

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH BRADFORD GROUP

Docket No. MC2007-4

**REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION ON CLASSIFICATIONS AND RATES
TO IMPLEMENT A FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH BRADFORD GROUP**

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 3, 2007

*DOCUMENTS RELATING TO THIS REQUEST MAY BE SERVED UPON
MR. FOUCHEAUX AT THE ABOVE ADDRESS.*

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(August 3, 2007)

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that it would be in the public interest, and in accordance with the policies and applicable criteria of that title, to implement the attached Negotiated Service Agreement (NSA) with Bradford Group. Accordingly, the Postal Service requests that the Postal Regulatory Commission submit to the Governors of the Postal Service a decision recommending the rate and classification changes proposed in the attachments to this filing.

Overview of Terms and Conditions

The Bradford Group NSA, appended here as Attachment F, is a negotiated contract between the Postal Service and Bradford Group. The Agreement provides Bradford Group with declining block rates for Standard Mail letters and flats soliciting

new and existing customers for Bradford Group collectibles and other gift items. As explained by witness Parr, the NSA:

is designed to provide incentives to Bradford Group to increase its use of Standard Mail letters and flats for the purpose of selling collectibles to a nationwide customer base. Direct mail expense is an important cost component for The Bradford Group. Without an incentive such as that provided by the proposed NSA, Bradford Group marketing volumes are expected to be flat or falling due to the highly volume variable nature of Bradford Group's operations. The incentives are based on volumes of, and apply to, Bradford Group's Standard Mail solicitation letters and flats.

Solicitations are defined as letters and flats sent as Standard Mail by Bradford Group seeking customers for collectibles and gift items. The incentives will encourage Bradford Group to mail additional solicitation letters and flats, increasing its customer base. The Postal Service benefits from the additional contribution generated by an increased volume of Standard Mail solicitations.¹

In addition, the NSA contains a number of provisions designed to mitigate risk, which are discussed in detail by witness Parr, including:

- an annual volume commitment which must be met before discounts are payable that is set well above both the before-rates forecast and the initial discount volume level;
- an annual adjustment mechanism for those volume commitments, based on actual experience;
- an automatic termination clause if volumes exceed a specified cap;
- and an unconditional right of cancellation for both parties.

These provisions reflect the risk mitigation provisions used in previous NSA cases.

Accordingly, the Postal Service believes that this NSA provides an opportunity for gain for all concerned—Bradford Group, the Postal Service, and postal ratepayers overall—with minimal, if any, risk of loss to any stakeholder.

Functional Equivalence

The Commission's rules for consideration of NSAs properly separate so-called "baseline" NSAs from those that are "functionally equivalent" to baselines. Under those rules, review of functionally equivalent NSA proposals should require substantially less time for Commission consideration. In accordance with 39 C.F.R. § 3001.196, and for the reasons explained in the testimony and materials submitted with this filing, the Bradford Group NSA is submitted as functionally equivalent to the baseline Bookspan NSA.

The Commission pointed out in Docket No. RM2003-5, Order 1391 at 50, that whether an NSA is functionally equivalent to a baseline NSA depends upon a comparison of the literal terms and conditions of the NSAs, and a comparison of the effect that each NSA has on the Postal Service. The comparison of literal terms and conditions focuses on whether each agreement rests on the same substantive functional elements. Order 1391 at 50. As explained in the testimony of witness Parr (USPS-T-1) at 1-7, the Bradford Group NSA is based on the same key substantive functional elements that are central to the Bookspan NSA. This NSA provides declining block rates for Standard Mail solicitations, and features a multiplier effect based on Bradford Group's collectibles business. The specifics of Bradford Group's multiplier effect are described more fully in the testimony of Steve Gustafson (BG-T-1 at 2-6). The Postal Service submits that Bradford Group's multiplier effect satisfies the language

¹ USPS-T-1, at 1-2.

in DMCS 620.12 for mailers seeking an NSA functionally equivalent to the Bookspan NSA.

The central difference between the Bookspan NSA and the Bradford Group NSA is that the Bradford Group NSA applies to both Standard Mail letters as well as Standard Mail flats. However, as explained in witness Parr's testimony (USPS-T-1 at 2), the Postal Service does not expect any significant letter-flat conversion to result from this NSA. Thus, the Postal Service submits this NSA as functionally equivalent to the Bookspan NSA, though the literal terms and conditions are not identical. A more detailed list of the differences between the terms and conditions of the Bookspan NSA and the Bradford Group NSA may be found within Attachment E to this Request. Any differences between the Bookspan NSA and the Bradford Group NSA do not detract from the functional equivalency of the two NSAs.

Financial/Economic Impact

The overall cost, volume, and revenue effects of the Bradford Group NSA are relatively modest, both in the first year and in later years of the proposed agreement. The proposed NSA would apply to only one, discretely-positioned mailer. The duration of the rates, fees and classifications would be limited to three years by the terms of the NSA. The proposed changes would apply to the rates and classifications for just Standard Mail letters and flats. No other mail classes or special services would be changed.

The economic impacts of the proposal are described fully in the testimony of witness Parr (USPS-T-1). The Postal Service estimates it will benefit by \$5.3 million

over the life of the NSA. The financial and economic effects of this NSA are expected to be essentially the same as the Bookspan NSA.

Other Matters

To implement the Bradford Group NSA, the Postal Service requests that the Commission recommend the classification and rate schedules changes attached hereto, which propose the addition of Domestic Mail Classification Schedule 621 and Rate Schedule 621A, 621B, and 621C, one for each year of the agreement. Among other provisions, DMCS 621 prescribes the criteria for determining eligibility of Bradford Group's mail for the proposed rate changes, describes the manner and conditions under which discounts would be applicable to Bradford Group volume, and specifies a duration of three years for the NSA. As explained in witness Parr's testimony, the requested changes would conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c).

