Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Service Changes to Implement	)	
Baseline Negotiated Service Agreement	)	Docket No. MC2006-3
With Washington Mutual Bank	)	

OFFICE OF CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS ALI AYUB (OCA/USPS-T1-28-31)
(June 28, 2006)

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate

Commission, the Office of the Consumer Advocate hereby submits interrogatories and

requests for production of documents. Instructions included with OCA interrogatories

OCA/USPS-T1-1-5 are hereby incorporated by reference.

Respectfully submitted,

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SHELLEY S. DREIFUSS
Director
Office of the Consumer Advocate

EMMETT RAND COSTICH
Attorney

901 New York Avenue, NW Suite 200
Washington, D.C. 20268-0001
(202) 789-6830; Fax (202) 789-6891
e-mail: costicher@prc.gov

OCA/USPS-T1-28. This interrogatory seeks information on negotiation costs of the
Washington Mutual NSA. Please refer to your testimony at page 1, lines 13-15.

    a.   With respect to the Washington Mutual NSA, please provide the time period
in months between Washington Mutual's first contact and the filing of the
Postal Service's request in this proceeding.

    b.   With respect to the Washington Mutual NSA, how many face-to-face
meetings did the Postal Service have with Washington Mutual or its
representatives?

    c.   Please identify the organizational entities (i.e., Pricing Strategy, Finance,Law ,
etc.) within the Postal Service involved in developing negotiating positions or
negotiating on behalf of the Postal Service with respect to the Washington
Mutual NSA.

    d.   Please provide the total number of individuals involved in developing
negotiating positions or negotiating on behalf of the Postal Service from the
organizational entities identified in part c., above. How many of those
individuals were supervisors, managers, or other higher level individuals?

    e.   Please estimate the time period in months that you devoted to developing
negotiating positions, negotiating on behalf of the Postal Service, preparing
testimony, etc., with respect to the Washington Mutual NSA.

    f.   Please estimate the total cost to the Postal Service of concluding the
Washington Mutual NSA and securing Commission approval. This estimate
should consider the personnel costs of legal, financial and other analysts

developing negotiating positions, negotiating on behalf of the Postal Service,

preparing filings for the Commission, etc.

OCA/USPS-T1-29. This interrogatory seeks information on the price elasticity for

Washington Mutual Bank (WMB). Please refer to your response to OCA/USPS-T1-

25(a)-(c).

a.   Please confirm that 100 percent of the incremental volume estimated for

        Years 1, 2, and 3 of the Washington Mutual NSA will be converted from

        Standard Mail to First-Class Mail. If you do not confirm, please explain.

b.   Because 100 percent of Washington Mutual's incremental volume is derived

        from Standard Mail, please confirm that for purposes of estimating Q_0, the

        own-price elasticity for First-Class Mail is irrelevant; i.e., the elasticity equals

        0. If you do not confirm, please explain.

c.   Assuming the own-price elasticity for First-Class Mail is 0, the equation in

        your response should be written as follows:

$$Q_0 = Q_1 \cdot 1 \cdot \left(\frac{d_0}{d_d}\right)^{E_d}$$
                                                                                              Equation 1

        If you do not confirm, please explain.

d.   Assuming the own-price elasticity for First-Class Mail is 0, please confirm that

        the "discount elasticity," E_d, the only unknown, can then be solved as follows:

$$\ln Q_0 = \ln Q_1 + E_d \cdot \ln\left(\frac{d_0}{d_d}\right)$$
                                                                                              Equation 2

E_d = -0.8538

If you do not confirm, please explain, show all calculations, and provide citations to all sources used.

e.   Please confirm that this "discount elasticity," E_d, can only be derived from the point volume estimates and average revenue specific to the Washington Mutual NSA, and therefore serves only to validate the point volume estimates that are inherent in the NSA as negotiated. If you do not confirm, please explain.

f.   Please confirm that this "discount elasticity," E_d, does not represent an independent, *a priori* estimate of Washington Mutual's elasticity of demand for Standard Mail with respect to a change in price of First-Class Mail. If you do not confirm, please explain.

