual volume of First-Class Mail endorsed CSR that was disposed of by the Postal Service in FY 2000 and 2001. State the source for this answer.
 - (i) How many were pieces that would have otherwise been forwarded?
 - (ii) How many were pieces that would have otherwise been physically returned?
- (c) For parts (a) and (b) of this interrogatory, please provide ballpark estimates if precise figures are unavailable.

RESPONSE:

The below information was retrieved from raw data archived by the ACS program office at the National Customer Support Center (NCSC). The raw data represents transaction records received from CFS units. The raw data does not equal the total number of ACS notices provided to customers due to quality control processes performed as part of the ACS fulfillment, such as elimination of duplicate notices or removal of records not matching the expected format. Since the raw data of ACS notices and the actual ACS notices fulfilled differs only slightly, the below data is perceived to closely approximate the information sought.

(a) Total Number of ACS Participant Codes That Used the Change Service Requested endorsement:

FY 2000	Not available, data incomplete
FY 2001	165 unique ACS participant ID numbers

(b) Total approximate volume of First-Class Mail bearing the Change Service

Requested endorsement that was discarded in:

FY 2000	Not available, data incomplete
FY 2001	2,783,320

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES D. WILSON
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

- (i) Approximate number of CSR pieces that would have otherwise been forwarded: 590

FY 2000	Not available, data incomplete
FY 2001	1,774,662

- (ii) Approximate number of CSR pieces that would have otherwise been returned:

FY 2000	Not available, data incomplete
FY 2001	1,008,658

- (c) See response to OCA/USPS-T4-25 (a) – (b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES D. WILSON
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T4-26. Please refer to the Domestic Mail Manual (DMM), Issue 57, 591
F030.5.3, where it states "Undeliverable-as-addressed mailpieces sent as Express Mail,
Priority Mail, and First-Class Mail that cannot be forwarded or delivered as addressed
are returned when possible to the sender at no additional charge." Also, please refer to
DMM57 F010.5.1, and the chart showing the mailer endorsement "Change Service
Requested." There it states, "Separate notice of new address or reason for nondelivery
provided; in either case, address correction fee charged; piece disposed of by USPS."
Your testimony at page 4, lines 8-10, contains a statement similar to F010.5.1. Please
correct or clarify the apparent inconsistency among these statements.

RESPONSE:

The electronic address correction fee is for ACS fulfillment and not for the
forwarding or return of the FCM piece. First-Class UAA mail endorsed "Change
Service Requested" indicates that the mailer has no desire to receive the physical return
of the mailpiece, and authorizes the USPS to dispose of the mailpiece after provision of
an address correction notice. Since the Change Service Requested endorsement may
only be used on First-Class Mail in conjunction with ACS, the mailer is charged the
address correction fee associated with the fulfillment of the ACS notification.

The first DMM section cited, F030.5.3, itself is clear about a CSR exception to
the normal First-Class treatment of UAA mail: "*Exception:* Excluding pieces containing
live animals, ACS pieces mailed at Priority Mail rates that are marked "Perishable" and
ACS pieces mailed at First-Class Mail rates that are endorsed "Change Service
Requested" and that cannot be forwarded or delivered are disposed of by the USPS."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES D. WILSON
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T4-27. Please refer to your testimony at page 5, line 12. Describe the process involved in "discarding" First-Class Mail. When First-Class Mail is discarded, does the Postal Service use different disposal techniques for customer account mail than for solicitation mail? Please explain. 592

RESPONSE:

My understanding is that there is no difference in the disposal process of First-Class Mail depending on whether a given UAA mailpiece is customer account mail or solicitation mail. There is no standard means to discern the contents of the mailpiece; consequently, there is no means to perform different disposal techniques. The USPS depends upon the mailer to identify, using the Change Service Requested endorsement, First-Class Mail that is appropriate for disposal. If the mailer were concerned about the security of the mailpiece contents it would not utilize the Change Service Requested endorsement.

1 CHAIRMAN OMAS: Mr. Wilson, earlier this morning,
2 I provided your counsel with two copies of your response to
3 OCA/USPS-T4-12. If you were asked that question orally this
4 morning, would your answer be the same as the one previously
5 provided in writing?

6 THE WITNESS: Yes, sir, it would.

7 CHAIRMAN OMAS: I'm handing the reporter two
8 copies of that response and I direct that it will be
9 admitted into evidence and transcribed.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. OCA/USPS-T4-12 and
13 received in evidence.)

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

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OCA/USPS-T4-12. Please refer to your response to OCA/USPS-T4-9(d). Please provide the figures, and the citations thereto, used in the formula that estimates the "\$15.00 [cost] per First-Class Mail enrollee in the ACS program."

RESPONSE:

The following estimates were used in the calculation of the cost to enroll a First-Class mailer in the ACS program:

Annual contract labor costs of ACS employees:	\$ 175,000
Percent of time spent on enrolling customers in ACS (all mail classes):	50%
Total number of First-Class ACS customers (FY02):	1500
Total number of all ACS customers (FY02):	6000

The formula used to calculate the cost using the above data assumptions was:

(Labor costs * % of time spent on enrollment * % First-Class of ACS / First-Class ACS Participants)

$$(175,000 * .5 * (1500/6000) / 1500) = \$ 14.58$$

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Mr. Wilson?

3 (No response.)

4 CHAIRMAN OMAS: If not, I will admit the evidence
5 without objection into the record and it will be
6 transcribed.

7 At this point, we'll break for lunch and I think
8 we'll come back, everyone, at 1:15. How is that?

9 (No response.)

10 CHAIRMAN OMAS: Thank you.

11 (Whereupon, at 11:57 a.m., the hearing was
12 recessed, to reconvene at 1:15 p.m. this same day, Tuesday,
13 December 4, 2002.)

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A F T E R N O O N S E S S I O N

(1:22 p.m.)

CHAIRMAN OMAS: Ms. McKenzie, this brings us to oral cross. Four parties have requested oral cross-examination: the American Postal Workers Union, AFL-CIO, Ms. Catler; Newspaper Association of America, Mr. Baker; Office of the Consumer Advocate, Mr. Costich; Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers Association, Mr. Olsen. Ms. McKenzie?

MS. MCKENZIE: Yes, Mr. Chairman?

CHAIRMAN OMAS: Oh, I'm sorry. Ms. Catler?

MS. CATLER: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MS. CATLER:

Q Good afternoon, Mr. Wilson.

A Good afternoon.

Q You are the Postal Service's expert on the address change system and the processing of undeliverable as addressed mail for this case; is that correct?

A I believe I've been so designated, yes.

Q Okay. Now, I want to make sure that I'm using all these terms correctly. What's referred to as undeliverable as addressed mail, this includes mail that can't be delivered to the addressee at the current address, but can be forwarded; that's correct, isn't it?

1 A That would be one definition, yes.

2 Q But, it, also, includes mail that can't be
3 delivered to the addressee at the current address and must
4 be returned to the sender; is this correct?

5 A That is correct.

6 Q Okay. Are there any other categories of
7 undeliverable as addressed mail?

8 A No, I believe that clearly describes them.

9 Q For first class?

10 A For first class.

11 Q Okay. Can you describe the steps a piece of mail
12 goes through to be forwarded?

13 A In typical processing, yes, I can. Typically what
14 would happen is that a delivery carrier would determine that
15 a mail piece cannot be delivered as addressed due to a
16 customer's change of address order. The carrier would then
17 return to the delivery unit and place that mail piece into a
18 section that would cause that mail piece to be dispatched to
19 what we call a CSF or computerized forwarding system unit.

20 Q Does that section where the carrier puts it have a
21 particular name?

22 A I am not aware of the terminology within the
23 delivery unit, other than it is generally a case or it is a
24 tray that all carriers deposit forwarded mail into. After
25 dispatch to the CSF unit, the CSF operations would basically

1 be to place that mail onto what's called a mechanized
2 terminal. An operator would -- the mechanize terminal would
3 present the mail piece in front of an operator, who would
4 key what's known as an extract code, consisting of elements
5 of the customer's name and the address.

6 Q Now, is that the first four letters of the last
7 name and the first three letters of the street address? Is
8 that the extract code?

9 A The first four characters of the customer's last
10 name, last three digits of the primary address, street
11 address.

12 Q So, if the street address is 2014, it would be
13 014?

14 A That is correct.

15 Q Okay.

16 A Upon the completion of that data entry, a record
17 would typically be retrieved from the CSF computer system's
18 database, that would provide back to the system the
19 forwarding address. A label would be applied to the mail
20 piece.

21 Q One of those yellow labels?

22 A One of those infamous yellow sticky labels would
23 be applied to the mail piece. The customer's new address
24 information would be printed upon the yellow label and then
25 most likely a bar code would be applied to the yellow label.

1 And the mail piece would be sorted to a pocket that would
2 subsequently be taken back into the processing and
3 distribution center, where it would be sorted for final
4 delivery.

5 Q Okay. Let's try a few non-typical things. If
6 mail gets delivered to a customer and the customer marks it
7 as return to sender, forward, no longer here, when the
8 carrier brings it back to the section, it's treated the same
9 way, whether the carrier notices it or the customer notices
10 it?

11 A My understanding is that, no, it's not treated the
12 same way.

13 Q Okay.

14 A Pieces that are endorsed by the recipient at the
15 original address are treated as reentry mail and they are
16 not actually acted upon for forwarding or return handling
17 per the normal standard. The Postal Service cannot make a
18 decision to forward a piece of mail through the CSF unit,
19 unless the carrier is aware that the change of address order
20 is on file.

21 So, where a customer has marked the mail piece up,
22 the mail piece is simply reintroduced into a mail stream
23 operation, which would cause that information to be listed
24 through probably a remote encoding center operations that
25 would cause the mail piece to be directed to the new

1 address. So, it would not typically route through the CSF
2 unit for forwarding.

3 Q So, the mail that I get that's still addressed to
4 the people that lived in the house 20 years ago, that I say
5 return to sender, first-class mail, would actually go
6 through a remote encoding process, not the CSF process?
7 There certainly is no change of address on file for those
8 people.

9 A To clarify, only when a change of address order is
10 on file would a mail piece typically be routed to CSF.
11 Another case where a mail piece would be routed to CSF is
12 that if the mail piece is undeliverable as addressed for a
13 reason that is non-related and the customer or the mailer
14 was participating in ACS, typical return to sender mail,
15 mail such as you've described, where you've marked up a new
16 address, return to sender, would not process through CSF.
17 The carrier would bring that back to the delivery unit and
18 deposit it into a collection stream that would cause it to
19 go to the mail processing center for what's called return to
20 sender handling.

