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Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Experimental Rate and Service Changes) to Implement Negotiated Service Agreement) with Capital One Services, Inc.)	Docket No. MC2002-2

INITIAL BRIEF OF THE
OFFICE OF THE CONSUMER ADVOCATE

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PROCEDURAL HISTORY

The Postal Service's Request for a Recommended Decision on Classification, Rates and Fees for Capital One Services, Inc. Negotiated Service Agreement (NSA) was filed on September 19, 2002. It consisted of a Negotiated Service Agreement executed between the Postal Service and Capital One and proposed changes to the Domestic Mail Classification Schedule (DMCS) that reflected the new operational requirements and new rates that were established in the NSA. The key provisions of the NSA and DMCS were Capital One's agreement to: run its mailing lists against the National Change of Address (NCOA) database more frequently than is required under current regulations for presorted mail; accept electronic notices of Undeliverable-As-Addressed (UAA) First-Class Mail solicitation pieces in lieu of physical return of the mail (while forwardable pieces would be forwarded); and to update its address databases within two business days of receipt of these notices. Under the NSA and DMCS, the Postal Service agrees to: provide electronic notices to Capital One for UAA First-Class Mail solicitation pieces; and apply a declining block rate schedule to Capital One's First-Class Mail solicitation pieces in excess of an established volume threshold.

The Request was accompanied by the testimony of four Postal Service witnesses, i.e., Anita Bizzotto (USPS-T-1), Michael Plunkett (USPS-T-2), Charles Crum (USPS-T-3), and James Wilson (USPS-T-4); and two Capital One witnesses, i.e., Donald Jean (COS-T-1) and Stuart Elliott (COS-T-2). Witness Bizzotto, who is a Senior Vice President and Chief Marketing Officer for the Postal Service, advocates increased use of customized agreements with mailers. Witness Crum, an Economist in the Pricing

Innovation group, presents an analysis of the effect of the Capital One NSA on contribution to institutional costs. This includes estimates of the increased (or new) expenses resulting from the provision of electronic notices of UAA pieces, avoided costs resulting from elimination of physical returns of UAA First-Class solicitation mail, revenue leakage from allowing Capital One to enjoy declining block rates on some solicitation mail that it expected to mail even without declining block rates, and new contribution to institutional costs resulting from increased volume of First-Class solicitation mail as a result of the declining block rate incentive. Witness Plunkett, the Manager of the Pricing Innovation group, presented the NSA, the reasons for considering the NSA under the Commission's experimental rules, and the Data Collection Plan. Finally, witness Wilson describes the Postal Service's Address Correction Service (ACS) and the Postal Service's handling of UAA mail.

Witness Jean, a Senior Vice President of Capital One, describes Capital One's use of First-Class Mail for servicing its customer accounts and to solicit new customers, its hygiene practices, and an estimate of First-Class Mail volume during the first year of the NSA. Witness Elliott presents Capital One historic volume data and a new volume estimate for the first year of the NSA based on the price elasticity of First-Class Mail.

OCA presented the testimony of two witnesses: Jed Smith (OCA-T-1) and James Callow (OCA-T-2). Witness Smith applied econometric methods to the monthly volume data provided by Capital One to estimate volumes likely to be mailed in the first year of the NSA. Also, witness Smith advised against allowing access to declining block rates for mail that would be mailed in any event because of the revenue leakage caused by such an arrangement. He describes this as a "free rider" problem. Witness

Callow presented two new classifications proposed by OCA that would have given access to electronic address correction service and declining block rates to First-Class mailers judged likely, by the Postal Service, to add new contribution to institutional costs. Like the Capital One NSA, this new contribution would arise from electronic return in lieu of physical return and from the mailing of First-Class volumes in excess of that expected to be mailed during the period of the experiment. Other participants filed direct testimony as well: the National Newspaper Association and the Newspaper Association of America.

A rare development was the submission of testimony by a Commission witness, the eminent economist, John Panzar. He discussed the conditions under which NSAs (or optional tariffs) can improve, or worsen, the financial condition of the provider, as well as the fairness of limiting access to optional tariffs by competitors of the NSA partner.

