

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

COMPLAINT OF CAPITAL ONE SERVICES, INC.

Docket No. C2008-3

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF PUBLIC REPRESENTATIVE  
(PR/USPS-10)  
(September 8, 2008)**

The United States Postal Service hereby provides its response to the following  
interrogatory of the Public Representative, filed on August 25, 2008:

PR/USPS-10.

The interrogatory is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 8, 2008

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**PR/USPS-10.** In “Motion of the United States Postal Service to Dismiss Complaint,” at 6, the Postal Service alleges that a new Capital One NSA that is identical to the Bank of America NSA “could place the Postal Service in a position of significant financial risk.”

- a. Please explain the “significant financial risk” identified in the quote above.
- b. Will a Capital One NSA identical in language and terms to the Bank of America NSA as implemented (except for the name, address and mail volumes) result in a net reduction in contribution to the Postal Service? Please explain and provide any financial analysis (in electronic form), or any other analysis, that supports your response.

**RESPONSE:**

- a. Based on the data provided in Docket No. MC2007-1, the expected average read and accept rates, which form the basis of the discounts in the Bank of America NSA, have increased. The implementation of the Wide Area Barcode Reader presumably contributed to this outcome. Therefore, the read and accept rates used in the Bank of America NSA are lower, on average, than would be expected for any mailer with above average characteristics. Also, if a prospective NSA partner were offered the same baselines on read and accept rates, it may free-ride or piggyback on the progress already made by first adopters in accelerating industry and USPS implementation of new processes and technologies, such as IMB, with little or no corresponding benefit to the Postal Service.
- b. No financial analysis has been prepared because postal management has not progressed sufficiently in any negotiations with Capital One. However, management’s expectation would be that, in the absence of evidence to the contrary, Capital One’s read and accept rates for automation letter mail would be significantly above the thresholds used in the Bank of America NSA, and that using those thresholds and discount schedules would result in a net reduction in

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contribution to the Postal Service. Further, the nonquantifiable benefits available to the Postal Service through an NSA with another mailer using the identical thresholds as the Bank of America NSA would be significantly reduced as compared to the Bank of America NSA, to the extent that the mailer and its suppliers have adapted to new technology as a direct result of Bank of America and its suppliers' adoption of those technologies arising from implementation of the baseline NSA. Further, the risks that Bank of America and its suppliers assumed when they first signed on to the baseline NSA were far different when the agreement was signed in 2006 than now, as the Postal Service and the industry have moved further along the learning curve and gained more direct experience in implementing the measures required by the Bank of America NSA.