The NSA provides a foundation for these changes. Among other provisions, the Bradford Group NSA specifies: (1) the key conditions making the NSA possible, including the "multiplier effect," by which each solicitation generates a continuing stream of mail related to collectibles and gift items; (2) a limitation of eligibility for the declining block rates to Bradford Group Standard Mail letters and flats; (3) annual volume commitments (set higher than both before-NSA forecast and the volume level at which discounted rates begin); (4) annual adjustment mechanisms for these volume commitments; (5) automatic termination of the agreement in the event an unanticipated, high volume level is reached; (6) the unconditional right of either party to terminate with 30 days' notice to the other party; (7) a transaction penalty; and (8) information

concerning other issues, such as monitoring, compliance, regulatory review, implementation, withdrawal, public communications, amendments, and notices.

Pursuant to the Commission's Rules of Practice and Procedure (particularly, 39 C.F.R. §§ 3001.193 and 3001.196), the Postal Service is filing with this Request its prepared direct evidence on which it proposes to rely. Other evidence on which the Postal Service intends to rely is being filed today by Bradford Group and is referred to in the Compliance Statement attached hereto. Accordingly, the Postal Service believes it is appropriate for the Commission to recommend the requested rate and classification changes, under the procedures specified in the Commission's Rules of Practice and Procedure for functionally equivalent NSAs.

The page following this Request is an index of Attachments. Attachment A to this Request contains proposed Domestic Mail Classification Schedule (DMCS) language necessary to implement the Bradford Group NSA, and Attachment B contains proposed Rate Schedule language. Attachment C contains the financial certification. The testimony and exhibits have been marked for identification as shown in Attachment D. The Compliance Statement is in Attachment E, which refers to evidence filed by both the Postal Service and Bradford Group. A signed copy of the NSA is Attachment F. The proposed data collection plan is contained in the testimony of witness Parr.

The Postal Service believes that its submissions comply with the Commission's filing requirements in Rules 193 and 196 of the Rules of Practice and Procedure (39 C.F.R. §§ 3001.193 and 196). If the Commission later concludes that any specific requirement has not, need not, or cannot be met, the Postal Service respectfully reserves the right to move for a waiver of the pertinent filing requirements at that time.

WHEREFORE, the Postal Service respectfully requests that the Commission submit a recommended decision in accordance with this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

Elizabeth A. Reed

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INDEX OF ATTACHMENTS TO REQUEST, MC2007-4

**Rate and Services Changes to Implement
Functionally Equivalent Negotiated Service Agreement with Bradford Group**

- Attachment A: Domestic Mail Classification Schedule 621 Language
- Attachment B: Rate Schedules 621A, 621B, 621C
- Attachment C: Certification
- Attachment D: Index of Testimonies, Exhibit Titles, and Associated Attorneys
- Attachment E: Compliance Statement
- Attachment F: Negotiated Service Agreement between the United States Postal Service and Bradford Group

NEGOTIATED SERVICE AGREEMENTS
CLASSIFICATION SCHEDULE

[insert the underlined text below]

621 BRADFORD GROUP NEGOTIATED SERVICE AGREEMENT

621.1 Eligible Standard Mail

621.11 Bradford Group

Eligible Standard Mail under this section is defined as letter-shaped and flat-shaped pieces sent by Bradford Group for the purpose of soliciting prospective customers and clients of Bradford Group, as well as advertising to existing Bradford Group clients. Such letters and flats may be sent by Bradford Group, by entities in which Bradford Group holds controlling shares, or by their vendors on their behalf. Such solicitations may include up to two inserts promoting Bradford Group's strategic business alliances.

621.2 Standard Mail Declining Block Rates

621.21 Volume Commitments

The following volume commitments for otherwise eligible letter-shaped and flat-shaped Standard Mail pieces must be met before any discounts under this section are payable:

- a. 154 million letter-shaped pieces and 54.5 million flat-shaped pieces for the first year of the agreement;
- b. 154 million letter-shaped pieces and 55.5 million flat-shaped pieces for the second year of the agreement, subject to adjustment as specified below; and,
- c. 154 million letter-shaped pieces and 58 million flat-shaped pieces for the third year of the agreement, subject to adjustment as specified below.

If Bradford Group does not mail at least 166 million Standard Mail letter-shaped and flat-shaped pieces during the first year of this agreement, it will pay the Postal Service a one-time transaction fee of \$200,000.

622.22 Volume Commitment Adjustment Mechanism

At the end of each year of the agreement other than its final year, the volume commitment for the following year will be adjusted, as follows.

- a. If, at the end of the year, actual volume is 12 percent or more above that year's volume commitment, the following year's commitment will be revised to be the average of the completed year's actual volume and the original volume commitment for the following year.

- b. If, at the end of the year, actual volume is 5 percent or more below that year's volume commitment, the following year's commitment will be decreased by the percentage difference between the completed year's original volume commitment and its actual volume, but in no case to lower than 140 million for letters or 50 million for flats. If the volume commitment as adjusted by the previous sentence falls below the following year's starting threshold: the starting threshold must then be adjusted to equal the following year's volume commitment as adjusted by the previous sentence; and, the following year's volume commitment will be further adjusted to equal the following year's starting threshold plus 7 million pieces for letters, and the following year's starting threshold plus 1 million pieces for flats.

621.23 Incremental Discounts

Bradford Group's eligible Standard Mail is subject to the otherwise applicable Standard Mail postage in Rate Schedules 321A or 321B, less the discounts shown in Rate Schedule 621A for the first year of the agreement, in Rate Schedule 621B for the second year of the agreement, and in Rate Schedule 621C for the third year of the agreement, if Bradford Group meets the applicable volume commitments specified in 621.21, or as adjusted in accordance with 621.22. Each incremental discount applies only to the incremental volume within each volume block.

621.24 Volume Block Adjustments for Mergers, Acquisitions, Sales, or Closures

In the event that Bradford Group merges with and/or acquires an entity or entities and/or purchases a portfolio with annual Standard Mail letters and flats volume in excess of 5 million pieces, the volume blocks will be adjusted to add the volume of Standard Mail sent by the merged or acquired entity during the 12 months preceding the merger, acquisition, or purchase. The adjustment becomes effective for the succeeding fiscal quarter immediately following the date that mail volumes due to the

merger, acquisition, or purchase begin to be mailed through the threshold permit accounts.

