

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

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BANK OF AMERICA CORPORATION

Docket No. MC2007-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS AYUB TO INTERROGATORIES OF VALPAK DIRECT MARKETING
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-21-25, 27)
(April 24, 2007)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatories of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc.: VP/USPS-T1-21-25, 27, filed on April 4, 2007. The interrogatories are stated verbatim and are followed by the response. The Postal Service's response to VP/USPS-T1-26 will be forthcoming.

UNITED STATES POSTAL SERVICE

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T1-21. Please refer to VP/USPS-T1-2 and your response thereto.

- a. Please define the term “related procedures” as you use it in your testimony at page 4, lines 1-3.
- b. Would you consider the mail reclassification effort preceding Docket No. MC95-1, and the subsequent product redesign effort, including the various working groups and committees thereof, to fall under the rubric of “related procedures” in the sense of being related to pricing, classification, and ratemaking? Unless your response is an unqualified affirmative, please explain how you would classify such efforts.
- c. To the best of your knowledge, did mailers exchange any ideas, possibly innovative ones, with the Postal Service in meetings of working groups concerned with the reclassification and product redesign efforts?
- d. Would it be correct to interpret your statement responding to the above referenced interrogatory to mean that neither customers (i.e., mailers) nor their representatives have any kind of informal (or formal) interaction with Postal Service personnel responsible for cost studies, pricing, and classifications when no proceeding is pending before the Commission? If that is not a correct interpretation, please explain fully what you intend by that statement.

RESPONSE:

- a. The term “related procedures” as used in my testimony refers to activities directly related to the ratemaking process conducted before the Postal Regulatory Commission. This includes, but is not necessarily limited to, activities such as comments on proposed rules and classifications, and settlement discussions.
- b. No. The purpose of working groups such as those preceding Docket No. MC95-1 is to provide a forum for mailers and the Postal Service to share information and evaluate new ratemaking and classification proposals. One major difference between these working groups and the “related procedures” identified in my testimony at page 4, lines 1-3, and in my responses to VP/USPS-T1-2 and part (a) above is that mailers are not required to provide the Postal Service with specified information to participate in such working groups. In contrast, the activities identified in my response to part (a) above (e.g., NSA negotiations)

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

usually require the disclosure of information specified by the Postal Service and by the mailer.

- c. To the best of my knowledge, yes.
- d. No. The Postal Service may solicit ideas from customers on pricing and other issues prior to the filing of a rate case, and customers may volunteer them.

Please see my response to part (b) above.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T1-22. Please refer to your response to VP/USPS-T1-3(a), 3(b), and 3(e).

- a. With how many mailers is the Postal Service currently pilot testing Seamless Acceptance mentioned in your response to parts a and b?
- b. Is BAC included among the mailers that are participating in the pilot testing of Seamless Acceptance?
- c. In your response to part e, you state, “[t]he Postal Service does not expect to offer any inducements to bulk mailers to adopt and use Seamless Acceptance.”
 - (i) Please explain why, in the absence of this NSA, BAC would not be expected to use Seamless Acceptance, along with other large bulk mailers?
 - (ii) Does BAC present any special, or extraordinary, circumstances that require — or warrant — a NSA to induce BAC to adopt Seamless Acceptance once it is deployed?
- d. In the event that deployment of Seamless Acceptance should be delayed until after this NSA has expired (assuming approval), would BAC still be required to adopt Seamless Acceptance?

RESPONSE:

- a. At this time, there are currently fewer than 5 mailers pilot testing Seamless Acceptance.
- b. No.
- c. Please see my answers to (i) and (ii) below:
 - i. Not all customers are in a position to adopt and implement Seamless Acceptance at this time. To avoid further qualification and preparation requirements the Postal Service will encourage mailers to adopt the new platforms but will not mandate their use at this time. It is my understanding that at this time the Postal Service does not intend to mandate participation in Seamless Acceptance.
 - ii. A requirement of the NSA is that BAC must implement Seamless Acceptance. See Section III.E of the Bank of America NSA (Attachment F to the Request). If the implementation were not a factor in the NSA, there

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

would be no guarantee that BAC would adopt Seamless Acceptance at
this point in time.

- d. BAC deployment of Seamless Acceptance is mandated by Section III.E.4 of the
NSA contract. BAC will be required to implement Seamless Acceptance once
the Postal Service has completed its beta-testing of the service.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
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VP/USPS-T1-23. Please refer to your response to VP/USPS-T1-4(a).

- a. How, or in what ways, would Seamless Acceptance promote higher quality levels in mail processing of First-Class letters? Please be as specific as possible, indicating those steps in mail processing (after acceptance), where the Postal Service either expects or hopes for quality improvements resulting from widespread adoption of Seamless Acceptance.
- b. How, or in what ways, would Seamless Acceptance promote higher quality levels in the delivery of First-Class letters? Please be as specific as possible, indicating those steps in delivery (after mail processing) where the Postal Service either expects or hopes for quality improvements resulting from widespread adoption of Seamless Acceptance.

RESPONSE:

- a. Seamless Acceptance enhances a mailer's ability to ensure that its mail meets postal mail preparation and presentment standards. Additionally, Seamless Acceptance will allow the Postal Service to use improved performance-based verification procedures to ensure sufficient quality of BAC mailpieces. Although I cannot pinpoint the mail processing steps that will improve as a result of Seamless Acceptance, I can say that the Postal Service anticipates that Seamless Acceptance will lead to overall improvements in mail processing performance over the status quo.
- b. The requirement of using Seamless Acceptance and PostalOne! Transportation Management to assign surface and air transportation will improve delivery processes for BAC mailpieces. To the extent that that Seamless Acceptance promotes higher quality mailpieces, there is a higher probability that those pieces will require fewer exceptions in delivery. Please see my response to part (a) above.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
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VP/USPS-T1-24. Please refer to your response to VP/USPS-T1-5.

