Postal Rate Commission
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UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before:

Chairman Omas,
Vice Chairman Tisdale,
and Commissioners
Acton, Goldway and Hammond

Extension of Capital One Services, Inc. Negotiated Service Agreement	Docket No. MC2006-6

OPINION AND RECOMMENDED DECISION

APPROVING THE EXTENSION OF THE DURATION OF A

NEGOTIATED SERVICE AGREEMENT

Washington, DC 20268-0001
August 25, 2006

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

The Postal Rate Commission recommends that the United States Postal Service extend the duration of the three-year Negotiated Service Agreement with Capital One Services, Inc. (Capital One) for one additional year. The Commission first recommended that the Postal Service proceed with the Capital One Negotiated Service Agreement in Docket No. MC2002-2.

The Postal Service has the opportunity to continue to benefit during the one-year extension period of the Capital One Negotiated Service Agreement from providing electronic Address Correction Service in lieu of Capital One receiving physical return of its undeliverable-as-addressed (UAA) First-Class solicitation mail that cannot be forwarded. It is estimated that the Postal Service will benefit from cost reductions of $5.1 million during the additional year.

In Docket No. MC2002-2, the Commission established a $40.637 million limit on the maximum cumulative discounts available to Capital One over the duration of the agreement. The Postal Service reports that $4.7 million in discounts have been paid to Capital One during the first two years of the agreement. The Postal Service does not anticipate any discounts being paid during the third year of the agreement. Assuming that current mail volume trends continue, the cumulative limit, or stop-loss cap, will have had no material effect over the entire four-year duration of the agreement.

This docket has been conducted using the Commission's rules for renewing previously recommended Negotiated Service Agreements. The rules provide the opportunity for expediting Postal Service renewal requests by allowing participants to rely on relevant record testimony from the original docket and avoiding the need to re-litigate issues that were previously litigated and resolved. With the cooperation of all participants involved, and the Postal Service's streamlined Request, the Commission was able to issue its recommendation well within the 45-day timeframe established by the rules (including the abbreviated 19-day period provided for intervention).

II. PROCEDURAL HISTORY

On July 26, 2006, the United States Postal Service filed a request seeking a recommended decision from the Postal Rate Commission approving a one-year extension to the duration of the Negotiated Service Agreement with Capital One Services, Inc.[1] The Capital One Negotiated Service Agreement was first recommended by the Commission on May 15, 2003,[2] and ordered into effect for a period of three years ending September 1, 2006 by the United States Postal Service Board of Governors.[3] The Request, which includes seven attachments, was filed pursuant to Chapter 36 of the Postal Reorganization Act, 39 U.S.C. § 3601 *et seq*.[4] The Postal Service asked that this case proceed under the Commission's rules for requests to renew previously recommended Negotiated Service Agreements with existing participants. Rule 197 [39 CFR § 3001.197.]

The Postal Service has identified Capital One Services, Inc. (Capital One), along with itself, as parties to the Negotiated Service Agreement. This identification served as notice of intervention by Capital One. It also indicated that Capital One shall be considered a co-proponent, procedurally and substantively, of the Postal Service's

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[1] Request of the United States Postal Service for a Recommended Decision to Extend the Duration of the Previously Recommended Negotiated Service Agreement with Capital One, July 26, 2006 (Request).

[2] PRC Op. MC2002-2, May 15, 2003.

[3] Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission Recommending Experimental Rate and Service Changes to Implement Negotiated Service Agreement with Capital One, Docket No. MC2002-2, June 2, 2003.

[4] Attachment A to the Request contains proposed changes to the Domestic Mail Classification Schedule; Attachment B contains the current rate schedules, which have not been modified from Docket No. MC2002-2; Attachment C is a certification required by Commission rule 193(i) specifying that the cost statements and supporting data submitted by the Postal Service, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books; Attachment D is an index of testimony and exhibits; Attachment E is a compliance statement addressing satisfaction of various filing requirements; Attachment F is a copy of the amendment to the Negotiated Service Agreement and the Negotiated Service Agreement itself; and Attachment G contains the decision of the Governors for the original Negotiated Service Agreement.