21 Q Okay. I'll get to that in a minute. Now, is the
22 carrier supposed to keep track of how long it's been since
23 somebody moved? So, are they supposed to know it's been a
24 year, the forwarding order has expired? Or if it's been 14
25 months since somebody has moved, does it go to the CSF unit

1 and get sent return to sender by the CSF unit?

2 A In that case, yes. I mean, your first question
3 is, is the carrier responsible for knowing how long it's
4 been; the answer is, yes. The carrier typically maintains a
5 record at their distribution case, where a log is kept of
6 customer change of address order and the time period.

7 Mail is considered forwardable in months one
8 through 18. In months one through 12, the mail would be
9 sent to CSF for forwarding to the new address. In months 13
10 through 18, it would be sent into the CSF unit for
11 application of a label for return to sender, basically
12 announcing that the forwarding time has expired, which is a
13 bit different than forwarding order expired. Forwarding
14 order expired typically occur after month 18.

15 Q And what happens to mail in months 19 and so
16 forth?

17 A After the 18th month has elapsed since the
18 customer's change of address, the mail is treated as non-
19 move related and is typically returned to the sender as
20 standard return to sender, generally with the designation
21 attempted not known, and placed upon the mail piece.

22 Q Okay. And what is the process for return to
23 sender mail?

24 A I can describe the process for return to sender in
25 general terms. The mail would be brought back to the

1 delivery unit and introduced into the mail processing center
2 under an operation known as return to sender processing.
3 The mail piece would typically be put on a piece of
4 automation, at which point in time the mail piece would be
5 imaged and the return address would be presented to a remote
6 encoding center operator, who would key that remote
7 information up. That would cause a bar code to be created
8 that would route that mail piece to the customer or the
9 mailer at the original address.

10 Q Would it have a yellow label on it?

11 A It would probably not have a yellow label on it.
12 Since it did not route through CSF, it would not have had a
13 yellow label applied. There would have been a process, and
14 forgive me for not stating it earlier, whereby if a bar code
15 previously existed on the mail piece, the mail piece would
16 be first run through an operation, which puts what's called
17 a LMLM, a letter mail labeling machine, that puts a white
18 label over the bar code, so that we don't have two bar codes
19 on the same mail piece giving conflicting instructions.

20 Q Okay. And so, it will now have the right bar code
21 for returning it to sender and there would be some type of
22 an endorsement on the envelope, either a stamp from the
23 letter carrier or something that was handwritten by a
24 customer; is that right?

25 A That would be correct.

1 Q And that's how the remote encoding site knows to
2 type in the return address than the main address?

3 A It's my understanding that the remote encoding
4 site knows that they're focusing on the return address,
5 because the process is run specifically for return to sender
6 operation.

7 Q Okay. So, they do separate runs for return to
8 sender operations?

9 A It's my understanding, yes.

10 Q Okay. In your response to OCA/USPS-T4-20, you
11 describe steps that are taken to return mail to sender. Is
12 that currently the standard method the Postal Service uses
13 to return mail to sender, in most cases?

14 A Give me one moment here to locate T4-20.

15 Q Certainly.

16 (Witness reviews document.)

17 A I apologize. My filing system is not as efficient
18 as it might have been. I recall the response that I believe
19 I describe in T4-20, which describes the process for return
20 to sender and I believe that to be the typical handling.

21 Q Okay. Well, I, also, wanted you to look at your
22 response to NAA/USPS-T4-11, in which you describe the return
23 of Capital One's mail pieces and I wanted to make sure that
24 we're talking consistently here, that the process described
25 for Capital One mail is the same process that's described in

1 your response to OCA/USPS-T4-20.

2 A The response in T4-11 -- to NAA-T4-11, yes, it's
3 similar to the process described in OCA-T4-20.

4 Q Okay, good. Yesterday, we were asking Mr. Crum
5 about the differences between the cost of forwarding mail
6 and returning mail. Were you here for that discussion?

7 A I was in the room, yes.

8 Q Okay. Now, we're still trying to clarify a few
9 processing points about those cost differences and perhaps
10 you could help us. In your response to APWU/USPS-T4-1, you
11 state that you're unaware of any changes the Postal Service
12 has made in operational handling of mail, since the study of
13 volume, characteristics, and cost of processing
14 undeliverable as addressed mail. However, the description
15 of the mail stream processing in that document does not seem
16 to match the description provided in OCA/USPS-T4-20. Can
17 you help clarify that?

18 Actually, why don't I give you a copy of the
19 section of the study that I'm talking about. It was a
20 library reference I-82 and case R2000-1. If you'll turn to
21 page 55. That's the section I'm referring to. The
22 paragraph that begins under the "general approach," the
23 second large paragraph on page 55. Have you had a chance to
24 review that?

25 A Yes, I have.

1 Q Okay. This section indicates that the cost of
2 mail processing for undeliverable as addressed mail that is
3 forwarded is lower than is the cost of undeliverable as
4 addressed mail that is returned to sender, because the
5 former can be automated and the return to sender mail must
6 be "returned manually due to the inability of automation
7 sortation equipment/program to automatically process using
8 the return address section." Is this description of the
9 handling to return to sender mail consistent with the
10 process that is currently being used to return that mail, as
11 you have described it in OCA/USPS-T4-20 and in your
12 testimony today?

13 A If I understand the question, you are asking, is
14 the description that was contained on page 55 consistent
15 with what I reported in my testimony. I believe what's
16 being reported on page 55 is the basis for what I am
17 reporting or describing within my testimony. The
18 description, as it's contained on page 55, indicates that a
19 manual processing is required to capture return to sender
20 address information, and that is consistent with what I am
21 describing in my testimony. A wreck operator is manually
22 encoding this.

23 At the point in time that the document was
24 prepared, it is my understanding that the Postal Service had
25 already began the implementation of the automated process

-- 1 for applying the bar code, rather than relying on the simple
2 manual correction.

3 Q Let me see if I get this straight. Are you trying
4 to tell me that back in -- well, this study was published in
5 September of 1999; but, obviously, is based on sometime
6 prior to that. Are you saying that during the period of
7 this study, that return to sender mail was being handling
8 through the remote encoding unit, the way you've described
9 it?

10 A It is my understanding that that process had begun
11 at the point in time that this study had been compiled, yes.

12 Q Was it fully implemented to the extent it is
-- 13 today?

14 A That, I cannot say.

15 Q But, it had at least started to be implemented?

16 A That is my understanding.

17 Q Now, that process of doing it through the remote
18 encoding site is obviously less costly to the Postal Service
19 than doing it in a purely manual manner; isn't that right?

20 A I can't speak to the costing differentials between
21 the two processes.

22 Q Well, prior to this information on return to
23 sender mail being done through the special and remote
24 encoding, how was the return to sender information put on to
25 the envelopes that had to be returned to sender?

1 A I apologize that I truly can't say. My
2 involvement in return to sender and ACS processing began in
3 1999, which was subsequent to this study.

4 Q And even though you were at the Memphis facility
5 prior to that, where the Postal Service has its change of
6 address systems, you weren't familiar with the return to
7 sender procedures --

8 A That is correct.

9 Q -- prior to 1999?

10 A Yes.

11 MS. CATLER: Okay. Let's turn to a different
12 subject now, though I would like to have entered into the
13 record the document that I handed to witness Wilson for
14 cross-examination purposes, so that the transcript will be
15 comprehensible.

16 CHAIRMAN OMAS: Without objection.

17 MS. CATLER: Thank you.

18 MS. MCKENZIE: Actually, Mr. Chairman, it could be
19 transcribed into the record and I recommend that we only do
20 page 55, because that's the only one that was mentioned.
21 This report has several pages and I don't even know what the
22 rest of the pages deal with.

23 MS. CATLER: I just didn't want to go and give you
24 one page out of context, so that I want to show you -- I
25 think it also needs the cover to identify where the page is

1 from.

2 CHAIRMAN OMAS: All right. How about the cover
3 and page 55.

4 MS. MCKENZIE: Yes, that will be fine.

5 CHAIRMAN OMAS: Okay. The cover and page 55.

6 (The document referred to, the
7 cover and page 55, was marked
8 for identification.)

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5.2.4 Mailstream Processing

After leaving CFS units, UAA mail enters the mailstream and is either forwarded to the new address or returned to the sender. The development of unit costs for mailstream processing is presented below.

General Approach

Data from the FY 98 In-Office Cost System survey (IOCS) was used as the basis in estimating mailstream processing costs. The FY 98 CRA and RPW were also used.

The cost to transport the mail piece is constant with respect to the disposition. UAA mail that is forwarded is primarily machinable letter mail, while UAA mail that is returned to sender, although primarily machinable letter mail, must be processed manually due to the inability of automated sortation equipment / programs to automatically process using the return address section. One reason that manual processing is required is the position of the return address. The location is non-standard and, if present at all, could be on the back of the envelope. Process improvements are being made which are resulting in the ability to increase the use of automation equipment. At the present time, however, mailstream processing costs for forwarded UAA mail differ from return to sender costs for UAA mail.

Mailstream Processing Costs by Method of Disposition

From FY 98 IOCS survey data, mail processing costs were developed for the two dispositions using First-Class Mail pieces (consisting of letters, postcards, flats, parcels, and IPPs). Mail pieces to be forwarded are recorded in IOCS via question 23.D.F (mail characteristics-single piece, ancillary supplemental mail service, 'forwarded'). Mail pieces to be returned to sender are recorded in IOCS via question 23.D.D and 23.D.E (mail characteristics-single piece, ancillary supplemental mail service, 'address correction on piece' and 'return to sender'). Of the pieces handled by clerks or mailhandlers, only those with the proper uniform operation codes associated with mail processing activities were used for mail processing costing purposes.

In addition to mail processing costs, transportation costs associated with mailstream processing exist. This unit cost is the ratio of the cost for transporting First-Class Mail, as detailed in the FY 98 CRA, Cost Segment 14: Transportation; and the total volume of First-Class Mail pieces, as detailed by the 1998 RPW.

As illustrated by Table 5.2.4.1, the mail stream processing unit cost for forwarded UAA mail is \$0.0535, while the mailstream processing unit cost for return to sender UAA mail is \$0.2879.

Mailstream Processing Cost for Forms

The volume variable unit mailstream processing costs for flats and cards were used along with calculated batch sizes to determine the cost per piece for mailstream processing of forms. Table 5.2.4.2 shows that there is an average of 3.47 Form 3579s in an envelope. Based on this batch size, the average mailstream processing cost for a Form 3579 is \$0.0985.

