

**OCA-T-2**  
**Docket No. MC2002-2**

**DIRECT TESTIMONY**

**OF**

**JAMES F. CALLOW**

**ON BEHALF OF**

**THE OFFICE OF CONSUMER ADVOCATE**

**December 20, 2002**

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DIRECT TESTIMONY  
OF  
JAMES F. CALLOW

1 I. STATEMENT OF QUALIFICATIONS

2 My name is James F. Callow. I am a Postal Rate and Classification Specialist. I  
3 have been employed by the Postal Rate Commission since June 1993, and since  
4 February 1995 in the Office of the Consumer Advocate (OCA).

5 I have testified before the Commission in Docket Nos. R2000-1, MC98-1, R97-1,  
6 MC96-3, and MC95-1. My testimony in Docket No. R2000-1 examined three issues  
7 related to First-Class Mail. I proposed that the rate for single-piece letters be  
8 maintained at 33 cents in order to mitigate the growing institutional cost burden on First-  
9 Class Letter Mail. Second, I proposed a new approach for setting the single-piece First-  
10 Class rate that would provide a longer period of rate stability for household mailers,  
11 while permitting smaller, more predictable rate adjustments desired by business  
12 mailers. Finally, I proposed elimination of the nonstandard surcharge for First-Class  
13 "low aspect ratio" (e.g., square or nearly square) letter mail because advances in  
14 technology have made the surcharge unnecessary. I also testified on rebuttal in Docket  
15 No. R2000-1. That testimony addressed the proper methodology for forecasting the  
16 number of additional ounces per piece for single-piece First-Class Letter Mail in the test  
17 year.

18 In Docket No. MC98-1, I proposed a computer-implemented postage pricing  
19 formula for Mailing Online as an alternative to the single average discount rate,  
20 Automation Basic (within class and shape), proposed by the Postal Service for all

1 mailings using Mailing Online. In Docket No. R97-1, I proposed a restructuring of post  
2 office box fee groups to better reflect costs of providing box service in high and low cost  
3 post offices. My testimony in Docket No. MC96-3 opposed the Postal Service's non-  
4 resident surcharge on post office boxholders, and proposed alternative box fees  
5 designed to equalize inter-group cost coverage and reduce the disparity in cost  
6 coverage by box size. In Docket No. MC95-1, my testimony summarized the comments  
7 of persons expressing views to the Commission and the Office of the Consumer  
8 Advocate on postal rates and services.

9         As a Special Assistant to former Commissioner H. Edward Quick, I participated  
10 in Docket Nos. R94-1, MC93-2 and MC93-1. In Docket No. R94-1, I was assigned  
11 responsibility for substantive subject areas considered by the Commission in its Opinion  
12 and Recommended Decision. Specifically, I analyzed quantitative testimony of the  
13 Postal Service with respect to the estimation of workers' compensation costs and  
14 evaluated rate design proposals of the Postal Service and other parties related to  
15 special postal services.

16         Prior to joining the Commission, I held positions on the legislative staff of a US  
17 Senator and a Member of Congress from Michigan, and served as an aide to the  
18 Governor of the State of Michigan in Washington.

19         I am an accountant by training. In 1985, I earned an MS degree in  
20 accounting from Georgetown University. My course work included cost accounting and  
21 auditing. In 1977, I obtained my BA degree from the University of Michigan-Dearborn  
22 with a double major in political science and history and a minor in economics.

23

1 II. PURPOSE AND SCOPE

2 This testimony proposes two new experimental mail classifications in First-Class  
3 Mail. Both experimental classifications are based upon the two principal features of the  
4 Negotiated Service Agreement (NSA) between the Postal Service and Capital One  
5 Services, Inc. (herein "Capital One") presented in this proceeding. These experimental  
6 classifications improve upon the two principal features of the NSA, and would be  
7 available to all First-Class mailers authorized by the Postal Service.

8 The first experimental classification would provide authorized First-Class mailers  
9 with electronic address correction information at no charge for their First-Class Mail that  
10 is undeliverable-as-addressed (UAA). Mailers entering presorted First-Class Mail  
11 endorsed "Change Service Requested" would receive electronic notices of address  
12 corrections for mailpieces that are forwarded and in lieu of the physical return of  
13 mailpieces that cannot be forwarded. Under the experiment, mailers that update and  
14 correct their address databases within two business days of receiving electronic notices  
15 would receive such notices at no charge. At the present time, mailers participating in  
16 the Address Change Service (ACS) program pay 20 cents for each electronic notice.

17 The second experimental classification would provide interested First-Class  
18 mailers access to volume-based declining block rates in exchange for receiving address  
19 correction information under the proposed experimental address correction service. A  
20 unique volume threshold would be determined for each mailer based upon the mailer's  
21 historical First-Class volume data. Discounts would be provided for mail volumes above  
22 the threshold, with the discounts increasing in size as the volume of additional mail  
23 increases. However, the total amount of discounts available to any one mailer would be

1 limited by a maximum volume determined from each mailer's unique volume threshold.  
2 A mailer could claim the highest discounts allowable up to the maximum volume.

3 The Postal Service would be required to provide a written statement to any  
4 mailer denied authorization to participate in either experimental mail classification,  
5 giving the reasons for any denial. Both experimental classifications would operate for a  
6 period of three years.

7 The experimental mail classifications, unlike the NSA, offer Capital One and all  
8 other First-Class mailers access to volume-based declining block rates on terms similar  
9 in many respect to those contained in the NSA. However, the experimental  
10 classifications eliminate the need to negotiate individual agreements with each mailer  
11 and to rely on unverifiable, private information. Finally, the experimental classifications  
12 collectively present an opportunity to obtain additional contributions to institutional cost  
13 while limiting the Postal Service's financial risk, and to reduce costs to the Postal  
14 Service and mailers.

15

1 III. EXPERIMENTAL AUTOMATED ADDRESS CORRECTION SERVICE SHOULD  
2 BE OFFERED AT NO CHARGE TO AUTHORIZED FIRST-CLASS MAILERS  
3 THAT RECEIVE AND UTILIZE ELECTRONIC ADDRESS CORRECTION  
4 INFORMATION

5 In this proceeding, the Postal Service presents for the first time a Negotiated  
6 Service Agreement (NSA) to the Postal Rate Commission and requests a  
7 recommendation decision.<sup>1</sup> The NSA, concluded between Capital One and the Postal  
8 Service (herein “Capital One NSA”),<sup>2</sup> would provide Capital One with access to  
9 increasingly larger discounts for new incremental volumes of First-Class Mail above a  
10 negotiated volume threshold.<sup>3</sup> In exchange for access to volume-based discounts,  
11 Capital One agrees to accept electronic address correction notices at no charge for its  
12 First-Class “solicitation” mail that is undeliverable-as-addressed,<sup>4</sup> i.e., forwarded or, in  
13 the absence of electronic notices, physically returned. The Postal Service proposes  
14 changes in the Domestic Mail Classification Schedule (herein “DMCS”) to implement  
15 the Capital One NSA.<sup>5</sup>

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<sup>1</sup> USPS-T-1 (Bizzotto), at 5; *see also* Request of the United States Postal Service for a Recommended Decision on Experimental Changes to Implement Capital One NSA (herein “Request”), at 3.

<sup>2</sup> The entire text of the Capital One NSA is reproduced in the Request, Attachment G.

<sup>3</sup> A second and lower volume threshold was also negotiated with Capital One. That lower threshold provides Capital One access to discounts starting at a lower level in the second and third year of the NSA if Capital One’s mail volume falls below the threshold in the first year of the agreement. *See* Tr. 4/721. (OCA/USPS-T2-7)

<sup>4</sup> Under the NSA, Capital One’s First-Class Mail is segregated into two types: customer mail and solicitation mail. Capital One NSA (Request, Attachment G), Article III, paragraphs C. Customer mail is used to communicate with existing account holders. Solicitation mail is used in direct mail marketing campaigns to target credit-worthy customers. *See* Tr. 2/38-40 (Jean, COS-T-1).

<sup>5</sup> Request, Attachment A.

1 I believe the two principal features of the Capital One NSA—volume-based  
2 declining block rates and free electronic address correction notices—should be offered,  
3 with modifications, as two experimental mail classifications to all First-Class mailers  
4 meeting certain requirements.<sup>6</sup> The Experimental Automated Address Correction  
5 Service would provide all First-Class mailers authorized by the Postal Service electronic  
6 address correction notices, at no charge, for mailpieces that are forwarded and in lieu  
7 of the physical return of mailpieces that cannot be forwarded. To obtain free electronic  
8 notices, mailers would be required to take specific actions to improve their address  
9 databases that are used for subsequent mailings. The second classification,  
10 Experimental Volume-Based Declining Block Rates, would provide interested First-  
11 Class mailers that receive electronic notices via the Experimental Automated Address  
12 Correction Service access to volume-based declining block rates. Such First-Class  
13 mailers, if authorized, would have access to declining block rates on objective terms,  
14 eliminating the need for separate negotiations with individual mailers and reliance on  
15 unverifiable, private information.

