

REDACTED (PUBLIC) VERSION

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Rate and Service Changes to Implement)
Baseline Negotiated Service Agreement) Docket No. MC2007-1
With Bank of America Corporation)

**ANSWER OF BANK OF AMERICA CORP. TO
VALPAK INTERROGATORY VP/USPS-T1-32(b)
(REDIRECTED FROM USPS WITNESS ALI AYUB)**

Bank of America Corporation ("BAC") submits the following institutional answer to Valpak interrogatory VP/USPS-T1-32(b). BAC will provide a witness at the hearing to defend the answer if Valpak or any other participant wishes to undertake cross-examination concerning it.

Respectfully submitted,

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May 25, 2007

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VP/USPS-T1-32. Please refer to your response to VP/USPS-T1-27. Your response to part a states that “[t]he Four-State Barcode alone will not enable the Postal Service to develop mailer specific accept rates for other mailers.” Following a similar statement in part b, you say that “BAC will still have to make substantial investments to implement the Four-State Barcode and the other requirements specified in the NSA.”

- a. Please identify and explain all reasons why a Four-State Barcode on bulk mail is not sufficient to enable the Postal Service to develop mailer-specific accept rates. In your explanation, please include all additional information (or input) that BAC must provide the Postal Service in order to enable it to develop the accept rate for BAC’s bulk letter mail.
- b. Aside from the investment that BAC must make in order to implement the Four-State Barcode itself, please (i) list and explain all additional investments that BAC must make in order for the Postal Service to be able to develop mailer-specific accept rates for BAC’s bulk letter mail; and (ii) explain whether the investment that BAC must make in order for the Postal Service to be able to develop mailer-specific accept rates differs in any material way from the investment that other bulk mailers will have to make when they implement the Four-State Barcode for their bulk letter mail. In your response, please omit any “other requirements specified in the NSA” that are not essential to development of mailer-specific accept rates for BAC’s First-Class and Standard bulk letter mail.

RESPONSE:

- a. (Answered by USPS.)

b.i. Bank of America will have to make a substantial initial investment to participate in this NSA and will have ongoing annual operating expenses over the life of the agreement. We currently estimate that the total cost of the investments and other expenditures that BAC must make to participate in the NSA will be about **[BEGIN PROTECTED INFORMATION]**

[END PROTECTED INFORMATION].

All of these costs are necessary to support the terms of the overall agreement, allow the

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Postal Service to develop mailer-specific read/accept rates for our mail, and provide BAC the foundation necessary to improve the addressing quality and read/accept rates.

This provides an outline of the expenses BAC must make to support the overarching agreement. We have viewed this agreement as a whole and not by its independent elements. The necessary costs are based on the whole and are not linked to a specific incentive. The expenses required support the contractual requirements that have been agreed to and the ability to maximize the improvements which provide benefits to both BAC and USPS. The terms of the agreement were negotiated as a whole. Predicting how changing one part of the agreement would have affected the other terms of the agreement would require speculation.

These costs will involve (1) meeting the contractual requirements, and (2) performing the analyses needed to improve our processes. We discuss each in turn.

Contractual Requirements. Establishing the agreement led to many requirements. Some will provide the ability to improve our performance to earn more rate discounts. Other requirements are necessary to measure the performance under the agreement. Some provide benefits for one or both parties. Even the baseline requirements have implementation challenges within a corporation that has a diverse operating environment and is the product of many mergers and acquisitions.

One of the foundation requirements of the agreement is the Intelligent Mail Barcode, also known as the Four-State Barcode. In today's environment, in two locations, the Bank does not directly apply a POSTNET to mail pieces. To allow the Postal Service to track our mail, the bank will need to directly apply an Intelligent Mail Barcode to the mail pieces at the point of production. This will require significant

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systems development, as BAC lacks the basic capability even to generate a POSTNET barcode today on approximately 18 percent of the bank's volume.

Each Intelligent Mail Barcode that we apply must have a mailpiece identifier that remains unduplicated on any other mailpiece for one year. Avoiding duplication of the barcode content on mail entered during a 12-month period, whether generated and entered internally or by third-party vendors, will require additional system controls.

