

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-T1-5, PART (E), 6, PART (E), 8, 10)
(March 30, 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-T1-5, part (e), 6, part (e), 8, 10, filed on March 9, 2007. The interrogatories are stated verbatim and are followed by the response. The Postal Service's response to VP/USPS-T1-1, 9, 17-20 will be forthcoming.

UNITED STATES POSTAL SERVICE

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VP/USPS-T1-5. Please refer to your testimony at page 11, lines 5-6, where you state that one of the changes BAC agrees to incorporate in its mailing practices is to use the Centralized Automated Payment System ("CAPS") for all transactions.

- a. How many mailers have and use CAPS accounts, based on the most recent data available?
- b. What percentage of all First-Class and Standard Mail is now paid for through CAPS?
- c. What percentage of BAC's First-Class and Standard Mail is currently entered and paid for through CAPS?
- d. Please identify the principal means now used by BAC to pay for its bulk mailing transactions?
- e. Please provide the approximate percentage of BAC's bulk mail volume that for which payment is made using means other than electronic payment.
- f. What incentives does the Postal Service now give mailers in order to induce them to begin using CAPS?
- g. Please describe the principle benefits to the Postal Service from having mailers use CAPS.

RESPONSE:

- e. Based on representations made to me by BAC representatives, 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. Neither BAC nor the USPS has data on the extent to which CAPS is used to pay postage on BAC mail entered by third-party vendors on behalf of BAC, although third-party vendors tend to be major users of CAPS.

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VP/USPS-T1-6. Please refer to your testimony at page 11, lines 7-8, where you state that one of the changes BAC agrees to incorporate in its mailing practices is to present electronic manifest for all pallets, trays and pieces in either a Mail.dat or web services file.

- a. What percentage of BAC's bulk **First-Class Mail** is currently entered on a Mail.dat or web services file?
- b. What percentage of BAC's **Standard Mail** is currently entered on a Mail.dat or web services file?
- c. In general, how extensive and expensive will these changes required by the NSA be for BAC?
- d. In what ways, and to what extent, can this NSA be deemed to compensate BAC for using CAPS and presenting electronic manifest for all pallets, trays and pieces in either a Mail.dat or web services file?
- e. Will this NSA become a precedent by which other large bulk mailers will expect or demand an NSA in return for continuing to use operational practices such as entering mail on a Mail.dat or web services file?

RESPONSE:

- e. BAC did not receive an NSA, and is not being offered discounts under the NSA, simply for "continuing to use operational practices such as entering mail on a Mail.dat or web services file," and we do not currently anticipate making such an offer to other mailers. The use of electronic manifests is a necessary but not a sufficient condition under the NSA for eligibility for discounts. To receive discounts, BAC must also improve its mail performance as measured by the Postal Service. If another large bulk mailer wants to pursue an NSA similar to the BAC NSA, it likely would have to adopt the operational practices explicitly identified in this NSA filing (e.g., CAPS, Seamless Acceptance, etc.). But we do not anticipate offering discounts merely for committing to such practices, without any improvement in the actual mail performance of the mailer.

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VP/USPS-T1-8. Please refer to your testimony at page 16, lines 16-19, where you refer to USPSLR-L-110 in Docket No. R2006-1, the source of the benchmark 96.8 percent accept rate.

- a. Are the data in USPS-LR-L-110 based on **comprehensive** reporting of results on all Postal Service sorting equipment (*i.e.*, on a “census”)? If not, do the data represent a **statistical sample** of some of the Postal Service’s letter sorting equipment? If so, is the sample representative of all generations of equipment in use at the time of the sample?
- b. Do the data constitute daily reports on each individual piece of equipment represented in the in the database, or are the data first aggregated to some higher level before being entered into the database? For example, are the data first aggregated in the field over a week, month, or other accounting period before being entered into the database? Or, are the data first aggregated over all letter sorting equipment in the plant and then reported as just one entry?
- c. Please provide all measures of dispersion about the 96.8 percent national average that are available (*e.g.*, by facility, by different time periods, etc.), and indicate whether the dispersion is based on individual daily readings on sorting equipment, or aggregations over various pieces of sorting equipment, or aggregations over some period of time longer than a day.
- d. Does the Postal Service have data showing the trend in the accept rate since, say, 2000? If so, please provide such data.
- e. What is the time period covered by the data used to compute the 96.8 percent accept rate — *i.e.*, in what year(s) were the data recorded, and what was the length of the period covered by the data?
- f. Please explain all reasons why you think 96.8 percent represents an acceptable benchmark for the period covered by this NSA with BAC.
- g. In view of the Postal Service’s efforts to work with mailers to improve address quality and to use MERLIN, as well as efforts to improve equipment, does the Postal Service have any data showing the trend in accept rates over some period of time (*e.g.*, over the period from 2000 to 2006)?
- h. In view of various efforts by the Postal Service to improve address quality, can you refute the hypothesis that there is an upward trend in accept rates and, if there is not an upward trend, would you consider that to indicate no return on (i) the Postal Services’s [sic] efforts to work with mailers and (ii) the investment by mailers to improve address quality?