Request during the Commission's review of the Negotiated Service Agreement. Rule 191(b) [39 CFR § 3001.191(b).]

In support of the direct case, the Postal Service has filed Direct Testimony of Jessica Lowrance on Behalf of the United States Postal Service, July 26, 2006, (USPS-T-1).

The Commission issued Order No. 1472 to announce the filing of the Request; designate the Director of the Commission's Office of the Consumer Advocate (OCA) as the representative of the interests of the general public; establish the deadline for intervention; set the date and agenda for a prehearing conference; and address a Postal Service motion requesting expedition.[5]

A prehearing conference was held on August 15, 2006. At the prehearing conference, it was determined that Docket No. MC2006-6 would proceed under Rule 197, Requests to Renew Previously Recommended Negotiated Service Agreements with Existing Participant(s). Discovery had been available to participants from their respective dates of intervention. No discovery had taken place, and no participant identified any issues requiring further discovery in the future. No participant requested a hearing or identified any issues for further consideration. The direct testimony of Postal Service witness Lowrance was admitted into evidence. No participant expressed an interest in filing briefs.

To complement the record, the Commission incorporated the following additional material into the record by reference: the Docket No. MC2002-2 record;[6] Docket No. MC2002-2 Data Collection Report for Sept. 01, 2003 to Sept. 30, 2004, filed January 31, 2005; and Docket No. MC2002-2 Data Collection Report Capital One NSA

[5] Notice and Order on Filing of Request Seeking Recommendation of an Extension to the Capital One Negotiated Service Agreement, PRC Order No. 1472, July 27, 2006. Because the Commission's rules already allow for expedited treatment, Motion of the United States Postal Service for Expedited Issuance of a Recommended Decision, filed July 26, 2006, was denied.

[6] The Postal Service specifies specific portions of the Docket No. MC2002-2 record upon which it relies in Request of the United States Postal Service for a Recommended Decision to Extend the Duration of the Previously Recommended Negotiated Service Agreement with Capital One, July 26, 2006, Attachment E-11.

October 2004-September 2005, filed February 7, 2006. After incorporating this material, the record was closed on August 15, 2006.[7]

[7] PRC Order No. 1474, August 15, 2006.

III. BACKGROUND: DOCKET NO. MC2002-2 CAPITAL ONE SERVICES, INC. NEGOTIATED SERVICE AGREEMENT

The Postal Service Board of Governors determined that the rate and service changes associated with the Docket No. MC2002-2, Capital One Negotiated Service Agreement, would remain in effect from September 1, 2003, through September 1, 2006.

The Capital One Negotiated Service Agreement includes two significant mail service features that form the bases of the agreement — an address correction service feature, and a declining block rate volume discount feature.

The address correction service feature provides Capital One, at certain levels of volume, electronic address corrections without fee for First-Class Mail solicitations that are undeliverable-as-addressed (UAA). In return for receipt of electronic address correction, Capital One will no longer receive physical return of its UAA First-Class solicitation mail that cannot be forwarded. Capital One will also be required to maintain and improve the address quality for its First-Class Mail. PRC Op. MC2002-2, ¶ 2004.

Use of the address correction service feature is a prerequisite to use of the second feature of the Negotiated Service Agreement, a declining block rate volume discount. This feature provides Capital One with a per-piece discount for bulk First-Class Mail volume above an annual threshold volume. The per-piece discount varies from 3 to 6 cents under a “declining-block” rate structure.

The Commission’s analysis of the Capital One Negotiated Service Agreement focused on assuring that the agreement would not make mailers other than Capital One worse off. *Id.*, ¶ 8006. To meet this condition, the Commission’s recommendation of the Capital One Negotiated Service Agreement included the addition of a provision establishing a cumulative three-year stop-loss limit on rate discounts of $40.637 million. *Id*., ¶¶ 5116, 8011. The Commission found that the estimates of before-rates volumes for Capital One were so unreliable that without a stop-loss provision there would be no reasonable assurance that the Postal Service would not lose money on the Capital One Negotiated Service Agreement. *Id*., ¶ 8013.