In the event that Bradford Group has sold or close one or more divisions or entities with combined annual Standard Mail volume in excess of 5 millions pieces, the volume blocks will be adjusted to subtract the volume of Standard Mail sent by the sold or closed division or entity during the 12 months preceding the sale or closure. The adjustment becomes effective for the succeeding fiscal quarter immediately following the date that mail volumes due to the sale or closure begin to be mailed through the threshold permit accounts.

621.25 Termination

The agreement automatically terminates and eligibility for all discounts under this section ceases if Bradford Group's Standard Mail volume exceeds 12 million pieces above the maximum volume in the top tier of Rate Schedules 621A, 621B, or 621C (for either letters or flats), in any year of this agreement, or if the agreement is terminated by either party with 30 days' written notice to the other party.

621.4 Rates

The rates applicable to this Agreement are set forth in the following Rate Schedules 621A, 621B, and 621C.

621.5 Expiration

This provision (Section 621) expires 3 years from the implementation date set by the Board of Governors.

621.6 Precedence

To the extent any provision of section 621 is inconsistent with any other provision of the Domestic Mail Classification Schedule, the former shall control.

**BRADFORD GROUP NSA
RATE SCHEDULE 621A
(First Year of Agreement)**

Eligible Standard Mail Letters

<u>Volume Block¹</u>	<u>Incremental Discount</u>
<u>147,000,000 to 157,000,000</u>	<u>1.5¢</u>
<u>157,000,001 to 167,000,000</u>	<u>2.0¢</u>
<u>167,000,001 to 177,000,000</u>	<u>2.5¢</u>
<u>177,000,001 to 183,000,000</u>	<u>3.0¢</u>

Eligible Standard Mail Flats

<u>Volume Block</u>	<u>Incremental Discount</u>
<u>53,500,000 to 55,500,000</u>	<u>1.0¢</u>
<u>55,500,001 to 57,500,000</u>	<u>1.2¢</u>
<u>57,500,001 to 59,500,000</u>	<u>1.5¢</u>
<u>59,500,001 to 61,500,000</u>	<u>2.0¢</u>

¹ Volume block beginning and ending thresholds are subject to adjustment for mergers, acquisitions, sales, or closures in accordance with DMCS § 621.24

**BRADFORD GROUP NSA
RATE SCHEDULE 621B
(Second Year of Agreement)**

Eligible Standard Mail Letters

<u>Volume Block²</u>	<u>Incremental Discount</u>
<u>147,000,000 to 157,000,000</u>	<u>1.5¢</u>
<u>157,000,001 to 167,000,000</u>	<u>2.0¢</u>
<u>167,000,001 to 177,000,000</u>	<u>2.5¢</u>
<u>177,000,001 to 183,000,000</u>	<u>3.0¢</u>

Eligible Standard Mail Flats

<u>Volume Block</u>	<u>Incremental Discount</u>
<u>54,500,000 to 56,500,000</u>	<u>1.0¢</u>
<u>56,500,001 to 58,500,000</u>	<u>1.2¢</u>
<u>58,500,001 to 60,500,000</u>	<u>1.5¢</u>
<u>60,500,001 to 62,500,000</u>	<u>2.0¢</u>

² Volume block beginning and ending thresholds are subject to adjustment for mergers, acquisitions, sales, or closures in accordance with DMCS § 621.24

**BRADFORD GROUP NSA
RATE SCHEDULE 621C
(Third Year of Agreement)**

Eligible Standard Mail Letters

<u>Volume Block³</u>	<u>Incremental Discount</u>
<u>147,000,000 to 157,000,000</u>	<u>1.5¢</u>
<u>157,000,001 to 167,000,000</u>	<u>2.0¢</u>
<u>167,000,001 to 177,000,000</u>	<u>2.5¢</u>
<u>177,000,001 to 183,000,000</u>	<u>3.0¢</u>

Eligible Standard Mail Flats

<u>Volume Block</u>	<u>Incremental Discount</u>
<u>57,000,000 to 59,000,000</u>	<u>1.0¢</u>
<u>59,000,001 to 61,000,000</u>	<u>1.2¢</u>
<u>61,000,001 to 63,000,000</u>	<u>1.5¢</u>
<u>63,000,001 to 65,000,000</u>	<u>2.0¢</u>

³ Volume block beginning and ending thresholds are subject to adjustment for mergers, acquisitions, sales, or closures in accordance with DMCS § 621.24

CERTIFICATION

I, Ashley Lyons, Manager, Corporate Financial Planning, Finance Department, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Functionally Equivalent Negotiated Service Agreement with Bradford Group, together with the accompanying direct testimony and exhibits.

Pursuant to Rule 193(i) of the Postal Regulatory Commission's Rules of Practice and Procedure, 39 C.F.R. §3001.193(i), I hereby certify that I have read the Request, and that the cost statements and supporting data submitted by the Postal Service as part of the Request, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books.


Ashley Lyons

INDEX OF TESTIMONIES: DOCKET NO. MC2007-4

WITNESS	TESTIMONY	EXHIBITS		WORKPAPERS	ATTORNEY
		TITLE	NO.		
Mr. Parr	USPS-T-1	None		None	Elizabeth A. Reed 202-268-3179

COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 193 and 196 of the Commission's Rules of Practice and Procedure (39 CFR §§ 3001.193 and 3001.196). These rules are applicable under 39 U.S.C., 3622(f), as enacted by the Postal Accountability and Enhancement Act, Pub. L. No. 109-435, 120 Stat. 3198. Section 3622(f), for the mail categories that are the subject of the Request, provides that: "Proceedings initiated to consider a request for a recommended decision filed by the Postal Service during that 1-year [transition period] shall be completed in accordance with Subchapter H of chapter 36 of this title and implementing regulations as in effect before the date of enactment of this section."

