

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-T1-19-25)**

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-T1-19-25.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno  
Chief Counsel, Customer Programs

Frank R. Heselton  
Attorney

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-5204; Fax -6187  
September 14, 2006

USPS/OCA-T1-19. Please refer to your response to USPS/OCA-T1-5, subpart (b), where you confirm that you have not attempted to quantify the cost of the NSA to Washington Mutual. Please also refer to page 7, lines 9 to 10, 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."

- a) Please confirm that Washington Mutual Bank would benefit financially from the incentives the NSA will provide WMB for converting Standard Mail volume to First-Class Mail.
- b) In your judgment, is it possible to determine whether the WMB NSA will result in "mutual financial gain" to WMB and the Postal Service without attempting to quantify the costs of the agreement to WMB? If yes, please explain.

USPS/OCA-T1-20. Please refer to your response to USPS/OCA-T1-4, subparts (b) and (c). You state, "Washington Mutual's financial outcome may or may not be positive if the rate of customer responses 'does not increase.'" Please assume for the purpose of this interrogatory that the NSA induces WMB to shift 90 percent of its solicitation mail volume to First-Class Mail from Standard Mail. Additionally, please assume that all other variables remain constant except for the rate of customer responses WMB receives from its First-Class Mail solicitations.

- a) If the customer response rate referenced above were to decrease or remain constant after WMB converts its Standard Mail volume to First-Class Mail, could WMB experience a net positive financial outcome under the NSA?
- b) If the answer to subpart (a) is "yes," please explain how WMB could experience a net positive financial outcome under the NSA.
- c) Does the possibility that WMB's customer response rate might decrease under the NSA pose a financial risk to WMB?
- d) If your answer to subpart (c) is "no" please identify any risks you have identified for WMB under the NSA.

USPS/OCA-T1-21. Please refer to your response to USPS/OCA-T1-8, subparts (a)-(b), where you state that "A cross-price elasticity was not relevant to the development of the Panzar analysis presented in my testimony."

- a) Please define the term "cross-price elasticity" as you understand it.
- b) For the purpose of this subpart, please assume that the Postal Service does not enter into an NSA with WMB and that all exogenous factors and postage prices remain constant. Additionally, please assume that WMB converts its Standard Mail volume to First-Class Mail at the rate identified in the original filing. Please calculate the resulting cross-price elasticity and explain how you reached your result.
- c) For the purpose of this subpart, please assume that the Postal Service does not enter into an NSA with WMB and that all exogenous factors and postage prices remain constant. Additionally, please assume that

WMB converts its Standard Mail volume to First-Class Mail at the rate identified in the original filing. Please confirm that a calculation of cross-price elasticity would be essential to an evaluation of WMB's mailing preferences. If you cannot confirm, please explain.

USPS/OCA-T1-22. Please refer to your response to USPS/OCA-T1-11, subpart (d), where you confirm that it is possible to forecast future mail volumes without knowledge of future prices. Additionally, you state that "A trend analysis has been used in the past by the Postal Service 'as a relatively simple approach...to predict future movements in mail demand.'"

- a) Please confirm that it is your understanding that the Postal Service uses trend analysis to forecast before-rates or after-rates mail volume.
- b) In your judgment, do you believe that a trend analysis which does not account for price changes can yield an accurate estimate of future mail volumes?
- c) Is the price of postage an important factor in developing a forecast of demand?
- d) To your knowledge, are there any other methodologies other than a trend analysis that would enable USPS or WMB to forecast future mail volume?

USPS/OCA-T1-23. Please refer to your response to USPS/OCA-T1-11, subpart (e). Additionally, please refer to your response to USPS/OCA-T1-14, subpart (c) where you state, "I did not develop a model of Washington Mutual's demand for First-Class Mail solicitation letters to estimate the effects of exogenous factors on Washington Mutual's before-rates and after-rates volume."

- a) Please confirm that your response to USPS/OCA-T1-11, subpart (e), is based solely on an evaluation of Washington Mutual's before-rates and after-rates volumes and the elasticities you identified in your response to USPS/OCA-T1-11, subpart (e).
- b) Please describe all factors other than the elasticities you identified in your answer to USPS/OCA-T1-11, subpart (e), that support your negative response to USPS/OCA-T1-11, subpart (e).
- c) Please identify the exogenous factor or factors that might cause WMB to shift its solicitation mail volume from Standard Mail to First-Class Mail.
- d) For the purpose of this subpart, please assume that the Postal Service does not enter into an NSA with WMB. For each factor identified in subpart (c) please describe how these factors would induce WMB to shift its solicitation mail volume from Standard Mail to First-Class Mail.
- e) Please confirm that you did not independently estimate the effect of exogenous factors on Washington Mutual's before-rates and after-rates mail volumes.
- f) In your judgment, is it possible to estimate the impact a change in an exogenous factor would have on mail volume without also estimating

the effect of exogenous factors on before-rates and after-rates mail volumes? If your answer is yes, please explain.

USPS/OCA-T1-24. Please refer to your response to USPS/OCA-T1-15, subparts (a) – (d), where you state, “I don’t know. Washington Mutual may convert its Standard Mail to First-Class Mail because of exogenous factors, with or without the NSA.” Please revise your responses to USPS/OCA-T1-15, subparts (a) – (d), assuming that all exogenous factors remain constant.

USPS/OCA-T1-25. Please refer to your response to USPS/OCA-T1-16, subpart (a), where you state, “I define the phrase ‘meaningful contribution’ to mean institutional contribution to the Postal Service significantly greater than \$0.” Please define the threshold for “significantly greater than \$0.”

## **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.

Frank R. Heselton  
Attorney

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-5204; Fax -6187  
September 14, 2006