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MAR 24 4 12 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail

Contract Number: 102590-95-G-3094

Task Order Number: 102590-99-D-0838

September 10, 1999



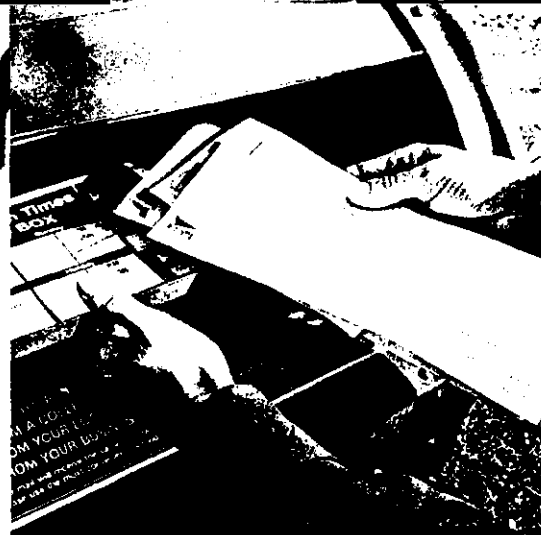
AUGUST 1998

**MOVE
UPDATE**

UNITED STATES POSTAL SERVICE
4351 MARY RD. NW
WASHINGTON, DC 20007-0001



United States Postal Service
NATIONAL CUSTOMER SUPPORT CENTER
UNITED STATES POSTAL SERVICE
1000 PIRAMID DRIVE STE. 200
FALLS CHURCH, VA 22044-0001



1 MS. CATLER: Thank you.

2 MR. MAY: Mr. Chairman, is it simply being marked
3 for identification or is it being admitted into evidence? I
4 understand the request will be reflected in the record. But
5 if you're asking for it to be entered into evidence, I
6 object, because there's no sponsor for it.

7 MS. CATLER: I want it marked for identification
8 purposes --

9 MR. MAY: That's fine.

10 MS. CATLER: -- so it will be in the record.

11 CHAIRMAN OMAS: Thank you.

12 BY MS. CATLER:

13 Q Let's turn to a different subject now. In your
14 response to OCA/USPS-T4-17(d), you provided the 10 most
15 common reasons for non-move related undeliverable as
16 addressed mail. Are those reasons listed in order of
17 importance?

18 A If you mean by the order of importance, by the
19 order of frequency --

20 Q Yes, I mean the order of frequency.

21 A -- it's my recollection that, yes, that that does
22 represent the ranking of the frequencies.

23 Q Okay. Next, I'd like to discuss PARS. First of
24 all, what does PARS stand for?

25 A The acronym PARS refers to the Postal Automated

1 Redirection System.

2 Q And what is the goal of PARS?

3 A In as few as words as possible, the goal of PARS
4 is to bring to bear automation upon the processes involved
5 with the handling and distribution and distribution of UAA
6 mail.

7 Q Will PARS improve for only forwarding or will it,
8 also, improve returning mail to sender?

9 A PARS will address both forwarding activity, as
10 well as return to sender activity.

11 Q Okay. Let's first go through forwarding and then
12 we'll go through return to sender mail. Which step of the
13 forwarding procedures discussed previously will be done away
14 with, when PARS is introduced?

15 A Could you repeat the question? I'm sorry.

16 Q Which steps of forwarding that are now done will
17 not be done when PARS is introduced?

18 A The steps that would be eliminated in the current
19 process deal mainly with the handling that would be
20 performed at the CFS unit, the manual encoding operation
21 that the operator would key the extract code. So, it would
22 be primarily that function.

23 Q By the way, what do you do when there's an extract
24 code that more than two people have the same first four
25 digits of the last name and last three digits of their

1 address?

2 A In the current environment, what would typically
3 happen is, is that two addresses would be presented to an
4 operator and an operator would make the decision as to which
5 one of the two records is appropriate for the information
6 that is found on the mail piece. In the PARS world, a
7 similar process will occur.

8 Q But who will make a decision?

9 A An operator will physically be engaged in making
10 that decision.

11 Q But, it won't be a CFS operator?

12 A No. It most likely will be an operator at the
13 remote encoding center.

14 Q Okay. So, are those the only changes in the
15 forwarding setup that will occur as a result of PARS?

16 A That describes the major difference in the way
17 handling will occur. PARS will bring to bear the ability to
18 forward mail pieces in what we call real-time mode or
19 intercept mode, meaning it will be able to detect a mail
20 piece in the mail stream that would require forwarding and
21 be able to act upon it without the mail piece having to
22 traverse to the carrier and then back in for that PARS
23 handling.

24 Q So, that's also a major change in the setup?

25 A Yes.

1 Q I take the ones that the carrier still find, that
2 for some reason aren't picked up by PARS, will go -- they'll
3 still bring back and bring to the post office. But, the
4 idea is that PARS will catch most of them, so that carriers
5 won't be having to intercept the mail for which a forwarding
6 order is still in place.

7 A I would be careful with the term "most." I'm not
8 certain what degree PARS would intercept. But, yes, PARS
9 will be able to make real-time intercept decisions that
10 would not require carrier intervention.

11 Q Now, which steps of the ones discussed previously
12 in return to sender mail will be done away with, when PARS
13 is introduced?

14 A Let me segregate it into the return to sender mail
15 that is non-move related. Return to sender that is move
16 related will follow similar handling, except that PARS will
17 make those processes without the current process.

18 Q And by that, you mean mail between the 13th and
19 18th month after somebody moved?

20 A Correct.

21 Q Okay. All right, so for all other return to
22 sender mail.

23 A Right. That mail will typically have already
24 traveled to the delivery unit and the carrier would have
25 made the decision that the mail piece requires return to

1 sender handling. Processes within the delivery unit will be
2 similar for the carrier. There will be some changes in what
3 we refer to as the nixie clerk, the clerk, who is
4 responsible for collecting the mail from the carriers and
5 preparing it for presentation. The nixie clerk will no
6 longer be required to manually stamp individual pieces,
7 where it might be necessary to put the reason for non-
8 delivery upon the mail piece.

9 The mail will then be returned to the plant; but
10 rather than being presented to the current return to sender
11 operation, it will go to a return to sender operation that
12 involves the PARS technology. By looking at the mail piece
13 and the organization that the mail has been presented to the
14 automated equipment, PARS will be able to apply the label
15 and print the reason for non-delivery on it.

16 Where necessary, it will attempt to do an
17 automated resolution of the return address. If the
18 automated resolution cannot be performed, a remote encoding
19 operator will be tasked to perform that function. The
20 result of that process will be the application of a bar code
21 and then the mail piece will be sorted for delivery.

22 Q Now, do I understand correctly that PARS will
23 generate address corrections and send them electronically to
24 ACS users and that, at least for letters, that mail will no
25 longer go through a CFS unit?

1 A That's correct. If in the handling of either the
2 forwardable mail or the processing of the return to sender
3 mail the PARS technology detects the presence of an
4 endorsement or an ACS participation code, then PARS will
5 capture that information and generate the appropriate
6 outputs.

7 Q Just so I'm clear on this, could you describe what
8 is an ACS user and an ACS code?

9 A Sure, I'd be happy to. ACS references the address
10 change service program that the Postal Service makes
11 available to mailers. Through the ACS program, mailers
12 identify upon their mail piece their coding information that
13 specifically identifies them to the ACS program. They would
14 typically print what we call an ACS participant code in the
15 address block area of the mail piece. They may or may not
16 print what we refer to as an ACS key line, which would be a
17 mailer specific or mailer developed code that they would use
18 to linkage this mail piece back to their computer data.

19 Q What exactly is a key line?

20 A It's probably best described as the mailer's
21 account number for that particular addressee and recipient.

22 Q And what is the importance of the key line in the
23 current system and its importance in the PARS system?

24 A Well, the importance of an ACS key line comes into
25 bear for identifying and linking mail pieces that are UAA

1 for a non-move related reason. So, if a mail piece cannot
2 be delivered to an address on a mail piece because there is
3 an insufficient address, the key line is the piece of
4 information that is captured along with the reason code,
5 insufficient information, that is communicated back to the
6 mailer and allows the mailer to linkage that information to
7 their address file.

8 Q Oh, I see. And so, they can then go and update
9 that particular address?

10 A Correct.

11 Q So that a key line will have not only some
12 information identifying the mailer; but, also, the specific
13 address in its database?

14 A The participant code, which is used on all ACS
15 participating mail, identifies the mailer, advises our
16 office in Memphis, who we should return this information to.
17 The key line belongs to the mailer and is used for their
18 internal linking program.

19 Q But, they could use it to go and specifically
20 identify the record --

21 A Yes.

22 Q -- that it needs to be --

23 A That is the purpose of the key line.

24 Q Okay. Now, am I correct in understanding that key
25 lines are only provided by participants in the ACS system,

1 that is those using endorsements on their mail?

2 A I wouldn't necessarily state that. Mailers may
3 choose to have a key line type code embedded upon their mail
4 piece, that they use for their own handling upon its return.
5 In the specific context of ACS, it's used for the purposes
6 of identifying the specific mailing address.

7 Q Referring to your response to APWU/USPS-T4-8, you
8 discuss the differences in the information available to
9 different systems. Specifically, you're referring to the
10 NCOA database and the CFS database. Which database or
11 databases will be available to the PARS system for
12 determining forwarding?

13 A First of all, to clarify the record, ACS is not,
14 in and of itself, a database. ACS, in and of itself, is a
15 process in a program, to provide information services.

16 That database that begins all of the information
17 that serves both ACS, NCOA, PARS, and current mail
18 forwarding operations is the data that is captured at the
19 CFS unit, when a customer completes a change of address
20 order, to advise the Postal Service of what their new
21 address is. That information is typically keyed in by an
22 operator at the CFS unit and then is stored locally in that
23 CFS unit database.

24 That information becomes the basis for fulfilling
25 ACS information. The information that is key entered also

1 becomes the basis for entry into NCOA. Nightly, all the
2 change of address orders that are entered in at the CFS
3 units are collected by our office in Memphis and are moved
4 into what we call the National Change of Address System
5 database.

6 Q Now, one thing I'm not clear about is once the
7 PARS system is begun and takes over much of the work of the
8 CFS unit, how will what you refer to as the CFS database be
9 updated? Will it continue to have a wider range of
10 information in it than would the NCOA database?

11 A No, it will not. CFS unit databases is, by the
12 very nature, a local database for the service area the CFS
13 unit provides. Data will still travel through the CFS
14 operation before it gets integrated either into the National
15 Change of Address database or the databases that we use to
16 serve the PARS information.

