

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

Postal Rate Commission  
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RATE AND SERVICE CHANGES TO IMPLEMENT  
BASELINE NEGOTIATED SERVICE AGREEMENT  
WITH WASHINGTON MUTUAL BANK

Docket No. MC2006-3

**UNITED STATES POSTAL SERVICE NOTICE OF ERRATA TO  
DIRECT TESTIMONY OF ALI AYUB (USPS-T-1)**

The United States Postal Service hereby provides notice that it is filing errata to the text of, and to Appendix A to, witness Ayub's testimony. The revised pages are attached for inclusion in both the body of the text and Appendix A of this testimony. These changes accompany this notice. An Electronic version of Appendix A, incorporating all revisions, has also been filed.

Changes include the following:

- on page 26 of USPS-T-1, the total value calculating the net benefit to the Postal Service is \$47.3 million, and not \$45.3 million;
- in Appendix A, on the Discount and Exposure Worksheet, page 7, the discount structure is \$0.05 in Year 3 for volume over 650 million pieces, not \$0.045.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1 setting a threshold below forecast volume is economically efficient because it reduces  
 2 the mailer's marginal price of First-Class Mail relative to other forms of solicitation, and  
 3 reduces the gap between marginal price and marginal cost of the mailer's First-Class  
 4 Mail.<sup>9</sup>

5 The Postal Service does not believe that discount exposure will occur in the first  
 6 year of the agreement. The threshold adjustment in the second and third years of the  
 7 agreement will limit any risk from discount exposure in those years.

8 The value to the Postal Service of the WMB agreement, when considering value  
 9 drivers, over the three years of the NSA, is as follows:

10	Increased contribution (less incremental discounts):	\$49.5 million
11	Discount exposure:	(\$2.2) million

12 The agreement therefore would result in a net benefit to the Postal Service of  
 13 \$47.3 million over the life of the NSA. This valuation assumes that there is no  
 14 adjustment in the threshold in Year 2 and Year 3 of the agreement. Appendix A  
 15 provides a detailed analysis of this financial impact.<sup>10</sup>

16

## 17 **B. Financial Model**

18 The analysis provided in the valuation model of the WMB NSA complies with the  
 19 guidelines established under Rule 193(e). The requirements outlined by the  
 20 Commission include a total assessment of the financial impact of all factors of the

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<sup>9</sup> MC2002-2, USPS-RT-2 at 4-5, Tr. 10/2069-70.

<sup>10</sup> Contractually WMB can mail up to 10 percent of its marketing volume Standard Mail. For simplicity purposes the model assumes no net change in the total number of marketing pieces.

# Washington Mutual NSA Filing Model

Appendix A:

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Year 1

Year 2

Year 3

## Agreement Structure

Year 1			Year 2			Year 3		
Threshold		Discount	Threshold		Discount	Threshold		Discount
450,000,000	465,000,000	\$ 0.020	450,000,000	465,000,000	\$ 0.020	450,000,000	465,000,000	\$ 0.020
465,000,000	485,000,000	\$ 0.035	465,000,000	485,000,000	\$ 0.035	465,000,000	485,000,000	\$ 0.035
485,000,000	500,000,000	\$ 0.035	485,000,000	500,000,000	\$ 0.035	485,000,000	500,000,000	\$ 0.035
500,000,000	550,000,000	\$ 0.040	500,000,000	550,000,000	\$ 0.040	500,000,000	550,000,000	\$ 0.040
550,000,000	650,000,000	\$ 0.040	550,000,000	650,000,000	\$ 0.040	550,000,000	650,000,000	\$ 0.040
650,000,000		\$ 0.050	650,000,000		\$ 0.050	650,000,000		\$ 0.050

Threshold Adjustment Mechanism	YEAR 2	YEAR 3	
Initial Threshold	450,000,000	450,000,000	These inputs allow the user to model the effect of different account growth rates on the threshold. The adjustment mechanism is based on Section II Article F of the NSA contract.
Estimated Account Growth	0.00%	0.00%	
Threshold Adjustment	450,000,000	450,000,000	

### Discount on volume above threshold

(1) Before Rates Forecast	450,000,000	475,000,000	500,000,000
(2) After Rates Forecast	713,000,000	750,000,000	785,000,000
Discount in first tier	\$ 300,000	\$ 300,000	\$ 300,000
Discount in second tier	\$ 700,000	\$ 700,000	\$ 700,000
Discount in third tier	\$ 525,000	\$ 525,000	\$ 525,000
Discount in fourth tier	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Discount in fifth tier	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
Discount in sixth tier	\$ 3,150,000	\$ 5,000,000	\$ 6,750,000
(3) <b>Discount Earned</b>	<b>\$ 10,675,000</b>	<b>\$ 12,525,000</b>	<b>\$ 14,275,000</b>

### Exposure on volume above threshold

(4) Threshold	450,000,000	450,000,000	450,000,000
(5) Before Rates Forecast	450,000,000	475,000,000	500,000,000
(6) Exposed Pieces	-	25,000,000	50,000,000
(7) After Rates Forecast	713,000,000	750,000,000	785,000,000
Exposure in first tier	\$ -	\$ 300,000	\$ 300,000
Exposure in second tier	\$ -	\$ 350,000	\$ 700,000
Exposure in third tier	\$ -	\$ -	\$ 525,000
Exposure in fourth tier	\$ -	\$ -	\$ -
Discount in fifth tier	\$ -	\$ -	\$ -
Discount in sixth tier	\$ -	\$ -	\$ -
(8) <b>Total Exposure</b>	<b>\$ -</b>	<b>\$ 650,000</b>	<b>\$ 1,525,000</b>

- (1) Before Rates Total Volume (Volume calcs)
- (2) After Rates Total Volume (Volume calcs)
- (3) Sum of discounts earned in first tier to sixth tier
- (4) Agreement Structure Beginning Threshold
- (5) (1)
- (6) Before rates - Threshold: The number of total pieces on which Exposure occurs
- (7) (2)
- (8) Sum of Exposure in first tier to sixth tier

## **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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