IV. SUMMARY OF PROPOSAL

A. Postal Service Request

The Postal Service proposes to extend the duration of the Negotiated Service Agreement with Capital One, which is set to expire on September 1, 2006, by one year. This will provide the parties to the agreement an opportunity to develop a new Negotiated Service Agreement to be filed in the upcoming year.[8] The Postal Service asserts that the Capital One Negotiated Service Agreement has proven successful, benefiting both the Postal Service and the mailing community as a whole. The Postal Service states that it hoped to test applying declining block rates as a strategy for retaining and increasing First-Class Mail volume through the Capital One Negotiated Service Agreement, and contends that the incentives provided by the Capital One agreement resulted in increased mail volume during the first two years of the agreement. Except for extending the expiration date, no other modifications are proposed to the currently in effect Negotiated Service Agreement.

The Postal Service states that it is probable that no discounts will be earned in the third year of the agreement, but continuation of the agreement will serve two policy objectives. First, Capital One will be provided with an incentive to increase solicitations during the extension period. Second, Capital One will maintain its contractual obligation to employ worksharing practices related to Address Correction Service (ACS) as well as its agreement to participate in mail quality programs.

The Postal Service has proposed Domestic Mail Classification Schedule (DMCS) language to give effect to a one-year extension of the agreement. Request, Attachment A. No changes are proposed to the Rate Schedules adopted in Docket No. MC2002-2.

Finally, the Postal Service has proposed continuation of the data collection plan adopted in Docket No. MC2002-2. *See* PRC Op. MC2002-2, ¶ 9029.

[8] The co-proponents indicate their intent to terminate the ongoing agreement once a subsequent agreement is reached. Request, Attachment F at 2.

B. Witness Lowrance's Testimony

Postal Service witness Lowrance discusses the value that the Postal Service believes it has already recognized from the Negotiated Service Agreement, and presents projections for the remainder of the life of the agreement, both as currently structured and with the proposed extension. USPS-T-1 at 4-5.

Referring to the two data collection reports that the Postal Service has filed with the Commission thus far, witness Lowrance asserts that the Postal Service estimates that the total value from the first two years of the agreement is $33.1 million.[9] This includes contribution generated by 150 million new First-Class Mail marketing pieces. In addition, the provision of 40 million forwarding notices combined with electronic ACS notices, and increased address hygiene requirements, have lowered Capital One's First-Class Mail marketing return rate from 9 percent to a little over 6 percent.

Witness Lowrance asserts that neither Capital One nor the Postal Service believe that the current agreement will continue to produce the same benefits that it has in the past. She asserts that the volume growth experience in the first two years of the agreement is not expected to continue. Furthermore, recent rate case filings and changes in the financial services industry market conditions have contributed to lowering the value of the agreement to the parties.

However, witness Lowrance believes that it would be in the best interest of the parties to allow the agreement to continue while a follow-on agreement is negotiated. She asserts that both parties continue to derive value from the switch to electronic ACS as the medium for handling UAA First-Class Mail.

Witness Lowrance provides an analysis of the value of the Capital One Negotiated Service Agreement to the Postal Service in Attachment A to her testimony.

[9] *See* Docket No. MC2002-2 Data Collection Report for Sept. 01, 2003 to Sept. 30, 2004, January 31, 2005; Docket No. MC2002-2 Data Collection Report Capital One NSA October 2004-September 2005, February 7, 2006.

The Attachment includes both the realized and projected First-Class Mail letter volumes, as summarized in Table 1.

Table 1. First-Class Mail Letter Volume (Millions of Pieces)

	Year 1 2004	Year 2 2005	Projected Year 3 2006	Projected w/Extension Year 3 2006	Projected w/Extension Year 4 2007
Total Volume	1,396	1,305	934	1,008	854
Threshold Volume	1,327	1,225	1,123	1,225	1,123
Incremental Volume	85	67	0	0	0

Note: Incremental Volume represents the increased First-Class Mail volume due to the discount incentive.

