

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

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS ALI AYUB (VP/USPS-T1-1-8)
(April 24, 2006)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,

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VP/USPS-T1-1.

Please refer to your testimony at page 3, lines 18-21 .

- a. At the time the Postal Service filed Docket No. MC2002-2, the Capital One Services, Inc. NSA, did the Postal Service then view the cost savings mechanism contained in that NSA as an integral part of that NSA?
- b. If your response to preceding part a is affirmative, does the Postal Service continue to regard the cost savings mechanism as an integral part of the Capital One NSA?
- c. If your answer to preceding part a is not an unqualified affirmative, please explain the Postal Service's current position with respect to the cost savings mechanism contained in the Capital One NSA.
- d. Is this the first NSA in which the Postal Service has concluded that "additional worksharing on the mailer's part is not a necessary element of a successful NSA" (ll. 20-21)? If not, please explain when the Postal Service reached the decision that all savings elements could be completely decoupled from NSAs with declining block discounts.
- e. If "additional worksharing on the mailer's part" is not necessary, what was the rationale for including it in the NSA with Washington Mutual Bank ("WMB")?

VP/USPS-T1-2.

Please refer to your testimony at page 3, lines 15-18, and lines 21-22, where you discuss the Postal Service's desire to use NSAs to achieve additional volume and contribution to institutional cost.

- a. When the declining block discount for First-Class Mail serves only to convert existing Standard Mail to First-Class status, would you agree that net new volume of mail (*i.e.*, First-Class Mail and Standard combined) is not a consideration in the evaluation of that NSA? If not, please explain why not.
- b. When the mailer that is party to the NSA, WMB in this case, in fact reduces its total combined volume of Standard and First-Class Mail, would you agree that in such a circumstance the NSA involves a trade-off between change in volume and contribution to institutional cost? That is, would you agree that in order for the Postal Service to obtain the increased contribution to institutional cost, it will realize a reduction in the total volume of mail entered by the mailer? Please explain any disagreement.
- c. Under circumstances such as that discussed here, are not references to "additional volume" somewhat academic and irrelevant? If not, please explain why not.

VP/USPS-T1-3.

With respect to each previous NSA (*i.e.*, Docket No. MC2002-2, Capital One Services, Inc.; Docket No. MC2004-3, Bank One Corporation; Docket No. MC2004-4, Discover

Financial Services, Inc.; and Docket No. MC2005-2, HSBC North American Holdings, Inc.)

for which actual data are now available:

- a. How much Standard volume has been diverted to First-Class?
- b. How much net new mail volume, Standard and First-Class combined, has been generated?

VP/USPS-T1-4.

At page 4, lines 3-8, of your testimony, you discuss using NSAs as a tool to convert Standard Mail to First-Class, thereby increasing “the proportion of relatively high contribution First-Class Mail volume...” (l. 9).

- a. Is it the Postal Service’s intention to use NSAs to create within First-Class Mail a de facto subclass of First-Class bulk solicitation mail limited to a few mailers? Please explain any negative answer.
- b. Even if it is not the Postal Service’s design or intention to create within First-Class Mail a de facto subclass of First-Class bulk solicitation mail limited to a few mailers, will not that be the effective result of this NSA, along with the Capital One, Bank One, Discover, and HSBC NSAs? Please explain any negative answer.
- c. Instead of using a mailer-by-mailer approach to creation of such a subclass, would not it be more fair and more sensible for the Postal Service to file a request to create a bulk solicitation subclass within First-Class Mail? Unless you agree, please explain why not.

- d. Why is a series of NSAs, each of which is exclusive to an individual mailer, and which may exclude many similarly-situated mailers, more fair and superior to a niche classification or a new First-Class bulk solicitation subclass?
- e. Please explain fully all reasons why the three conditions on page 12, lines 6-8, of your testimony could not be incorporated into a set of requisite conditions for either a niche classification or a new First-Class bulk solicitation subclass.

VP/USPS-T1-5.

Your testimony at page 4, lines 6-8, points out that the contribution of First-Class Mail is relatively high in comparison to the contribution of Standard Mail.

- a. Would you agree that the effect of the block discounts for First-Class Mail contained in the NSA is to reduce, but not equalize, the difference in contribution? If you do not agree, please explain why not.
- b. Would you agree that, within the context of an NSA, a discount for First-Class Mail is the only way to narrow the difference in contribution between First-Class Mail and Standard Mail? If you do not agree, please indicate other ways of which you are aware that the Postal Service, as a practical matter, could narrow the difference in contribution between First-Class Mail and Standard Mail in an NSA.
- c. Would you agree that within the context of an omnibus rate case the difference in contribution also could be narrowed by increasing the contribution on

Standard Mail relative to the contribution on First-Class Mail? If you do not agree, please explain why not.

VP/USPS-T1-6.

At page 5, line 23, of your testimony, you refer to “functionally equivalent” mailers.

- a. Could any user of Standard Mail potentially be a “functionally equivalent” mailer? Please explain why or why not.
- b. Could any Standard mailer that enters letter-shaped mail potentially be a functionally equivalent mailer? Please explain why or why not.
- c. Unless your answer to preceding parts a or b is affirmative, please explain what distinguishes Washington Mutual Bank from other Standard mailers — at least those with volumes at least equal to those of WMB.

VP/USPS-T1-7.

At page 7, lines 6-11, you discuss the address correction element contained in the WMB agreement. Also, at page 11, lines 11-13, you discuss Postal Service benefits from replacing the physical return of First-Class Mail with electronic notice.

- a. Does the Postal Service have any plans to equalize the rates charged to all users of discounted First-Class Mail for electronic address correction and physical return of Undeliverable as Addressed (“UAA”) pieces?
- b. Please explain why the Postal Service relies solely on NSAs to obtain the benefits of replacing physical return with electronic notice.

VP/USPS-T1-8.

At page 32, lines 17-18, you refer to “any similarly situated company.” Please explain all characteristics of those companies that you believe to be similarly situated.