17 Q Now, is the database that's going to be used to
18 serve the PARS information different from the NCOA database?

19 A Yes, it is.

20 Q How does it differ?

21 A It differs in data content, the information that
22 would typically be contained in the database. Probably the
23 easiest to describe difference would be for a temporary
24 change of address. The NCOA database does not implement or
25 utilize changes of address that a customer indicates is

1 temporary. We do not share that information with mailers.
2 We do not use that information to correct mailer addresses,
3 because it's temporary in nature, by its very design.
4 However, for the purposes of PARS, that information needs to
5 be made available, so that PARS, during the time that the
6 temporary change of address order is in effect, knows where
7 to send a customer's mail piece.

8 Q Okay. Now, by the way, would the temporary change
9 of address be in the local CFS database?

10 A Yes, it would.

11 Q Okay. Mr. Crum, yesterday, was talking about how
12 the NCOA database requires an exact match. And if Charles
13 L. Crum is what got typed in, Charles Crum is just not going
14 to go and cut and certainly C. L. Crum is, also, not going
15 to get a hit. Does the PARS database go and have a broader
16 matching setup than the NCOA exact match requirement?

17 A The PARS process has two specific processes that
18 it performs; one, which is the real-time interception. And
19 in that mode, it is closer to NCOA than it is to CFS. The
20 precision of the match is paramount before we make a real-
21 time redirection decision. However, if the mail piece gets
22 passed to the PARS match and flows to the carrier and the
23 carrier says, Charles L. Crum or C. L. Crum, no matter what
24 you call him, he still moved, and it comes back in for a
25 forwarding service, then a different set of logic algorithms

1 are employed, including extract coding.

2 Q Okay. And what about the temporary change of
3 address, would that be cut on the fly or not?

4 A It would still follow the same what we call name
5 recognition rules. If there was a precise match to a level
6 of confidence that says, we can make a forwarding decision,
7 PARS would make the forwarding decision. If it fell below
8 the match logic threshold, it would be allowed to go to the
9 carrier, so the carrier can make the on-the-street decision,
10 that the mail piece required forwarding.

11 Q In implementing PARS, has the Postal Service
12 modified, in any way, its forms to accept various different
13 forms of names for people, so that if I'm moving and some of
14 my mail comes to Susan L. Catler and some comes to Susan
15 Catler and some to Sue Catler, I can put all three of those
16 things in there and they would all be a match?

17 A We do have an effort currently underway with our
18 Office of Consumer Affairs, to look at that particular
19 issue. But, at this point now, there is a single name
20 entered upon the change of address form that we act upon.

21 Q Okay. Can PARS distinguish between different
22 classes of mail?

23 A Yes, it can.

24 Q So does that mean that if the Postal Service is
25 running mixed mail through automation equipment, standard,

1 as well as first-class mail, that it will -- and it spots an
2 exact match, on first-class mail it will forward it
3 according to the forwarding information. What will it do
4 for standard mail?

5 A If we are dealing with a piece of standard mail
6 that doesn't have an endorsement that indicates a customer
7 desire for forwarding, PARS will recognize that as a
8 standard mail piece for which a change of address order is
9 on file. If the corrected position is to dispose of the
10 mail piece, PARS will instruct that the mail piece be
11 disposed.

12 Q Okay. And so, there will be a bin at the end of
13 the machine somewhere, this is mail to throw out?

14 A Correct.

15 Q Okay. You state in your response to APWU/USPS-T4-
16 5, that the idea of CSR option two originated in 2001. When
17 was the decision made to begin offering the CSR option two
18 service?

19 A The decision was proposed as the result of a
20 mailer's technical advisory committee workgroup in May 2001.
21 It was, at that point in time, that we began to undertake
22 the effort of circulating the idea for what we call internal
23 clearance. That culminated in May of 2002, with the return
24 from the stakeholder parties of their clearance
25 documentation.

1 Q Okay. Now, it's not in effect now, is it?

2 A It's not currently in effect, no.

3 Q Now, the NSA between the Postal Service and
4 Capital One Services requires that the programming changes
5 and the regulatory changes to make CSR option two
6 operational be ready by February 1, 2003, and you indicated
7 in your testimony that CSR option two will be offered as of
8 January of 2003. Does that mean that regardless of what
9 happens in this case or where this case is, at the start of
10 January 2003, that CSR option two service will be offered by
11 the Postal Service in January 2003 to any customer that
12 requests it?

13 A The intent is, yes, to make change service
14 request, option two, available as an ACS program option to
15 all first-class mailers, commencing in January 2003.

16 Q Okay. And are you aware of what regulatory
17 changes are necessary, in order to make that happen?

18 A I am not specifically aware of the regulatory
19 requirements necessary to make that happen, no.

20 Q But, in your testimony, you indicate that it will
21 be ready in January 2003. Is that still the case?

22 A That is my understanding, yes, it will be
23 available for utilization in January 2003.

24 Q In Mr. Crum's testimony yesterday, he indicated
25 that there is a Postal Service warehouse in Richmond,

1 Virginia, where all of the return mail for Capital One goes
2 before it's picked up by Capital One or one of its vendors,
3 and that this warehouse was basically only for all the
4 Capital One return mail. Are there other USPS warehouses
5 for other mailers with large return volume?

6 A I don't know.

7 Q Are you familiar with the one in Richmond?

8 A No, I am not.

9 Q At some point in your testimony, you talk about 15
10 percent of the change of address cases falling through the
11 cracks, that only 85 percent generate electronic notices and
12 that the other 15 percent fall through the crack. Could you
13 explain what this 15 percent is that falls through the
14 crack?

15 A I'll try. When a mailer enters into the ACS
16 program, they often enter into it with the expectation of
17 the understanding that this will eliminate their return mail
18 volume 100 percent. We know historically that that is not a
19 fact. We know that there are many contributing reasons why
20 a mail piece that would appear to have all the necessary
21 information to be returned through ACS, in fact, does not
22 come back through the ACS system, but instead returned
23 manually.

24 As part of my testimony to prepare for the Capital
25 One NSA, a question was posed as what would be an

1 appropriate percentage to utilize, and that was tasked to me
2 to respond to. And based upon my understanding, I
3 identified that we would anticipate that as much as 15
4 percent of mail bearing ACS may not, in fact, be provided
5 ACS service.

6 The reasons are many that a mail piece may not get
7 the ACS service that might be intended. Obviously, one of
8 them is just simply errors that occur in our inability to
9 identify and provide ACS service. There's also a fact that
10 not all return mail comes back through the CFS unit
11 operation, as we mentioned earlier. Sometimes, customers
12 mark mail up and we simply then return it.

13 So, there are a number of elements that I was
14 asked to identify that would make up the 15 percent, and I
15 believe I addressed that in the testimony.

16 MS. CATLER: I have no further questions, at this
17 time.

18 CHAIRMAN OMAS: Mr. Baker?

19 MR. BAKER: Thank you, Mr. Chairman.

20 BY MR. BAKER:

21 Q Counsel for APWU has covered much of the ground I
22 had hoped to cover, so let me start by trying to follow up
23 on a couple of Q&As. Back at the very beginning, one of the
24 first questions she asked was to describe the basic process
25 for catching the UAA piece at the outset and you mentioned

1 that the carriers -- the expectation of the carrier will
2 catch that first, right?

3 A The carrier is typically the first place where a
4 piece of UAA mail is identified, yes.

5 Q And the expectation is the carrier will identify
6 that piece during the casing process or is it when the
7 carrier is actually out on the route?

8 A I would anticipate that it would occur in both
9 locations. For mail that the carrier is physically casing,
10 they might make that decision. For mail that comes to them
11 in what we call their delivery point sequencing sortation,
12 they probably wouldn't find it until they're actually at the
13 address, attempting to make delivery.

14 Q Do you have any sense of which is a more typical
15 occurrence?

16 A I don't.

17 Q And the question about the CFS units, where are
18 they?

19 A Well, we have 216 or 219, I don't know what the
20 current count is, of CFS units distributed throughout the
21 United States. They are typically in areas that are
22 adjacent or nearby mail processing facilities. But, they
23 are spread throughout the United States.

24 Q Are they usually co-located with a --

25 A There is a percentage of CFS units that are co-

1 located with -- I'm anticipating you mean mail processing
2 facilities.

3 Q And if you could turn back to the cross-
4 examination exhibit, page 55 of the Price Waterhouse
5 Cooper's report from September 10, 1999. I believe you
6 stated that by September of 1999, the Postal Service had
7 begun using automated processes to apply the bar codes; is
8 that correct?

9 A What I believe I indicated was that, in September
10 1999, there were plants that were, in fact, doing automated
11 processing.

12 Q Was that all plants or some, at that point?

13 A I don't know. I think the paragraph indicates,
14 near the end of the paragraph, is that to increase the use
15 of automation equipment. So, I would infer from that, that
16 there was some automation equipment already in use.

17 Q And at what point in time did you come on the
18 scene? I think you indicated that you came on the scene
19 after this was underway --

20 A I became part of what we call the National Change
21 of Address organization in, I believe it was November 1999.

22 Q Okay. Do you know when the automated process,
23 described here, began?

24 A I do not.

25 Q Okay. And before then, is it your understanding

1 it was more manual than it was after the automation process
2 that was introduced?

3 A I would anticipate that in the absence of
4 automation, the processing was performed manually, yes.

5 Q Is the implementation complete now?

6 A I do not know.

7 Q I want to talk about the PARS a little bit now. I
8 believe in one of your responses, you testified that phase
9 one of PARS should become operational in, I think it was
10 July of next year, 2003; is that correct?

11 A That is correct.

12 Q What is phase one?

13 A Phase one was the segment of the equipment
14 procurement and deployment that got approval by the Board of
15 Governors. It called for deploying PARS technology to, I
16 believe the number was 53 mail processing facilities
17 throughout the country.

18 Q Is there a phase two contemplated?

19 A There is. What I understand a phase two
20 contemplated, to follow phase one termination pending Board
21 of Governor approval.

22 Q After phase one, but before phase two, we'll have
23 PARS approximately 53 mail processing centers. Will that
24 result in the shutting down of some CFS units?

25 A I'm not privy to what the plans are for the

1 administration of CFS units. I don't know, at this point in
2 time, that they are scheduled for closure, as a result of
3 the implementation or the completion of phase one.

4 Q Is it your expectation, with the implementation of
5 phase one, that the CFS units should have less to do?

6 A Yes.

7 Q Okay.

8 A And if I may add to that point, too. CFS units
9 will still have a responsibility for processing non-
10 machinable mail. PARS will only handle machinable mail.
11 So, CFS units will remain for the purposes of handling the
12 non-machinable mail volume that's not currently eligible to
13 be processed through PARS.

