

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH DISCOVER
FINANCIAL SERVICES, INC.

Docket No. MC2004-4

RESPONSES OF THE UNITED STATES POSTAL SERVICE WITNESS AYUB
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-41-42)
(August 16, 2004)

The United States Postal Service hereby provides its responses to the following interrogatories: Office of the Consumer Advocate Interrogatories to United States Postal Service Witness Ali Ayub (OCA/USPS-T1-41-42), filed on August 5, 2004.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

By its attorneys:

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August 16, 2004

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS AYUB
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-41. Please refer to your testimony, Appendix A, page 10, and the table below.

<u>Contribution per Piece</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
First-Class Marketing Mail, After Rates	\$0.158	\$0.152	\$0.147
Standard Mail Contribution per Piece	<u>\$0.091</u>	<u>\$0.088</u>	<u>\$0.084</u>
Net Contribution	\$0.067	\$0.065	\$0.063
Discount	<u>\$0.045</u>	<u>\$0.045</u>	<u>\$0.045</u>
Net Contribution less Discount	\$0.022	\$0.020	\$0.018

- a. Please confirm that Discover's Year 1 After Rates Net Contribution per Piece, after the 4.5 cent discount, is \$0.022. If you do not confirm, please explain.
- b. Please confirm that Discover's Year 2 After Rates Net Contribution per Piece, after the 4.5 cent discount, is \$0.020. If you do not confirm, please explain.
- c. Please confirm that Discover's Year 3 After Rates Net Contribution per Piece, after the 4.5 cent discount, is \$0.018. If you do not confirm, please explain.

RESPONSE:

(a) – (c) Confirmed that these questions faithfully reproduce what is in my appendix A. However, this question implies that the **marginal** net contribution assuming the maximum discount equates to the **average** after rates net contribution. Since many pieces would receive smaller discounts, the average net contribution per piece would be higher.

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OCA/USPS-T1-42.

a. Please confirm that Capital One's TYAR Contribution per Piece less

Discount is:

Capital One FCM Revenue per Piece	\$0.2910	[1]
TYAR Unit Cost, Capital One	<u>\$0.1266</u>	[2]
TYAR Contribution per Piece	\$0.1644	[3] = [1] - [2]
Discount, "1,600,000,000 to Above" Tier	<u>\$0.0600</u>	[4]
TYAR Contribution per Piece less Discount	\$0.1040	[5] = [3] - [4]

Notes & Sources:

- [1] Docket No. MC2002-2, USPS-T-3 (Crum), Attachment A, Page 1, Col. (3)
- [2] Docket No. MC2002-2, USPS-T-3 (Crum), Attachment A, Page 2, Line (25)
- [4] Docket No. MC2002-2, Request, Attachment B, Rate Schedule 610A (Capital One)

If you do not confirm, please explain.

b. Please confirm that Capital One's TYAR Contribution per Piece less

Discount is 4.7 ($\$0.1040 / \0.022) times Discover's Year 1 Net

Contribution per Piece less Discount. If you do not confirm, please
explain.

RESPONSE:

(a) Confirmed.

(b) Not confirmed. It is not an accurate comparison to make between two point estimates, in different years, between the Capital One contribution per pieces in its TYAR contribution, and the DFS contribution in its it TYAR. The costs for DFS include a 3% contingency factor, plus an additional 4% cost inflation factor which was included to account for any cost increases over the term of the agreement, and was an attempt at satisfying the Commission's request that a more accurate cost projection be given in the out years of the agreement.

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.

Brian M. Reimer

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