Where information required by these rules is not included in direct testimony or exhibits of the Postal Service's witness, it is contained in the Request or its attachments, or has been incorporated by reference in the Request, testimony, exhibits, or attachments made available to the Commission in Docket No. R2006-1. Alternatively, if it is subsequently determined that the Postal Service has not fulfilled any particular filing requirement, the Postal Service reserves its right thereafter to request waiver of such requirement.

RULE: 193(b)

REQUIREMENT: This rule requires that a copy of the Negotiated Service Agreement be filed with the Request.

A copy of the Negotiated Service Agreement is filed as Attachment F to the Request.

RULE: 193(c)

REQUIREMENT: This rule requires a description of the proposed rates, fees, and/or classification changes, including proposed changes, in legislative format, to the text of the Domestic Mail Classification Schedule and any associated rate or fee schedule.

Attachment A to this Request includes the proposed additions to the Domestic Mail Classification Schedule. Attachment B sets forth the proposed additions to the Rate Schedules.

RULE: 193(d)

REQUIREMENT: This rule requires a statement describing and explaining the operative components of the Negotiated Service Agreement, and requires that this statement include the reasons and bases for the components in the Negotiated Service Agreement.

The statements required by this rule are contained within the testimony of witnesses Broderick Parr (USPS-T-1), Steve Gustafson (BG-T-1), and Wendy Ring (BG-T-2).

RULE: 193(e)(1)

REQUIREMENT: This rule requires an analysis of the effects of the Negotiated Service Agreement on Postal Service volumes, costs and revenues in a one year period intended to be representative of the first year of the proposed agreement. This financial analysis shall:

- (i) set forth the estimated mailer-specific costs, volumes and revenues of the Postal Service for that year, assuming the then effective postal rates and fees absent the implementation of the Negotiated Service Agreement;
- (ii) set forth the estimated mailer-specific costs, volumes, and revenues of the Postal Service for that year which result from the implementation of the Negotiated Service Agreement;
- (iii) include an analysis of the effects of the Negotiated Service Agreement on contribution to the Postal Service for that year (including consideration of the effect on contribution from mailers who are not parties to the agreement);
- (iv) utilize mailer-specific costs for that year, and provide the basis used to determine such costs, including a discussion of variances between mailer-specific costs and system-wide average costs; and
- (v) utilize mailer-specific volumes and elasticity factors for that year, and provide the bases used to determine such volumes and elasticity factors.

If mailer-specific costs or elasticity factors are not available, the bases of the costs or elasticity factors that are proposed shall be provided, including a discussion of the suitability of the proposed costs or elasticity factors as a proxy for mailer-specific costs or elasticity factors.

The analysis required by this rule is contained within the testimony of witnesses Broderick Parr (USPS-T-1), Steve Gustafson (BG-T-1), and Wendy Ring (BG-T-2).

RULE: 193(e)(2)

REQUIREMENT: This rule requires that, if a Negotiated Service Agreement is proposed to extend beyond one year, the request shall include an analysis of the effects of the agreement on Postal Service volumes, costs, and revenues in each subsequent year of the proposed agreement. This financial analysis shall:

- (i) identify each factor known or expected to operate in that subsequent year which may have a material effect on the estimated costs, volumes, or revenues of the Postal Service, relative to those set forth in the financial analysis provided for the first year of the agreement in response to Rule 193(e)(1). Such relevant factors might include (but are not limited to) cost level changes, anticipated changes in operations, changes arising from specific terms of the proposed agreement, or potential changes in the level or composition of mail volumes;
- (ii) discuss the likely impact in that subsequent year of each factor identified in Rule 193(e)(2)(i), and quantify that impact to the maximum extent practical; and
- (iii) estimate the cumulative effect in that subsequent year of all factors identified in Rule 193(e)(2)(i) on the estimated costs, volumes, and revenues of the Postal Service, relative to those presented for the first year of the agreement in response to Rule 193(e)(1).

The analysis required by this rule is contained within the testimony of witnesses Broderick Parr (USPS-T-1), Steve Gustafson (BG-T-1), and Wendy Ring (BG-T-2).

RULE: 193(f)

REQUIREMENT: This rule requires an analysis of the impact, over the duration of the Negotiated Service Agreement, of the agreement on:

- (1) competitors of the parties to the Negotiated Service Agreement other than the Postal Service;
- (2) competitors of the Postal Service; and
- (3) mail users.

The Postal Service shall include a copy of all completed special studies that were used to make such estimates. If special studies have not been performed, the Postal Service shall state this fact and explain the alternate basis of its estimates.

The analysis required by this rule is contained within the testimony of witness Broderick Parr (USPS-T-1).

RULE: 193(g)

REQUIREMENT: This rule requires a proposal for a data collection plan, which shall include a comparison of the analysis presented in Rule 193(e)(1)(ii) and 193(e)(2)(iii) with the actual results ascertained from implementation of the Negotiated Service Agreement. The results shall be reported to the Commission on an annual or more frequent basis.

The proposed data collection plan is contained in the testimony of witness Broderick Parr (USPS-T-1). If the Commission subsequently concludes that this data collection plan does not fully comply with the requirements of this rule, the Postal Service reserves its right thereafter to request that those requirements be waived.

RULE: 193(h)

REQUIREMENT: This rule requires seven sets of workpapers to be filed with the Request.

There are no workpapers in this case.

RULE: 193(i)

REQUIREMENT: This rule requests one or more certifications stating that the cost statements and supporting data submitted as part of the formal request, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books. The requested certification is to be signed by one or more representatives of the Postal Service authorized to make such certification.

The certification is submitted as Attachment C to this Request.

RULE: 196(a)(1)

REQUIREMENT: This Rule requires a detailed description of how the proposed Negotiated Service Agreement is functionally equivalent to the baseline agreement.

These requirements are discussed in the Request, and within the testimony of witnesses Broderick Parr (USPS-T-1).

RULE: 196(a)(2)

REQUIREMENT: This Rule requires a detailed description of how the proposed Negotiated Service Agreement is different from the baseline agreement.