14 Q And where will the PARS equipment be? Is it on
15 some of the sorting machinery in the processing plants?
16 Where will PARS be put?

17 A Yes. I mean, within the 53 plants that will be
18 implemented with PARS, technology will be added to existing
19 mail processing equipment, multi-line optical character
20 readers, bar code sorters, facer canceler systems, to be
21 able to perform the function.

22 Q So the idea is that in addition to all the things
23 that those pieces of equipment will now do, they'll be able
24 to identify the pieces and make appropriate changes that the
25 PARS system is going to implement. So, it's just one more

1 feature that that equipment will be able to do?

2 A Yes, I believe that's a fair characterization.

3 Q Is there a relationship or connection between PARS
4 and CSR option two?

5 A If I can ask you to clarify the question. Are you
6 asking is there a dependency of one upon the other, or vice
7 versa?

8 Q Is one dependent upon the other? Will they
9 operate as substitutes? Will they operate independently?

10 A No, I would think they would be best characterized
11 as independent.

12 Q Okay. And why is that?

13 A Well, CSR option two is a feature of the ACS
14 program, which is unrelated to PARS, except for the fact
15 that PARS will provide ACS information services. But,
16 they're independent of each other, in terms of their
17 operation.

18 Q So, PARS will be feeding information into the ACS
19 system?

20 A PARS will be in lieu of a manual operation to
21 capture ACS information. PARS will be tasked to provide
22 that information.

23 Q Okay. Are you familiar with the return process
24 for Capital One's mail?

25 A No, I'm not.

1 Q You did not accompany Mr. Crum to the warehouse in
2 Richmond?

3 A No, I did not.

4 CHAIRMAN OMAS: Mr. Baker, could you speak up just
5 a little bit?

6 MR. BAKER: I'm sorry. My apologies, Mr.
7 Chairman.

8 BY MR. BAKER:

9 Q One last line of questions. Mr. Plunkett, in
10 response to an interrogatory to him, said that the USPS's
11 address management systems identify individual permit
12 holders using unique identifiers and, thereby, that will
13 enable the automated measurement of Capital One's address
14 correction activity. Are you familiar with how that would
15 happen?

16 A No, I'm not.

17 Q You don't know -- okay. Are you familiar with the
18 conferring system?

19 A Only peripherally.

20 Q Okay. Well, no one here seems to know how much of
21 Capital One's mail is forwarded. Do you know whether the
22 confirmed data could be used to come up with that number?

23 A I don't believe so.

24 MR. BAKER: No more questions.

25 CHAIRMAN OMAS: Mr. Costich?

1 MR. COSTICH: Thank you, Mr. Chairman.

2 BY MR. COSTICH:

3 Q Good afternoon, Mr. Wilson.

4 A Good afternoon.

5 Q Could I take you back to the famous page 55 of the
6 cross-examination exhibit. And then the paragraph that
7 we've been focusing on, could you look at the clause that
8 begins, it's on the second line of that paragraph, "while
9 UAA mail that is returned to sender, although primarily
10 machinable letter mail, must be processed manually due to
11 the inability of automated sortation equipment/programs to
12 automatically process using the return address section."

13 Now, let's work backwards in the clause. Return
14 address section, that's referring to just the return address
15 on the mail piece?

16 A Yes, sir.

17 Q And then the inability of automation equipment to
18 automatically process using the return address, does that
19 mean that, at least when this was written, the automation
20 equipment couldn't identify the return address?

21 A That would be one reason. But, I believe would be
22 the case that not all the equipment could actually focus its
23 camera to the upper left corner of the mail piece or be
24 capable of seeing the upper left corner of the mail piece.

25 Q I believe you indicated that you do not know how

1 return mail was being processed in the year that this study
2 was done, is that correct?

3 A I had no direct familiarity with it.

4 MR. COSTICH: Mr. Chairman, could we ask the
5 Postal Service to provide a description of the processing of
6 return mail in fiscal year 1998?

7 CHAIRMAN OMAS: Ms. McKenzie?

8 MS. MCKENZIE: Well, I'd like to know why we're
9 doing fiscal year 1998.

10 CHAIRMAN OMAS: Mr. Costich?

11 MR. COSTICH: This study relies on the FY-98 IOCS,
12 CRA, and RPW. So, I assume it was conducted in 1998 and
13 that the sentence I was just discussing with the witness
14 pertains to 1998. If there's another interpretation, I'd be
15 glad to be corrected.

16 MS. MCKENZIE: The Postal Service hasn't been
17 relying on this study, though, Mr. Chairman, as the basis
18 underlying this case.

19 MR. BAKER: Well, Mr. Chairman, I would point out
20 that library reference 69, upon what Mr. Crum used for the
21 source of some of his costing figures, did rely on fiscal
22 year 1998 IOCS.

23 MS. MCKENZIE: And I might point out that it
24 specifically referred to the study as the basis for the
25 update in my submission.

1 CHAIRMAN OMAS: Ms. McKenzie, can you see if you
2 can get that for us?

3 MS. MCKENZIE: Okay. And let me make sure I have
4 this correctly, that in fiscal year 1998, what type of --

5 CHAIRMAN OMAS: Mr. Costich, would you repeat your
6 request again to Ms. McKenzie?

7 MR. COSTICH: Sure. My understanding of the
8 information on page 55 indicates that returns were processed
9 manually in FY 1998. I'd like to get a description of how
10 returns were processed in FY 1998. If there was more than
11 one way, if some plants did it one way and others another,
12 I'd like to know that. But, ultimately, I think everyone is
13 trying to get at 29 cents for the cost of returns. It
14 doesn't seem to be consistent with automated processing of
15 returns.

16 CHAIRMAN OMAS: Ms. McKenzie?

17 MS. MCKENZIE: And it does strike me, this would
18 have been appropriate for discovery, Mr. Chairman.

19 CHAIRMAN OMAS: Well, at this point, it seems that
20 several people are interested in it. The Chair would
21 appreciate your getting us this information.

22 MS. MCKENZIE: Okay, will do.

23 CHAIRMAN OMAS: Thank you.

24 MR. COSTICH: Thank you, Mr. Chairman.

25 BY MR. COSTICH:

1 Q Mr. Wilson, could I direct your attention to your
2 testimony, page five.

3 A Yes.

4 Q Lines four and five. There is a sentence there
5 that says, "For move related mail, the operator manually
6 keys enough information from the mail piece to retrieve the
7 recipient's new address." What is this enough information?

8 A That was my attempt to relate the encoding of the
9 extract code, the first four characters of the recipient's
10 last name, the last three digits of their address.

11 Q And if I could now turn your attention to your
12 response to interrogatory APWU/USPS-T4-8.

13 A Yes.

14 Q And here is where you're discussing the
15 differences between what NCOA is capable of doing in terms
16 of correcting customers' mail lists, as opposed to what the
17 CFS units can do. Is that correct?

18 A Yes.

19 Q And I believe you said earlier that the
20 information at the CFS units is provided by change of
21 address orders. Is that correct?

22 A Correct.

23 Q Is that form 3575?

24 A That is correct.

25 Q Are you familiar with that form?

1 A Yes, sir.

2 Q Does that form ask the customer who is filling it
3 out to indicate whether the change is for an individual or a
4 family or a business?

5 A Yes, it does.

6 Q I'd like to focus on what happens when the choice
7 family is indicated. Does that mean that any piece of mail
8 addressed to that home, business, apartment will be
9 forwarded?

10 A The identification of family, yes, suggests that
11 everybody with the same last name at that primary address is
12 moving to the new address indicated on the form.

13 Q And does that -- does the family indication carry
14 through into NCOA when it collects information from the CFS
15 units?

16 A Yes, it does.

17 Q That suggests to me that at least in some cases
18 the exact match problem is not going to arise because only
19 the last name is what will have to match. Is that correct?

20 A To a degree, that is correct. Within NCOA
21 matching operation, there are two elements that the customer
22 can dictate. One is called whether or not they are
23 requesting or allowing family only matches or whether or not
24 they are requiring a complete what we call individual match
25 constraint.

1 So even in the circumstance where a family change
2 of address has been submitted, a customer can indicate their
3 preference that they want all elements of name information
4 to match.

5 Q Do you know how Capital One uses NCOA in terms of
6 requiring an individual match or a family match?

7 A I do not know their particular preference, no.

8 Q But if a customer, any customer, were to select
9 this family option, then you would not have the exact match
10 problem that you have described in your response?

11 A It would be -- it would probably be greatly
12 reduced. There would still be circumstances whereby -- I
13 can share with you an example. If the change of address is
14 filed as Rodham-Clinton, but the mail piece or the address
15 in the mailer's file is only for Rodham or for Clinton, that
16 may not necessarily constitute a match.

17 Q Do you have any sense of how frequently that
18 occurs?

19 A The use of hyphenated last names?

20 Q Yes.

21 A It is not significant. It is multiple percents,
22 though, of change of address orders, probably in the 2 to 3
23 percent range.

24 Q Do you have a sense of what proportion of change
25 of address orders are checked family?

1 A Yes, I do. I believe the current distribution is
2 approximately 52 percent of change of address orders are
3 flagged as individual, 42 percent are flagged family, and
4 the remaining 6 percent are indicated as business moves.

5 Q Could I direct your attention to your response to
6 interrogatory APWU/USPS-T4-11?

7 A Yes.

8 Q In the second sentence of your response, you say
9 in FY 1996, the Postal Service adopted the move update
10 requirement for all first class mailers seeking automation
11 or presort discounts, which requires that these mailers
12 perform an update to their address files for customer change
13 of address within 180 days of the mail entry date. Do you
14 know why the Postal Service adopted that requirement?

15 A The basis for establishing the move update
16 requirement was an effort to drive down the cost associated
17 with handling undeliverable as addressed mail, specifically
18 that mail which required forwarding.

19 Q The sense that I get from your response to the
20 previous interrogatory that we were discussing, APWU No. 8 I
21 believe it was, is that NCOA -- using NCOA to meet the move
22 update requirement doesn't do a very good job of filtering
23 out these moves. Is that a correct understanding?

24 A Well, in the context of what NCOA was designed
25 for, which is to correct addresses when a high degree of

1 confidence exists, I believe NCOA performs the service that
2 it was intended for. But it is clear that NCOA in and of
3 itself is not capable of correcting all change of addresses
4 that occur.

5 I can share with you some historical data about
6 NCOA match rates over the 15 or 16 years of its life cycle.
7 It typically corrects a 4 percent match rate. So for any
8 typical address file that is presented to it, the average
9 average correction ratio is about 4 percent. When that is
10 contrasted with what the Bureau of the Census reports as the
11 typical move rate of American public at 17 percent, I think
12 it indicates that NCOA is capable on average of correcting 4
13 percent of what would be a 17 percent population, or roughly
14 25 percent of the potential changes of address.