RESPONSE:

- a. The 96.8 acceptance rate referred to in my testimony was based on data on acceptance rates set forth in USPS-LR-L-110, reweighted to reflect the BAC weighted mail mix as identified in my response to OCA/USPS-T1-8. The data on acceptance rates in USPS-LR-L-110 were generated through a statistical sample

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of data collected by Postal Service's letter sorting equipment in 1999. The sample was representative of all generations of letter processing equipment in use at the time of the survey. We and BAC chose to rely on the USPS-LR-L-110 data because they are the most reliable available, and because using the data rather than conducting a special study avoids any possible claim that BAC "gamed" the results by downgrading the legibility of its barcodes during the special study. The data set forth in USPS-LR-L-110 were submitted into evidence in Docket Nos. R2000-1, R2001-1, R2005-1 and R2006-1 to support the Postal Service's attribution of mail processing costs in each omnibus case. The data were open to discovery and rebuttal by interested participants, including Valpak. In each case, the Commission ultimately relied on the data to recommend cost attributions and rates.

- b. The information in USPS-LR-L-110 was developed as follows. Each participating plant was asked to submit AP 11 FY 99 "Sort Plan Area Summary" End-Of-Run reports for a specific list of automation operation numbers. Once the data had been collected, the study coordinators were asked to mail the data to Postal Service headquarters. For more information on how the study was conducted, please refer to Docket No. R2005-1, USPS-LR-K-68.
- c. Please refer to my response to part (a) above.
- d. To my knowledge, the Postal Service does not have data showing the trend in accept rates since 2000. The information reported in USPS-LR-L-110 was gathered from a one-time survey in 1999 providing a snapshot of acceptance

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rates. I am unaware of comparable information that could indicate trends since 1999. Please also see my response to part (a) above.

- e. Please refer to my response to part (a) above. The acceptance rates in USPS-LR-L-110 contain figures obtained from the data collected during the 1999 Letters/Cards Mail Flow Densities Study described in Docket No. R2000-1, USPS-T-24, page 6 at 18-24. For more information, please refer to Docket No. R2005-1, USPS-LR-K-68.
- f. Please see my response to OCA/USPS-T1-8 and to part (a) above. As I indicated in my response to OCA/USPS-T1-8, the calculated baseline value of 96.8 percent is derived from the read and accept rates that were subject to scrutiny in Docket No. R2006-1.
- g. Please see my response to part (d) above.
- h. Please refer to my response to part (d) above. I am unaware of information that would permit me to respond to this question.

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VP/USPS-T1-10. Please refer to your testimony at page 16, lines 9-14.

- a. Please define the phrase "read and accepted" as you use it on line 11.
- b. If letters jam during their first pass on the Postal Service letter sorting equipment, are such letters counted as having received a first pass through Postal Service mail sorting equipment? That is, are letters that jam included in the denominator which you describe here, and define in the NSA, § IV.C.3.a and b?
 - (i) If not, why not?
 - (ii) If so, what percentage of letters jam during a first pass on Postal Service mail sorting equipment?
- c. If letters that are Undeliverable as Addressed ("UAA") are not sorted to a reject bin on the first pass, are such letters considered to be successfully read and accepted? Please explain.

RESPONSE:

- a. Please see my response to OCA/USPS-T1-5.
- b. Letters that jam during their first pass on the Postal Service letter sorting equipment are counted as having received a first pass through Postal Service mail sorting equipment as long as the piece has been read.
 - (i) Not applicable.
 - (ii) I do not know of any data source that identifies the percentage of letters that jam during a first pass on Postal Service sorting equipment.
- c. Yes. Letters that are Undeliverable as Addressed ("UAA") need not be sorted to a reject bin on the first pass to be successfully read and accepted.

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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