

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 INTERROGATORY OF VALPAK DIRECT MARKETING
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-1)
(April 12, 2007)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatory of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc.: VP/USPS-T1-1, filed on March 9, 2007. The interrogatory is stated verbatim and is followed by the response. The Postal Service's response to VP/USPS-T1-9 and 17 will be forthcoming.

UNITED STATES POSTAL SERVICE

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AND VALPAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T1-1. Please refer to your testimony at page 3, lines 15-17, where you state, “[t]he Postal Service continues to believe in the importance of price differentiation among customers....”

- a. Please define the term “price differentiation” as you use it at this point of your testimony. In particular, please explain whether you are referring to:
 - (i) price differences as reflected in the rates charged for **different categories** of mail (within subclasses); and/or
 - (ii) price differences **within** individual rate categories that are available only through NSAs and not available to any mailer not a party to an NSA, and **identical** across NSAs among similarly situated mailers; and/or
 - (iii) price differences **within** individual rate categories that are available only through NSAs and not available to any mailer not a party to an NSA, and **not identical** across NSAs among similarly situated mailers.
- b. Please explain all reasons why the Postal Service believes that price differentiation among customers, as you define it in preceding part b, (sic) is important.
- c. Is it the Postal Service’s position that similarly situated mailers should pay different rates for the same service? Unless your response is an unqualified negative, please explain all reasons why similarly situated mailers should be offered different rates by the Postal Service.
- d. Does the Postal Service plan to offer some mailers service that is more consistent in return for a higher rate? (See, e.g., testimony of witness Janyce Pritchard (Flute-T-1) on behalf of The Flute Network in Docket No. R2006-1.)

RESPONSE:

- a. Please see my responses below:
 - (i) Yes.
 - (ii) - (iii). The Postal Service believes that there are valid reasons to price differentiate among customers, and that NSAs offer a means through which such differentiation might be accomplished. The fact that NSAs are determined to be for companies that are similarly situated needn’t mean that each and every NSA term is identical. The Postal Service acknowledges an obligation to make NSA terms available to similarly situated customers, but notes that – as indicated by recent experience – not all customers who might meet the criteria that determine a similar situation will elect to enter into an NSA. If an NSA sets forth prices that

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are different from published rates, then by definition customers who are not party to an NSA but that use the same rate category would pay different prices.

- b. Price differentiation is important for a number of reasons. It may be used to reflect differences in cost to serve, price sensitivity, or unique terms of service. In the abstract, however, it is impossible to identify *all* reasons why price differential among postal customers is, or may be, desirable.
- c. Arguably, no two customers use the Postal Service in exactly the same way, thus the substantial rate averaging that is inherent in rates in the DMCS reflects a different form of unfairness than that implied by this interrogatory, which suggests that “similarly situated” mailers necessarily should pay the same rates. There are sound reasons to average prices in some circumstance, for instance simplicity, “minimization of transaction costs”, and limitations on the availability of data. In general, however, customers who have complex mail operations are all different to some degree, even if they share some characteristic or set of characteristics by which they could be regarded as similarly situated. NSAs like the Bank of America NSA offer opportunities to test new ways to price discriminate effectively for appropriate reasons on a relatively small scale.
- d. The Postal Service has not ruled out any specific “type” of NSA, and if a customer were to propose an NSA predicated on more consistent service in exchange for a higher price, the Postal Service would consider the merits of such a proposal and act accordingly.

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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