The Postal Service, Capital One, and PostCom filed rebuttal testimony. One of the significant new evidentiary presentations was Capital One witness Elliott's econometric estimate of Capital One's volume for the first year of the NSA. This analysis incorporated three additional months of Capital One First-Class volume data. Witness Elliott estimates that Capital One is likely to mail an amount of First-Class volume that will be just below or slightly above the threshold for access to declining block rates. The new estimate relieved OCA of much of its concern about the likelihood of a free rider problem.

On March 31, 2003, following several weeks of negotiations, the Postal Service, Capital One, and OCA were able to forge a settlement that resolved disagreements that had persisted throughout most of the proceeding. Notably the Stipulation and Agreement now on file with the Commission consists of draft Domestic Mail Manual (DMM) regulations that establish a formal process for other mailers who mail First-Class Mail that could qualify for Standard Mail rates to negotiate similar NSAs. The Postal Service has agreed to provide information annually about the negotiations that are underway (or terminated) with mailers who may use First Class in a manner similar to Capital One's use of First Class. The draft DMM regulations articulate the requirements that mailers must comply with and the key features of comparable NSAs. Negotiations culminating in executed NSAs will be filed with the Commission under sections 3622 and 3623 of title 39. Also, the Postal Service and Capital One agree to provide data that is necessary to assess the amount of contribution the Capital One NSA is generating.

ARGUMENT

I. OCA RECOMMENDS COMMISSION ADOPTION OF THE STIPULATION AND AGREEMENT IN SUPPORT OF THE CAPITAL ONE NEGOTIATED SERVICE AGREEMENT

The Office of Consumer Advocate (OCA) fully supports the Stipulation and Agreement jointly filed by the Postal Service, Capital One Services, Inc., and the OCA.[1] As a result, the OCA requests that the Commission issue a recommended decision adopting the experimental Domestic Mail Classification Schedule (DMCS) as revised by the Stipulation and Agreement, and reflecting the terms of the Stipulation and Agreement and the attachments thereto.

The Stipulation and Agreement represents a negotiated settlement of all issues raised by the OCA in its direct case in this proceeding.[2] Toward that end, the Stipulation and Agreement revises the DMCS, originally proposed in the Postal Service's request, implementing the Capital One negotiated service agreement (NSA).[3] This revision announces a formal process for undertaking negotiations with mailers of NSAs that are "comparable" to the Capital One NSA. The Stipulation and Agreement incorporates proposed regulations to be added to the Domestic Mail Manual (DMM).

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[1] *See* Joint Motion of the United States Postal Service, Capital One Services, Inc., and the Office of the Consumer Advocate for Consideration of the Stipulation and Agreement As the Basis for Recommended Decision, March 31, 2003 (herein "Joint Motion").

[2] *See* the testimony of OCA witnesses Jed Smith (OCA-T-1) and James F. Callow (OCA-T-2), Tr. 7/1237-60, and 1353-96, respectively.

[3] *See* Request of the United States Postal Service for a Recommended Decision on Experimental Changes to Implement Capital One NSA, September 19, 2002 (herein "Request"). The text of the Postal Service's proposed changes to the DMCS, as originally filed, can be found in the Request, Attachment A. The entire text of the Capital One NSA is reproduced in the Request, Attachment G.

Pursuant to the revised DMCS, the regulations would identify requirements and factors to be considered when evaluating proposals for comparable NSAs, and establishing a process for negotiations. The Stipulation and Agreement materially expands the data collection plan originally filed by the Postal Service. USPS-T-2, (Plunkett), at 12. The modified data collection plan is more comprehensive, permitting a more complete evaluation of the effects of the experimental classification over the course of the experiment. These changes are contained in Attachments A, C and D of the Agreement, respectively.[4]

As a consequence of the Stipulation and Agreement, the OCA has withdrawn, by notice dated March 31, 2003,[5] its alternative changes to the DMCS that would have established two new experimental classifications and rates. The OCA further requested, by a separate motion also dated March 31, 2003,[6] that the Commission remove from the record transcript, and not recommend, the experimental classifications proposed by the OCA. Although the Presiding Officer denied OCA's motion to remove the pages from the evidentiary record, OCA's current settlement position – to withdraw

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4 Attachment B of the Stipulation and Agreement contains the rate schedules proposed by the Postal Service in its original request, which have not been modified by the Stipulation and Agreement.