The following description encompasses differences between the Bradford Group NSA and the Bookspan NSA, as well as differences relating to additional provisions recommended by the Commission with respect to the Bookspan NSA that had not been included in the original agreement between the parties. Provisions of the Bradford Group NSA omitted from the following description are those which did not materially change between the Bookspan NSA and the proposed Bradford Group NSA. Unless otherwise noted, citations to section numbers refer to the pertinent sections of the Bradford Group NSA.

Part I - Key Conditions for NSA Treatment

- ¶ I.A - states that Bradford Group has mailed 226,000,000 pieces of Standard Mail letters and flats over the last four government fiscal years, as compared to a figure of 87 million Standard Mail letters over three years for Bookspan
- ¶ I.A – limits Bradford Group to up to two inserts promoting its strategic business alliances, which was not included in the original signed Bookspan NSA.
- ¶ I.B – states that Bradford Group enters Packages, First-Class Mail, and Standard Mail, while Bookspan enters Bound Printed Matter, First-Class Mail, and Standard Mail.

- ¶ I.C – states that Bradford Group’s multiplier effect includes “catalogs, merchandise, and related correspondence,” while Bookspan’s multiplier effect specifically included books.

Part II – Volume Commitments and Declining Block Rates

- ¶ II.A – contains different negotiated volume commitments specific to Bradford Group. This paragraph also pertains to Standard Mail letters and flats, while the Bookspan NSA only pertains to Standard Mail letters.
- ¶ II.A.2.b and II.A.3.b – provides an additional clause for adjusting the volume commitment in the event that the adjusted commitment falls below the following year’s starting threshold.
- ¶ II.D – contains specified thresholds, volume blocks, and discounts that were negotiated with Bradford Group. The Bradford Group NSA provides more volume blocks, with narrower ranges, and smaller incremental increases in the discounts per volume block, as compared to the Bookspan NSA. This paragraph also applies to Standard Mail letters and flats, rather than solely letters.
- ¶ II.G – a new section, not included in the Bookspan NSA, which adjusts the volume blocks to the extent that Bradford Group sells or closes a division or entity with annual Standard Mail letter and flats volumes in excess of 5 million pieces in the year preceding the sale or closure. Though this is a new paragraph in the contract, it is substantially similar to the Acquisition or

- Merger paragraph (¶ II.F in both the Bookspan NSA and the Bradford Group NSA).
- ¶ II.H.3 – the applicable credit due Bradford Group shall be paid by wire transfer or by posting a credit to Bradford Group’s CAPS account. The Bookspan NSA specified wire transfer or check.
 - ¶ II.H.4 – a new paragraph agreed to by the parties wherein Bradford Group’s volumes and discounts will be reconciled to ensure the proper amount of discounts have been given during the fiscal year. The paragraph allows ten business days for the Postal Service to deduct or credit the amount needed to provide the proper discount to Bradford Group.
 - ¶ II.H.5 – this paragraph has been renumbered (¶ II.H.4 in the Bookspan NSA), but otherwise has no change.

Part III - Compliance and Other Issues

- ¶ III.B – the internal references within this paragraph have been updated.
- ¶ III.E – the Term & Implementation date is set for three years, rather than two years, with an optional third year, as specified in the Bookspan NSA.
- ¶ III.F.2 – this provision requires automatic termination if Bradford Group’s volume exceeds 12 million pieces above the maximum volume of either letters or flats in the top volume blocks in any year of the Agreement. This provision was negotiated by the parties. The Bookspan NSA calls for automatic termination when Bookspan’s Standard Mail letter volume exceeds 150 million pieces in any year of the Agreement.

RULE: 196(a)(3)

REQUIREMENT: This Rule requires identification of the record testimony from the baseline agreement docket, or any previously concluded docket, on which the Postal Service proposes to rely, including specific citations to the locations of such testimony.

The Postal Service proposes to rely on the following record testimony from the Bookspan NSA (Docket No. MC2005-3):

Michelle Yorgey - USPS-T-2, accepted into the record at Vol. 2:1-2; Vol. 2:2-4;
Vol. 2:2-3; Vol. 2:5; Vol. 2:6;

RULE: 196(a)(4)

REQUIREMENT: This Rule requires the Postal Service to include all available special studies developing information pertinent to the proposed Negotiated Service Agreement.

The Postal Service did not conduct any special studies in relation to this proposed Negotiated Service Agreement.

RULE: 196(a)(5)

REQUIREMENT: This Rule requires the identification of circumstances unique to this request.

The Postal Service does not believe that there are any circumstances unique to this request, beyond those discussed in response to Rule 196(a)(2).

RULE: 196(a)(6)

REQUIREMENT: This Rule requires that the Postal Service include with its request, if applicable, a proposal for limitation of issues in the proceeding.

The proposal for limitation of issues is being filed contemporaneously with this request.

**NEGOTIATED SERVICE AGREEMENT
BETWEEN THE UNITED STATES POSTAL SERVICE
AND BRADFORD GROUP**

NEGOTIATED SERVICE AGREEMENT
BETWEEN
THE UNITED STATES POSTAL SERVICE
AND
THE BRADFORD GROUP

This Agreement is made as of July 24, 2007 (the "Agreement Effective Date") by and between The Bradford Group ("Bradford Group"), with its principal place of business located at 9333 N. Milwaukee Avenue, Niles, Illinois 60714, and the United States Postal Service ("the Postal Service"), an independent establishment of the Executive Branch of the United States Government established by the Postal Reorganization Act, Public Law 91-375, as amended, with its principal office at 475 L'Enfant Plaza, SW, Washington, DC 20260. The Postal Service and Bradford Group are referred to herein collectively as the "Parties" and each as a "Party."

