

UNITED STATES OF AMERICA
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

RESPONSES OF OFFICE OF CONSUMER ADVOCATE
WITNESS JAMES F. CALLOW TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/OCA-T1-1-4)
(September 7, 2006)

The Office of Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T1-1-4, dated August 24, 2006, as revised August 25, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

SHELLEY S. DREIFUSS
Director
Office of 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

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T1-1-4

USPS/OCA-T1-1.

Please refer to page 9, lines 7 and 8, of your testimony. You state that "the Washington Mutual NSA, unlike previously proposed or recommended NSAs, permits unlimited discounts."

- (a) Please confirm that the term "unlimited discounts" refers to the fact that the Washington Mutual NSA contains no cap or stop loss mechanism in relation to the declining block rate discounts Washington Mutual is eligible to receive. If you cannot confirm, please explain.
- (b) Please confirm that the NSAs with Capital One, Bank One, and HSBC, as proposed by the Postal Service, did not contain stop loss caps.

RESPONSE TO USPS/OCA-T1-1

(a) Confirmed.

(b) Confirmed. I attempted to capture in a single phrase the fact that the Washington Mutual NSA differs from the "previously recommended" Capital One, Bank One, and HSBC agreements, in which the Commission added a stop loss cap, as well as from the Discover and Bookspan NSAs, which were "previously proposed" (and subsequently recommended) with a stop loss cap.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T1-1-4

USPS/OCA-T1 -2.

Please refer to the appendix labeled "OCA-T-1_att1 -WMB.xls" that you included with your testimony. Cell D11 in the worksheet tabs labeled "Year 1," "Year 2," and "Year 3" contains the number -0.111483.

- a) Please confirm that the source of this number is a coefficient in the multivariate regression model that USPS witness Thress used to forecast demand for First-Class Mail presort letters (Docket No. R2006-1).
- b) If you cannot confirm, please explain.

RESPONSE TO USPS/OCA-T1-2

(a) I can confirm that the source of the number -0.111483 is the testimony of Postal Service witness Thress (USPS-T-7), at Table 16, in Docket No. R2006-1.

(b) NA

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T1-1-4

USPS/OCA-T1-3

Please refer to page 3, lines 10 to 12, of your testimony. You state, "I accept Postal Service witness Ayub's assumption that Washington Mutual's entire discount induced First-Class Mail solicitation letter volume is converted from Standard Mail."

- a) In your judgment, does Washington Mutual's ability to convert its solicitation letter volume from Standard Mail to First-Class Mail suggest that Washington Mutual regards First-Class Mail as a close substitute for Standard Mail?
- b) Do you agree with the proposition that by substituting a more expensive product (First-Class Mail) for a less expensive product (Standard Mail), Washington Mutual expects the additional expense to be offset by a higher response rate to its First-Class Mail solicitations? If no, please explain.

RESPONSE TO USPS/OCA-T1-3

(a) I have no way of knowing how Washington Mutual "regards" First-Class Mail vis-à-vis Standard Mail. However, any mailer who voluntarily uses First-Class Mail and Standard Mail for essentially the same purposes is behaving as if they are substitutes.

(b) I have no way of knowing what Washington Mutual "expects." However, any mailer who uses a more expensive input for marketing is behaving as if it believes that the substitution will more than pay for itself.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T1-1-4

USPS/OCA-T1-4

Please refer to page 12, lines 17 to 19, of your testimony. You state that "Washington Mutual receives discounts on all eligible First-Class Mail solicitation letters exceeding the minimum discount threshold volume of 490 million mailpieces that are prompted for any reason, ensuring Washington Mutual a positive financial outcome."

- a) In reaching this conclusion, did you consider whether Washington Mutual's negotiation and litigation costs associated with this NSA would have an effect on Washington Mutual's financial outcome? If yes, please provide the results of your analysis.
- b) Do you agree that Washington Mutual's financial outcome under the NSA depends, in part, on the rate of customer responses it receives from its First-Class mail solicitations?
- c) If Washington Mutual's solicitation letter volume is converted from Standard Mail to First-Class Mail and the rate of customer responses it receives from its First-Class mail solicitations does not increase, will Washington Mutual's financial outcome necessarily be positive? If yes, please explain.

RESPONSE TO USPS/OCA-T1-4

(a) No. The purpose of my testimony was to propose a new financial model to estimate institutional contribution to the Postal Service, the regulated entity.

(b) – (c) Washington Mutual's financial outcome depends in part on customer response rate, as well as exogenous factors, such as changes in corporate marketing plans. Thus, Washington Mutual's financial outcome may or may not be positive if the rate of customer responses "does not increase." Using the Panzar analysis, I have controlled for exogenous variables in order to estimate the volume response of Washington Mutual to changes in price.