5 *See* Office of the Consumer Advocate Notice of Withdrawal of Classification Proposal, March 31, 2003.

6 *See* Office of the Consumer Advocate Motion to Remove Pages Tr. 7/1390-1396 from the Record, March 31, 2003. In response to an Opposition to OCA's Motion filed by the Newspaper Association of America on March 31, 2003, the Postal Service filed a related "Motion to Temporarily Reopen the Record for the Purpose of Removing Pages or, in the Alternative, to Strike" (also dated March 31). OCA did not oppose the Postal Service's Motion so long as the Presiding Officer would restore the pages if the Commission decided to reject the Stipulation and Agreement. "Response to Motion of the Postal Service to Temporarily Reopen the Record for the Purpose of Removing Pages or, in the Alternative, to Strike," April 1, 2003. These disagreements came to an end with Presiding Officer's Ruling No. MC2002-2/24, "Presiding Officer's Ruling Denying Motions to Reopen and Remove Pages from the Evidentiary Record," issued April 2, 2003.

its earlier proposal and have the Commission recommend the provisions of the Stipulation and Agreement – was acknowledged:

> The intended effect of OCA's motion is clear: to indicate support of the outcome provided in the stipulation and agreement while preserving its initial proposal should the Commission not accept the settlement. It is not necessary to remove the transcript pages containing OCA's earlier proposal from the record to accomplish this objective. The Commission is capable of taking official notice of supervening events—such as a post-hearing settlement agreement—and informing its deliberations accordingly . . . .

The Stipulation and Agreement is, in many respects, a refinement and improvement of the classification proposals made by OCA in its direct case. OCA identified two fundamental concerns raised in this first NSA proceeding:

- Will the NSA generate additional contribution to institutional costs?
- Is the NSA fair to other mailers, particularly competitors to Capital One?

The fundamental concern related to additional contribution encompassed several issues related to the declining block rate feature, and issues related to avoided costs. With respect to the declining block rate feature, the three primary issues presented are: which method to use to estimate volumes for the period of the NSA; and whether declining block rates should be available for volumes that would have been mailed anyway (witness Smith describes this as a "free rider" problem). A third issue was introduced by Commission witness Panzar in testimony filed after OCA's direct case was submitted: in offering this optional tariff to Capital One, with the possibility that Capital One's competitors would not be given access to optional tariffs, there is a possibility that the Postal Service's financial position could be worsened, not improved.

With respect to the estimation of avoided costs, the dominant issue that emerged was whether the expense that the Postal Service would incur in providing free electronic notices for forwarded pieces would be outweighed by the avoidance of repeat forwards.

The settlement approach, based upon rules added to the DMM, has two distinct advantages over OCA's original classification proposal. First, if OCA's proposal had been recommended by the Commission and adopted by the Governors, rules to implement the classification would have been drafted and promulgated *after* the proceeding had been concluded. Under the settlement agreement, the rules and procedures are known in advance. Having reviewed these rules, OCA judges them to be a sound method for giving mailers the opportunity to negotiate comparable NSAs.

Second, OCA's proposed classification gave the Postal Service broad authority to enter into (or reject) such arrangements without further Commission review. Under the settlement approach, if the Postal Service and its negotiating partners reach an agreement on a comparable NSA, the agreement can become operational only after it has been reviewed by the Commission under the Commission's experimental classification rules. In the draft Postal Bulletin (Attachment D, at 2, of the Stipulation and Agreement), the Postal Service makes this clear: "To be effective, each comparable NSA must be established as experimental classifications by decisions of the Board of Governors, the Commission, and the Governors under Chapter 36 of Title 39, and the Commission's rules of practice and procedure."