16 A. The Proposed Experimental Address Correction Service Is Available to  
17 Authorized First-Class Mailers Participating in the Address Change  
18 Service Program

19 Address Correction Service is a special service available for a fee to all mailers.

20 The service provides “a mailer both an addressee’s former and current address, if the

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<sup>6</sup> The specific terms of OCA’s proposed experimental mail classifications are provided in proposed changes to the DMCS, presented in OCA-T2 Attachments A and B accompanying this testimony.

1 correct address is known to the Postal Service . . . [or] the reason why the Postal  
2 Service could not deliver the mailpiece as addressed.”<sup>7</sup>

3 The Postal Service’s Address Change Service (ACS) program provides address  
4 corrections electronically.<sup>8</sup> In order to receive electronic address corrections, mailers  
5 are assigned a unique ACS Participant Code. The Participant Code is applied to the  
6 mailpiece in the address block above the addressee’s name, along with the mailer’s  
7 “keyline,” or account number, which identifies a specific address record in the mailer’s  
8 address database.<sup>9</sup> A mailpiece must also display one of two endorsements, Address  
9 Service Requested (ASR) or Change Service Requested (CSR), which determines the  
10 information content of the electronic notice and subsequent handling of the mailpiece  
11 by the Postal Service.<sup>10</sup> When a mailpiece is UAA, the mailer is provided an electronic  
12 notice containing the keyline and the correct address, if available, or the reason for non-  
13 delivery of the mailpiece.<sup>11</sup> A fee of 20 cents is charged for each electronic notice.<sup>12</sup>

14 Under OCA’s experimental classification, electronic address correction notices  
15 would be provided at no charge to First-Class mailers authorized by the Postal Service  
16 that participate in the ACS program. The current fee of 20 cents for each electronic

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<sup>7</sup> DMCS § 911.11.

<sup>8</sup> USPS-T-4 (Wilson), at 3. A complete description of the Address Change Service program is provided in Postal Service Publication 8, *Address Change Service* (September 1998). As used herein, the title “Address Change Service” refers to the Postal Service’s program that provides electronic address corrections, and the title “Address Correction Service” refers to the special service described at DMCS § 911.

<sup>9</sup> USPS-T-4 (Wilson), at 3.

<sup>10</sup> See Domestic Mail Manual (DMM), § F010.5.1.

<sup>11</sup> USPS-T-4 (Wilson), at 3.

<sup>12</sup> DMCS Fee Schedule 911.

1 notice would be waived, provided mailers correct and update their address databases  
2 and take other actions to improve their address databases.

3           1.     Authorized Address Change Service participating mailers must  
4                     correct address databases with free electronic information with  
5                     respect to forwarded mailpieces

6           Pursuant to the ACS program, an undeliverable-as-addressed mailpiece  
7 endorsed ASR that is forwarded generates an electronic notice. For an undeliverable-  
8 as-addressed mailpiece endorsed CSR, that mailpiece is destroyed rather than  
9 forwarded, and an electronic notice is generated. The notice is generated based upon  
10 the information in the Computerized Forwarding System (CFS) database.<sup>13</sup> Beginning  
11 in January 2003, the Postal Service will offer all mailers a new option, Change Service  
12 Requested, Option 2, whereby a CSR-endorsed mailpiece will be forwarded to the new  
13 address rather than destroyed.<sup>14</sup>

14           There is no requirement under the ACS program that participating mailers  
15 retrieve or receive electronic notices, absent a commitment to do so at a stated  
16 frequency.<sup>15</sup> Nor is there a requirement that participating mailers correct address  
17 databases with information from the program.<sup>16</sup> The Postal Service maintains,  
18 however, that the 20 cent address correction fee provides an incentive for participating

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<sup>13</sup> Tr. 3/545 (APWU/USPS-T4-8). According to the Postal Service, more than 200 CFS units have been established nationwide to centralize handling of mail for forwarding, and generate ACS electronic "fulfillment" notices. See USPS-T-4 (Wilson), at 1; see also Postal Service Publication 8, *Address Change Service* (September 1998), at 5.

<sup>14</sup> USPS T-4 (Wilson), at 4.

<sup>15</sup> Tr. 3/584 (OCA/USPS-T4-18(a)).

<sup>16</sup> Tr. 3/650.

1 mailers to correct address databases.<sup>17</sup> In the case of the Capital One NSA, there is no  
2 requirement that Capital One receive electronic address correction notices, which  
3 trigger Capital One's obligation to "update" its address databases.<sup>18</sup>

4 Under the experimental classification, electronic address correction notices  
5 would be provided at no charge to ACS participating mailers authorized by the Postal  
6 Service whose mailpieces bear the endorsement CSR, Option 2. However, mailers  
7 would be required to correct, not just "update," their address databases in order to  
8 prevent incorrect addresses from being used in another mailing. And, unlike the ACS  
9 program, mailers would have an affirmative obligation to use address correction  
10 information to correct their address databases, and to do so within two days of receiving  
11 electronic notices. This requirement is expected to reduce the number of mailpieces  
12 that are repeat forwards to the same address.<sup>19</sup> Moreover, mailers would be required to  
13 provide the Postal Service with a commitment to retrieve or receive electronic address  
14 correction notices at least weekly.

15 In addition, the proposed experimental classification would require First-Class  
16 mailers to comply more frequently with the requirements of the Move Update program.  
17 The program, implemented in 1996, requires mailers to "update [ ] their address files for  
18 customer change-of-address within 180 days of the mail entry date" in order to obtain

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<sup>17</sup> Institutional, OCA/USPS-T4-14.

<sup>18</sup> Tr. 4/743 (OCA/USPS-T2-33(a)-(b)). The Postal Service maintains, however, that Capital One's obligation to "update" its databases "applies only if Capital One wishes to have address correction fees waived and pieces counted toward the discount thresholds." *Id.*

<sup>19</sup> See Tr. 2/374; see also Tr. 2/352.

1 presort discounts.<sup>20</sup> Mailers may comply with this “pre-mailing address hygiene”  
2 requirement by running their address databases against the National Change of  
3 Address (NCOA) database and utilizing the *FASTforward* system.<sup>21</sup> Under the  
4 experimental classification, mailers must utilize NCOA “matching” or *FASTforward*  
5 within 60 days prior to mailing.<sup>22</sup> The Address Change Service program is an after-the-  
6 fact method to correct address databases and comply with Move Update  
7 requirements.<sup>23</sup> Consequently, under the experimental classification, mailers cannot  
8 avoid premailing address hygiene and rely solely on the ACS program to satisfy Move  
9 Update requirements.

10           2.     Authorized Address Change Service participating mailers must  
11                    update address databases with free electronic information with  
12                    respect to mailpieces that would otherwise be physically returned

13           Pursuant to the ACS program, an electronic notice is generated for an  
14 undeliverable-as-addressed mailpiece endorsed CSR that cannot be forwarded. Such  
15 a mailpiece is destroyed. In the absence of CSR endorsement, the mailpiece would be  
16 physically returned to the mailer. Unlike electronic notices for forwarded mailpieces,  
17 however, no “move-related” information is available. Mailers are simply informed as to  
18 the reasons for the non-delivery of the mailpiece as addressed. Reasons for non-

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<sup>20</sup> Tr. 3/549 (APWU/USPS-T4-11).

<sup>21</sup> A complete description of the *FASTforward* system can be found at <http://www.usps.com/ncsc/addressservices/moveupdate/fastforward.htm>.

<sup>22</sup> See OCA-T2 Attachment A, § 610.43..

<sup>23</sup> See Tr. 4/713 (NAA/USPS-T2-21(d)); see also Tr. 3/649.

1 delivery include: Not Deliverable as Addressed—Unable to Forward (Forwarding Order  
2 Expired); Attempted—Not Known; and, Refused.<sup>24</sup>

3 Under the experimental classification, electronic address correction notices  
4 would be provided at no charge for mailpieces endorsed CSR, Option 2 that cannot be  
5 forwarded. However, mailers must “update” their address databases with the reasons  
6 for non-delivery within two days of receiving electronic notices. In the case of Capital  
7 One, updating involves incorporating address correction information that identifies an  
8 address as having generated a “return” into an address database.<sup>25</sup> With the NSA,  
9 Capital One will receive return information more quickly, as well as the reasons for the  
10 return.<sup>26</sup> Such information would be a factor in a mailing decision process that could  
11 result in a mailpiece being sent to an address that has had a prior return.<sup>27</sup> Under the  
12 experimental classification mailers must use return information to update address  
13 databases for all future mailings.

