

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 VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC. (VP/USPS-T1-20-25)
(July 10, 2006)**

The United States Postal Service hereby provides the responses of Witness Ayub (USPS-T-1) to the above-referenced interrogatories, filed on June 26, 2006.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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July 10, 2006

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VP/USPS-T1-20.

Please refer to your response to VP/USPS-T1-2(c). In your response, you refer to the "Postal Service's policy position on NSAs...."

- a. If you have a hard copy statement of the Postal Service's policy position on NSAs, please provide a copy.
- b. If no such hard copy exists, please state and explain the Postal Service's policy position on NSAs. In your response, please explain the policy position with respect to increased volume and increased contribution, as well as any other pertinent factors.
- c. Please assume that an NSA presents the Postal Service with a trade-off in the form of achieving more of one desirable objective and less of another desirable objective, as does the Washington Mutual Bank NSA. What criteria has the Postal Service established, or what criteria does it use, to determine that exceptions to the Postal Service's policy position on NSAs are acceptable, or desirable?

RESPONSE:

a-b. A formal summary of the Postal Service's policy on NSAs has not been written. In

my opinion, the policy is embodied in the Postal Service's filings on NSA cases to date.

As indicated throughout all such filings, the Postal Service's position is that NSAs offer an opportunity to test the application of a commonly practiced pricing technique

(negotiated pricing) in a unique regulatory setting. In doing so, the Postal Service has

committed to testing a range of approaches designed to generate a net gain in contribution

as a result of the negotiation. The net gain in contribution could take the form of cost

savings, incremental volume growth, or some combination of such factors.

c. While I do not consider the Washington Mutual presents the kind of trade-off posited

by this interrogatory, such a trade-off would conform to the policy – as articulated in my

response to parts a & b, if the trade-off produced a net gain in contribution and was

otherwise consistent with the pricing and classification criteria established in the Act.

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VP/USPS-T1-21.

Please refer to your response to VP/USPS-T1-4.

a. In your response to 4(d), you state that “similarly situated customers are able to avail themselves of functionally equivalent agreements if they choose to....” In your response to 4(b), you state that “high transaction costs associated with bringing NSA cases to the Commission serve as a barrier to prevent widespread usage among mailers for NSAs.” Please explain how you can concurrently maintain (i) the existence of high barriers to entry and (ii) ready availability of functionally equivalent NSAs to other mailers.

b. In your response to 4(c), you note that “the contract with WMB (as with all of the other NSAs) prohibits WMB from using its incentives to mail on behalf of other customers.”

i. Is this provision intended to prevent arbitrage, in the form of preventing mail in a high-cost part of the market from transferring to and taking advantage of a lower-cost market? If not, please explain the necessity for this provision, especially as it pertains to discrimination against other mailers who might want to take advantage of the special discount extended to those who are floored to receive NSAs.

ii. Would such a provision be necessary if the Postal Service, in lieu of NSAs, established niche classifications open to all qualified mailers?

c. In your response to 4(e), you “point out that for the most part, prices in all other subclasses are uniform with respect to quantity.” Do you consider prices that are uniform with respect to quantity an undesirable feature of most Postal Service offerings? If so, please explain why you consider uniform prices to be undesirable.

RESPONSE:

- a. The first baseline agreement with Capital One NSA has spawned three functionally equivalent agreements with similarly situated credit card issuers.

Arguably, if the Commission had not arbitrarily imposed a cap on incentives, that number might have been larger. Thus, the availability of functionally equivalent NSAs appears to have satisfactorily satisfied similarly situated customers in the only instance for which there is empirical information. However, I have personal experience with a number of customers for whom the potential litigation costs have been an impediment to negotiations.

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- b. i. This provision is intended to ensure that the incentives embodied in the declining block structure work as intended, and to prevent WMB – in this instance – from attaining larger thresholds by acting as a mail consolidator. I am not aware that any floor exists preventing similarly situated customers from seeking similar terms.
- ii. Such a condition would be incompatible with niche classification. However, creation of a niche classification that varied prices based on customer volumes would present other implementation challenges.
- c. I do not consider list prices that do not vary with respect to volume to be inherently undesirable.

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VP/USPS-T1-22.

Please refer to your response to VP/USPS-T1-5(b), where you indicate that “a customer may be willing to pay a premium over existing Standard Mail rates that would have the same effect.” Please explain, both in general and with specific examples, what the Postal Service could offer users of Standard Mail that would induce them to pay a premium over existing Standard Mail rates.