WHEREAS, it is the intention of the Parties to enter into a functionally equivalent Negotiated Service Agreement ("NSA") that will benefit the Postal Service, Bradford Group, and the postal system as a whole, and that will comply with the requirements of the Postal Reorganization Act and the Postal Accountability and Enhancement Act, Public Law 109-435,

NOW, THEREFORE, the Parties agree as follows:

I. Key Conditions for NSA Treatment.

The Postal Service finds that the following key conditions, taken together, support this Negotiated Service Agreement:

- A. In the last four government fiscal years, Bradford Group mailed an average of 226 million Standard Mail letters and flats to consumers, which include prospective customers and purchasers of collectibles, as well as existing customers of Bradford Group. For the purposes of this Agreement, the Bradford Group letters and flats eligible for discounts shall include Standard Mail Regular and ECR solicitation letters and flats sent by Bradford Group, by entities in which Bradford Group holds controlling shares, and by their vendors on their behalf. Such solicitations may include up to two inserts promoting Bradford Group's strategic business alliances.
- B. Bradford Group has documented the volume of Bradford Group Standard Mail letters and flats and the volume of other types of mailpieces Bradford enters under its own or its vendors' PostalOne!™ permit accounts (including pre-



7/24 1:45 CDT

U.S. Postal Service – The Bradford Group NSA

cancelled stamps, imprints, and meters), primarily Packages, First-Class Mail™, and Standard Mail.

- C. As Bradford Group obtains new customers through its letter and flats, a continuing stream of catalogs, merchandise, and related correspondence results (“multiplier effect”).

II. Volume Commitments and Declining Block Rates.

- A. Volume Commitments. In consideration of the discounts available to Bradford Group under this Agreement, Bradford Group shall mail the minimum volumes of Bradford Group Standard Mail letters or flats specified below during the term of this Agreement. Standard Mail pieces that will be counted toward these commitments and that will be eligible for discounts set forth in Article II.D, are limited to Bradford Group letters and flats. If, in any year, Bradford meets the volume commitment for one but not both of the volume commitments by shape specified below, it shall be eligible only for the discount applicable to that shape in that year. If Bradford Group does not mail at least 166,000,000 Standard Mail letters and flats during the first year of this Agreement, it agrees to pay the Postal Service a one-time transaction fee of \$200,000.

1. Year One. In the first year of this Agreement, the volume commitments will be 154,000,000 pieces of Bradford Group Standard Mail letters and 54,500,000 pieces of Bradford Group Standard Mail flats.
2. Year Two. In the second year of this Agreement, the volume commitments will be 154,000,000 pieces of Bradford Group Standard Mail letters and 55,500,000 pieces of Bradford Group Standard Mail flats, except as follows:
 - a. If, at the end of Year 1, actual volume of letters and/or flats is 12 percent or more above the applicable Year 1 commitment, the applicable Year 2 commitment will be revised to be the average of Year 1 actual volume and the original Year 2 commitment (154,000,000 and 55,500,000).
 - b. If, at the end of Year 1, the actual volume of letters and/or flats is 5 percent or more below the applicable Year 1 commitment, the applicable Year 2 commitment will be decreased by the percentage difference between the Year 1 commitment and Year 1 actual volume, but not lower than 140,000,000 or 49,000,000 for letters and flats respectively. If the Year 2 commitment as adjusted by the previous sentence falls below the Year 2 starting threshold, the starting threshold will be adjusted to the Year 2 commitment as



U.S. Postal Service – The Bradford Group NSA

adjusted by the previous sentence, and the applicable Year 2 commitment will be further adjusted to equal the new Year 2 starting threshold plus seven million pieces for letters; and the new Year 2 starting threshold plus one million pieces for flats.

3. Year Three. In the third year of this Agreement, the volume commitment will be 154,000,000 pieces of Bradford Group Standard Mail letters and 58,000,000 pieces of Bradford Group Standard Mail flats, except as follows:
 - a. If, at the end of Year 2, the actual volume of letters and/or flats is 12 percent or more above the applicable Year 2 commitment, the applicable Year 3 commitment will be revised to be the average of Year 2 actual volume and the original Year 3 commitment (154,000,000 and 58,000,000).
 - b. If, at the end of Year 2, the actual volume of letters and/or flats is 5 percent or more below the applicable Year 2 commitment, the applicable Year 3 commitment will be decreased by the percentage difference between the Year 2 commitment and Year 2 actual volume, but not lower than 140,000,000 or 50,000,000 for letters and flats respectively. If the Year 3 commitment as adjusted by the previous sentence falls below the Year 3 starting threshold, the starting threshold will be adjusted to the Year 3 commitment as adjusted by the previous sentence, and the applicable Year 3 commitment will be further adjusted to equal the new Year 3 starting threshold plus seven million pieces for letters; and the new Year 3 starting threshold plus one million pieces for flats.
- B. Discounts. In exchange for Bradford Group's adherence to the volume commitments in Article II.A for Bradford Group Standard Mail letters and flats, declining block rates of postage will be available for volumes within certain blocks of such Standard Mail, as defined in Article II.D. The declining block rates will be calculated by applying the discounts specified below to the otherwise applicable rates of postage. The discounts specified below apply only to the incremental volumes within each volume block.
- C. Credits. Bradford Group agrees to pay the otherwise applicable rates of postage at the time the mail is entered. The Postal Service will provide Bradford Group with credits of the appropriate amounts of the discounts as specified in Article II.D.



U.S. Postal Service – The Bradford Group NSA

D. Declining Block Rates.

The declining block rates calculated as shown below are not applicable unless the volume commitments in Article II.A have been met.

1. If the volume commitment specified in Article II.A for the first year is met, declining block rates are calculated for the first year based on the following volume blocks and discounts:

Letter Threshold		Discount
147,000,000	157,000,000	\$ 0.015
157,000,001	167,000,000	\$ 0.020
167,000,001	177,000,000	\$ 0.025
177,000,001	183,000,000	\$ 0.030

Flats Threshold		Discount
53,500,000	55,500,000	\$ 0.010
55,500,001	57,500,000	\$ 0.012
57,500,001	59,500,000	\$ 0.015
59,500,001	61,500,000	\$ 0.020

2. If the volume commitment specified in Article II.A for the second year is met, declining block rates are calculated for the second year based on the following volume blocks and discounts:

Letter Threshold		Discount
147,000,000	157,000,000	\$ 0.015
157,000,001	167,000,000	\$ 0.020
167,000,001	177,000,000	\$ 0.025
177,000,001	183,000,000	\$ 0.030