g.   Please confirm that this "discount elasticity," E_d, includes exogenous factors that would affect Washington Mutual's volume response and, therefore, does not "assure that the additional mail volume is caused by the incentive to mail additional volume (because of the mailer's demand characteristics), and not because of exogenous factors." *See* PRC Op. MC2004-3, para. 3006, Opinion and Further Recommended Decision. If you don't confirm, please explain.

h.   Assuming the own-price elasticity for Washington Mutual's First-Class Mail is 0, please provide the "discount elasticity," E_d, that excludes exogenous factors that would affect Washington Mutual's volume response.

i.   Please provide a definition for "cross-price" elasticity, and give a citation to

the source for your definition. Please compare and contrast your "discount

elasticity" to the definition you cite.

j.   Please confirm that d_0, the "before rates average marginal discount between

First-Class Mail and Standard Mail," of $0.12 represents the difference

between Washington Mutual's First-Class marketing mail average revenue

per piece of $0.324 and its Standard Mail average revenue per piece of

$0.204. If you do not confirm, please explain.

OCA/USPS-T1-30. This interrogatory seeks information on the price elasticity for

Washington Mutual Bank (WMB). Please refer to your response to OCA/USPS-T1-26.

Please provide the different own-price elasticities for Washington Mutual's First-Class

Mail used for acquisition, billing, and customer communications.

OCA/USPS-T1-31. This interrogatory seeks information on the price elasticity for

Washington Mutual Bank (WMB). Please refer to your response to OCA/USPS-T1-27.

Also, please refer to Appendix A of your testimony.

a.   Refer to your response where it states, "In the WMB NSA, such a migration

[between rate categories or subclasses] is an important part of the deal, . . ."

With respect to Washington Mutual's incremental volume, please confirm that

the migration of Standard Mail to First-Class Mail is the only relevant volume

the Postal Service is willing to measure. If you do not confirm, please explain

and quantify any other additional incremental volume to be generated by Washington Mutual, and identify its origin.

b.   Refer to Equation 2 in your response. Please confirm that the portion of Equation 2 that "eliminates the 'double counting' of contribution from Standard Mail that is converted to First-Class Mail," referred to as the "additional element," should be written as follows: $-(p_s - c_s) \cdot (Q_{s0} - Q_{s1})$. If you do not confirm, please explain.

c.   Refer to the "additional element," $-(p_s - c_s) \cdot (Q_{s0} - Q_{s1})$, in your response, and Appendix A of your testimony. Please show in Appendix A where you eliminate the "double counting" of contribution from Standard Mail that is converted to First-Class Mail for the Washington Mutual NSA.

d.   Refer to Appendix A, worksheet tab "USPS value," which gives the Year 1 Contribution from New Volume for Marketing Mail Letter - Converted Volume from Standard Mail of $28,099,973. Please confirm that the $28,099,973 in contribution has not eliminated all the "double counting" of contribution from Standard Mail that is converted to First-Class Mail (*i.e.,* with respect to the 51 million Standard Mail pieces discussed below). If you do not confirm, please explain, show all calculations, and provide citations to all sources used.

e.   Refer to Appendix A, worksheet tab "USPS value," which gives the Year 1 Contribution from New Volume for Marketing Mail Letter - Converted Volume from Standard Mail of $28,099,973. Please confirm that the $28,099,973 in contribution is based upon 263 million (593 million – 330 million) Standard

Mail pieces converting to First-Class Mail. If you do not confirm, please explain, show all calculations, and provide citations to all sources used.

f.   Refer to Appendix A, worksheet tab "USPS value," which gives the Year 1 Contribution from New Volume for Marketing Mail Letter - Converted Volume from Standard Mail of $28,099,973. Please confirm that the $28,099,973 in contribution does not take into account the reduction in Standard Mail contribution from the loss of 51 million (314 million - 263 million) pieces of Standard Mail in Year 1 (After Rates). If you do not confirm, please explain, show all calculations, and provide citations to all sources used.