In addition, the proposed regulations will cause the reporting of information on mailer interest in negotiating comparable NSAs. To that end, the Postal Service agrees to report "annually on the number of request made for comparable NSAs, the industry of each requestor, and the status of negotiations, or if negotiations were terminated, the reason therefore." Stipulation and Agreement, at 2. This reporting requirement is a partial step toward addressing a concern, initially raised by the Commission, as to the recourse of a mailer that is unsuccessful in negotiating a comparable NSA with the Postal Service. Tr. 5/949-51.

It is OCA's position that the Stipulation and Agreement is the best method available at this time to resolve the issues outlined above. How OCA arrives at this conclusion is explained below.

II. THE STIPULATION AND AGREEMENT ADDRESSES ISSUES RAISED BY THE COMMISSION, OCA AND WITNESS PANZAR

A. Concerns that Emerged about the Declining Block Rate Schedule Have Been Resolved by the Stipulation and Agreement.

The OCA had been particularly concerned about the threshold level for the payment of discounts and the free rider problem. Both of these problems appear no longer to be an issue. In addition, the OCA was concerned that competitors of Capital One would be at a disadvantage under the NSA. However, the settlement agreement now provides an opportunity for competitors who wish to participate in a NSA to propose an appropriate agreement.

1. An accurate forecast of the before-rates mail volume should be used in determining the threshold for the payment of discounts

Accuracy in the estimate of the before-rates mail volume is important. As witness Panzar notes, if the estimated threshold of expected business is set too high, the tariff option will not be used; the mailer will not generate enough mail to qualify for the option. Alternatively, if the threshold is set lower than the level of mail which would have occurred absent the NSA, then the mailer will avail itself of the lower price for mailings that it intended to purchase at the established rate. This will reduce the Postal Service's revenues from what they would have otherwise been. Tr. 8/1588. This latter problem is known as a "free-rider" problem, wherein the Postal Service will have provided an incentive to encourage behavior that would have transpired absent the payment of the incentive. Such a situation reduces the overall value of the NSA to the

Postal Service and could conceivably result in higher rates for other customers if sufficient additional business were not induced to cover the initial loss of revenue.

The initial filing in MC2002-2 appeared to have a free-rider problem. The forecasted mail level was set at 1.408 billion pieces, but the per piece discounts began at 1.225 billion pieces. Accordingly, a total of $6.7 million of discounts would have been paid by the time that the mailer had reached its forecasted mail level of 1.408 billion pieces under the NSA. In short, discounts would have been paid for a level of mail that would have occurred absent the discounts – a free rider problem. Subsequent analysis, however, by Capital One witness Elliott, indicated that a free-rider problem did not exist due to changing marketing, customer, and economic circumstances, resulting in a downward revision of the forecasted number of mail pieces. The new forecast was actually slightly below 1.225 billion pieces. The threshold for the payment of incentives should be set at approximately the expected Before Rates volume. Given the latest volume forecast of Capital One witness Elliott, this appears to be the case.

2. The Baseline Forecast of Before Rates Mailings Should be Developed Using a Verifiable Quantitative Analysis and Publicly Available Data

The procedures appropriate in forecasting mail volume are well known. Forecasting procedures include the definition of the exogenous variables (the drivers of the forecast), the use of econometric and statistical forecasting and modeling procedures, and the analysis of trends in the exogenous variables for their future impact. A company-specific demand study is needed for a full understanding of future mailing levels. It is important that an analysis be verifiable and reproducible, which is why it should be based on publicly available data.

For this NSA, Capital One has updated its forecast for 2003, based on actual mailings. Based on an analysis of actual mail volumes and changing market conditions Capital One has presented a revised estimate, and the Postal Service has examined the projections and believes that the forecast is reasonable. Accordingly, OCA accepts the current forecast.