14 3. As an experiment, data should be collected on authorized Address  
15 Change Service participating mailers’ use of the electronic address  
16 correction information

17 The Postal Service proposes a data collection plan “[i]n order both to implement  
18 and analyze the effect” of the Capital One NSA.<sup>28</sup> The Postal Service further proposes

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<sup>24</sup> Tr. 3/582 (OCA/USPS-T4-17(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; and, No Mail Receptacle.” *Id.*

<sup>25</sup> See Tr. 4/746 (OCA/USPS-T2-36(a)-(c)); see also Tr. 2/123-24.

<sup>26</sup> See Tr. 2/137.

<sup>27</sup> Tr. 2/135.

<sup>28</sup> USPS-T-2 (Plunkett), at 12.

1 that data collected under the plan would be reported annually following the end of each  
2 fiscal year, with the first report being made available after the end of FY 2003.<sup>29</sup>

3 The Postal Service's data collection plan is inadequate for the Capital One NSA,  
4 if recommended by the Commission, and for the proposed experimental mail  
5 classification. The plan fails to collect data on the volume of Capital One's First-Class  
6 solicitation mail that is forwarded, or the volume that is processed through CFS units or  
7 forwarded locally.<sup>30</sup> Moreover, the plan does not take into account the phased  
8 deployment of the Postal Automation Redirection System (PARS)<sup>31</sup> during the three-  
9 year period the NSA is in effect. Deployment of PARS will reduce Postal Service costs  
10 of processing UAA mailpieces.<sup>32</sup>

11 For the proposed experimental classification, a more extensive data collection  
12 plan is required. That plan should include the collection of data on the following  
13 items:<sup>33</sup>

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<sup>29</sup> Id.

<sup>30</sup> Under the Postal Service's current system of processing UAA mail, certain forwarded mailpieces are not processed through CFS units: mailpieces forwarded from "a destination delivery unit not covered by a CFS unit," and those "forwarded locally." See Institutional, APWU/USPS-T2-11(a) (revised 11/19/02).

<sup>31</sup> PARS uses new and enhanced optical character readers (OCRs) to identify and intercept UAA letters earlier in the mail sorting process, automatically label such letters, and redirect them to the correct address. PARS is expected to reduce the total processing time (and cost) for UAA letters, as compared to the current method of processing. See "Memo to Mailers," United States Postal Service, Volume 37, Number 8, August 2002, at 1-2. The first phase of PARS deployment—beginning in July 2003 and scheduled for completion in May 2004—will include 53 processing and distribution plants, automating nearly 25 percent of all forwarded letters once Phase I is fully implemented. Phase II of PARS deployment is expected to begin shortly after the conclusion of Phase I, extending deployment to the remaining processing plants by the fall of 2006. Institutional, APWU/USPS-T4-13(d)-(f).

<sup>32</sup> Tr. 3/540 (APWU/USPS-T4-3).

<sup>33</sup> If the Capital One NSA is recommended by the Commission, the Postal Service's data collection plan should include all the items of the data collection plan for this proposed experimental classification, except the first three items, which are inapplicable.

- 1           •       the number of First-Class mailers authorized by the Postal Service to  
2           receive electronic address correction notices under the experimental  
3           classification;<sup>34</sup>  
4
- 5           •       the number of First-Class mailers requesting authorization under the  
6           experimental classification whose requests were denied. This data shall  
7           be accompanied by all documentation supporting the Postal Service's  
8           determination to deny authorization;  
9
- 10          •       the number of First-Class mailers authorized by the Postal Service under  
11          the experimental classification whose authorization was withdrawn. This  
12          data shall be accompanied by all documentation supporting the Postal  
13          Service's determination to withdraw authorization;  
14
- 15          •       the total number of unique permit accounts used by each authorized First-  
16          Class mailer to enter presorted First-Class mailpieces;  
17
- 18          •       the volume of presorted First-Class mailpieces by rate category entered  
19          for each unique permit account;<sup>35</sup>  
20
- 21          •       the volume of presorted First-Class mailpieces that are forwarded, and the  
22          mailer's volume of repeat forwards.<sup>36</sup> The data collected should include  
23          the volume of mailpieces forwarded through CFS units, forwarded from  
24          destination delivery units not covered by a CFS unit, forwarded locally,  
25          and forwarded through PARS. To collect these data, a special study  
26          supported by accompanying documentation and calculations will be  
27          required;  
28

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<sup>34</sup> Pursuant to OCA's proposed changes to the DMCS, mailers must be authorized by the Postal Service to use both experimental classifications. OCA-T2 Attachment A, § 610.41; OCA-T2 Attachment B, § 620.41. Where the Postal Service declines to authorize a mailer pursuant to the experimental classifications, the Postal Service should report the reasons for any decision not to authorize such a mailer.

<sup>35</sup> This data was requested in the Postal Service's data collection plan. See USPS-T-2 (Plunkett), at 12.

<sup>36</sup> The Postal Service does not know the total number of First-Class mailpieces that are forwarded, although it has "some sense" for mailpieces "captured within processing in our CFS units." See Tr. 4/657. Nor does the Postal Service collect data on the number of mailpieces forwarded by specific First-Class mailer. *Id.* Moreover, Capital One has "no way to estimate" the total number of solicitation mailpieces that were forwarded in previous or future years. Tr. 2/89 (OCA/COS-T1-9(c)); see *also* Tr. 2/98 (OCA/COS-T1-18). As part of the data collection plan, the Postal Service should complete a special study on the volume of Capital One's forwarded mail for solicitation mailpieces.

- 1           •       the volume of presorted First-Class mailpieces physically returned to the  
2           mailer;<sup>37</sup>  
3
- 4           •       the number of electronic address correction notices provided to each  
5           authorized First-Class mailer for forwarded mailpieces, and separately for  
6           mailpieces that would otherwise be physically returned,<sup>38</sup> including the  
7           number processed by CFS units and PARS;  
8
- 9           •       the costs to the Postal Service of monitoring, by mailer, compliance with  
10          the requirements of the experimental classification, including the  
11          underlying documentation and calculations used to develop the cost  
12          figures;<sup>39</sup>  
13
- 14          •       an estimate of cost savings to the Postal Service of providing electronic  
15          notifications in terms of facilities closed (if any), craft positions eliminated,  
16          other labor cost savings, etc. A special study supported by accompanying  
17          documentation and calculations will be required to report these cost data;  
18          and  
19
- 20          •       separate estimates of the cost savings to the Postal Service of providing  
21          electronic notices for 1) pieces that are forwarded and 2) in lieu of the  
22          physical return of pieces that cannot be forwarded, including the effect on  
23          such cost estimates resulting from the implementation of PARS. A  
24          special study supported by accompanying documentation and calculations  
25          will be required to report these cost data.  
26

27               The Postal Service should report data developed separately or collected from  
28   existing data systems, such as the permit system or the address management system,  
29   annually within three months of the close of each fiscal year. The first report should be  
30   made available after the end of fiscal year 2003. Data developed as part of special  
31   studies should be reported six months after conclusion of the three-year experiment, or

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<sup>37</sup>       This data was requested in the Postal Service's data collection plan. See USPS-T-2 (Plunkett), at 12.

<sup>38</sup>       This data was requested in the Postal Service's data collection plan. *Id.*; see also Tr. 4/733 (OCA/USPS-T2-23).

<sup>39</sup>       In addition to the monitoring costs for the Capital One NSA, the Postal Service should report the costs of negotiating and litigating the agreement. Moreover, the Postal Service should report such negotiation and litigation costs for any subsequent NSA concluded by the Postal Service.

1 concurrently with a Postal Service request for a permanent classification change,  
2 whichever is earlier.

3 B. Offering the Proposed Experimental Address Correction Service At No  
4 Charge Reduces Costs to the Postal Service and First-Class Mailers

5 The proposed experimental address correction service will reduce costs to the  
6 Postal Service and authorized First-Class mailers. According to the Postal Service,  
7 each electronic notice reduces costs to the Postal Service when a First-Class mailpiece  
8 is forwarded or in lieu of physical return. Witness Crum estimates that an electronic  
9 notice is less costly to provide than physically returning a mailpiece to the mailer.<sup>40</sup> This  
10 estimate of reduced costs, based upon Capital One's circumstances, would be the  
11 same for any First-Class mailer that received electronic notices in lieu of physical  
12 returns in the same manner as Capital One.<sup>41</sup> Witness Crum also maintains that in the  
13 case of Capital One, electronic notices reduce Postal Service costs by reducing the  
14 number of mailpieces that are repeat forward to an address.<sup>42</sup> This estimate of reduced  
15 costs, although less certain than the savings for avoided physical returns, suggests that  
16 additional cost reductions will accrue to the Postal Service from electronic address  
17 correction notices for forwarded mailpieces.<sup>43</sup>

18 Moreover, electronic notices are expected to reduce mailers' costs. Mailers  
19 currently participating in the ACS program will receive their electronic notices at no

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<sup>40</sup> USPS-T-3 (Crum), at 5; see also Tr. 3/389-90.