The Attachment further includes both the realized and projected value of the Capital One Negotiated Service Agreement to the Postal Service, as summarized in Table 2.

Table 2. Value of Agreement to Postal Service ($ Millions)

	Year 1 2004	Year 2 2005	Projected Year 3 2006	Projected w/Extension Year 3 2006	Projected w/Extension Year 4 2007
Incremental Mail Contribution	$12.4	$6.7	$0	$0	$0
ACS Cost Savings	$9.4	$7.3	$5.9	$6.4	$5.5
Forwarding Costs	($1.4)	($1.3)	($0.4)	($0.5)	($0.4)
Total USPS Value	$20.4	$12.7	$5.4	$5.9	$5.1

Witness Lowrance contends that the value from extending the current agreement will primarily occur from the use of electronic ACS notices to replace manual notices. The estimated savings from converting marketing piece returns to electronic ACS notices in the extension period is $5.1 million. USPS-T-1 at 6. Witness Lowrance believes that Capital One will not earn discount incentives in the third year of the agreement, based on available volume data. Furthermore, she projects that Capital One will not obtain the threshold mail volume for discounts in the proposed fourth year of the agreement.

Witness Lowrance expects that there will be no impact on competitors of either the Postal Service or Capital One due to the proposed extension of the agreement. She notes that no party has come foreword alleging harm from the existence of the current agreement, and in fact, several competitors have become parties to Negotiated Service Agreements of their own.

V. FINDINGS AND CONCLUSIONS

A. Financial Analysis

Postal Service witness Lowrance (USPS-T-1) evaluates years one and two of the agreement and projects the value to the Postal Service for the third and (requested) fourth years in Attachment A to her testimony.[10] A critical determinant of the estimated value of the agreement to the Postal Service in each of the first two years is the division of volume above the threshold between leakage volume and incremental pieces. The division between leakage volume and incremental pieces is dependent on the assumed before-rates volume.

Leakage volume consists of mail that would have been sent absent the agreement. Discounts given to leakage volume reduce the value of the agreement to the Postal Service. In contrast, incremental pieces are sent in response to the discount and enhance the value of the agreement to the Postal Service.

The Postal Service's valuation of the first two years of the agreement utilizes the before-rates volume projections contained in the first two data collection reports. The year one data collection report adopts the before-rates volume forecast provided by Capital One during the original case.[11] The Commission found that it could not rely on the before-rates volume forecast presented in that case. PRC Op. MC2002-2, ¶ 8013. The source of the before-rates volume used in the year two data collection report is cited as "USPS Forecasts," and no further support is provided. The before-rates volume estimate used in the year two data collection report has not been reviewed on this record.

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[10] Rule 197(a)(5) requires a comparison of the financial analysis presented with the original request with the actual results ascertained from implementation of the agreement, including projections for the remaining portion of the existing agreement. The Commission expects presentations of an actual comparison with future requests.

[11] Because the year one data collection report presents data from a 13 month period, the before-rates volume is adjusted by a factor of 13/12.

In Docket No. MC2002-2, Capital One witness Elliot (COS-T-2) presented two methods for forecasting his company's response to the proposed discounts. Method 1 applies the average own-price elasticity for First-Class workshared mail to all of Capital One's First-Class Mail volume. Method 2 applies the average own-price elasticity for Standard Mail to Capital One's First-Class marketing mail volume, and then Capital One's customer mail is treated as a derived demand that is estimated using average solicitation response rates and the average length of time that new accounts are active. *Id.*, ¶ 5092. For the years where actual results of the Negotiated Service Agreement are known (including after-rates volumes and the marginal discount), these methods can be applied in reverse to estimate the before-rates volumes.[12, 13] The results of the reverse application of witness Elliot's methods contrast with the before-rates volumes used in the Postal Service's valuation. Table 3 presents the before-rates volumes for the first two years of the agreement used by the Postal Service and those that result from the application of witness Elliot's Method 1 and Method 2.[14] The table also shows the leakage volumes and incremental pieces implied by each estimate.