15 Q Do you know how much it costs a mailer to use NCOA
16 to meet the move update requirement?

17 A For mailers who elect to use NCOA, which is one of
18 the four options a mailer can utilize, the price is market
19 driven. It typically runs somewhere in the 50 cents to \$2
20 price range, depending upon what other bundled type services
21 the mailer might acquire from the service provider.

22 Q When you say 50 cents to \$2 --

23 A I'm sorry, 50 cents to \$2 per thousand records
24 processed.

25 Q I'm wondering why the Postal Service would even

1 offer that as an option for mailers to meet the move update
2 requirement if it can only correct 25 percent of the
3 addresses that need to be corrected. Can you speak to that?

4 A NCOA has been an established program since 1985, I
5 believe the inception was. And I believe the Postal Service
6 sees value in fixing addresses before they are inserted into
7 the mail stream and cause us to incur a rehandling charge.
8 It was offered as a suite of options so that mailers had
9 choice. And the options include also participation in the
10 address change service program, utilization of an NCOA type
11 product known as fast forward, or simply endorsing a mail
12 piece with an endorsement to indicate the mailer's desire to
13 receive address corrections.

14 So because no one requirement was capable of
15 fitting all customer needs, the four options were presented.

16 Q I get the impression that the electronic
17 notification of change of address allows for the correction
18 of a lot higher proportion of addresses related to moves.
19 Is that correct?

20 A ACS would typically capture more of the move-
21 related activity than the other programs would, yes, sir.

22 Q Wouldn't that suggest that that would be a good
23 alternative for the Postal Service to stress or even perhaps
24 be the only alternative that the Postal Service would allow
25 as an address hygiene mechanism for presort and automation

1 mailers?

2 A In a perfect world, where we could insist that
3 mailers implement one alternative and one alternative only,
4 ACS would be one of the leading candidates that we would
5 want to stress. But because ACS forces the Postal Service
6 to incur costs with both the forwarding or the return
7 handling, as well as the provision of ACS, NCOA is
8 attractive because a vast majority of that can occur outside
9 of Postal Service operations and limit our cost and our need
10 to handle that mail multiple times.

11 Q But it doesn't really do that, right? Seventy-
12 five percent of the move address changes don't get caught by
13 NCOA.

14 MS. MCKENZIE: Objection, Mr. Chairman. He is
15 arguing with the witness.

16 CHAIRMAN OMAS: Mr. Costich?

17 MR. COSTICH: I'll rephrase the question.

18 CHAIRMAN OMAS: Thank you.

19 BY MR. COSTICH:

20 Q Earlier you indicated that NCOA corrects about 25
21 percent of the addresses that need to be corrected. Is that
22 what you said?

23 A Yes, sir.

24 Q Which would leave 75 percent of potentially
25 correctable addresses still uncorrected. Is that correct?

1 A That is correct. If I may, though, NCOA offers
2 substantially greater processing capability. In Fiscal Year
3 2002, the NCOA process corrected over 9 billion customer
4 addresses, which far exceeds the number of corrections that
5 could have been supplied through ACS. So the sheer volume
6 of corrections that NCOA can provide, even though it is only
7 a portion of the total, still is of significant benefit.

8 Q So if NCOA -- when you say corrected 9 billion
9 addresses, you mean 9 billion pieces of mail?

10 A No. I mean 9 billion addresses. Companies
11 submitted to NCOA licensees something in excess of 225
12 billion address records, for which NCOA was able to identify
13 and correct 9 billion of them. Now how many of those turn
14 into physical mail pieces cannot be identified.

15 Q So if it corrected 9 billion, there were another
16 27 billion that it didn't correct?

17 A If we did the reverse application of the 25/75
18 percent ratio, that would be a fair deduction.

19 Q Now under the NSA, Capital One is going to receive
20 electronic notification of forwarding for no charge. Is
21 that correct?

22 A That is my understanding, yes.

23 Q The OCA asked witness Plunkett why providing CSR
24 option two to first class mailers at no charge would be a
25 bad idea, and his response was that it would discourage

1 mailers from doing preaddress hygiene and that they could
2 then use their participation in ACS as --

3 MS. MCKENZIE: Mr. Chairman, I would like counsel
4 from the OCA to give a citation.

5 CHAIRMAN OMAS: Mr. Costich?

6 MR. COSTICH: I don't have that right at hand. If
7 we want to take a break, I can look for it.

8 CHAIRMAN OMAS: All right. Why don't we take a
9 five minute break. We'll come back at 10 minutes of 3:00.

10 (Recess)

11 CHAIRMAN OMAS: Mr. Costich, were you able to find
12 the document?

13 MR. COSTICH: Yes. My apologies to Mr. Plunkett.
14 Something in the response I had in mind was not one of his.
15 It was an institutional response to an interrogatory to Mr.
16 Wilson. Something about the wording of the answer made me
17 think of Mr. Plunkett, but --

18 (Laughter)

19 CHAIRMAN OMAS: I hope you're not offended, Mr.
20 Plunkett.

21 (Laughter)

22 BY MR. COSTICH:

23 Q The question that I was referring to asked if it
24 wouldn't be a good idea to offer ACS or CSR option to -- at
25 no charge to first class mailers. And the institutional

1 response noted that offering option two at no charge would
2 create an incentive for mailers to abandon the use of NCOA
3 or fast forward in favor of ACS as a means of meeting the
4 move update requirement.

5 MS. MCKENZIE: Mr. Costich, are you talking about
6 for a prospective ACS mailer or a current ACS mailer?

7 MR. COSTICH: I thank counsel for that. Yes.
8 This is a prospective ACS mailer.

9 CHAIRMAN OMAS: Could you speak up just a little
10 louder, Mr. Costich, please? Thank you.

11 BY MR. COSTICH:

12 Q Now my problem is that your testimony today seems
13 to indicate that ACS provides a much higher quality of
14 address correction service than NCOA.

15 MS. MCKENZIE: Objection, Mr. Chairman. That
16 mischaracterizes his testimony.

17 CHAIRMAN OMAS: Would you clarify that, please,
18 Mr. Costich?

19 MR. COSTICH: Yes. Perhaps I have misunderstood,
20 or -- leave it at that. Is it correct that in your view ACS
21 provides a higher quality of address correction service than
22 NCOA?

23 THE WITNESS: I would not describe it as a higher
24 quality of service. And the motivation to that is ACS
25 provides information on a different level of criteria. ACS

1 potentially provides a higher quantity of corrections, but
2 there can be more circumstances in an ACS provided response,
3 where the information is not directly connected to the input
4 name.

5 As example, if Jim Wilson files an individual
6 change of address, and mail pieces for Barbara Wilson is
7 presented for delivery at the old address, the carrier,
8 based upon his knowledge or her knowledge that both Jim
9 Wilson and Barbara Wilson no longer reside at this address
10 will submit Barbara Wilson mail for forwarding based upon
11 the Jim Wilson change of address record. And so
12 consequently, a mailer could receive back a change of
13 address for Jim Wilson that was originated or initiated by
14 mailing to Barbara Wilson.

15 So from a perspective of quality, that is lower
16 than NCOA because that would not happen in an NCOA
17 operation.

18 BY MR. COSTICH:

19 Q In the example you just gave, would there be a key
20 line on that piece that would be used at the CFS unit?

21 A That is not a requirement for the fulfillment of a
22 change of address record. ACS provides a new address back
23 in cases both with or without the presentation of a key
24 line.

25 Q In the case of Capital One, Capital One and

1 assuming the NSA is adopted, would there have been a key
2 line on that piece of mail to Barbara Wilson?

3 A I would anticipate in that circumstance, yes.
4 There would be a key line that was connected to Barbara
5 Wilson. The ACS provided record would clearly contain Jim
6 Wilson, though.

7 Q If it contained the key line, then Capital One
8 would be able to associate it with the correct record in its
9 database. Is that correct?

10 A It would be able to associate Jim Wilson's change
11 of address with the origination of Barbara Wilson's record,
12 but it still begs the question did Barbara Wilson truly move
13 to Jim Wilson, or did she kick Jim Wilson out and move
14 someplace else. Please let's not find out.

15 (Laughter)

16 MR. COSTICH: Well, with that, I will finish up,
17 Mr. Chairman.

18 CHAIRMAN OMAS: Thank you. Mr. Olsen. It doesn't
19 seem as though he is here. Is there any other party who
20 wishes to cross-examine this witness? Mr. May.

21 MR. MAY: I have some follow-up.

22 CHAIRMAN OMAS: Well, shall I check with the bench
23 first and then see what --

24 MR. MAY: Oh, excuse me. Excuse me. Yes.

25 MR. COSTICH: Mr. Chairman?

1 CHAIRMAN OMAS: Yes.

2 MR. COSTICH: Before you do that, I neglected to
3 ask some pending interrogatories that I understand this
4 witness is prepared to answer and would save at least a few
5 electrons, if not a few trees.

6 CHAIRMAN OMAS: Proceed.

7 BY MR. COSTICH:

8 Q Mr. Wilson, could I direct your attention to
9 interrogatory OCA/USPS-T4-28?

10 A Yes.

11 Q Are you prepared to answer that interrogatory
12 today?

13 A Yes, I am.

14 Q Okay. Let me just read the questions, and then
15 you can provide answers, and the record will be reasonably
16 clear.

17 CHAIRMAN OMAS: Would you speak up, please?

18 MR. COSTICH: Sorry, Mr. Chairman.

19 The interrogatory directs your attention to the
20 response to OCA/USPS-T4-14. And part A says, "National
21 change of address and fast forward processing represent two
22 premailing address hygiene options for complying with the
23 move update requirement for first class mail." Please
24 identify any other premailing address hygiene options for
25 complying with the move update requirement.

1 THE WITNESS: NCOA and fast forward are the two
2 premailing address hygiene functions that exist for
3 complying with move update. There is a third function can
4 be considered premailing, which is called 99 percent test,
5 whereby a mailer proves that the currency of their mailing
6 lists has no more or possesses no more than a 1 percent
7 ratio of change of address potentials in its database. So
8 it is used in fairly limited circumstances where a mailer
9 describes, for example, statutory or regulatory restrictions
10 on utilizing NCOA or fast forward and can prove, for
11 example, in the telecommunications industry, that change of
12 address comes just as quickly to the telephone company as it
13 might come to the Postal Service as its part of the normal
14 process for disconnecting and reconnecting telephone
15 service.