- a. In your response to part g, you indicate that “processing ACH payments costs the Postal Service less than processing checks and credit cards.” Please compare the net cost to the Postal Service of (i) accepting and processing metered bulk mail with (ii) processing Automated Clearing House (“ACH”) payments, and indicate whether the Postal Service perceives any material difference in its costs with respect to these two alternative payment methods.
- b. In your response to part d, you indicate that one of “the principal means BAC currently used to pay for its bulk mailing transactions include[s] meters....” And in your response to part e, you indicate that “postage is paid through methods other than electronic payment for approximately 75% of the First-Class Mail entered directly by BAC and less than five percent of the Standard Mail entered directly by BAC.” Is one purpose of requiring BAC to use the Centralized Automated Payment System (“CAPS”) for all transactions relating to bulk mail entered under the NSA to eliminate the use of metering for postage payment on bulk mail?
 - (i) If this is the purpose, please explain why the Postal Service desires such a result.
 - (ii) If this is not the purpose, please indicate whether it nevertheless will be a consequence of the agreement in this NSA, and indicate whether such consequence is intended or unintended.
- c. If some of BAC’s third-party vendors currently use meters to pay postage for some of BAC’s bulk mail which they enter directly with the Postal Service, under terms of the NSA will they be required to cease using meters and instead use CAPS to pay for all transactions which they make on behalf of BAC? If this is the case, please explain why this is a desired result from the perspective of the Postal Service.

RESPONSE:

- a. It is my understanding that, in general, the service fees and carrying costs associated with the processing of checks and credit cards are higher than the costs associated with ACH payment processing. There are no specific costs studies that compare these alternative payment methods to my knowledge.
- b. No. The purpose of the CAPS requirement is to simplify and automate the volume reconciliation process.
 - (i) Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

- (ii) It is possible that the CAPS requirement may cause BAC to discontinue its use of meters for postage payment on bulk mail. However, such an outcome is unlikely and would be an unintended consequence of the requirement.
- c. No.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T1-25. Please refer to your response to VP/USPS-T1-7.

- a. With how many mailers is the Postal Service currently pilot testing eDropShip?
- b. Is BAC included among the mailers that are participating in the pilot testing of eDropShip?

RESPONSE:

- a. The number of mailers participating in the eDropShip pilot test has varied over the course of the test. At this time, there are currently fewer than 10 mailers pilot testing eDropShip.
- b. No.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.,
AND VALPAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T1-27. In your testimony, you indicate that no mailer-specific data were available to the Postal Service to determine the accept rate of BAC's mail, and that accept rate data from USPS-LR-L-110 in Docket No. R2006-1 were considered to constitute the best available benchmark for measuring improvement by BAC under the proposed NSA (p. 16, ll. 15-19). Your testimony also indicates that use of the Four-State barcode, along with certain other mailer steps, will enable the Postal Service in the future to track the accept rate of BAC's letter-shaped mail (p. 5, ll. 12-16).

- a. Will use of the Four-State barcode enable the Postal Service to develop mailer-specific accept rates for other mailers?
- b. As a hypothetical, please assume that (i) the national benchmark (or average) accept rate continues to be 96.8 percent, and (ii) another mailer (X, say) applies for a functionally equivalent NSA, and, because X is putting Four-State barcodes on its mail, X is known to have an accept rate that is 2.0 percentage points less than the benchmark, or national average. In any NSA with X that is alleged to be functionally equivalent, would the most appropriate benchmark for measuring improvement in accept rates and giving rebates (or discounts) as a result thereof be (i) the national average (96.8%), or (ii) the mailer's own accept rate (96.8% – 2.0% = 94.8%)? That is, should mailer X be given some kind of reward for bringing its accept rate up to the national average, or should rewards to mailer X begin only after mailer X reaches the national average?
- c. As a second hypothetical, please assume that (i) the national benchmark (or average) accept rate continues to be 96.8 percent, and (ii) another mailer (Y, say) applies for a functionally equivalent NSA and, because Y is putting Four-State barcodes on its mail, Y is known to have an accept rate that is 2.0 percentage points higher than the benchmark, or national average. In any NSA with Y that is alleged to be functionally equivalent, would the most appropriate benchmark for measuring improvement in accept rates and giving rebates (or discounts) as a result thereof be (i) the national average (96.8%), or (ii) the mailer's own accept rate (96.8% + 2.0% = 98.8%)? That is, should mailer Y be given some kind of reward in recognition that its accept rate is already higher than the national average, or should rewards to mailer Y begin only after mailer Y improves on its own (already high) accept rate?

RESPONSE:

- a. The Four-State Barcode alone will not enable the Postal Service to develop mailer-specific accept rates for other mailers. Please see my response to part (b) below.
- b. If customer-specific accept rates were available, the Postal Service would prefer to utilize those rates over the national average. In the theoretical world described

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC., AND VALPAK DEALERS' ASSOCIATION, INC.

in part (b) of this interrogatory, the Postal Service would use the mailer's own accept rate of 94.8% as the "benchmark" for measuring improvement in accept rates. However, this hypothetical is flawed because it assumes that the application of the Four-State Barcode alone will permit the Postal Service to track a mailer's specific read/accept rate. BAC will still have to make substantial investments to implement the Four-State Barcode and the other requirements specified in the NSA.

- c. In the theoretical world described in part (c) of this interrogatory, the Postal Service would use the mailer's own accept rate of 98.8% as the "benchmark" for measuring improvement in accept rates. However, this hypothetical is flawed for the same reason identified in my response to part (b) above.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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April 24, 2007