[12] Witness Elliot's methods, termed Method 1 and Method 2, are presented in Exhibits 6 and 7 of his testimony. Docket No. MC2002-2, COS-T-2 at Exhibits 6 and 7.

[13] This technique, which relies on the application of average subclass elasticities, is conceptually similar to calculations outlined in the Bank One Reconsideration. PRC Op. MC2004-3, ¶¶ 5001-38, April 21, 2006.

[14] The estimation of before-rates volumes using Elliot's methods are presented in PRC-LR-1.

Table 3

Comparison of Before Rates Volume Estimates
(thousands)

	USPS Data Reports	COS-T-2 Method 1	COS-T-2 Method 2
Year 1			
Before Rates Volume	1,310,833	1,384,481	1,370,747
Leakage Volume	-	57,398	43,664
Incremental Pieces	85,435	11,787	25,521
Year 2			
Before Rates Volume	1,238,133	1,294,503	1,268,226
Leakage Volume	13,133	69,503	43,226
Incremental Pieces	67,327	10,957	37,234

This comparison suggests that the before-rates volumes used in the Postal Service's analysis may overestimate the value of the first two years of the agreement. Because the Commission could not rely upon the co-proponents' volume estimates in Docket No. MC2002-2 and because of the before-rates volumes implied by the application of witness Elliot's methods, the Commission does not use the Postal Service's before-rates volume estimates in its analysis of the value of the agreement.

In Docket No. MC2002-2, the Commission expressed reservations about both Method 1 and Method 2. The most significant problem was the selection of the starting point (before rates volume) from which Capital One's expected response to the proposed discounts was measured. *Id.,* ¶¶ 5093-94. The before rates estimates shown in Table 3 start from a known after-rates volume, and therefore avoid this problem.

Additional concerns with Method 1 and Method 2 relate to the elasticities used by Elliot. The Commission explained that neither the elasticity for First-Class workshared mail, nor that for Standard Mail was necessarily specifically applicable to Capital One's demand. The Commission also noted the absence of the application of any cross-price elasticities, though neglecting these had a small impact. *Id.*, ¶¶ 5099-5102. The use of the own-price elasticity for First-Class workshared mail in Method 1 was found to be especially problematic due to the extremely large 95 percent confidence interval of

-1.004 to 0.862. The elasticity for Standard Mail (used in Method 2) was found to be much more reliable. *Id.*, ¶ 5096.

Despite its imperfections, the Commission uses the before-rates volumes estimated by the application of witness Elliot's Method 2 to estimate the value to the Postal Service of the first two years of the agreement. It is reasonable to assume that First-Class marketing mail responds to changes in price similarly to Standard Mail (which is composed almost entirely of marketing mail). It would be unrealistic to assume that Capital One did not increase its volume at all in response to the discounts.

Table 4 presents the valuation of the first two years of the agreement and the projected valuation for the third and fourth years, modified to incorporate estimates of Year 1 and Year 2 before-rates volume estimates derived from the application of witness Elliot's Method 2.

Table 4

USPS Value Calculation
Incorporating Year 1 and 2 Before Rates Volumes Estimated Using COS Witness Elliot's Method 2
(In Thousands, Except Unit Figures)