3. Witness Panzar analyzes the economic implications and competitive effects of optional tariffs as they relate to the Capital One NSA

The testimony of witness Panzar analyzes "the economic implications and potential consequences, in general, of introducing negotiated rate and service terms available to a sole user into a pre-existing regulatory regime of uniform tariff rates and conditions of service." Tr. 8/1577. The testimony also "addresses the specific economic implications and potential consequences" of such an arrangement "where the affected service is provided under a monopoly established by Federal statute" and "competition may exist among users of the affected service or services." Id.

Witness Panzar maintains optional tariffs are an established pricing policy in many industries that are used principally to improve the efficiency of the rate structure. Tr. 8/1639. A vendor's establishment of an optional tariff schedule presents its customers with a choice. A customer may choose a specific quantity and pay the price from an established tariff schedule, or choose another quantity and pay the price from an alternative or specially designed optional tariff schedule. Tr. 8/1578. Where both the established and optional tariff schedules remain available, optional tariffs produce a "win/win" situation whereby all customers are at least as well off as previously, and an incentive to expand the output and profitability of the vendor. This situation exists where all customers of the vendor are assumed to compete in the same final product market; that is, the demand schedules of various users are independent. Tr. 8/1581. Moreover, a win/win situation can exist where optional tariff schedules are not available to all customers, and are therefore overtly discriminatory. Id.

The desirability of optional tariffs is premised on the assumption that the vendor offering the optional tariffs is a profit-seeking firm. Tr. 8/1581. Thus, where a vendor operates subject to a budget constraint, it cannot be automatically presumed that optional tariffs produce a win/win situation. Moreover, the general benefits of optional tariffs are questionable where the output being sold is itself a factor of production. Tr. 8/1582. In such circumstances, the demands of the customers that compete in the same final product markets are necessarily interdependent, with a discount offered to one competitor placing its rivals at a cost disadvantage relative to that input. Id. This leads to a decrease in the rivals' sales in the final product market and a decrease in their demands for the input. Id. As a consequence, both competitors and the vendor can be worse off from the implementation of an optional tariff schedule. In the case of the Postal Service, the result is lower overall revenues and profitability.

Witness Panzar views the quantity discounts described in the Capital One NSA as optional tariffs. Tr. 8/1578. Moreover, he observes that "the vast majority of mail is sent by businesses that use postal services as input in the production of their final products or services." Tr. 8/1582.

Under the Stipulation and Agreement, competitors of Capital One will be able to obtain similar NSAs. Accordingly, for the purposes of the settlement , the OCA does not believe that the proposed NSA will have a negative impact on Postal Service revenues.

B. Concerns about the Fairness of the NSA to Capital One's Competitors Are Resolved by the Regulations Proposed by the Postal Service as Part of the Stipulation and Agreement.

The NSA concluded between the Postal Service and Capital One is, by its nature, a bilateral agreement that limits the availability of volume-based rates to Capital One. Earlier in the proceeding, the availability of these rates or "optional tariffs" only to Capital One raised concerns about fairness and equity for competitors of Capital One. Indeed, competitive concerns and the treatment of Capital One's competitors is one of the fundamental issues before the Commission. OCA had developed alternative classifications as part of its direct case that allowed access to the electronic address change features that Capital One had been given, as well as declining block rates for First-Class mailers judged by the Postal Service as likely to make new contributions to institutional costs. These classifications were part of the testimony of OCA witness Callow,[7] but have now been withdrawn and are no longer being sponsored by OCA.

As discussed above, the testimony of witness John C. Panzar, an independent economic expert sponsored by the Commission, explains the economic basis for such competitive concerns.[8] He also analyzes the effect on competitors of limiting optional tariffs to one firm, and suggests a solution. In contrast to witness Callow's experimental

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7 *See* generally the testimony of witness Callow (OCA-T-2), at Tr. 7/1353-96.

8 *See* generally the testimony of Postal Rate Commission witness John C. Panzar (JCP-T-1), at Tr. 8/1574-1606.

classifications of general applicability, however, witness Panzar suggests that where customer demands are interdependent, quantity discount plans "be made available only to firms competing with one benefiting from a NSA." Tr. 8/1595.

