

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—13-16)**

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—13-16, filed on April 21, 2006. The interrogatories are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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May 5, 2006

**RESPONSE OF USPS WITNESS AYUB TO INTERROGATORIES
OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T1-13. This interrogatory seeks information that could be used to reduce financial risk to the Postal Service from the Washington Mutual Bank (WMB) NSA. Please refer to your response to OCA/USPS-T1-4d. Your response includes the sentence,

Without detail on how the annual fee is calculated and is applied, the arrangement [a two-part tariff] could cause a negative financial impact to the Postal Service.

Please assume that under the two-part tariff,

- (i) the annual fixed fee would be paid to the Postal Service in equal quarterly installments,
 - (ii) discount-eligible volume would be each Year's after-rates estimated solicitation volume (a cap but no threshold)
 - (iii) all discount-eligible volume would receive the discount associated with each Year's after-rates total First-Class volume estimate under the proposed WMB NSA (*i.e.*, five cents),
 - (iv) total discounted postage paid would be based on actual depth of sort,
 - (v) total *forecasted* discounted postage paid would be calculated using "Revenue per piece" from your Appendix A, page 4, "Marketing mail letter" volume from your Appendix A, page 2, and "Discount Earned" and "Total Exposure" from your Appendix A, page 7 (*e.g.*, \$181.7 million less the fixed fee for Year 1),
- a. Please confirm that this two-part tariff would generate the same *estimated* revenue as the WMB NSA if the fixed fee for Year 1 is \$19.2 million = \$181.7 million – ($\$0.274 * 593$) million, and Years 2 and 3 are similarly calculated using the applicable estimated volume. If you do not confirm, please provide the correct revenue and show all calculations.
 - b. Please confirm that for volumes in excess of 593 million, the revenue per piece is five cents greater under the two-part tariff than under the WMB NSA. If you do not confirm, please provide the correct revenue per piece and show all calculations.
 - c. Please confirm that the expected revenue (and contribution to institutional costs) under the two-part tariff is subject to less variability (as that term is used at page 29, lines 15-17, of your testimony) than the expected revenue under the WMB NSA. If you do not confirm, please "identify the sources of variability" that are greater (individually and in the aggregate) for the two-part tariff.

RESPONSE:

- a) The two part tariff would yield the same revenue if WMB's mailings matched our forecast. However, if the level of sortation of WMB's mail actually differed from that of the forecast, then the estimated revenue derived using the two-part tariff could be lower.

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OF THE OFFICE OF CONSUMER ADVOCATE**

- b) The proposed two-part tariff in this question would cap incentives at 593 million pieces. The NSA as proposed by the Postal Service does not cap incentives at 593 million pieces and any incremental volume would be eligible for the discount.
- c) The proposed tariff is subject to the same variability as I described in my testimony. In addition, the proposed two-part tariff assumes that the customer will respond in a similar manner to the incentives offered in the current NSA incentive structure. Further, the two-part tariff proposal does not address what happens to the fixed entry fee if the mailer does not deposit 593 million pieces. The tariff structure proposed by the Postal Service attempts to eliminate all risks of the NSA for the Postal Service by transferring the risk to the customer. It is very likely customers will demand larger rate incentives in exchange for additional risk.

**RESPONSE OF USPS WITNESS AYUB TO INTERROGATORIES
OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T1-14. This interrogatory seeks information that could be used to reduce financial risk to the Postal Service from the Washington Mutual Bank (WMB) NSA. Please refer to the Commission's unanimous concurring opinion in the Bank One case.¹ [B]ank one has argued that it might send even more First-Class Mail than it currently forecasts if unlimited discounts are available to it. This potential benefit is insufficient to justify providing special discounts to any individual mailer.

- a. Does "[t]his potential benefit" exist with respect to the WMB NSA? If so, what is the current expected value of "[t]his potential benefit" to the Postal Service? Please show all calculations and source all numbers used.
- b. Is the existence of "[t]his potential benefit" consistent with a claim that volume forecasts "accurately reflect the environment within which [WMB] is operating"? USPS-T-1, page 23, line 23. Please provide the basis for your response.
- c. Is the existence of "[t]his potential benefit" consistent with a "total postage expenditure" of \$160 million? *Id.*, page 24, line 12. Please provide the basis for your response.

RESPONSE:

- a) This "potential benefit" exists in the WMB NSA, in that we expect WMB to mail more contribution-generating First-Class Mail volume under the proposed discount structure than under the existing rate schedule. The Postal Service has not calculated the expected value of this potential benefit.
- b) The forecasts of the NSA are based on the current operating environment. We expect that the NSA will affect WMB's operating environment. In particular, we believe that the rate incentives and penalties in the NSA will be successful in converting or encouraging new First-Class Mail marketing volume. This is consistent with the notion that the NSA would give rise to a potential benefit, in the form of new First-Class Mail volume that would not have been mailed but for the existence of the NSA.

¹ Docket No. MC2004-3, December 17, 2004, at 4.

**RESPONSE OF USPS WITNESS AYUB TO INTERROGATORIES
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- c) A potential benefit is, by definition, an outcome that has potential, but is not a certainty. The potential postage expenditure of \$160 million referenced on page 24 of my testimony is an estimate of the amount of WMB's estimated marketing budget that could be committed to postage. In this sense, a portion of the \$160 million figure represents a potential benefit in that it includes an amount that WMB could spend on postage, including First-Class Mail, that it would not otherwise have spent absent the NSA.

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OCA/USPS-T1-15. This interrogatory seeks to determine how the WMB NSA differs materially from the Capital One NSA. Please list all elements of the WMB NSA, as proposed, that are functionally different from the Capital One NSA, *as proposed*.

RESPONSE:

The following contractual elements of the WMB NSA as proposed differ from corresponding provisions in the Capital One NSA.

- Annual Threshold Adjustment, Section II, Part F, of the contract.
- Merger, Acquisition or Purchase of a Portfolio, Section II, Part G, of the contract.
- Solicitation Mail Volume Guarantee, Section II, Part J, of the contract.

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OCA/USPS-T1-16. This interrogatory seeks to determine how the WMB NSA differs materially from the Bank One NSA. In its opinion in the Bank One Case, the Commission stated,²

[T]he risk of losses from discounts on mail that would have been sent without the agreement, given the record of this docket, is a continuing concern.

Please identify all elements of the WMB NSA as proposed, that are functionally different from the Bank One NSA, *as proposed*.

RESPONSE:

The WMB NSA is distinguished from the Bank One NSA in that the former includes a Solicitation Mail Volume Guarantee in Section II, Part J, of the agreement. This sets the WMB NSA apart from all other prior NSAs, and serves to mitigate risk.

² PRC Op. MC2004-3 at 4.

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.

Anthony Alverno

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