Flats Threshold		Discount
54,500,000	56,500,000	\$ 0.010
56,500,001	58,500,000	\$ 0.012
58,500,001	60,500,000	\$ 0.015
60,500,001	62,500,000	\$ 0.020



U.S. Postal Service – The Bradford Group NSA

3. If the volume commitment for the third year specified in Article II.A is met, declining block rates are calculated for the third year based on the following volume blocks and discounts:

Letter Threshold		Discount
147,000,000	157,000,000	\$ 0.015
157,000,001	167,000,000	\$ 0.020
167,000,001	177,000,000	\$ 0.025
177,000,001	183,000,000	\$ 0.030

Flats Threshold		Discount
57,000,000	59,000,000	\$ 0.010
59,000,001	61,000,000	\$ 0.012
61,000,001	63,000,000	\$ 0.015
63,000,001	65,000,000	\$ 0.020

- F. Acquisition or Merger. The parties agree that the Standard Mail volume blocks will be adjusted upward to the extent that Bradford Group merges with or acquires an entity with annual Standard Mail letter and flats volumes in excess of 5 million pieces in the year preceding the acquisition or merger. Both the bottom and the top ends of each volume block shall be adjusted upward to the extent of any acquisition or merger. The parties further agree that the Standard Mail volume blocks will also be adjusted to the extent that in any Postal Service fiscal year, Bradford Group merges with or acquires multiple entities with combined annual Standard Mail letter and flats volume in excess of 5 million pieces. Bradford Group shall notify the Postal Service of any merger or acquisition with an entity that has annual Standard Mail volume in excess of 5 million pieces.

In addition, at the end of any Postal Service fiscal year during the term of this Agreement, Bradford Group will notify the Postal Service if during that fiscal year it has merged with or acquired one or more entities with combined annual Standard Mail volume in excess of 5 million pieces. The notification must include the name of each acquired entity, the existing number of new accounts, the mail volume of the acquired entities for the 12 months preceding the merger or acquisition, and the PostalOne!™ permit accounts and meters through which the mail volume was processed. If the merger or acquisition results in a material increase as described herein, the Standard Mail volume blocks will be adjusted to add the volume of Standard Mail sent by each acquired entity during the 12 months preceding the merger or acquisition. All adjustments of volume blocks due to mergers or acquisitions shall be made on a quarterly basis beginning in the fiscal quarter immediately following the date of acquisition or merger.



U.S. Postal Service – The Bradford Group NSA

- G. Sale or Closure. The parties agree that the Standard Mail volume blocks will be adjusted downward to the extent that Bradford Group sells or closes a division or entity with annual Standard Mail letter and flats volumes in excess of 5 million pieces in the year preceding the sale or closure. Both the bottom and the top ends of each volume block shall be adjusted downward to the extent of any sale or closure. The parties further agree that the Standard Mail volume blocks will also be adjusted to the extent that in any Postal Service fiscal year, Bradford Group sells or closes multiple divisions or entities with combined annual Standard Mail letter and flats volume in excess of 5 million pieces. Bradford Group shall notify the Postal Service of any sale or closure of one or more divisions or entities with combined annual Standard Mail volume in excess of 5 million pieces.

In addition, at the end of any Postal Service fiscal year during the term of this Agreement, Bradford Group will notify the Postal Service if during that fiscal year it has sold or closed one or more divisions or entities with combined annual Standard Mail volume in excess of 5 million pieces. The notification must include the name of each sold or closed division or entity, the number of accounts affected, the mail volume of each sold or closed division or entity for the 12 months preceding the sale or closure, the PostalOne!™ permit accounts and meters through which the mail volume was processed, and an indication of whether those accounts and meters will continue to be used for Bradford Group Standard Mail letters and flats. If the sale or closure results in a material decrease of mail as described herein, the Standard Mail volume blocks will be adjusted to subtract the volume of Standard Mail sent by each sold or closed division or entity during the 12 months preceding the sale or closure. All adjustments of volume blocks due to sales or closures shall be made on a quarterly basis beginning in the fiscal quarter immediately following the date of sale or closure.

- H. Volume Accounting.
1. Bradford Group will provide the Postal Service with the numbers of the PostalOne!™ permit accounts that will determine Bradford Group's eligibility for discounts. The permit accounts may be designated and used to determine the discounts only upon the Postal Service's written acknowledgement. Separate qualifying PostalOne!™ permit accounts will be designated and used for Bradford Group Standard Mail letters and flats. Only Bradford Group's Standard Mail letters and flats in these permit accounts will be counted toward the Standard Mail volume commitment and volume blocks. The data in these Postal Service permit accounts will be used to determine whether these volumes have been reached, and the



U.S. Postal Service – The Bradford Group NSA

Postal Service shall keep such data in a form auditable by Bradford Group.

2. If Bradford Group's Standard Mail letters and flats volume exceeds the volume commitment for the applicable year, Bradford Group will be eligible to receive a credit for discounts on subsequent Bradford Group Standard Mail letters and flats volume sent through the designated PostalOne!™ permit accounts during the remaining portion of the applicable year of this Agreement.
3. At the end of each Postal Service fiscal quarter that follows the conclusion of each year of this Agreement, the Postal Service shall promptly deliver its summary of Bradford Group Standard Mail letters and flats usage and applicable credit due Bradford Group. The Postal Service will identify Bradford Group's annual Standard Mail volume and corresponding credit due Bradford Group. Any applicable credit due Bradford Group will be realized at the commencement of the subsequent fiscal quarter, once volumes have been reconciled for the applicable year of this Agreement. The credit shall be paid to Bradford Group by wire transfer or by the Postal Service promptly posting an appropriate credit to Bradford Group's CAPS account.
4. At the end of the fourth Postal Service fiscal quarter, all Bradford Group Standard Mail volumes and discounts will be reconciled and the Postal Service will promptly disclose to Bradford Group whether additional credits are available or whether more discounts have been given than due under the Agreement. If Bradford Group has received more discounts than due, Bradford Group authorizes the Postal Service to deduct the amount from any of its CAPS accounts, upon ten (10) business days notice. Any additional amounts owed to Bradford Group will be credited per instructions from Bradford Group within ten (10) business days.
5. Bradford Group understands that in the normal course of business, the Postal Service occasionally edits PostalOne!™ permit account data after the close of a quarter to reconcile a discrepancy. If such an edit affects the Standard Mail volume in either the Postal Service's or Bradford Group's favor, the change will be accounted for under the terms of this Agreement.