The Stipulation and Agreement enhances fairness and equity for Capital One's competitors by establishing a more formal process via regulation to negotiate comparable NSAs based upon the essential requirements of the Capital One NSA. Under this formal process, the Postal Service will consider and evaluate NSAs with other mailers that are comparable to the Capital One NSA. Consequently, the Stipulation and Agreement expands the opportunity for competitors of Capital One to access volume-based rates on similar terms. The mechanism used is an addition to the DMCS provision initially presented by the Postal Service in the form of a footnote concerning the negotiation of "comparable" NSAs with other First-Class mailers. As part of the settlement, the Postal Service proposes regulations to be issued in the DMM implementing this revision.

The proposed DMM regulations describe the "general requirements of comparability, [and] factors to be considered in entering into a comparable agreement." Stipulation and Agreement, Attachment D, at 1 and 2. These requirements, although stated in a generalized form, relate directly to the essential requirements of the Capital One NSA as well as requirements proposed by OCA in its alternative experimental classifications. They include use of First Class Mail for matter that would be eligible for Standard Mail rates,[9] participation in the ACS program, and use of premailing address hygiene methods. Such methods as National Change of Address (NCOA), *FASTforward*, or others must be used on a more frequent basis than 180 days, as required by the Move Update program. Stipulation and Agreement, Attachment D, at 4 and 5. An additional requirement is the computation of First-Class Mail postage by the use of declining block rates based on particular volume requirements that define incremental volume blocks. Stipulation and Agreement, Attachment D, at 4.

Moreover, a comparable NSA must make an overall positive financial impact on the Postal Service. Stipulation and Agreement, Attachment D, at 5. A comparable NSA must also ensure necessary records and data are available to the Postal Service to facilitate and monitor compliance.

The proposed DMM regulations require that mailers demonstrate important capabilities in order to negotiate a comparable NSA. The most important of these "Candidate Factors" include mailer presentation of at least 3 years of historical mail volume data, including data on undeliverable-as-addressed mail. Stipulation and Agreement, Attachment D, at 6. In addition, mailers must show an ability to produce accurate forecasts of future mail volumes for postal products and mailing services proposed for a NSA, and the ability to collect data necessary to monitor compliance. Id. at 6.

The process for negotiating a comparable NSA is detailed in the Postal Service's proposed regulations.[10] First, a written statement by a mailer of its reasons for seeking an NSA and its ability to establish comparability is required. Second, prospective

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[9] The description of First-Class Mail in this manner is designed to identify solicitation or "discretionary" mail.

[10] The Postal Service provides a clear description of the steps to be followed in negotiating a comparable NSA (Sections 3.0 – 3.3).

partners are informed that the NSA will be established as an experimental mail classification that must be approved by the Commission under Title 39. Third, a procedure is established for mailers to (1) seek a written explanation from the Postal Service following a Postal Service determination not to enter into an NSA and (2) request reconsideration of such a determination from the Vice President, Pricing. In the Stipulation, the Postal Service has agreed to report annually "on the number of requests made for comparable NSAs, the industry of each requestor, and the status of negotiations, or if negotiations were terminated, the reason(s) therefore." In OCA's judgment, the combination of a clearly articulated set of procedures and regular reporting on the negotiations activities provides a significant measure of confidence that the process is being conducted in a fair and nondiscriminatory manner.

C. The Stipulation and Agreement Establishes A More Comprehensive Data Collection Plan To Obtain Information on Forwarded Mail and Analyze Effects of the Capital One NSA

The testimony of Postal Service witness Michael Plunkett proposed a data collection plan "[i]n order both to implement and analyze the effect" of the Capital One NSA. USPS-T-2 (Plunkett), at 12. The testimony of witness Callow proposed an expanded data collection plan to monitor compliance, and evaluate the effects of OCA's two alternative experimental classifications. Tr. 7/1368-69, and 1377-78. The expanded data collection plan also sought data on forwarded mail, in response to the Commission's request for an estimate of reduced costs to the Postal Service from the reduction of Capital One's forwarded mail. Tr. 2/318. As part of the Stipulation and Agreement, elements of both the Postal Service and OCA data collection plans are incorporated into a more comprehensive data collection plan that would provide additional data to verify assumptions concerning capital One's forwarded mail and evaluate the effects of the Capital One NSA.