<sup>41</sup> See Tr. 2/296-97 (OCA/USPS-T3-7 and 8).

<sup>42</sup> See Tr. 2/284 (NAA/USPS-T3-11); see also Tr. 2/320-21 (Response of United States Postal Service Witness Crum to Presiding Officer's Information Request No. 2, Question 7).

<sup>43</sup> Tr. 2/303-04 (OCA/USPS-T3-16(d)).

1 charge, saving the 20-cent per piece fee for electronic notifications. Mailers not  
2 participating in the ACS program pay nothing for forwarding and return of their First-  
3 Class mailpieces, as free forwarding and return is a service feature of First-Class Mail.  
4 However, receiving electronic notices in lieu of physical returns is expected to reduce  
5 mailers' costs of handling such mailpieces.<sup>44</sup> In the case of Capital One, savings will  
6 include a reduction in the amount of "keying" associated with mailpieces that are  
7 currently physically returned.<sup>45</sup> Moreover, electronic notices will provide mailers with  
8 more timely and "richer" data for use in updating address databases.<sup>46</sup>  
9

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<sup>44</sup> Tr. 2/85 (OCA/COS-T1-3(b)).

<sup>45</sup> See Tr. 2/113 (OCA/COS-T1-32(d)).

<sup>46</sup> Tr. 2/42 (Jean, COS-T-1); *see also* Tr. 2/134.

1 IV. EXPERIMENTAL VOLUME-BASED DECLINING BLOCK RATES SHOULD BE  
2 OFFERED TO INTERESTED FIRST-CLASS MAILERS THAT RECEIVE  
3 ADDRESS CORRECTION INFORMATION UNDER THE EXPERIMENTAL  
4 ADDRESS CORRECTION SERVICE

5 First-Class mailers receiving electronic notices under the proposed experimental  
6 address correction service would have access to volume-based declining block rates.  
7 As proposed here, interested mailers could elect volume-based declining block rates,  
8 whereby mailers pay otherwise applicable First-Class rates and receive discounts for  
9 additional volumes. Structured in this manner, volume-based declining block rates  
10 serve as an incentive for interested mailers to provide additional volumes of First-Class  
11 Mail while minimizing financial risks to the Postal Service.

12 A. Volume-Based Declining Block Rates Can Be Structured to Offer  
13 Interested First-Class Mailers Incentives to Provide Additional Volumes of  
14 Mail

15 The Capital One NSA features a volume threshold for discounts determined  
16 through negotiation.<sup>47</sup> Under the NSA, Capital One will have access to volume-based  
17 discounts when its qualified First-Class Mail volume exceeds a threshold of 1.225 billion  
18 mailpieces. Discounts begin at 3 cents and rise by one-half cent for additional, or  
19 incremental, quantities of mail above the volume threshold.

20 Unlike the Capital One NSA, I propose that a unique volume threshold be  
21 developed by the Postal Service for each interested First-Class mailer based upon the  
22 mailer's known, historical mail volume. Like the Capital One NSA, however, larger  
23 discounts would be available for incremental volumes calculated from that unique  
24 volume threshold. In contrast to the NSA, the total discounts available to any one

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<sup>47</sup> USPS-T-2 (Plunkett), at 5.

1 mailer would be limited to a maximum quantity of mail equal to 15 percent of a mailer's  
2 unique volume threshold.

3           1.     A unique volume threshold for each mailer will determine the initial  
4                   discount for additional volume

5           For the proposed experimental classification, a mailer's recent historic First-  
6 Class Mail volume can be used to develop a volume threshold. Such historic volume  
7 data, if publicly available and verifiable, provide an objective basis for estimating future  
8 volume. Mail volumes provided by First-Class presort mailers likely to be interested in  
9 the experimental classification are verifiable by the Postal Service through mailer  
10 identification of their permit accounts.<sup>48</sup> Using its own and/or publicly available data,  
11 the Postal Service must develop each mailer's unique volume threshold under the  
12 experimental classification. In other words, volume thresholds must be developed  
13 without reliance on unverifiable statements of mailers.

14           2.     Larger discounts will be available for additional mail volumes,  
15                   based upon incremental volume ranges

16           Discounts would be available for additional volumes in excess of the mailer's  
17 unique threshold. Increasingly larger discounts will be available as mailers provide  
18 additional volumes of First-Class Mail. The amount of discounts available is based  
19 upon the quantity of additional volume or "incremental volume blocks." The absolute  
20 size of each incremental volume block is calculated as a proportion of each mailer's  
21 unique volume threshold.

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<sup>48</sup> Institutional, OCA/USPS-4; see *also* Institutional, OCA/USPS-3.

1 Table 1 shows the structure of discounts to be provided Capital One where  
 2 volumes exceed the 1.225 billion threshold. A 3-cent discount is provided for the first  
 3 incremental volume block of 50 million mailpieces. Discounts increase by one-half cent  
 4 for each incremental volume block of 50 million mailpieces, up to 1.375 billion. After  
 5 1.375 billion mailpieces, discounts continue to increase by one-half cent, but the  
 6 incremental volume blocks increase to 75 million mailpieces, with a maximum discount  
 7 of 6 cents for volumes in excess of 1.6 billion mailpieces. Column 3 shows the  
 8 percentage increase in volume from the volume threshold required by Capital One to  
 9 obtain each successively larger discount.

**TABLE 1**

Structure of Declining Block Discounts  
 Capital One NSA

[1] <u>Incremental Volume Blocks</u>	[2] <u>to</u>	[3] <u>% Change</u>	[4] <u>Discount</u>
1,225,000,001	to 1,275,000,000	4.1%	\$0.030
1,275,000,001	to 1,325,000,000	8.2%	\$0.035
1,325,000,001	to 1,375,000,000	12.2%	\$0.040
1,375,000,001	to 1,450,000,000	18.4%	\$0.045
1,450,000,001	to 1,525,000,000	24.5%	\$0.050
1,525,000,001	to 1,600,000,000	30.6%	\$0.055
1,600,000,001	to above		\$0.060

11 I propose a similarly structured schedule of discounts for each interested mailer,  
 12 based upon their unique volume threshold. Table 2 shows the rate schedule for my  
 13 proposed experimental classification, incorporating Capital One’s volume threshold, i.e.,  
 14 “Discount Threshold,” for illustration. Using the approximate percentage increase for  
 15 each incremental volume block applicable to Capital One from Table 1, I establish  
 16 incremental volume blocks that increase by 4, 8 and 12 percent for the first three  
 17 volume blocks, and 18, 24 and 30 percent for the last three volume blocks. Capital

1 One's volume threshold is highly problematic, as described in the testimony of witness  
 2 Smith (OCA-T-1). However, based upon Capital One's threshold of 1.225 billion  
 3 mailpieces, the incremental volume blocks and available discounts would be those  
 4 shown (for illustration) in Table 2.

**TABLE 2**

## RATE SCHEDULE 620A

<b>Discount Threshold =</b>		1,225,000,000		
[1]		[2]	[3]	[4]
<u>Incremental</u>	<u>Volume</u>	<u>Blocks</u>	<u>% Change</u>	<u>Discount</u>
1,225,000,001	to	1,274,000,000	4.0%	\$0.030
1,274,000,001	to	1,323,000,000	8.0%	\$0.035
1,323,000,001	to	1,372,000,000	12.0%	\$0.040
1,372,000,001	to	1,445,500,000	18.0%	\$0.045
1,445,500,001	to	1,519,000,000	24.0%	\$0.050
1,519,000,001	to	1,592,500,000	30.0%	\$0.055
1,592,500,001	to	above		\$0.060

5  
 6 Unlike the Capital One NSA, the total amount of discounts available to any one  
 7 mailer would be limited under this proposed experimental classification. A mailer could  
 8 claim discounts on a maximum volume equal to 15 percent of each mailer's unique  
 9 volume threshold. However, the mailer could claim the highest discounts allowable on  
 10 the mailer's incremental volume up to the maximum volume of 15 percent. The 15  
 11 percent maximum volume represents the percentage difference between Capital One's  
 12 projected volume of 1.408 billion and its volume threshold of 1.225 billion, i.e., 15  
 13 percent  $[(1.408 - 1.225) / 1.225]$  (rounded to the nearest integer). Thus, fifteen percent  
 14 of Capital One's volume threshold equals 183.75 million  $(0.15 * 1.225)$  mailpieces.