RESPONSE:

Hypothetically speaking, the Postal Service could offer Standard Mail with enhancements that cause it to more closely resemble Standard Mail for customers who favored specific characteristics i.e. forwarding, seal against inspection, return of undeliverable mail, and improved service that currently serve to distinguish First-Class Mail from Standard Mail.

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VP/USPS-T1-23.

Please refer to your response to VP/USPS-T1-8.

- a. Please explain whether, in your opinion, it would be reasonable to consider, or think of, the First-Class Mail ("FCM") product as a "brand" of the Postal Service.
- b. Would you agree that the value of the FCM brand would be enhanced by the fact that FCM is regarded by most mail recipients as containing items that are of personal interest to them (e.g., correspondence), or that concern them personally (e.g., bank statements, or statements of account).
- c. Would you agree that most mail recipients generally have lower regard for unsolicited mail than they do for FCM? Please discuss what the Postal Service knows in this regard.
- d. If you succeed in using rate incentives to induce a large volume of Standard Mail advertising to switch to FCM, could the Postal Service run the risk of eroding the esteem for, and cheapening, its FCM brand? If not, please explain why not.

RESPONSE:

- a. Brand being a somewhat vaguely defined concept, First-Class Mail may be thought of as a brand of the Postal Service in that conveys a number of possible associations or attributes.
- b. As I can not confirm the premise embedded in this interrogatory – FCM is regarded by most mail recipients as containing items that are of personal interest to them – I can not agree with this statement.
- c. I can not confirm, and I suspect that measuring the relative levels of regard that recipients have for specific kinds of messages is an imprecise science at best.
- d. I do not believe that changing the indicia of mail pieces that are otherwise identical from the perspective of the recipient will have a meaningful impact on the perceived brand value of First-Class Mail for prospective senders. Moreover, I would point out that in FY 2005 there were more than 98 billion pieces of First-

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Class Mail. It is unlikely that the WBM agreement will have a measurable impact
on the perceived brand value of such a massive product.

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VP/USPS-T1-24.

Please refer to your response to VP/USPS-T1-11.

a. In your response to 11(c), you say that you agree with the Postmaster General's goal of reducing the volume of UAA mail. At the same time, you indicate a belief that you consider it important for the Postal Service to grow revenue, even if the means to such revenue growth is encouraging a significant increase in the volume of First-Class UAA mail. Please explain which of these two goals you think is more important.

b. In your response to 11(d), you say that you "reduce[d] the amount of UAA mail" and that "the additional address hygiene requests of the NSA aid in lowering the UAA rate."

i. Please explain the benchmark from which you reduced the amount of UAA mail. Did you reduce it below the average for all FCM? If not, then below what level?

ii. Please explain the benchmark for "lowering the UAA rate...." Did you lower the UAA rate of Washington Mutual Bank's solicitation mail below the rate for all FCM? If not, then below what level?

RESPONSE:

- a. I have not ranked the importance of these two – or of the many other – goals of the Postal Service. However, insofar as this interrogatory implies that the goals are mutually exclusive I would disagree. As I understand the goal attributed to the Postmaster General, he was advocating the reduction of UAA mail in general and not within a specific classification. I would argue that the adoption of electronic ACS by NSA customers will have a profoundly positive effect on the quality of address information used by these customers and will therefore reduce the total quantity of UAA mail, while at the same time growing the revenues of the Postal Service; a true win-win.
- b. My remarks referred to the UAA rate for the NSA customers as compared with rates prior to the agreements. As the Washington Mutual NSA is not yet in effect, there has not been any effect.

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VP/USPS-T1-25.

Please refer to your response to VP/USPS-T1-19. In your response to 19(f), you note that Washington Mutual Bank's total marketing volume exceeds 500 million pieces, and "with only 144 million delivery points in FY 05, there is a high probability that WMB mailed multiple times to the same delivery point."

- a. What is the probability that Washington Mutual Bank reuses and mails to the same third-party list more than one time within a six- to twelve-month period?
- b. If Washington Mutual Bank receives an address correction for someone on rented list A, and that same person also happens to appear on rented lists B and C (and at the same address as on list A), and Washington Mutual Bank subsequently decides to mail to lists B and C, what is the probability that Washington Mutual Bank will use the address correction(s) applicable to list A to correct lists B and C?

RESPONSE:

- a. I do not know the frequency with which Washington Mutual uses the same "third-party list", nor do I believe it is possible to accurately estimate such a frequency with the gross numbers used in this interrogatory.
- b. I do not know Washington Mutual's specific suppression rules for dealing with such instances.

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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