Implementing the NSA so that the Postal Service can track our mail will require us to develop and implement major new systems for information and data:

- We will have to generate Mail.dat files for all mailings, an output which we do not generate in our current internal production environment. All of our suppliers who enter mailings will also have to produce Mail.dat files. The bank will have to coordinate the generation, validation and capture of the Mail.dat files between the internal and supplier environments.
- The requirement to use Confirm to track our mailpieces will require additional investments to support the management of the CONFIRM data and the capacity to perform analyses of the data.
- The use of OneCode ACS will also impose costs. Using OneCode ACS requires electronic data exchange between BAC and the Postal Service. The bank does not support this functionality today. Therefore, we will have to develop the infrastructure not only to receive the data but also to post the data back to the systems of record, whether internal or external. The bank has multiple systems of record to update, so a process will have to be built to route the changes to the appropriate system. The Bank will generate metrics out of the data to measure the success that these changes have in improving the overall address quality.
- Finally, the Bank has agreed to waive the physical return of 10% of its Schedule A First-Class mail pieces. The bank will have to build a system to manage compliance with this commitment, which includes regular reporting on the volume of physical returns.

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Our commitment to participate in the Seamless Acceptance program will add costs for establishing processes to support these requirements. In particular, the bank will need to (1) prepare the bank's service bureaus and letter shops to comply with the NSA, and (2) monitor their compliance throughout the term of the NSA. To accomplish this more swiftly, the bank is likely to outsource these tasks to a specialized vendor. Establishing the infrastructure necessary to support Seamless Acceptance will require a significant investment in internal processes. This infrastructure must include the following:

- An Intelligent Tray Barcode on each tray.
- An Intelligent Pallet Barcode on each pallet.
- The use of *PostalOne!* Transportation Management to assign surface and air transportation at all mailing facilities. This will require the acquisition of software and conveyer systems and their integration into BAC's internal operations.
- Electronic mail documentation, including unique barcode data for all mailpieces and trays, using *PostalOne!* Mail.dat[®] files.

Further, although the automated scheduling system FAST is not part of Seamless Acceptance, the Bank agreed to use it to enter its Standard Mail with destination entry discounts and migrate to this same procedure for First-Class mail when it is available.

The Bank has also agreed to implement the Intelligent Mail Barcode on Courtesy Reply Mail, Business Reply Mail, and Qualified Business Reply Mail without a direct

incentive to take this action. This will require change in our operations to support this commitment.

Performing Analysis to Make Improvements. The bank will have to take the steps above to meet the base terms of the agreement even to begin capturing incentives.

To maximize the rate discounts that BAC actually receives, we will perform testing to determine ways of improving the read and accept rates by changing paper types, changing the barcode placement, and increasing the density of the barcode. As more data is collected other alternatives will be evaluated to determine what additional steps can be taken to improve the read and accept rates.

The Bank will perform testing to determine the difference in performance of OneCode ACS over existing address change methods. This testing will allow the Bank to evaluate the number and timeliness of address changes that will be received from OneCode ACS. This data can then be evaluated with the other methods of improving address quality to determine the best direction to proceed in implementing these changes.

When mailpieces are physically returned, the Bank will want to compare the electronic address change information with the actual mail pieces to measure the consistency of the information received. This analysis will enable the Bank to evaluate the costs and benefits of waiving the right to physical return of additional kinds of First-Class Schedule A mail. Any additional First-Class Schedule A mail that is not returned to the Bank will provide additional financial results for the Postal Service.

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The Bank believes that the improvements made in address hygiene will not only improve addressing metrics but will translate into an improvement in the read and accept rates as that improves the quality of the contents of the barcode.

ii. BAC does not have information on other mailers' data management systems or mailing operations. Thus, we cannot determine whether the activities that we will undertake to participate in this NSA and their associated costs are different than the activities other mailers would have to undertake for the Postal Service to be able to track mailer-specific read accept rates. We do know that the costs we will incur to implement this NSA are substantially greater than the costs of merely using Intelligent Mail Barcodes on our mail pieces.