15 An example, based upon Capital One's volume threshold, incremental volume  
 16 blocks and discounts shown in Table 2, can illustrate the operation of the 15 percent

1 limit.<sup>49</sup> For purposes of this example, assume Capital One mails 1.8 billion mailpieces  
 2 in a year. Absent the discount limit, Capital One could claim discounts for volumes at  
 3 each incremental volume block as shown in Rate Schedule 620A: 3 cents per piece for  
 4 incremental volume of 49 million (1.274 - 1.225 billion) mailpieces, 3.5 cents per piece  
 5 for the next incremental volume of 49 million (1.323 - 1.274 billion) mailpieces, etc.  
 6 Capital One could also claim 6 cents per piece for the remaining incremental volume of  
 7 207.5 million (1.8000 - 1.5925 billion) mailpieces. The total discounts claimed would  
 8 equal \$28.6 million  $[(\$0.030 * (1.274 - 1.225 \text{ billion})) + (\$0.035 * (1.323 - 1.274 \text{ billion}))$   
 9  $+ (\$0.040 * (1.372 - 1.323 \text{ billion})) + (\$0.045 * (1.4455 - 1.3720 \text{ billion})) + (\$0.050 *$   
 10  $(1.5190 - 1.4455 \text{ billion})) + (\$0.055 * (1.5925 - 1.5190 \text{ billion})) + (\$0.060 * (1.8000 -$   
 11  $1.5925 \text{ billion}))]$ . With discounts limited to 15 percent of the volume threshold, the total  
 12 amount of discounts claimed by Capital One would be \$11.25 million  $(\$0.060 * 183.75$   
 13 million).

14 Assume in another year Capital One mails 1.5925 billion mailpieces, which falls  
 15 within the last bounded incremental volume block. The total amount of discounts  
 16 claimed would be limited to 183.75 million  $(0.15 * 1.225 \text{ billion})$  mailpieces times the

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<sup>49</sup> This same example, based upon Capital One's volume threshold, incremental volume blocks and discounts proposed in the NSA, would produce the following results: Absent the discount limit, if Capital One mails 1.8 billion mailpieces, it could claim discounts for volumes at each incremental volume block as shown in Table 1: 3 cents per piece for incremental volume of 50 million (1.275 - 1.225 billion) mailpieces, 3.5 cents per piece for the next incremental volume of 50 million (1.325 - 1.275 billion) mailpieces, etc. Capital One could also claim 6 cents per piece for the remaining incremental volume of 200 million (1.800 - 1.600 billion) mailpieces. The total discounts claimed would equal \$28.5 million  $[(\$0.030 * (1.275 - 1.225 \text{ billion})) + (\$0.035 * (1.325 - 1.275 \text{ billion})) + (\$0.040 * (1.375 - 1.325 \text{ billion})) + (\$0.045 * (1.45 - 1.375 \text{ billion})) + (\$0.050 * (1.525 - 1.450 \text{ billion})) + (\$0.055 * (1.600 - 1.525 \text{ billion})) + (\$0.060 * (1.8000 - 1.600 \text{ billion}))]$ . With discounts limited to 15 percent of the volume threshold, the total amount of discounts claimed by Capital One would be \$11.25 million  $(\$0.060 * 183.75 \text{ million})$ . Assume in another year Capital One mails 1.600 billion mailpieces, which falls within the last bounded incremental volume block. The total amount of discounts claimed would be limited to 183.75 million  $(0.15 * 1.225 \text{ billion})$  mailpieces times the highest applicable discounts in the discount schedule. Thus, Capital One could claim total discounts (continued on next page)

1 highest applicable discounts in the discount schedule. Thus, Capital One could claim  
 2 total discounts equal to \$9.4 million [(\$0.055 \* (1,592.5 – 1,519.0 million)) +(\$0.050 \*  
 3 (1,519.0 – 1,445.0 million)) + (183.75 million – ((1,592.5 – 1,519.0 million) + (1,519.0 –  
 4 1,445.5 million))) \* \$0.045].

5 3. Data should be collected on the discounts paid to, and volumes  
 6 provided by, mailers

7 By design, volume-based discounts are not cost-based; the size of the discounts  
 8 is not related to specific estimates of cost reductions to the Postal Service.<sup>50</sup> As a  
 9 consequence, data collected under the experimental volume-based declining block rate  
 10 classification can be more limited.

11 In more specific terms, the data collection plan for this proposed experimental  
 12 classification should include the following items:<sup>51</sup>

- 13 • the number of First-Class mailers authorized by the Postal Service that  
 14 received discounts under the experimental classification;
- 15 • the number of First-Class mailers requesting authorization under the  
 16 experimental classification whose requests were denied. This data shall  
 17 be accompanied by all documentation supporting the Postal Service's  
 18 determination to deny authorization;
- 19 • the number of First-Class mailers authorized by the Postal Service under  
 20 the experimental classification whose authorization was withdrawn. This  
 21 data shall be accompanied by all documentation supporting the Postal  
 22 Service's determination to withdraw authorization;
- 23
- 24
- 25

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equal to \$9.4 million [(\$0.055 \* (1,600.0 – 1,525.0 million)) +(\$0.050 \* (1,525.0 – 1,450.0 million)) +  
 (183.75 million – ((1,600.0 – 1,525.0 million) + (1,525.0 – 1,450.0 million))) \* \$0.045].

<sup>50</sup> Tr. 2/350-51; see *a/so* Institutional, OCA/USPS-T3-14.

<sup>51</sup> If the Capital One NSA is recommended by the Commission, the Postal Service's data collection plan should include all the items of the data collection plan for this proposed experimental classification, except the first four items, which are inapplicable.

- 1           •     the publicly available and/or verifiable First-Class Mail volume data relied  
2                     upon by the Postal Service in determining each mailer's unique volume  
3                     threshold, including all supporting documentation and calculations used in  
4                     determining the volume threshold;  
5  
6           •     the total number of unique permit accounts used by each authorized First-  
7                     Class mailer to enter First-Class mailpieces;  
8  
9           •     the volume of First-Class mailpieces by rate category entered for each  
10                    unique permit account;<sup>52</sup>  
11  
12          •     the amount of discounts paid by rate category for each authorized First-  
13                    Class mailer;<sup>53</sup> and  
14  
15          •     the costs (if any) to the Postal Service of monitoring mailer compliance  
16                    with the requirements of the experimental classification.  
17

18           Data collected pursuant to this experimental classification should be reported at  
19           the same time as data collected for the proposed experimental address correction  
20           service is reported.

21           B.     Linking Volume-Based Declining Block Rates and Experimental Address  
22                    Correction Service Reduces Risk to the Postal Service and Increases the  
23                    Likelihood of Additional Contributions to Institutional Costs

24           Volume-based declining block rates pose financial risks to the Postal Service.  
25           These financial risks arise because of the lack of certainty in establishing a volume  
26           threshold. The most significant of these risks is the payment of discounts for volumes  
27           that would be mailed even in the absence of the discounts.<sup>54</sup> Consequently, where the  
28           volume threshold is set too "low," discounts are paid for mail volumes on which no  
29           discount would otherwise be warranted. Less problematic is the failure of additional

---

<sup>52</sup>     This data was requested in the Postal Service's data collection plan. See USPS-T-2 (Plunkett), at  
12.

<sup>53</sup>     This data was requested in the Postal Service's data collection plan. Id.

<sup>54</sup>     See the testimony of OCA witness Smith (OCA-T-1).

1 volumes to materialize. A volume threshold set too “high” would prevent mailers from  
2 providing volumes in excess of the threshold, thereby precluding additional  
3 contributions to institutional costs.

4 For many reasons, the establishment of the “correct” volume threshold is  
5 unknowable. However, the risks associated with establishing a threshold can be  
6 minimized. One means is to base the threshold upon publicly available and verifiable  
7 historical volume data. Moreover, linking the volume-based declining block rates with  
8 known measures that reduce costs to the Postal Service also minimizes financial  
9 risks.<sup>55</sup> Finally, limiting the total amount of discounts paid to any one mailer is another  
10 means of limiting the Postal Service’s financial risk. This experimental classification  
11 relies on all three means.

