

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

**UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS
TO OFFICE OF CONSUMER ADVOCATE WITNESS CALLOW
(USPS/OCA-T1—10-16)**

Pursuant to rules 25 and 26 of the Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to Office of Consumer Advocate witness Callow: USPS/OCA-T1—10-16.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno
Chief Counsel, Customer Programs

Matthew J. Connolly
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-8582; Fax -5419
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USPS/OCA-T1—10. Please refer to page 3, lines 2 to 5, of your testimony. You state, “I propose application of an alternative financial model to the negotiated service agreement concluded between Washington Mutual Bank and the Postal Service, based upon the ‘Panzar’ analysis presented by the Commission in Docket No. MC2005-3.”

- a. In developing your Panzar model, did you rely on the framework and guidance presented in the Opinion and Further Recommended Decision of the Postal Rate Commission (PRC) in Docket No. MC2004-3?
- b. Did you rely on any additional sources to develop your Panzar model? If yes, please identify those additional sources.

USPS/OCA-T1—11. Please refer to page 26 of the PRC’s Opinion and Further Recommended Decision in Docket No. MC2004-3 where it states, “The essence of the framework would be for the mailer and the Postal Service to establish a wide range of potential volumes that constituted the realistic bounds of what the mailer would send under the terms of the agreement (after-rates volumes). The proponents would negotiate a set of discounts that would demonstrably satisfy the Panzar inequality above for every possible after-rates volume within the range.”

- a. Please confirm that, according to the PRC’s Opinion and Further Recommended Decision in Docket No. MC2004-3, the Panzar test requires the proponents to “establish a wide range of potential volumes that constituted the realistic bounds of what the mailer would send under the terms of the agreement (after-rates volumes).” If you cannot confirm, please explain.
- b. In your judgment, what range of volumes would be considered “realistic” as you understand that term?
- c. In developing your Panzar model, did you estimate or assume a range of volumes that would be sent under the Washington Mutual NSA? If yes, please state your estimations or assumptions.
- d. In your opinion, is it possible to forecast future mail volumes without knowledge of future prices? If yes, please provide examples.
- e. In your judgment, did Washington Mutual provide a “realistic” forecast of its before-rates and after-rates mail volumes in its testimony (WMB-T-1)?

USPS/OCA-T1—12. Please refer to pages 24 to 27 of your testimony. On page 25, lines 4 and 5, of your testimony, you state, “I use net present value analysis to estimate the volume that would produce a return on investment equal to the Postal Service’s ‘cost of money.’”

- a. Please confirm that you compared the net present value (NPV) of the Postal Service’s costs to the absolute discounts paid to Washington Mutual to estimate the Postal Service’s return on investment under the NSA. If you cannot confirm, please explain.
- b. To estimate the Postal Service’s return on investment under the NSA, did you also compare the NPV of the Postal Service’s costs to the NPV value of discounts paid to Washington Mutual?

- c. Isn't it true that the comparison described in subpart (b) would yield a more accurate estimate of the Postal Service's return on investment than would the comparison described in subpart (a)? If no, please explain.

USPS/OCA-T1—13. Please refer to pages 25 and 26 of your testimony. Using the costs you have estimated, please calculate the Postal Service's return on investment under the NSA if the agreement generated the following increases in contribution in Year 1:

- a. \$1,000,000.
- b. \$2,000,000.
- c. \$5,000,000.

USPS/OCA-T1—14. Please refer to page 11, line 10, of your testimony, where you state that, "Washington Mutual's volume estimates are not subject to replication."

- a. Have you attempted to develop independent forecasts of Washington Mutual's before-rates mail volume? If yes, please provide the results of your analysis.
- b. Have you attempted to identify exogenous factors that could cause an increase in the before-rates volume?
- c. If your answer to subpart (b) is yes, have you attempted to model the impact of these factors on the before-rates and after-rates mail volume? If no, please explain why you have not attempted to do so.
- d. Assume that an exogenous factor lead to increased mail volumes. Isn't it true that Washington Mutual would have to spend more money on postage to mail those volumes through the USPS? If no, please explain.

USPS/OCA-T1—15. Please refer to page 7, lines 1 to 5, of your testimony. You state, "An essential requirement of any negotiated service agreement is mutual financial gain for both the Postal Service and the potential NSA partner. Mutual gain arises where the agreement generates additional contribution for the Postal Service resulting from the entry of additional mail in response to discounted rates offered to the participating mailer." Additionally, please refer to page 7, lines 21 and 22, and page 8, line 1, of your testimony. You state, "A 'win-win' outcome for the Postal Service and the participating mailer is also essential to reduce the risk of harm to mailers not party to the agreement, especially where such mailers are dependent on the monopoly services of the Postal Service."

- a. Assume that under this NSA Washington Mutual converts all of its Standard Mail volume to First-Class Mail resulting in \$10 million of increased contribution to the Postal Service.
 - I. In your opinion, would Washington Mutual's increased contribution under the NSA benefit the Postal Service? If no, please explain.
 - II. In your opinion, would Washington Mutual's increased contribution under the NSA benefit other mailers not party to the agreement? If no, please explain.

- b. Additionally, assume that the Postal Service did not enter into this NSA with Washington Mutual. Do you agree with the proposition that the opportunity cost of not pursuing this agreement with Washington Mutual is \$10 million? If no, please explain.
- c. In your opinion, would the Postal Service be in a better financial position under the hypothetical presented in subpart (a) or under the hypothetical presented in subpart (b)? If no, please explain.
- d. In your opinion, would other mailers not party to the agreement be in a better financial position under the hypothetical presented in subpart (a) or under the hypothetical presented in subpart (b)? If no, please explain.

USPS/OCA-T1—16. Please refer to page 28, lines 2 to 6, of your testimony. You state in part, “This expected contribution is sufficient to recover the Postal Service’s investment in the Washington Mutual NSA, and provide a meaningful contribution to institutional costs.”

- a. Please explain what you mean by the phrase “meaningful contribution to institutional costs” as you use it in your testimony.
- b. Have you identified a minimum absolute value of increased contribution that will “provide a meaningful contribution to institutional costs”? If yes, please provide the analysis used to develop this number.

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.

Matthew J. Connolly
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
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