

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Rate and Service Changes to Implement
Baseline Negotiated Service Agreement
With Washington Mutual Bank

Docket No. MC2006-3

PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(Issued June 30, 2006)

The co-proponents of the Washington Mutual Bank Negotiated Service Agreement are requested to provide the information described below to assist in developing a record for the consideration of the Postal Service's request for a recommended decision on proposed rates, fees and classifications. To facilitate inclusion of the required material in the evidentiary record, the co-proponents are to have witnesses attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers. The answers are to be provided by July 10, 2006.

Questions 1-4 are directed to Washington Mutual Bank witness, Michael Rapaport.
Questions 5-8 are directed to Postal Service witness, Ali Ayub.

1. Question 1 seeks to gain an understanding of the relation between solicitation mail and operational mail based upon estimates provided by witness Rapaport, and calculations made as shown in Table 1.

Table 1							
2005-Year 3 Before Rates Estimates					Percent Changes		
Mail Class	2005	Year 1	Year 2	Year 3	2005 to Year 1	Year 1 to Year 2	Year 2 to Year 3
	1	2	3	4	5	6	7
	Millions	Millions	Millions	Millions			
First-Class	524	450	475	500	-14.12%	5.56%	5.26%
Operational	121	120	125	130	-0.83%	4.17%	4.00%
Marketing	403	330	350	370	-18.11%	6.06%	5.71%
Standard Mail (Solicitation)	123	314	330	345	155.28%	5.10%	4.55%
Total Mail Volume	647	764	805	845	18.08%	5.37%	4.97%
Total Solicitation Mail Volume	526	644	680	715	22.43%	5.59%	5.15%
Estimated customers based on 12 operational mailings per year	10.08	10.00	10.42	10.83	-0.83%	4.17%	4.00%

- a. Please confirm that the absolute volumes taken from Tables 1 and 3 of WMB-T-1 Revised are reproduced in Table 1, columns 1-4, above and that the percentage calculations in columns 5-7 made based on those volumes are correct.
- b. Page 7 of WMB-T-1 Revised states that Before Rates volumes will grow by approximately 5 percent annually in Year 2 and Year 3 of the Negotiated Service Agreement (“NSA”).

- i. Were these estimates based on estimates of booking and response rates for Year 2 and Year 3 of the NSA?
 - ii. Please explain why the growth rate in before-rates total solicitation mail volume appears to decline from 22.43 percent (2005 to Year 1) to approximately 5 percent in the following two years.
 - c. Please refer to Table 1 above. Please explain why a 22.43 percent growth in total solicitation mail volume between 2005 and Year 1 would result in essentially no growth in customers, while a 5.59 percent growth in total solicitation mail volume between Year 1 and Year 2, would result in a 4.17 percent growth in customers.
2. This question seeks to understand the own-price elasticity estimates of First-Class Mail that can be derived from data provided in WMB-T-1. Please confirm that using the change in First Class marketing mail volumes in WMB-T-1 Revised, Table 2, which is explained to be what would have been the response to an across-the-board rate increase of 5.4 percent in all mail classes, coupled with operational volume data of 120 million pieces provided for Year 1 in Table 3 in your Revised Testimony, would produce an own-price elasticity of First-Class Mail equal to approximately -3.2 as shown in Table 2 below.

Table 2					
Mail Class	Year 1 Before 5.4% Rate Increase	Year 1 After 5.4% Rate Increase	% Change in First-Class Volume	% Change in Price	Own-Price Elasticity of First-Class mail
	1	2	3	4	5
			(3-2)/3		(4/3)
First-Class	447	370	-17.2%	5.4%	-3.2
Operational	120	120			
Marketing	327	250			