12 Under the experimental classification, a First-Class mailer’s access to the  
13 volume-based declining block rates is linked to participation in the experimental address  
14 correction service. In this manner, financial risks to the Postal Service are reduced.  
15 Every piece of First-Class Mail “returned” electronically reduces Postal Service costs,  
16 and thereby makes an additional contribution to the Postal Service—even if mail  
17 volumes do not exceed the volume threshold. Moreover, it appears additional savings  
18 accrue to the Postal Service when electronic notices reduce the number of mailpieces  
19 that would be repeat forwards. Only where mail volumes exceed the threshold are  
20 discounts paid, and the incremental volumes are likely to provide an additional

---

<sup>55</sup> The structure of the volume-based discounts also serves to reduce financial risks to the Postal Service. Under the NSA and this proposed experimental classification, discounts are paid only for incremental mail volumes above a volume threshold rather than for the entire volume of mail. USPS-T-2, at 4; see also Tr. 4/817.

1 contribution to institutional costs. In this manner, linking access to volume-based  
2 declining block rates with the experimental address correction service provides some  
3 protection to the Postal Service from the financial risks associated with volume-based  
4 declining block rates if offered independently.<sup>56</sup>

5 More directly, limiting the total amount of discounts paid to each mailer limits the  
6 Postal Service's financial risk associated with developing a volume threshold that is too  
7 "low." At the same time, however, limiting the total amount of discounts available limits  
8 the additional contribution the Postal Service can obtain from the mailer.

9 Moreover, under the experimental classification, the Postal Service has an  
10 affirmative duty to find that any First-Class mailer, if authorized access to the volume-  
11 based declining block rates, will generate an additional contribution to institutional  
12 costs. To the extent the Postal Service does not find an additional contribution will be  
13 likely, it may decline to authorize a mailer's access to the volume-based declining block  
14 rates.

15

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<sup>56</sup> Institutional, OCA/USPS-T3-14; see also Tr. 4/849-50.

1 V. THE PROPOSED EXPERIMENTAL CLASSIFICATIONS FOR ADDRESS  
2 CORRECTION SERVICE AND VOLUME-BASED DECLINING BLOCK RATES  
3 ARE CONSISTENT WITH THE POSTAL REORGANIZATION ACT

4 The Postal Reorganization Act, at Sections 3622 and 3623, requires that the  
5 Postal Rate Commission make recommended decisions on requested changes to the  
6 mail classification schedule and rates and fees in accordance with the policies of the  
7 Act, and several specific "factors." The factors, or criteria, to be considered with respect  
8 to mail classification changes are enumerated in Section 3623(c), paragraphs 1 through  
9 6.

- 10 1) the establishment and maintenance of a fair and equitable classification  
11 system for all mail;
  - 12 2) the relative value to the people of the kinds of mail matter entered into the  
13 postal system and the desirability and justification for special  
14 classifications and services of mail;
  - 15 3) the importance of providing classifications with extremely high degrees of  
16 reliability and speed of delivery;
  - 17 4) the importance of providing classifications which do not require an  
18 extremely high degree of reliability and speed of delivery;
  - 19 5) the desirability of special classifications from the point of view of both the  
20 user and of the Postal Service; and
  - 21 6) such other factors as the Commission may deem appropriate.
- 22  
23  
24  
25  
26  
27

28 The criteria to be considered with respect to changes in postal rates and fees are  
29 found in Section 3622(b), paragraphs 1 through 9.

- 30 1) the establishment and maintenance of a fair and equitable schedule;
- 31 2) the value of mail service actually provided each class or type of mail  
32 service to both the sender and recipient including, but not limited to the  
33 collection, mode of transportation, and priority of delivery;
- 34
- 35

- 1           3)     the requirement that each class of mail or type of mail service bear the  
2                 direct and indirect postal costs attributable to that class or type plus that  
3                 portion of all other costs of the Postal Service reasonably assignable to  
4                 such class or type;
- 5
- 6           4)     the effect of rate increases upon the general public, business mail users,  
7                 and enterprises in the private sector of the economy engaged in the  
8                 delivery of mail matter other than letters;
- 9
- 10          5)     the available alternative means of sending and receiving letters and other  
11                 mail matter at reasonable costs;
- 12
- 13          6)     the degree of preparation of mail for delivery into the postal system  
14                 performed by the mailer and its effect upon reducing costs to the Postal  
15                 Service;
- 16
- 17          7)     simplicity of structure for the entire schedule and simple, identifiable  
18                 relationships between rates or fees charged the various classes of mail for  
19                 postal services;
- 20
- 21          8)     the educational, cultural, scientific, and informational value to the recipient  
22                 of mail matter; and
- 23
- 24          9)     such other factors as the Commission deems appropriate.
- 25

26           I have considered the relevant classification criteria with respect to my  
27     development of the proposed classifications for Experimental Automated Address  
28     Correction Service and Experimental Volume-Based Declining Block Rates. In  
29     proposing the rate and fee changes for the experimental classifications, I have  
30     considered the relevant pricing criteria. The proposed experimental classifications  
31     reflect my judgement as to the application of the classification and rate criteria.

32           A.     The Proposed Experimental Address Correction Service Satisfies the  
33                 Classification and Rate Criteria of the Act

34           The Experimental Automated Address Correction Service is available to all First-  
35     Class mailers authorized by the Postal Service that receive electronic address  
36     correction information and undertake certain actions to improve their address

1 databases. In exchange for receiving electronic address correction information, the  
2 current 20-cent fee for each electronic notice would be waived. These features of the  
3 experimental classification and waiver of the current fee satisfy the classification and  
4 pricing criteria of the Act.

5 1. The proposed experimental classification for address correction  
6 service promotes fairness and equity, and would benefit First-Class  
7 mailers and the Postal Service

8 The proposed classification for experimental address correction service  
9 contributes to “the establishment and maintenance of a fair and equitable classification  
10 system.” (Criterion 1) The proposed classification offers all authorized First-Class  
11 mailers electronic address corrections at no charge. Mailers who can meet the  
12 requirements not only receive electronic address corrections at no charge; they can  
13 also access volume-based declining block rates, if interested.

14 The proposed electronic address correction service is a desirable “special  
15 classification[ ] from the point of view of both the user and the Postal Service.”  
16 (Criterion 5) From the point of view of First-Class mailers, CSR, Option 2 is a desirable  
17 change in the ACS program.<sup>57</sup> The proposed experimental classification offers CSR,  
18 Option 2 to all authorized First-Class mailers at no charge. From the point of the Postal  
19 Service, offering electronic address corrections at no charge reduces costs to the  
20 Postal Service from reduced physical returns and better addresses that reduce repeat  
21 forwards. Moreover, offering electronic address corrections at no charge should induce  
22 First-Class mailers to participate in the experimental classification, thereby increasing  
23 the total reduction in Postal Service costs.

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<sup>57</sup> Tr. 3/544 (APWU/USPS-T4-7).

1                   2.       Waiver of the electronic address correction fee promotes fairness  
2                                   and equity in pricing, and satisfies other pricing criteria of the Act

3                   Waiver of the current electronic address correction fee is responsive to “the  
4                   establishment and maintenance of a fair and equitable schedule.” (Criterion 1) Costs  
5                   to the Postal Service are reduced for every mailpiece that is not physically returned to  
6                   the mailer. Electronic notices for mailpieces that are forwarded are also expected to  
7                   reduce Postal Service costs. Under such circumstances, it is only fair and equitable  
8                   that the fee be waived. Moreover, waiving the fee is fair and equitable in another  
9                   sense: all authorized First-Class mailers may avoid the address correction fee for  
10                  undertaking the same requirements.

11                  Waiver of the current electronic address correction fee also serves to enhance  
12                  “the value of mail service actually provided.” (Criterion 2) Mailers presently receiving  
13                  electronic address corrections would receive the same service at no charge. Mailers  
14                  who are not now but become participants in the ACS program could avail themselves of  
15                  the opportunity to obtain electronic address correction information under the  
16                  experimental classification at no charge.

17                  Waiver of the electronic address correction fee will provide an additional  
18                  contribution to the institutional costs of the Postal Service. (Criterion 3) Postal Service  
19                  costs are reduced for every piece of First-Class Mail not physically returned and by  
20                  reducing the number of mailpieces that are repeat forwards, thereby generating  
21                  additional contribution to the institutional costs of First-Class Mail.

22                  Waiver of the electronic address correction fee will have a beneficial effect on  
23                  business mail users of the proposed classification. (Criterion 4) No authorized First-  
24                  Class mailer under the experimental classification will experience an increase in fees.

1 Fees for current ACS participant mailers authorized under the experimental  
2 classification will be waived. Mailers not currently ACS participants that become  
3 authorized under the experimental classification will receive electronic address  
4 correction notices at no charge.