16 BY MR. COSTICH:

17 Q Part B of the question says, "Please rank from
18 most effective to least effective the following options for
19 complying with the move update requirement for first class
20 mail and explain your ranking for each." And then it lists
21 NCOA processing, fast forward processing, address change
22 service participation, any additional hygiene options
23 identified in part A, and requiring Capital One to update
24 its address database within two business days of receiving
25 electronic address change information.

1 A I would describe the effectiveness to be pretty
2 much as it's presented. NCOA processing, because it does in
3 fact correct records before they become mail and require
4 additional handling, followed by fast forward processing.
5 The reason fast forward falls below NCOA is that it contains
6 a much smaller set of historical data. NCOA contains four
7 years of archived data. Fast forward contains approximately
8 13 months of archived data.

9 So those two premailing services I would describe
10 as being most effective because they fix the address before
11 they become a UAA mail piece. That would be followed by
12 participation in address change service because now you're
13 at least having an opportunity to correct the addresses
14 based upon a specific instance of UAA.

15 I would, however, characterize that there is an
16 even more significant construction of address hygiene, which
17 is the combination of a premailing service, such as NCOA and
18 fast forward, coupled with a post-mailing service of ACS so
19 that we fix all we can before you put the mail in, and then
20 we fix as much as can be identified as the result of the
21 mailing to avoid the future instances of UAA.

22 The final or roman numeral V requiring Capital One
23 to update its address databases is not a move update
24 requirement. That is a component of the NSA. However, I
25 think the establishment of a requirement upon a mailer to

1 update in a specific time frequency adds great value because
2 it ensures that the information is being applied. In
3 today's model, although a customer receives an ACS
4 notification, there is no mandatory requirement for
5 application. We anticipate, and we would expect the mailer
6 to comply with the spirit and the intent. However, there is
7 no enforcement mechanism to ensure that they do.

8 Q And what about the 99 percent rule that you
9 mentioned?

10 A I would not consider that to be an address hygiene
11 function because it is something that is happening outside
12 of the traditional address hygiene operations.

13 Q Could you look at interrogatory 29? And are you
14 prepared to answer that one?

15 A Yes, I am.

16 Q Okay. That reads, "Please refer to your response
17 to OCA/USPS-T4- --

18 A 18A.

19 Q 18A, where it states, "The frequency that an ACS
20 participant retrieves or is provided electronic notification
21 records is at its discretion, absent a commitment to
22 retrieve the records at a stated frequency." Please confirm
23 that Capital One has provided or is intending to provide the
24 Postal Service with a commitment to retrieve electronic
25 notification records at a stated frequency. If you do not

1 confirm, please explain.

2 A My response would be confirmed.

3 Q I also have some interrogatories that were
4 originally directed to witness Crum, but I understand have
5 been redirected to you and that you can answer now. Is that
6 correct?

7 A Yes. Can I request the citation?

8 Q Interrogatory OCA/USPS-T3-30.

9 A Yes.

10 Q And that states, "Please refer to your response to
11 POIR No. 2, question 7. Your estimate of costs avoided
12 appears to assume the avoidance of between 10.5 million and
13 2.2 million forwards." Now are you prepared to -- witness
14 Crum responded to the first few of these. Which ones are
15 you prepared to respond to?

16 A I am prepared to respond to items E through and
17 including K.

18 Q Okay. Subpart E reads, "Please confirm that most
19 of Capital One's repeat forwards are eliminated through use
20 of NCOA updating. If you do not confirm, please provide
21 your estimate of forwards not eliminated through use of NCOA
22 updating and show its derivation."

23 A My response would be not confirmed. As I stated
24 earlier, NCOA only captures and corrects approximately 25
25 percent of all potential change of address occurrences,

1 thereby leaving approximately 75 percent uncorrected.

2 Q Part F reads, "Please confirm that a first class
3 solicitation mailing that is sent immediately after NCOA
4 updating would generate almost no forwards, paren, because
5 all of the addresses have just been corrected, close paren.
6 If you do not confirm, please explain."

7 A My response would be not confirm, and I would
8 refer you back to item E.

9 Q Subpart G reads, "Please confirm that a first
10 class solicitation mailing that is sent immediately after
11 NCOA updating would generate the most repeat forwards,
12 paren, e.g., almost none."

13 A I would respond not confirmed. And again, I would
14 refer you back to item E.

15 Q If I could just follow up on that for a second. I
16 can understand now why almost none would not be confirmed.
17 But would it still be the case that a mailing sent out
18 immediately after an NCOA update would generate fewer repeat
19 forwards than a mailing that was sent out later?

20 A On the whole, I would say yes, that's a true
21 statement.

22 Q Subpart H says, "Please confirm that a first class
23 solicitation mailing that is sent immediately before NCOA
24 updating should generate the most forwards. If you do not
25 confirm, please explain."

1 A I would respond confirmed.

2 Q Subpart I reads, "Please confirm that a first
3 class solicitation mailing that is sent immediately before
4 NCOA updating would generate the fewest repeat forwards,
5 paren, e.g., almost none, close paren, because there would
6 be virtually no time in which to re-mail to the same
7 addresses. If you do not confirm, please explain."

8 A My initial response to that is that it was not
9 confirmed, and that I would refer you back to E. I would
10 acknowledge, though, that I'm operating without the benefit
11 of the reference here. So I want to be certain that I don't
12 understand the concept of the question. Can I ask you to
13 restate it one more time?

14 Q "Please confirm that a first class solicitation
15 mailing that is sent immediately before NCOA updating would
16 generate the fewest repeat forwards, paren, e.g., almost
17 none, close paren, because there would be virtually no time
18 in which to re-mail to the same addresses. If you do not
19 confirm, please explain."

20 A I would stand on not confirmed, and I would refer
21 you back to item E.

22 Q Subpart J reads, "Please explain why, quote,
23 'Capital One now has a comparatively high rate of repeat
24 forwards, ellipsis,' close quote, when it currently corrects
25 its solicitation addresses every 60 days."

1 A I would simply refer you to item E.

2 Q Comparatively high rate of repeat forwards would
3 depend not only on how well NCOA corrects addresses, but
4 also on how frequently Capital One mails. Is that correct?

5 A That would be correct, yes.

6 MR. COSTICH: And I think I got an answer to part
7 K from witness Crum.

8 MS. MCKENZIE: Mr. Chairman, that is accurate.
9 Witness Crum did answer part K.

10 MR. COSTICH: And that completes my cross-
11 examination, Mr. Chairman.

12 CHAIRMAN OMAS: Thank you, Mr. Costich. Are there
13 any questions from the bench? Commissioner Hammond.

14 COMMISSIONER HAMMOND: Yes, I have got a question
15 or two, mostly for clarification. And I still don't always
16 use the correct terms, so you may have to bear with me, Mr.
17 Wilson. But if you would consider a letter-shaped piece of
18 mail with a clearly identifiable and correct return mail
19 address that's definitely in the ACS database, and let's
20 call that a clean piece of mail, and if you would contrast
21 that with a nonletter size or nonmachinable piece of mail --
22 it may have a hard to identify return address, it may be
23 wrong, or it's not in the ACS database -- and let's call
24 that a dirty piece of mail. Would there be a cost
25 difference in processing those two pieces of mail?

1 THE WITNESS: If I understand the basis of the
2 question, Commissioner Hammond, you're asking me is it
3 harder to process a piece of mail that is a lesser quality
4 piece of mail than a higher quality piece of mail?

5 COMMISSIONER HAMMOND: Well, I'm not saying
6 whether it's harder or not. I'm saying is there a cost
7 difference between processing the clean piece of mail and
8 the dirty piece of mail.

9 THE WITNESS: I'm not sure I can answer that. I
10 can't attest to what the additional handling requirements
11 might be that might add to the cost of that.

12 COMMISSIONER HAMMOND: Well, like, for instance,
13 like in this scenario, it's a nonmachinable piece. Would
14 that add to the cost?

15 THE WITNESS: Recognizing that the nonmachinable
16 piece would travel a different pathway that would have
17 different costs associated with it, then those costs might
18 be higher, yes.

19 COMMISSIONER HAMMOND: Okay. But really, you're
20 not wanting to say that a cost difference exists between
21 that clean piece of mail and dirty piece of mail?

22 THE WITNESS: My reluctance to answer is that I
23 wouldn't know what additional steps might be necessary to
24 handle the, quote, "dirty" piece of mail. If that
25 introduced additional handling events, I would presume that

1 cost would probably go up. However, in the human, in the
2 operator intervention world, if a human set of eyeballs can
3 interpret it and understand it, whether it was clean or
4 dirty, I don't necessarily see that that would change the
5 cost differences.

6 COMMISSIONER HAMMOND: Okay. All right. That's
7 all.

8 CHAIRMAN OMAS: Commissioner Covington.

9 VICE CHAIRMAN COVINGTON: Good afternoon, witness
10 Wilson. First of all, I wanted to clarify. I wanted to
11 understand this, and I think Mr. Baker even asked you this.
12 Am I to understand that you say you have never been to a
13 Capital One facility?

14 THE WITNESS: That is correct.

15 VICE CHAIRMAN COVINGTON: Okay. Period, okay. Is
16 there anything to the contention or to the belief that
17 Capital One would be able to manipulate the timing of its
18 mailing to possibly influence leakage?

19 THE WITNESS: Sir, I'm not familiar with the
20 concept of leakage, so it would be hard for me to respond to
21 that.

22 VICE CHAIRMAN COVINGTON: Okay. Well, then can
23 you answer this for me because I notice that you basically
24 did some I guess consulting/contractual work down in Memphis
25 at the National Customer Support Center before you came in.

1 I'm assuming -- did you come in before Mr. Murphy departed,
2 or did you succeed Mr. Murphy at the NCOA?

3 THE WITNESS: Mr. Murphy hired me into the Postal
4 Service, and I'm on staff at the National Customer Support
5 Center. I did not replace Mr. Murphy.

6 VICE CHAIRMAN COVINGTON: Okay then. Also, in
7 testimony that has been shared with us, is there any reason
8 why the Postal Service does not keep up with the number of
9 forwarded pieces, and is it just for Capital One, or is it
10 for everybody?

11 THE WITNESS: The Postal Service does have some
12 sense of what the volume of forwarded mail pieces are in
13 total as captured within processing in our CFS units.
14 However, it is not differentiated or it is not tracked
15 individually by specific mailer ID.

16 VICE CHAIRMAN COVINGTON: Okay then. Another
17 question. Do you have any idea, witness Wilson, how much
18 nixie mail is in the stream in any given time?

