

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-T1-28-31, 32(A), 33)
(May 11, 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-T1-28-31, 32(a), 33, filed on April 27, 2007. The interrogatories are stated verbatim and are followed by the response. Interrogatory VP/USPS-T1-32(b) has been redirected to Bank of America Corporation.

UNITED STATES POSTAL SERVICE

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VP/USPS-T1-28. Please refer to your response to VP/USPS-T1-22.

- a. Your response to part a states that fewer than 5 mailers are pilot testing Seamless Acceptance. For those mailers that have agreed to cooperate with pilot testing of Seamless Acceptance, has the Postal Service given any (or all) of them any kind of financial incentive for their participation in the pilot test?
 - (i) If your answer is anything other than an unqualified negative, please describe fully every financial incentive that the Postal Service has given those cooperating mailers, and compare any such incentive(s) with the financial incentive offered to BAC in the proposed NSA.
 - (ii) Aside from any financial incentive that may have been given to those mailers who have agreed to cooperate in the pilot test of Seamless Acceptance, please provide a detailed description of all non-financial inducements that the Postal Service has offered to those mailers in return for their participation.
- b. Your response to VP/USPS-T1-22(d) states that BAC will be required to implement Seamless Acceptance once the Postal Service has completed beta-testing of the service. Please explain whether "pilot testing," as you use that term, is synonymous with "beta-testing."
- c. If pilot testing differs from beta-testing, please explain:
 - (i) How they differ.
 - (ii) When the Postal Service expects to complete pilot testing and commence beta-testing of Seamless Acceptance.
 - (iii) Whether the Postal Service expects BAC to participate in the beta testing.
 - (iv) What financial and non-financial incentives the Postal Service plans to offer those mailers who agree to participate in beta-testing.
- d. In your response to VP/USPS-T1-3(e) you stated that "[t]he Postal Service does not expect to offer any inducement to bulk mailers to adopt and use Seamless Acceptance," and in your response to VP/USPS-T1-22(c) you state that "[i]f the implementation [of Seamless Acceptance] were not a factor in the NSA, there would be no guarantee that BAC would adopt Seamless Acceptance at this point in time."
 - (i) Please explain why the Postal Service considers it desirable — or necessary — to offer BAC a financial inducement for adopting Seamless Acceptance when it does not expect to offer any inducement to other bulk mailers for adopting and using Seamless Acceptance.
 - (ii) Assuming that this NSA is approved as submitted, please discuss the likelihood that it may lead other mailers to seek a financial inducement for adopting and using Seamless Acceptance after all testing is complete and it has been released for mailer use.

RESPONSE:

- a. Please see my response to (i) and (ii) below:

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The Postal Service has not given any financial incentive to mailers for their participation in the pilot test. Furthermore, outside of informational or technical support, the Postal Service does not provide any non-financial inducements to participants of the pilot test. Informational and technical support services are also available to mailers through support structures such as the Business Service Network.

- b. "Pilot testing" is synonymous with "beta testing."
- c. Parts (i) and (ii) are not applicable. Please see my response to part (b) above.
 - (iii) No.
 - (iv) None.
- d. Please see my response to (i) and (ii) below:

The Postal Service is not offering a financial inducement to BAC specifically for BAC's adoption of Seamless Acceptance. Seamless Acceptance is an operational requirement of this NSA that BAC must satisfy to be eligible to earn incentives on improvements in UAA and read/accept rates. To the extent other mailers wish to pursue a functionally equivalent NSA, those mailers will have to participate in the Seamless Acceptance program; moreover, unlike other mailers, BAC is agreeing to a host of other obligations in order to receive discounts. That is the essence of this NSA.

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VP/USPS-T1-29. Your response to VP/USPS-T1-22(c)(i) states that “[i]f the implementation [of Seamless Acceptance] were not a factor [*i.e.*, a requirement] in the NSA, there would be no guarantee that BAC would adopt Seamless Acceptance at this point in time.”