5         Waiving the electronic address correction fee will improve “the degree of  
6 preparation of mail for delivery into the postal system performed by the mailer and its  
7 effect upon reducing costs to the Postal service.” (Criterion 6) As noted previously,  
8 reducing the number of First-Class mailpieces physically returned reduces costs to the  
9 Postal Service. Similarly, reducing the number of mailpieces that are repeat forwards  
10 reduces costs to the Postal Service. In order to obtain the fee waiver, mailers must  
11 update their address databases with electronic address correction information with  
12 respect to mailpieces that would otherwise be physically returned, and correct their  
13 address databases with electronic information with respect to mailpieces that are  
14 forwarded. Mailers must also comply more frequently with existing premailing address  
15 hygiene requirements, which will further improve the quality of addresses used in  
16 mailings.

17         Waiving the electronic address correction fee must be considered in the context  
18 of the “simplicity of structure of the entire schedule and simple, identifiable relationships  
19 between the rates or fees charged.” (Criterion 7) Waiving the fee adds a slight degree  
20 of complexity to the fee schedule by effectively establishing another fee (e.g., \$0).  
21 However, this fact should be balanced against the overall reduction in costs to the  
22 Postal Service, and the elimination of the fee for participating mailers.

1           B.     The Proposed Experimental Volume-Based Declining Block Rates Accord  
2                     with the Classification and Pricing Criteria of the Act

3           The Experimental Volume-Based Declining Block Rate classification offers  
4 interested First-Class mailers volume-based discounts for incremental volumes of First-  
5 Class Mail. This proposed classification satisfies the mail classification and pricing  
6 criteria, and would benefit the Postal Service and interested First-Class mailers.

7                     1.     The proposed experimental classification for volume-based  
8                             declining block rates promotes fairness and equity, and would  
9                             benefit First-Class mailers and the Postal Service

10           The proposed classification for volume-based declining block rates creates "a fair  
11 and equitable classification system." (Criterion 1) The proposed classification offers all  
12 interested First-Class mailers access to discounted rates for additional mail volumes in  
13 exchange for receiving address change information electronically. Mailers who  
14 participate in the experimental address change service can, if interested, have access  
15 to volume-based declining block rates.

16           The proposed classification responds to "the desirability of special classifications  
17 from the point of view of both the user and the Postal Service." (Criterion 5) Volume-  
18 based declining block rates under the experimental classification can be beneficial to  
19 both mailers and the Postal Service. From the point of view of First-Class mailers, the  
20 experimental classification presents an opportunity to obtain reduced rates for  
21 incremental volumes. From the point of the Postal Service, offering volume-based  
22 discounts as an experimental classification to interested First-Class mailers presents a  
23 new opportunity to reduce costs, generate additional First-Class mail volume and obtain  
24 additional contributions to institutional costs while limiting financial risks to the Postal  
25 Service.

1                   2.     The proposed discounts for additional volume promote fairness  
2                             and equity in pricing, and satisfy other pricing criteria of the Act

3             The proposed discounts for additional mail volume contribute to “the  
4 establishment and maintenance of a fair and equitable schedule.” (Criterion 1)  
5 Interested First-Class mailers will have access to the same discounts on equivalent  
6 terms. As a result, fairness and equity is enhanced as compared to the NSA. In this  
7 manner, firms who view themselves as competitors are placed on an equal footing, at  
8 least with respect to postal rates.

9             The proposed discounts would enhance “the value of the mail service actually  
10 provided” to First-Class mailers. (Criterion 2) Discounts for incremental mail volumes  
11 as proposed in the experimental classification are not presently a feature of the current  
12 rate schedule. All interested First-Class mailers authorized by the Postal Service that  
13 are able to provide additional volumes would receive existing mail services at a lower  
14 price.

15             The proposed discounts should provide an additional contribution to the  
16 institutional costs of the Postal Service. (Criterion 3) Given the relatively high  
17 institutional cost coverage on presort First-Class Mail, additional volumes prompted by  
18 the discounts should cover the cost of the volume-based discounts. Nevertheless, the  
19 total amount of discounts paid will be limited. In this manner, the volume-based  
20 declining block rates hold out the potential that mailers will offer additional volumes,  
21 thereby generating additional contributions to the institutional costs of the Postal  
22 Service and at the same time limit financial risks.

23             The proposed discounts will have a beneficial effect on business users of First-  
24 Class Mail. (Criterion 4) Authorized mailers under the experimental classification will

1 pay lower rates on additional volumes of First-Class Mail in excess of their unique  
2 volume threshold. First-Class mailers not participating in the experimental classification  
3 will not experience any increase in rates.

4 The proposed discounts promote “simplicity of structure for the entire [rate]  
5 schedule and simple, identifiable relationships between the rates or fees charged.”

6 (Criterion 7) The proposed rate schedule consists of seven new discounts, a modest  
7 degree of complexity that should be manageable for sophisticated mailers likely to take  
8 advantage of the volume-based discounts. Moreover, the proposed rate schedule of  
9 volume-based discounts demonstrates simple, identifiable rate relationships. Interested  
10 First-Class mailers offering additional volumes in excess of their unique threshold  
11 receive discounts, which increase at incremental volume blocks above the threshold.

12

1 VI. CONCLUSION

2 I propose two new experimental mail classifications—Experimental Automated  
3 Address Correction Service and Experimental Volume-Based Declining Block Rates—  
4 as alternatives to the NSA concluded between the Postal Service and Capital One.

5 These experimental classifications are based upon, and improve upon, the two principal  
6 features of the NSA, and would be available to all First-Class mailers authorized by the  
7 Postal Service. Experimental Automated Address Correction Service would provide  
8 authorized First-Class mailers electronic address correction notices at no charge,  
9 provided mailers correct and update (and take other actions to improve) their address  
10 databases used for subsequent mailings. The Experimental Volume-Based Declining  
11 Block Rates classification would provide interested mailers participating in the  
12 experimental address correction service access to volume-based declining block rates  
13 on objective terms, thereby eliminating the Postal Service's need to negotiate  
14 separately with individual mailers and reliance on unverifiable, private information.  
15 Collectively, the experimental classifications present the Postal Service with an  
16 opportunity to obtain additional contributions to institutional costs and to reduce costs,  
17 while limiting the Postal Service's financial risk.

## **DOMESTIC MAIL CLASSIFICATION SCHEDULE LANGUAGE**

### **610 EXPERIMENTAL AUTOMATED ADDRESS CORRECTION SERVICE**

#### **610.1 Definition**

Experimental Automated Address Correction Service provides Address Correction Service described in section 911.11 to authorized First-Class mailers. Such mailers receive electronic records of address correction information for eligible First-Class Mail that is undeliverable-as-addressed. Experimental Automated Address Correction Service provided under this section will result in the forwarding of undeliverable-as addressed pieces that can be forwarded and the disposal by the Postal Service of undeliverable-as addressed pieces that cannot be forwarded.

#### **610.2 Availability**

Experimental Automated Address Correction Service is available only to First-Class mailers that participate in the Address Change Service program, are authorized by the Postal Service, and that enter eligible First-Class Mail defined under section 610.3.

#### **610.3 Eligible First-Class Mail**

Eligible First-Class Mail under this section is defined as presort First-Class Mail that bears the endorsement specified by the Postal Service. Eligible First-Class Mail does not include Business Reply Mail, Qualified Business Reply Mail, Cards, or Priority Mail.

#### **610.4 Requirements of the Mailer**

610.41 Mailers must receive authorization from the Postal Service to use Experimental Automated Address Correction Service; **provided**, the Postal Service finds there is a reasonable expectation that any mailer so authorized will make an additional contribution to institutional costs due to usage of Experimental Automated Address Correction Service. However, the Postal Service may deny authorization for any legitimate data collection, administrative or logistical reason.

610.42 Mailers must be Address Change Service participants. Mailers will provide the Postal Service with a commitment to retrieve or receive Address Change Service address correction records weekly or more often.

610.43 Mailers must comply with published Postal Service Move Update requirements through either NCOA match or FastForward, and use only addresses that have been processed against NCOA/CASS databases within the 60 calendar days prior to mailing.

610.44 Mailers must enter eligible First-Class Mail through unique permit accounts. Mailers will provide the Postal Service with the numbers of such unique permit accounts, which may be used only upon Postal Service acknowledgement. Mailers must use different permit accounts for ineligible First-Class Mail.

610.45 Mailers must notify the Postal Service of all return addresses for eligible First-Class Mail. Mailers must use different return addresses for ineligible First-Class Mail.