19 THE WITNESS: No specific knowledge.

20 VICE CHAIRMAN COVINGTON: Ballpark figure?

21 THE WITNESS: I can -- I would suggest that other
22 than what has been reported in LR69, which I believe
23 establishes the volumes of nixie mail that would exist, that
24 would be over the entire mail sample, and to arrive at what
25 might participate or what might exist on any given point in

1 time would have to be a factor of that.

2 VICE CHAIRMAN COVINGTON: Okay. And so, in other
3 words, you don't have any firsthand knowledge of discount
4 leakage or -- even though I think you do know about ACS
5 return savings, right?

6 THE WITNESS: I am not specifically knowledgeable
7 on the cost differentials of providing the ACS service. My
8 functional responsibility is the information flow, not the
9 costing components.

10 VICE CHAIRMAN COVINGTON: Okay. So that means you
11 could not give me an opinion one way or the other as to
12 whether or not savings of avoiding physical returns by
13 Capital One has been overestimated or right in line with
14 what it is that the Postal Service is leading us to believe?

15 THE WITNESS: No, sir, I could not.

16 VICE CHAIRMAN COVINGTON: And the last thing is I
17 noticed that you are an inventor. What is next on the
18 drawing board?

19 THE WITNESS: There are a few things that we hope
20 to announce here very shortly.

21 VICE CHAIRMAN COVINGTON: Okay. Thanks, Mr.
22 Chairman.

23 THE WITNESS: Thank you, Commissioner.

24 CHAIRMAN OMAS: Mr. May, I think you had a follow-
25 up question.

1 MR. MAY: I do. If you'll direct your attention
2 to your response to OCA No. 5.

3 THE WITNESS: Yes.

4 BY MR. MAY:

5 Q You there report that for 2001, FY 2001, the total
6 volume of first class mail, all first class mail, the total
7 volume that received an electronic ACS notification was only
8 2,783,000 pieces?

9 A That is correct.

10 Q And that -- and then going to the broader
11 character, that the stuff that was endorsed ASR, address
12 service requested, the total for that was 24 million odd
13 pieces. And then it says here that the total number of
14 first class mailers for all the millions in the country, the
15 electronic address correction services provided only the 819
16 mailers?

17 A That is correct.

18 Q Not very popular service, is it?

19 A Not as of this point.

20 Q Would that have anything to do with the fact that
21 it costs 20 cents apiece for electronic and 70 cents for
22 manual correction?

23 A Well, I would be careful with that distinction
24 because there is a vast majority of people paying the 70
25 cents. I think the reluctance of many mailers to migrate to

1 address change services are more technical and aesthetic in
2 nature. Many mailers have indicated a reluctance to embed
3 the participant codes and the endorsements necessary upon
4 the mail piece. Many mailers have indicated a reluctance or
5 a difficulty in implementing the changes to the mail piece,
6 changing the window layout and the reprogramming efforts.

7 Q Now you have testified you intend to implement the
8 option two procedure in January.

9 A Yes.

10 Q Assume that this NSA is not approved by this
11 Commission. Assume that. Come January, will you still be
12 giving physical returns of Capital One mail, or will Capital
13 One be using ACS option two, change service address option
14 two?

15 A I'm not sure I understand the question. If you --

16 Q Well, the Commission doesn't -- assume an
17 environment in which this Commission does not approve the
18 NSA. Therefore, there is no deal, and you have testified
19 you're going ahead with your option two endorsement anyway
20 in January. So there is no NSA, and now Capital One has the
21 choice of using your option two and paying 20 cents or
22 continuing to have the Postal Service return physical its
23 mail. Is that correct?

24 A Correct.

25 Q Now if it will cost them exactly nothing to

1 continue to get the physical pieces returned -- now let's
2 assume that's -- we're talking about 100 million pieces, at
3 least, are we not, since their estimated volumes are 1.4
4 billion, and their estimated returns are 9.6 percent? So
5 we're talking about over 100 million pieces of physically
6 returned mail, are we not?

7 So they have a choice of having in this
8 environment where there is no NSA approved, they can either
9 for free have you bring all their mail back, at which point
10 they'll be told that, yeah, there is no -- this address is
11 not any good, according to you, or they can pay you 20
12 cents. That is, they can pay you \$20 million to find out
13 the same information and a little bit more.

14 Now what do you think they're going to do?

15 A I would assume that in their analysis of the
16 business case, they would opt to maintain free returns.

17 Q So would that be good for the Postal Service?
18 Will that help the bottom line of the Postal Service?

19 A In my humble opinion, no, it wouldn't.

20 MR. MAY: Thank you. That's all, Mr. Chairman.

21 CHAIRMAN OMAS: Anything -- anyone else? Ms.
22 McKenzie, would you like an opportunity to discuss --

23 MS. CATLER: Excuse me.

24 CHAIRMAN OMAS: Oh, excuse me. Oh, I'm sorry. I
25 didn't see you.

1 BY MS. CATLER:

2 Q Yes. One just follow-up to Mr. Mays' colloquy
3 with the witness there, where witness Wilson opined that he
4 thought they would probably continue to get free change of
5 address service. I wanted to know did you base your opinion
6 in any way on what Capital One is currently paying their
7 vendor to go and deal with all of these hard copy returns
8 and input the data, update the database, when you said that
9 they probably would rather have the free returns rather than
10 go and pay 20 cents to get the information directly from the
11 Postal Service electronically?

12 A The basis for my opinion was that Capital One has
13 not to date opted to come to the Postal Service and
14 participate in ACS, of which there are service features
15 available. And so I would not anticipate that in the
16 absence of this NSA that they would change that position.

17 Q Isn't it true that if they were to participate in
18 ACS now, the piece, even if it were subject to a proper
19 forwarding order within the first 12 months, would not be
20 forwarded. They would just get the electronic information,
21 whereas under option two, which you intend to implement in
22 January, they will get not only the electronic information,
23 but also the piece forwarded. Does that change your opinion
24 any?

25 A If I understand the basis of your question, there

1 are current service options that Capital One can avail
2 themselves of to have their mail pieces forwarded as well as
3 have mail pieces returned, specifically address service
4 requested. And so based upon the fact that in the presence
5 of the existing conditions they have not chosen to
6 participate in ACS, I would not anticipate that they would
7 choose to participate in ACS in the future.

8 MS. CATLER: Thank you.

9 CHAIRMAN OMAS: Thank you. Ms. McKenzie, would
10 you like an opportunity to discuss the need for redirect?

11 MS. McKENZIE: Yes, Mr. Chairman.

12 CHAIRMAN OMAS: Ten minutes okay?

13 MS. McKENZIE: Ten minutes is fine.

14 CHAIRMAN OMAS: Thank you.

15 (Recess)

16 CHAIRMAN OMAS: Ms. McKenzie.

17 MS. McKENZIE: Thank you, Mr. Chairman. The
18 Postal Service has one question for witness Wilson on
19 redirect.

20 CHAIRMAN OMAS: Thank you. Proceed.

21 REDIRECT EXAMINATION

22 BY MS. McKENZIE:

23 Q Witness Wilson, I'd like to refer you to OCA T4-
24 28. It's a question that you answered orally for Mr.
25 Costich.

1 A Yes.

2 Q Do you have that in front of you?

3 A Yes, I do.

4 Q Part B of that question asks you to rank in terms
5 of what was the most effective the -- I'll read the whole
6 question. "Please rank from most effective to least
7 effective the following options for complying with move
8 update requirement for first class mail."

9 I'd like you to add one ranking in there, and that
10 would be Capital One's after the NSA has been implemented,
11 in terms of where they will be doing NCOA matching and
12 they'll be doing ACS. How would you then rank that in terms
13 of most effective?

14 A As I attempted to describe earlier, that I would
15 consider that to be the optimal solution because it provides
16 both a premailing function that reduces mail before it
17 enters the mail stream, as well as an effective means for
18 capturing the information flow upon the detection of a UAA
19 mail piece. And when it's coupled with the NSA requirement
20 that the information be updated within two business days, in
21 essence providing some certainty that the corrections are
22 applied, I would consider that to be the most optimal.

23 Q Most optimal as compared to other first class
24 mailers?

25 A Any standalone single function and what I know

1 typically to be practices of most major mailers in first
2 class who typically elect one or the other. I am not aware
3 specifically of mailers who are performing both
4 concurrently.

5 MS. McKENZIE: Thank you. That's all I have, Mr.
6 Chairman.

7 CHAIRMAN OMAS: Commissioner Goldway has a
8 question.

9 COMMISSIONER GOLDWAY: It seems to me when the
10 representative from Capital One spoke to us, he indicated
11 that the change of address would be considered, but they
12 would not necessarily purge somebody from a list because
13 they had gotten this information. So if that's the case, if
14 you have somebody who uses this information but does not
15 purge all the names given to it, is it still the optimum?
16 Is it still the most efficient?

17 THE WITNESS: Commissioner Goldway, my
18 recollection of that response was that Capital One indicated
19 that they never throw away a name and address set, but that
20 when they were provided a new address, they would in fact
21 utilize that new address for future mailings. So it's on
22 that basis the --

23 COMMISSIONER GOLDWAY: But would they continue to
24 use the old address as well? That was my impression.

25 THE WITNESS: No. I believe I drew a different

1 impression from that, that they would no longer mail to the
2 old address. It would be somewhat counterproductive,
3 knowing that the customer is no longer at that address to
4 continue mailing to that address.

5 COMMISSIONER GOLDWAY: Well, I think you might
6 want to reread that testimony. Thank you. At least we have
7 raised the concern about this issue more clearly.

8 CHAIRMAN OMAS: Mr. Wilson, there are no further
9 questions. That concludes your testimony here today, and I
10 would like to thank you for your appearance and for your
11 contribution to our record. And I especially would like to
12 thank you for your clear and complete testimony here today.
13 We appreciate that, and I thank you, and you are excused.

14 THE WITNESS: Thank you, Chairman Omas.

15 (Witness excused)

16 CHAIRMAN OMAS: That concludes today's hearings.
17 We will reconvene tomorrow at 1:00 p.m. That's tomorrow
18 afternoon at 1:00 p.m., to receive testimony from witness
19 Michael Plunkett. Thank you, and good evening.

20 (Whereupon, at 3:41 p.m., the hearing in the
21 above-entitled matter was adjourned until Thursday, December
22 5, 2002, at 1:00 p.m.)

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REPORTER'S CERTIFICATE

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DOCKET NO.: MC2002-2
CASE TITLE: Experimental Rate and Service Changes to
Implement Negotiated Service Agreement with
Capital One Services, Inc.
HEARING DATE: December 4, 2002
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are
contained fully and accurately on the tapes and notes
reported by me at the hearing in the above case before the
Postal Rate Commission.

Date: December 4, 2002

Beth Roots

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