U.S. Postal Service – The Bradford Group NSA

III. Compliance and Other Issues.

A. Compliance.

Bradford Group will make necessary records and data available to the Postal Service to facilitate and monitor compliance with this Agreement.

B. Appeals.

Bradford Group may appeal a Postal Service decision regarding the following: mail counted toward the volume blocks set forth in Article II.A and Article II.D volume block adjustments set forth in Article II.F; the volume of mail in the PostalOne!™ permit accounts set forth in Article II.C and Article II.H; and the amount of discounts paid set forth in Article II.B, Article II.C, Article II.D and Article II.H. Any such appeal must be made in writing to the Postage and Classification Service Center in New York, within 30 days of receiving notice of the Postal Service decision. The decision of the Manager, PCSC, will be final. Any decision that is not appealed to the Manager, PCSC, within the 30 day time period becomes the final Postal Service decision.

This appeal process relates only to the issues identified above that arise as a result of the implementation of this agreement.

C. Effective Date.

The Agreement is effective on the latest date of signing by both Parties. References to “years” of the Agreement refer to periods ending on the anniversary date of the implementation date referred to in Article III.E below.

D. Regulatory Review.

1. In accordance with the Postal Reorganization Act, the Postal Accountability and Enhancement Act, the Postal Regulatory Commission's Rules of Practice and Procedure, and upon approval of the Postal Service Board of Governors, the Postal Service will file a request with the Postal Regulatory Commission (“Commission”) for recommended changes in rates, fees, and classifications that would allow the Postal Service to implement this agreement.
2. Bradford Group agrees to file with the Commission its direct case supporting the Postal Service's request on the date the Postal Service files its request. Bradford Group will file any motions for waiver necessary to support these filings.



U.S. Postal Service – The Bradford Group NSA

3. The Parties agree to provide the other with drafts of its testimony, workpapers, library references, and other pleadings to provide a reasonable opportunity for review of documents in advance of filing with the Commission. The Postal Service will approve the final version of these materials.
4. Each party agrees to consult with the other on positions to be taken in pleadings prior to filing. Bradford Group agrees not to take any position in the litigation contrary to those of the Postal Service.
5. Each party agrees to bear its own litigation costs related to the subject matter of this Agreement and its costs of participating in Commission and court proceedings resulting from the Postal Service's request for a recommended decision.
6. Each party agrees to bear its own costs associated with any data collection needs associated with this Agreement.

E. Term & Implementation Date.

Pursuant to the Postal Reorganization Act, the Postal Accountability and Enhancement Act, and upon approval by the Governors of the Postal Service of the changes in rates, fees, and classification recommended by the Commission, the Board of Governors will set the Implementation Date. It is further agreed that should the Implementation Date fall prior to the commencement of a Postal Service fiscal quarter, then for the period of time between the implementation date and the first full Postal Service fiscal quarter, any applicable volume blocks will be pro-rated as mutually agreed by the Parties, and thereafter the Agreement will continue for a period of three years from the implementation date set by the Board of Governors, or until (i) the provisions of the Domestic Mail Classification Schedule relative to this Agreement expire or (ii) the Agreement is terminated or cancelled by one of the Parties pursuant to Article IV.F. It is further agreed that should the termination date of this Agreement fall prior to the end of a Postal Service fiscal quarter, then for the period of time between the end of the preceding Postal Service fiscal quarter and the termination date, any applicable volume blocks will be pro-rated as mutually agreed by the Parties.

F. Termination.

1. Each party reserves the right to terminate this Agreement, without penalty, with thirty days' written notice to the other party.



U.S. Postal Service – The Bradford Group NSA

2. This Agreement automatically terminates if Bradford Group's volume of Standard Mail letters and flats eligible for the discounts set forth in Article II.D exceeds 12 million pieces above the maximum volume of either letters or flats in the top volume blocks, (as may be adjusted by the provisions of Article II) in any year of this Agreement.

IV. Public Communications.

The form, substance, and timing of any press release or other public disclosure of matters related to this Agreement shall be mutually agreed to by Bradford Group and the Postal Service in writing which consent shall not be unreasonably withheld, except to the extent of disclosure which Bradford Group or the Postal Service is required by law to make, in which instance the non-disclosing Party shall be advised and the Parties shall use their reasonable efforts to cause a mutually agreeable disclosure to be issued.

V. Amendments.

This Agreement shall not be amended except expressly, in writing, by authorized representatives of the Parties.

VI. Notices.

Service of all notices under this Agreement shall be in writing and sent by either U.S. Certified Mail, return receipt requested, postage paid, addressed to the Party to be served notice, or by nationally recognized overnight mail service, at the following addresses. All such notices and communications shall be effective upon receipt.

United States Postal Service:

Mr. Michael K. Plunkett
Vice President (A), Pricing and Classification
United States Postal Service
475 L'Enfant Plaza SW, Room 5127
Washington DC 20260-5127

Managing Counsel,
Legal Policy and Ratemaking Law
United States Postal Service
475 L'Enfant Plaza SW
Washington DC 20260-1135

The Bradford Group:

Mr. Joel Platt
General Counsel
The Bradford Group
9333 N. Milwaukee Avenue
Niles, Illinois 60714



7/24 1:45 EDT

U.S. Postal Service – The Bradford Group NSA

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first written above.

UNITED STATES POSTAL SERVICE

By: [Signature]

Printed Name: Michael Plunkett

Title: VP(A) Pricing Classification

Date: 7/30/07

THE BRADFORD GROUP

By: [Signature]

Printed Name: Karen R Cox

Title: VP, BGE, LTD.

Date: July 24, 2007