		[A]	[B]	[C]	[D]	[E]
				Projected	**with Extension**	
		Year 1 2004	**Year 2 2005**	**Year 3 2006**	**Year 3 2006**	**Year 4 2007**
	First-Class Letter Volume					
[1a]	Before Rates Volume	1,370,747	1,268,226	934,181	1,008,086	854,182
[1b]	Total (After Rates) Volume	1,396,268	1,305,460	934,181	1,008,086	854,182
[2a]	Total ACS Returns	46,073	42,041	30,084	32,464	27,508
[2b]	ACS Returns per piece	0.0330	0.0322	0.0322	0.0322	0.0322
[3]	ACS Forwarding Notices	22,375	19,868	14,218	15,342	13,000
[4]	Threshold	1,327,083	1,225,000	1,122,917	1,225,000	1,122,917
[5]	Volume Above Threshold	69,185	80,460	-	-	-
[6]	Leakage Volume	43,664	43,226	-	-	-
[7]	Incremental Pieces	25,521	37,234	-	-	-
	New Marketing Mail Contribution					
[8]	Capital One Revenue per Piece	$ 0.292	$ 0.294	$ 0.304	$ 0.304	$ 0.315
[9]	Capital One Cost per Piece	$ 0.121	$ 0.151	$ 0.099	$ 0.099	$ 0.101
[10]	Capital One Contribution per Piece	$ 0.171	$ 0.143	$ 0.205	$ 0.205	$ 0.213
[11]	Capital One Contribution	$ 4,360	$ 5,316	$ -	$ -	$ -
[12]	Discount on Incremental Volume	$ 862	$ 1,269	$ -	$ -	$ -
[13]	Total Discount Leakage	$ 1,310	$ 1,297	$ -	$ -	$ -
[14]	Net Change in Contribution from Discounts	$ 2,189	$ 2,750	$ -	$ -	$ -
	Return Cost Savings					
[15]	Manual Return Cost	$ 0.535	$ 0.484	$ 0.316	$ 0.316	$ 0.323
[16]	Electronic Return Cost	$ 0.332	$ 0.310	$ 0.120	$ 0.120	$ 0.123
[17]	Return Cost Savings	$ 0.203	$ 0.174	$ 0.196	$ 0.196	$ 0.200
[18]	ACS Savings	$ 9,182	$ 7,106	$ 5,888	$ 6,353	$ 5,503
	Forwarding Costs					
[19]	Cost of Providing ACS notices	$ 0.061	$ 0.063	$ 0.031	$ 0.031	$ 0.032
[20]	Total Forwarding Costs	$ 1,356	$ 1,252	$ 443	$ 479	$ 415
[21]	**Total USPS Value**	**$ 10,015**	**$ 8,604**	**$ 5,444**	**$ 5,875**	**$ 5,088**

The Commission estimates that the Postal Service has benefited by receiving a net increase in contribution of $10.0 million in year one and $8.6 million in year two, for a total of $18.6 million over the first two years of the agreement. The Commission also estimates that the Postal Service will benefit by $5.4 million in the third year of the agreement.[15] During the first two years, the Postal Service paid out a total of $4.7

[15] These estimates do not align perfectly with the specific years of the agreement, but instead reflect the "years" for which data collection reports were (or will be) filed. The report for the first year covers the first 13 months of the agreement, and the report for the third year will cover the final 11 months.

million in discounts. This is well below the $40.6 million permitted under the stop-loss cap.

The Commission estimates that the Postal Service will benefit by an increase in contribution of $5.1 million from the extension of the agreement to a fourth year. All of the estimated benefit is expected to result from savings from the avoidance of physical returns of Capital One's First-Class Mail marketing volume. The Postal Service anticipates that no more discounts will be paid in the third year or the proposed fourth year of the agreement. The Commission estimates that the total, four-year net benefit to the Postal Service will be $29.2 million. Furthermore, the Commission concludes that the stop-loss cap will not prevent the parties from realizing the full potential benefit of the agreement.

Because the agreement has, to date, produced a net benefit to the Postal Service, and because it appears very likely that the total discounts paid will fall well short of the original stop-loss amount, the Commission can recommend continuing the agreement for a fourth year.

B. Competitive Issues

Every request predicated on a Negotiated Service Agreement is required to consider the fairness and equity of the agreement in regard to other users of the mail, and the fairness and equity of the agreement in regard to the competitors of the parties to the agreement. *See* Rule 193(f). This requirement is met by the Commission's close examination of competitive issues in Docket No. MC2002-2. The Commission considered competitive issues of such import that the Commission's focus in Docket No. MC2002-2 was "on assuring that the NSA will not make mailers other than Capital One worse off." PRC Op. MC2002-2, ¶ 8006. The Commission independently sponsored Professor John C. Panzar as a witness to examine the economic aspects of the agreement. The Postal Service sponsored rebuttal witness B. Kelly Eakin to address and further develop many of the issues raised in Dr. Panzar's testimony. After the addition of one modification to the agreement, the Commission found that there was not a sufficient indication of competitive harm to prevent recommendation of the Capital One Negotiated Service Agreement. The Commission has not been presented with record evidence in this docket, MC2006-6, indicating that the competitive effects of this agreement will be different from the competitive effects of the original Capital One agreement.