- a. Please explain why the Postal Service regards the guarantee that BAC will adopt Seamless Acceptance as an important ancillary benefit of the NSA.
- b. As a hypothetical, suppose that BAC were one of the mailers who agreed to participate in the beta-testing and, consequently, was already using Seamless Acceptance. Under this assumed circumstance, please explain whether the Postal Service would consider a guarantee that BAC would continue using Seamless Acceptance to be a benefit of equal importance to the Postal Service.
- c. Once the beta-testing of Seamless Acceptance is completed and it is released for use by mailers, if some other bulk letter mailer (X, say) is not using Seamless Acceptance, would that be a consideration in deciding whether mailer X is similarly situated to BAC?
- d. Similarly, once the beta-testing of Seamless Acceptance is completed and it is released for use by mailers, if some other bulk letter mailer (Y, say) is using Seamless Acceptance, would that be a consideration in perhaps deciding that mailer Y is not similarly situated to BAC? That is, would adoption of Seamless Acceptance by mailer Y, without any financial incentive, result in mailer Y not being similarly situated to BAC, and perhaps disqualify mailer Y for a functionally equivalent pay-for-performance NSA, such as the one proposed here? Please explain fully.
- e. Suppose that a bulk letter mailer (Z, say) has adopted and is using both Seamless Acceptance and eDropShip for all of its mail. In considering whether mailer Z should be eligible for a pay-for-performance NSA, such as the one proposed here, please explain whether the fact that mailer Z is already using Seamless Acceptance and eDropShip would mean that mailer Z is not similarly situated to BAC and should be disqualified from receiving a functionally equivalent pay-for-performance NSA.
- f. Suppose that a bulk letter mailer (N, say) has adopted and is using both Seamless Acceptance and eDropShip for all of its mail, and also is using the Centralized Automated Payment System (“CAPS”) to pay for 100 percent of the postage due for its bulk mail. In considering whether mailer N should be able to get a pay-for-performance NSA, such as the one proposed here, please explain whether the fact that mailer N is already using Seamless Acceptance, eDropShip and CAPS would mean that mailer N is not similarly situated to BAC and should be disqualified from receiving a functionally equivalent pay-for-performance NSA.

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RESPONSE:

- a. The Postal Service believes that Seamless Acceptance is an important ancillary benefit because it works to automate the process for measuring and complying with the requirements of the NSA. Moreover it promotes a program that the Postal Service believes will provide benefits to all mailers.
- b. It would be of equal importance because participation in the Seamless Acceptance program is currently not a mandatory operating requirement outside of the scope of an NSA.
- c. Yes. Please see my response to VP/USPS-T1-28(d).
- d. Y's adoption of Seamless Acceptance, "without any financial incentive," might suggest that it is not similarly situated to BAC. However, such adoption would not automatically disqualify Y from being a candidate for a functionally equivalent pay-for-performance NSA.

Because this NSA requires the mailer (BAC) to use Seamless Acceptance, and because the use of Seamless Acceptance would be an operational requirement of a functionally equivalent pay-for-performance NSA, Y might "disqualify" itself from such an NSA if it is unwilling or unable to use Seamless Acceptance. Moreover, unlike other mailers, BAC is agreeing to a host of other obligations in order to receive discounts. That is the essence of this NSA.

- e. Z's adoption and use of Seamless Acceptance and eDropShip "for all of its mail," might suggest that it is not similarly situated to BAC. However, such

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adoption and use would not automatically disqualify Z from being a candidate for a functionally equivalent pay-for-performance NSA.

Because this NSA requires the mailer (BAC) to use Seamless Acceptance and eDropShip, and because the use of Seamless Acceptance and eDropShip would be operational requirements of a functionally equivalent pay-for-performance NSA, Z might “disqualify” itself from such an NSA if it is unwilling or unable to use Seamless Acceptance and/or eDropShip. Please see my response to part (d) above.

- f. N’s adoption and use of Seamless Acceptance and eDropShip “for all of its mail,” and its use of the Centralized Automated Payment System (“CAPS”) to pay for 100 percent of the postage due for its bulk mail, might suggest that it is not similarly situated to BAC. However, such adoption and use would not automatically disqualify N from a functionally equivalent pay-for-performance NSA.

Because this NSA requires the mailer (BAC) to use Seamless Acceptance, eDropShip, and CAPS, and because the use of Seamless Acceptance, eDropShip, and CAPS would be operational requirements of a functionally equivalent pay-for-performance NSA, N might “disqualify” itself from such an NSA if it is unwilling or unable to use Seamless Acceptance, eDropShip, and/or CAPS. Please see my responses to parts (d) and (e) above.

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VP/USPS-T1-30. Please refer to your response to VP/USPS-T1-24(b)(ii). Assume that a mailer (P, say) is using postage meters to pay for a substantial portion of its bulk letter mail. Assume further that mailer P enters into a NSA in which it agrees to incorporate a requirement that it use CAPS to pay for 100 percent of the postage for its bulk letter mail. Please explain why the requirement to use CAPS for all postage payments “is unlikely” to result in the discontinuance of meters for mailer P’s bulk mail.

RESPONSE:

In the hypothetical you posit here, the discontinuance of meters for mail P’s bulk mail is not only likely but tautologically certain. Requiring a mailer to “use CAPS to pay for 100 percent of the postage for its bulk letter mail” should cause the mailer to do just that. By contrast, the NSA actually proposed here does not require BAC to use CAPS for all of its bulk mail—only for letter-rated First-Class Mail and Standard Mail that is entered under a Qualifying Permit Number. Hence, while BAC use of postage meters may decline, we do not believe it likely that such use will discontinue completely.