610.46 Mailers must meet the documentation and audit requirements of the Postal Service.

## **610.5 Requirements of the Postal Service**

610.51 The Postal Service must provide a written statement to a mailer denied authorization pursuant to section 610.41, providing the reasons for denial. Each such statement shall state whether or not the reason(s) for denial are based upon a Postal Service determination that:

- (a) there is not a reasonable expectation that the mailer will make an additional contribution to institutional costs;
- (b) data collection will be infeasible;
- (c) administration of the Experimental Automated Address Correction Service for the mailer will be unduly difficult and/or costly; and/or
- (d) logistics in providing Experimental Automated Address Correction Service to the mailer will be unduly difficult and/or costly.

610.52 Each statement required in section 610.51 (a) through (d) shall set forth the facts and reasons leading to a determination to deny authorization.

## **610.6 Waiver of Address Correction Fees**

The fees for address correction in Fee Schedule 911 are waived for

eligible First-Class Mail pieces that are undeliverable-as-addressed and that bear the endorsement specified by the Postal Service; **provided**, the mailer meeting the requirements of section 610.4

- (a) corrects, with respect to forwarded pieces, in all its address databases those addresses identified in address correction records within 2 days after receipt of such records,
- (b) updates, with respect to pieces that would otherwise be physically returned, in all its address databases those addresses identified in address correction records within 2 days after receipt of such records, and
- (c) utilizes such corrected and updated address databases in all future mailings.

#### **610.7 Cancellation**

610.71 The Postal Service may withdraw authorization granted to a mailer pursuant to section 610.41 upon a finding that the expected additional contribution to institutional costs due to that mailer's usage of Experimental Automated Address Correction Service has not, and will not, materialize. If authorization is withdrawn, the Postal Service must provide a written statement to the affected mailer setting forth the facts and reasons for the withdrawal.

#### **610.8 Expiration**

This provision (Section 610) expires 3 years from the implementation date set by the Board of Governors.

#### **610.9 Precedence**

To the extent any provision of section 610 is inconsistent with any other provision of the Domestic Mail Classification Schedule, the former shall control.

## **DOMESTIC MAIL CLASSIFICATION SCHEDULE LANGUAGE**

### 620 **EXPERIMENTAL VOLUME-BASED DECLINING BLOCK RATES**

#### 620.1 **Definition**

Experimental Volume-Based Declining Block Rates are successively lower rates for incremental volumes of eligible First-Class Mail where such volumes exceed a threshold determined in accordance with section 620.6 below.

#### 620.2 **Availability**

Experimental Volume-Based Declining Block Rates are available only to First-Class mailers that are authorized by the Postal Service, and are authorized Experimental Automated Address Correction Service mailers under section 610.

#### 620.3 **Eligible First-Class Mail**

Eligible First-Class Mail under this section is defined as letter-shaped automation compatible First-Class Mail that bears the endorsement specified by the Postal Service. Eligible First-Class Mail does not include Business Reply Mail, Qualified Business Reply Mail, Cards, or Priority Mail.

#### 620.4 **Requirements of the Mailer**

620.41 Mailers must receive authorization from the Postal Service to obtain access to volume-based declining block rates; **provided**, the Postal Service finds there is a reasonable expectation that any mailer so authorized will make an additional contribution to institutional costs from access to the volume-based declining block rates. However, the Postal Service may decline to provide an authorization for any legitimate data collection, administrative or logistical reason.

620.42 Mailers must enter eligible First-Class Mail through unique permit accounts. Mailers will provide the Postal Service with the numbers of such unique permit accounts, which may be used only upon Postal Service acknowledgement. Mailers must use different permit accounts for ineligible First-Class Mail.

620.43 Mailers must meet the documentation and audit requirements of the Postal Service.

## **620.5 Requirements of the Postal Service**

620.51 The Postal Service must provide a written statement to a mailer denied authorization pursuant to section 620.41, providing the reasons for denial. Each such statement shall state whether or not the reason(s) for denial are based upon a Postal Service determination that:

- (a) there is not a reasonable expectation that the mailer will make an additional contribution to institutional costs;
- (b) data collection will be infeasible;
- (c) administration of the Experimental Automated Address Correction Service for the mailer will be unduly difficult and/or costly; and/or
- (d) logistics in providing Experimental Automated Address Correction Service to the mailer will be unduly difficult and/or costly.

620.52 Each statement required in section 620.51 (a) through (d) shall set forth the facts and reasons leading to a determination to deny authorization.

## **620.6 First-Class Mail Discounts**

620.61 Discount Threshold

The Discount Threshold is defined and established by the Postal Service using only its own or publicly available data. The Discount Threshold may be adjusted in accordance with section 620.63 below.

620.62 Discounts

Eligible First-Class Mail is subject to the otherwise applicable First-Class Mail postage in Rate Schedule 221 less the discounts shown in Rate Schedule 620A, for each year in which the mailer meets the discount threshold. If, at the end of each postal fiscal year, the Postal Service determines the mailer has provided eligible First-Class Mail in excess of the discount threshold established in section 620.61 (or 620.63, if applicable), the Postal Service shall rebate to the mailer discounts only for volumes above the discount threshold. Each incremental discount applies only to the incremental volume within each volume block.

620.63 Threshold Adjustment

In the event that the mailer meeting the requirements of section 620.4 merges with or acquires an entity with annual First-Class Mail volume in excess of 0.75 percent of the discount threshold determined in section 620.51 in the year preceding the acquisition or merger, or in the event that, in any Postal Service fiscal year, the mailer merges with or acquires multiple entities with combined annual First-Class Mail volume in excess of 2.0 percent of the discount threshold determined in section 620.51, the discount threshold will be adjusted upward by the volume of eligible First-Class Mail sent by the other entity (or entities) during the 12 months preceding the merger or acquisition. In that event, beginning in the succeeding fiscal quarter following the date of acquisition or merger, Rate Schedule 620B would apply in lieu of Rate Schedule 620A.

620.64 **Discount Limitation**

Discounts will be paid on incremental volumes equal to no more than 15 percent of the discount threshold. The mailer may claim the highest allowable discount(s) available for incremental volumes up to 15 percent of the discount threshold. Thus, a discount threshold of one billion pieces yields a maximum volume of 150 million pieces on which a mailer may claim a discount. If actual volume is 1.3 billion pieces, discounts could be claimed for incremental volumes in the rate blocks between 1.15 billion and 1.3 billion pieces. According to Rate Schedule 620A, the total amount of discounts would be \$8.4 million, composed of 60 million pieces at \$0.060, 60 million pieces at \$0.055, and 30 million pieces at \$0.050.

620.7 **Rates**

The applicable discounts are set forth in the following rate schedules:

620A  
620B

620.8 **Expiration**

This provision (Section 620) expires 3 years from the implementation date set by the Board of Governors.

620.9 **Precedence**

To the extent any provision of section 620 is inconsistent with any other provision of the Domestic Mail Classification Schedule, the former shall control.

## EXPERIMENTAL VOLUME-BASED DECLINING BLOCK RATES

### DISCOUNT TABLES

#### RATE SCHEDULE 620A

Discount Threshold = 

DT
----

<u>Incremental Volume Blocks</u>	<u>% Increase</u>	<u>Discount</u>
DT(Rounded 000)+1 to DT*(1+0.04)	4.0%	\$0.030
DT*(1+0.04)+1 to DT*(1+0.08)	8.0%	\$0.035
DT*(1+0.08)+1 to DT*(1+0.12)	12.0%	\$0.040
DT*(1+0.12)+1 to DT*(1+0.18)	18.0%	\$0.045
DT*(1+0.18)+1 to DT*(1+0.24)	24.0%	\$0.050
DT*(1+0.24)+1 to DT*(1+0.30)	30.0%	\$0.055
DT*(1+0.30)+1 to above		\$0.060

#### RATE SCHEDULE 620B

For Adjusted Threshold

Discount Threshold = 

DT
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Adjustment = 

A
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Adjusted Threshold = 

AT
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<u>Incremental Volume Blocks</u>	<u>% Increase</u>	<u>Discount</u>
AT(Rounded 000)+1 to AT*(1+0.04)	4.0%	\$0.030
AT*(1+0.04)+1 to AT*(1+0.08)	8.0%	\$0.035
AT*(1+0.08)+1 to AT*(1+0.12)	12.0%	\$0.040
AT*(1+0.12)+1 to AT*(1+0.18)	18.0%	\$0.045
AT*(1+0.18)+1 to AT*(1+0.24)	24.0%	\$0.050
AT*(1+0.24)+1 to AT*(1+0.30)	30.0%	\$0.055
AT*(1+0.30)+1 to above		\$0.060

DT = "Discount Threshold" determined under DMCS Section 620.61.

A = "Adjustment" made pursuant to DMCS section 620.63.

AT = "Adjusted Threshold" resulting from adjustment to discount threshold pursuant to DMCS section 620.63.