In OCA's direct case, witness Callow had proposed collection of data to answer questions raised by the Commission concerning avoided forwarding cost estimates for Capital One. This plan was based, in part, on the plan proposed by the Postal Service.[11] OCA sought data on the volume of First-Class mailpieces that are forwarded, and the mailer's volume of repeat forwards. Tr. 7/1368. The plan also requested separate estimates of the cost savings to the Postal Service of providing electronic notices for pieces that are forwarded. Tr. 7/1369. This data would answer questions concerning the amount of forwarded mail. It would also improve cost estimates for avoided mail forwarding that in the case of Capital One, were based upon a number of simplifying assumptions, including Capital One's forwarding rate.[12]

OCA's plan requested data on the effect of the Postal Automation Redirection System (PARS),[13] which is expected to become fully operational during the three-year period of the Capital One NSA experiment. Specifically, data was requested on the number of electronic address correction notices for forwarded mailpieces and separately for mailpieces that would otherwise be physically returned, including the

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[11] See testimony of witness Callow (OCA-T-2), Footnotes 35, 37-38, and 52-53; Tr. 7/1368-69, 70.

[12] *See* Tr. 2/318-322. Response of United States Postal Service Witness Crum to Presiding Officer's information Request No. 2, Question 7, November 21, 2002.

[13] 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.

number processed by CFS units and PARS. Tr. 7/1369. The plan also requested the costs to the Postal Service of monitoring mailer compliance. Tr. 7/1369, and 1378.

The proposed data collection plan will permit the Commission to evaluate the effects of the Capital One NSA. The Stipulation and Agreement, as contained in Attachment C, provides for a more comprehensive data collection plan. This plan incorporates data requirements proposed by the Postal Service and OCA, as well as additional requirements.

To address the need for additional data on avoided mail forwarding, data will be collected from the Postal Service and Capital One. The proposed plan directs that the Postal Service provide data on the number of times that a particular move address record is accessed for a Capital One solicitation mailing, including the dates the record is accessed and the effective date of the change of address order. These data are intended to be used to assess the number of forwards that may have been avoided by Capital One's prompt corrections to its address databases.

In addition, Capital One will provide certain data. It will provide NCOA contractor reports concerning the number of address records checked and the number of corrections made when First-Class solicitation mailing lists are run against the NCOA database. These reports will permit estimation of the percent of address changes that NCOA is able to correct, and should facilitate an understanding of how many additional address corrections for forwarded mailpieces CFS units are able to generate. Stipulation and Agreement, Attachment C.

The proposed data collection plan will report on the number of electronic address correction notices provided to Capital One, not only by CFS units, but also by

PARS when fully operational. The plan will also provide a monthly estimate of the amount of time spent on compliance activities conducted by the Postal Service, and a description of the activities performed. In addition, the Postal Service will provide an evaluation of the impact of the Capital One NSA on contribution. Stipulation and Agreement, Attachment C.

CONCLUSION

The settlement approach achieves the chief aims of the OCA classification proposal: to ensure access to a COS/NSA-type arrangement on an equal footing with Capital One; to reap the savings estimated from a larger group of mailers; to allow additional First-Class mailers to choose electronic returns over physical returns if they perceive an advantage in this alternative; to obtain free electronic forwarding notices if it seems likely that provision of this information will avoid a large number of forwarded pieces in future mailings; and to give other First-Class solicitation mailers the opportunity to obtain declining block rates for new volume that they have been incented to provide. OCA asks the Commission to recommend the revised DMCS provisions and NSA under the terms of the Stipulation and Agreement.