3. For this question, please refer to Table 3 below.

Table 3									
	Mail Class	2005	Year 1 After Rates	Price Per Piece Before Rates (\$)	Increase in First-Class Volume (Millions)	% Change First-Class Volumes (Millions)	Average Discount Per Piece of First-Class Mail	% Change in Price Per Piece of First-Class Mail	Own Price Elasticity of First-Class Mail
		1	2	3	4	5	6	7	8
					(2a -1a)	4a/1a		6a/3d	5a/7a
a	First-Class	471	713		242	51.33%	0.015	-4.35%	-11.80
b	Operational	121	120	0.326					
c	Marketing	350	593	0.346					
d	Weighted Average			0.341					

$$3a = \text{Sumproduct}(2b:2c, 3b:3c)/(2b+2c)$$

6a = 15 million First-Class pieces at an incremental discount of \$.035 + 40 million First-Class pieces at an incremental discount of \$.04 + 153 million First-Class pieces at an incremental discount of \$.045 + 153 million pieces at an incremental discount of \$.05.

- a. Please confirm that using data provided in USPS-T-1_Appendix_A-Revisedv3.xls, Sheet "Contrib Inputs", cells D7 and D8 for cells 3b and 3c in Table 3; and data from worksheet "Volume calcs" cells F15, G15, F7, F8, G13, and G14 for cells 1a, 2a, 1b, 1c, 2b, and 2c in Table 3, along with Revised Rate Schedule 630A, used to calculate the Average Discount per Piece of First-Class mail in cell 6a of Table 3, yields an own-price elasticity for First-Class mail estimate of -11.80 as shown in Table 3 above.
 - b. Please account for the difference in estimates of the own-price elasticity of First-Class Mail shown in Question 2, Table 2, of negative 3.2, and Question 3, Table 3, of negative 11.80.
4. WMB-T-1 Revised, page 10, states that "...since the NSA as negotiated just exceeds breakeven for WMB Card Services, I believe that implementing the agreement's requirements would not be economically justifiable if Card Services only received postage discounts for a year." Please explain the meaning of "breaking even" in this context. For example, isn't it the case that your breakeven analysis shows that the NSA is economically beneficial to WMB during the first year of the agreement?
5. Please refer to the Revised Testimony of Michael Rapaport, WMB-T-1, page 3, lines 10-12, where he states that "[b]y 2004, Providian's 'turnaround' was largely successful and the company's new marketing strategy was fully implemented." Given that the marketing restructuring implemented by Providian was completed by 2004, would it be more appropriate to begin an analysis of Before Rates volume trends with the year 2004, rather than include earlier years? If not, why not?

6. Please refer to page 8, Table 5 of the Supplemental Testimony of Ali Ayub (USPS-T-1). Please provide the formula, data sources, and data values, used to calculate the value for the cell found at the intersection of “column 680,000,000” and “row 80.00%”.
7. Article III. D. of the original NSA states that “[i]f by the end of the first year of this Agreement, Washington Mutual mails less than 375 million First-Class mail pieces...Washington Mutual agrees to pay \$250,000.” The Amendment to the Negotiated Service Agreement (“Amended NSA”) between the United States Postal Service (“USPS”) and Washington Mutual Bank (“WMB”) has increased the First-Class mail volume thresholds at which WMB would begin to obtain incremental discounts by 50 million first class mail pieces.
 - a. Please confirm that the Amended NSA does not adjust the minimum volume of First-Class mail that WMB must mail during the first year of the agreement before being required to pay the Postal Service \$250,000.
 - b. If confirmed, please explain if and how the incentives provided by this provision have changed given the revisions to the volume estimates and rate schedule volume block levels.
8. This question concerns the appropriateness of the Postal Service’s method of calculating the after-rates average marginal price and the after rates average marginal discount in its response to OCA/USPS-T1-25a-c.
 - a. Please confirm that the after-rates average marginal price of \$.274 is equal to the marginal price of First-Class mail at the volume tier that receives the \$.05 discount.
 - b. Please confirm that the after-rates average marginal discount of \$.07 is equal to the difference between the marginal price of First-Class mail at

the volume tier that receives the \$.05 discount and the Standard mail price of \$.204.

- c. Please explain why the after-rates average marginal price and the after rates average marginal discount were not calculated as rates weighted by the volume of mail in each discount tier.

George Omas
Presiding Officer