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VP/USPS-T1-31. Please refer to your response to VP/USPS-T1-25. Your response to part a states that the number of mailers participating in the eDropShip pilot test has varied over the course of the test, and currently fewer than 10 mailers are pilot testing eDropShip.

- a. For those mailers that have agreed to cooperate with the Postal Service and participate in pilot testing of eDropShip, has the Postal Service given any (or all) of them any kind of financial incentive?
- b. If your response to part a is affirmative, please describe fully every financial incentive that the Postal Service has given those cooperating mailers, and compare any such incentive(s) with the financial incentive offered to BAC in the proposed NSA.
- c. Aside from any financial incentive that may have been given to those mailers that have agreed to cooperate in the pilot test of eDropShip, please provide a detailed description of all non-financial inducements that the Postal Service has offered to those mailers in return for their participation in the pilot test.
- d. To the extent that BAC's agreement to adopt eDropShip after all testing is complete is part of the reason for the financial inducement to participate in the proposed NSA, please discuss whether the existence of this inducement may adversely affect the future willingness of other mailers to cooperate with and participate in testing of future Postal Service innovations without any such incentive.

RESPONSE:

- a. No. The Postal Service has not offered any mailer any financial incentive to participate in the eDropShip program.
- b. Not applicable.
- c. Outside of informational or technical support, the Postal Service does not provide any non-financial inducement to participants of the pilot test.

Moreover, informational or technical support services are also available to mailers through support structures such as the Business Service Network.
- d. The Postal Service does not offer a financial inducement to BAC specifically for adopting eDropShip. I can only speculate as to whether any of the inducements in this NSA may adversely affect the future

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willingness of other mailers to cooperate with and participate in testing of future Postal Service innovations without any such incentive. However, if mailers realize operational benefits from new services such eDropShip, I believe that it is highly unlikely that they will stop participation in future programs in anticipation of an NSA.

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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. The Four-State Barcode in of itself will not allow the Postal Service to measure a mailer’s specific read and accept rate. The mailer must also use a combination of CONFIRM and Business Entity Identifier (BEI), and must identify the volumes of mail accepted and processed through Seamless Acceptance. The Four-State Barcode allows the customer to include different services and identifiers of the mailpiece within one barcode. Its primary purpose is to eliminate the use of more than one barcode or markings for special services.
- b. Redirected to Bank of America Corporation.

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VP/USPS-T1-33. Please refer to your response to VP/USPS-T1-23.

- a. Your response to part a states that “the Postal Service anticipates that Seamless Acceptance will lead to overall improvements in mail processing performance over the status quo.” Please elaborate on what you intend by “overall improvements in mail processing performance.” In particular, please explain whether and how Seamless Acceptance is expected to improve:
 - (i) The read/accept rate of letter mail; and
 - (ii) Handling of letter mail when it is in trays, pallets or other containers.
- b. In part b you indicate that “using Seamless Acceptance and PostalOne! Transportation Management ... will improve delivery processes for BAC mailpieces.” Please explain whether this statement is applicable to First-Class Mail only, or is equally applicable to Standard Mail entered at destination facilities and, if it applies to Standard Mail entered at destination facilities, provide a more specific explanation of how it “will improve delivery processes for BAC mailpieces.”
- c. In part b you indicate that higher quality mailpieces “will require fewer exceptions in delivery.” Please elaborate on what you mean by “exceptions in delivery.” In particular, do you mean that Seamless Acceptance will result in (i) fewer letters being rejected when being delivery point sequenced, or (ii) fewer pieces that are Undeliverable as Addressed (“UAA”), or (iii) fewer pieces for which personal knowledge is required, or (iv) something else? Please explain fully.

RESPONSE:

- a. Please see my responses below:
 - (i) Seamless Acceptance should ensure higher quality barcodes because it will check the quality of barcodes prior to mailing and will allow customers and the Postal Service to identify if the quality of the barcode is poorer than required. Seamless Acceptance will not in and of itself improve read and accept rates if the mailer does not adopt processes to improve the quality of the barcode if that is the cause of the failure of mailpieces to be read and accepted.

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- (ii) Seamless Acceptance should improve handling of letter mail when it is in trays, pallets or other containers.
- b. The majority of improvements from PostalOne! for delivery improvements will be for First-Class Mail. However, improvements are also expected for Standard Mail entered at destination facilities. PostalOne will lead to more efficient and improved operating and handling of BAC's mail at destination and entry facilities.
- c. Seamless Acceptance should result in higher quality mail pieces. This higher quality may be manifest in a variety of ways, from fewer pieces in which barcodes do not match the physical address, which would decrease UAA rates, to better quality barcodes that will allow the pieces to be read and accepted and which may improve the amount of mail pieces that could be Delivery Point Sequenced (DPS). These benefits can also be manifested in lower Personal Knowledge Required ("PKR") volumes for BAC mail.

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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