C. Statutory Criteria

In every rate and classification decision the Commission is required to evaluate how the criteria of sections 3622 and 3623 apply to the pending proposal. The Commission has reviewed each of the applicable factors and finds that its recommended decision is consistent with those policies for the reasons set forth in PRC Op. MC2002-2, ¶¶ 8032-47. The Commission finds the analysis and conclusions in regard to the statutory criteria from Docket No. MC2002-2 directly applicable to Docket No. MC2006-6, as the recommendation of a one-year extension does not materially alter any feature of the Capital One Negotiated Service Agreement.

D. DMCS Language

The Commission recommends the Domestic Mail Classification Schedule modifications as proposed by the Postal Service, which includes extending the termination date appearing in § 610.5, and conforming modifications to § 610.33.

E. Data Collection Plan

The Commission recommends continuation of the data collection plan during the extension period as recommended at PRC Op. MC2002-2, ¶ 9029.

F. Conclusion

Having made the above determinations, the Commission has reviewed the evidentiary record pursuant to its statutory obligation under Chapter 36 of Title 39 of the United States Code. This includes an independent review of the testimony of Postal Service witness Lowrance, the Docket No. MC2002-2 record, and the Docket No. MC2002-2 data collection reports submitted by the Postal Service. This review leads to the conclusion that the record supports the proposed classification changes set out in the July 26, 2006 Request, and that these changes are consistent with the policies of the Postal Reorganization Act. The Commission therefore recommends to the Governors of the Postal Service that the DMCS be amended as set forth in Appendix One of the accompanying Recommended Decision.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: George Omas, Chairman;
Dawn A. Tisdale, Vice Chairman;
Mark Acton; Ruth Y. Goldway; and
Tony Hammond

Extension of Capital One Services, Inc. Negotiated Service Agreement — Docket No. MC2006-6

RECOMMENDED DECISION

(Issued August 25, 2006)

The Commission, having considered the Postal Service Request, has issued its Opinion thereon. Based on that Opinion, which is attached hereto and made a part hereof,

IT IS ORDERED:

1. The Commission's Opinion and Recommended Decision shall be transmitted to the Governors of the Postal Service and the Governors shall thereby be advised that the proposed amendments to the Domestic Mail Classification Schedule (set forth in Appendix One) are in accordance with the policies of Title 39, United States Code, and the factors set forth in §§ 3622(b) and 3623(c) thereof; and they are hereby recommended to the Governors for approval.

2. Except to the extent granted or otherwise disposed of herein, all motions, exceptions, and other outstanding requests filed in Docket No. MC2006-6 hereby are denied.

By the Commission.

(S E A L)

Steven W. Williams
Secretary

RECOMMENDED CHANGE IN DOMESTIC MAIL CLASSIFICATION SCHEDULE

The following material represents changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service's Docket No. MC2006-6 Request. The underlined text signifies that the text is new, and shall appear in addition to all other Domestic Mail Classification Schedule text. The text in brackets is to be deleted.

NEGOTIATED SERVICE AGREEMENTS CLASSIFICATION SCHEDULE

610 CAPITAL ONE NEGOTIATED SERVICE AGREEMENT

* * * * *

610.33 Additional Discounts (Year 2 [and Year 3]<u>, Year 3, and Year 4</u>). If eligible First-Class Mail volume for the first year is less than 1.025 billion pieces, the additional discount tiers shown in Rate Schedule 610B shall apply to the incremental volumes in the second [and third]<u>, third, and fourth</u> years in addition to the incremental discounts in Rate Schedule 610A.

* * * * *

610.5 Expiration

The provisions of section 610 expire on September 1, [2006]<u>2007</u> at 12:01 a.m.

* * * * *

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