

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

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

Docket No. MC2006-3

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS AYUB TO INTERROGATORIES OF THE OFFICE OF CONSUMER  
ADVOCATE (OCA/USPS-T1—1-5)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatories of the Office of Consumer Advocate: OCA/USPS-T1—1-5, filed on April 4, 2006. The interrogatories are stated verbatim and are followed by the responses. An objection to interrogatory OCA/USPS-T1—5 was filed on April 14, 2006; however, the Postal Service indicated that it would provide a response to that interrogatory.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony Alverno  
Chief Counsel, Customer Programs

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1135  
(202) 268-2997; Fax -5418  
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OCA/USPS-T1-1. Please refer to your testimony at page 15, lines 9-10. You identify rising interest rates and a weaker economy as market conditions that inhibit mail volume growth in the credit card industry.

- a. Do changes in *expected future* interest rates or in the *expected future* state of the economy affect the solicitation mail volume of credit card companies? If so, please explain how.
- b. For each year of the proposed NSA, please state your beliefs as to the direction of change of interest rates and the direction of change of the state of the economy.
- c. Did your beliefs (as to changes in interest rates or in the state of the economy over the term of the NSA) change during the course of negotiations with WMB? If so, how did your changing beliefs affect volume estimates, the final level of discounts, or thresholds adopted?
- d. If interest rates or the state of the economy actually differ from current expectations during the term of the NSA, will after-rates volumes differ from forecasts? Please explain your response.

**RESPONSE:**

a) Changes in “expected future interest rate or in the expected future state of the economy” may impact solicitation volumes. However, the impact of these variables on mail volume cannot be evaluated independently of other market conditions such as: consolidation within the industry, lower response rates, legislative changes, market saturation, and increases in postage costs. *Ceteris paribus*, rising interest rates generally tend to create downward pressure on total credit card solicitation volumes. Similarly, declines in economic activity in could also result in reductions in mail volumes.

b) I did not independently forecast either interest rates or the state of the economy in developing the analysis. With respect to interest rates, upon raising the short-term interest rates on March 28, 2006 to 4.75%, the Federal Open Market Committee stated as follows:

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The Committee judges that some further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.

This appears to imply that short-term interest rates may continue to rise or will remain at current rates. However, other people may interpret these signals differently.

c) Neither factor standing alone resulted in a change in our evaluation of the volume estimates. Over the course of our discussions with WMB, we analyzed WMB initial volume estimates using the tools and analytical methods described in my testimony.

d) If a variable causes a change in the before-rates forecast, holding all other factors equal, it should have a similar impact in the same direction on the after-rates forecast.

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OCA/USPS-T1-2. Please provide your understanding of the process that generates “lift.” Include an explanation of why two pieces that differ only in indicia should have different response rates.

**RESPONSE:** Generally speaking, it is my understanding that the indicia, speed of service, and forwarding services are factors that independently or combined may contribute to “lift”. For example, the forwarding service offered for First-Class Mail provides a lift over a Standard Mail piece because a recipient is more likely to receive a First-Class solicitation if he or she has moved and a forwarding order is on file. In addition, lift may occur based on the subjective judgments of recipients. The open and read rates for First-Class Mail tend to be higher than Standard Mail. For more discussion on the lift from First-Class Mail, please see Witness Buc’s testimony in Docket No. MC2004-3.

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OCA/USPS-T1-3. Please explain why volumes eligible for discounts are not capped at WMB's after-rates volume estimates. Include an explanation of how such a cap would alter WMB's mailing behavior.

**RESPONSE:** Volumes eligible for discounts are not capped at WMB's after-rates volume estimates because that could potentially discourage additional growth of WMB First-Class Mail marketing volumes.

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OCA/USPS-T1-4. Please refer to page 2 of Appendix A of your testimony. Please assume that WMB will mail 593 million marketing pieces of First-Class Mail and zero marketing pieces of Standard Mail in Year One of the NSA.

- a. Please confirm that in Year One the Postal Service will receive \$170.19 million =  $(\$0.305 * 593) - \$10.675$  million in total revenue from WMB's marketing First-Class Mail. If you do not confirm, please provide the correct figure and show its derivation.
- b. Please confirm that a two-part tariff consisting of an annual fee of \$18.975 million plus a per-piece charge of \$0.255 would generate \$170.19 million =  $(\$0.255 * 593) + \$18.975$  million on volume of 593 million pieces of First-Class Mail. If you do not confirm, please provide the correct figure and show its derivation.
- c. Please confirm that the arrangement in part b of this interrogatory requires less record-keeping than the arrangement in part a, because the Postal Service would not have to keep track of volume in various discount tiers, calculate discounts, and transfer funds for their value. If you do not confirm, please explain.
- d. Please confirm that the arrangement in part b of this interrogatory is financially equivalent (from the Postal Service's point of view) to the arrangement in part a. If you do not confirm, please explain.
- e. Please explain how the inclusion of operational mail volumes in volume thresholds benefits the Postal Service.

a. Not confirmed. Under the assumption set forth above, USPS will receive \$181.7 million. This figure is arrived at by calculating the product of  $(\$0.324 * 593 \text{ million})$ , which equals \$192.4 million, and subtracting \$10.675 million. The \$0.305 figure in the question represents the revenue per piece of an operational marketing piece.

b. Confirmed.

c. Not confirmed. The process described would not have any material impact on the record keeping process of the Postal Service. In both scenarios, the Postal Service would be required to track the volumes of mail entered by

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WMB. The process of identifying how much volume belongs in the various discount tiers is a simple calculation that is easily replicated.

d. Not confirmed. Without detail on how the “annual fee” is calculated and is applied, the arrangement could cause a negative financial impact to the Postal Service. For example, if by paying the fee, WMB is eligible for unlimited First-Class Mail marketing pieces, then any volume above 593 million pieces under this agreement would result in lower total revenue. Furthermore, if the WMB mail mix profile were to change, it could impact the average revenue per piece. If this were to happen, the per piece charge of \$0.255 may result in lower revenue for the Postal Service.

e. Statements consist of mail volumes that are susceptible to conversion to electronic billing and payment methods. Hence, including those volumes in the threshold is intended to provide encouragement to WMB to retain those volumes in the hardcopy mailstream.

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OCA/USPS-T1-5. Please refer to your testimony at page 1, lines 11-12.

- a. Please confirm that the Postal Service's first and second Data Collection Reports for the Capital One NSA, filed with the Commission on January 31, 2005, and February 7, 2006, respectively, were prepared by you or under your supervision. If you do not confirm, please explain. If you participated in any capacity in the preparation of these Data Collection Reports, please identify the enumerated requirements in the reports in which you participated and your capacity.
- b. Please confirm that the Postal Service's first Data Collection Report for the Bank One NSA, filed with the Commission on February 7, 2006, was prepared by you or under your supervision. If you do not confirm, please explain. If you participated in any capacity in the preparation of this Data Collection Report, please identify the enumerated requirements in the report in which you participated and your capacity.
- c. Please confirm that the Postal Service's first Data Collection Report for the Discover NSA, filed with the Commission on February 7, 2006, was prepared by you or under your supervision. If you do not confirm, please explain. If you participated in any capacity in the preparation of this Data Collection Report, please identify the enumerated requirements in the report in which you participated and your capacity.

**RESPONSE:**

- a. Confirmed. I was responsible for collecting information and providing analyses for the Data Collection Report.
- b. Confirmed. I was responsible collecting information and providing analyses for the Data Collection Report.
- c. Confirmed. I was responsible collecting information and providing analyses for the Data Collection Report.

## 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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Anthony Alverno

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1135  
April 19, 2006