

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

RATE AND SERVICE CHANGES TO IMPLEMENT  
BASELINE NEGOTIATED SERVICE AGREEMENT  
WITH BANK OF AMERICA CORPORATION

Docket No. MC2007-1

**UNITED STATES POSTAL SERVICE NOTICE OF CORRECTIONS TO RESPONSE  
OF WITNESS AYUB TO INTERROGATORIES OF THE OFFICE OF CONSUMER  
ADVOCATE (OCA/USPS-T1-1-4) [ERRATA]**

(June 6, 2007)

The Postal Service hereby gives notice of errata to Response of United States Postal Service Witness Ayub to interrogatories of the Office of Consumer Advocate: OCA/USPS-T1-1-4, filed on March 2, 2007. The Postal Service's initial response to interrogatory OCA/USPS-T1-2(c) stated, in part, that the percentages listed on page 2 of Appendix A to the testimony of Ali Ayub (USPS-T1-1), in the columns labeled FY 2007, FY 2008, and FY 2009, represent the degree to which Bank of America is expected to improve the performance of its mail in each of the categories identified in lines [4] through [9] on that page (i.e., Reduction in Operations Return Rate, Reduction in Standard UAA Rate, etc.). The Postal Service's response to that interrogatory also stated the following:

The percentages listed in the column labeled FY 2007 (i.e., Year 1 of the NSA), are based on my assumption that this NSA will not cause any such improvements during FY 2007.

The Postal Service's response to interrogatory OCA/USPS-T1-2(c) incorrectly implied that the above quoted statement applies to all figures in the column labeled FY 2007,

lines [4] through [9]. The response should have specified that this statement only applies to the figures in lines [4] through [7] in the column labeled FY 2007. See USPS response to interrogatory OCA/USPS-T1-31(b). The figures in the column labeled FY 2007, lines [8] and [9], are based on the assumption that BAC will improve its read and accept rates for BAC First-Class Mail and Standard Mail by one tenth of a percentage point in the first year.

The Postal Service's response to interrogatory OCA/USPS-T1-2(c) also stated the following:

The percentages listed in the column labeled FY 2008 (i.e., Year 2 of the NSA), are based on the testimony of BAC witness Jones (BAC-T-1). The supporting information may be found on page 17, lines 25 and 26, and page 18, lines 1 through 4, of his testimony.

The Postal Service's response incorrectly implied that the above quoted statements apply to all figures in the column labeled FY 2008, lines [4] through [9]. The response should have stated that those figures are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC and are not based on the testimony of BAC witness Jones. See USPS response to interrogatory OCA/USPS-T1-31(a).

The Postal Service's response to interrogatory OCA/USPS-T1-2(c) also stated the following:

The percentages listed in the column labeled FY 2009 (i.e., Year 3 of the NSA), are based on the corresponding percentages in the column labeled FY 2008, accumulated for the two years.

The Postal Service's response incorrectly implied that the above quoted statement applies to all figures in lines [4] through [9] in the column labeled FY 2009. The response should have specified that this statement only applies to the figures in lines [4]

through [7] in the column labeled FY 2009, and that the figures in lines [8] and [9] in the column labeled FY 2009 are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC.

A revised response to interrogatory OCA/USPS-T1-2(c) is attached to this notice. Revisions to the text of the response are highlighted in gray. A revised version of Appendix A to the testimony of Ali Ayub has been filed to replace the version filed on February 7.

The interrogatories are stated verbatim and are followed by the response.

UNITED STATES POSTAL SERVICE

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**OCA/USPS-T1-1.** Please refer to your testimony, Appendix A, "Assumptions," Page 2, Line [2]. Please confirm that the baseline value Before-Rates return rate for each year of the agreement (i.e. FY 2007, FY 2008, and FY 2009) is 0.7 percent for First-Class Mail operational mailpieces, and 2.7 percent for First-Class Mail marketing mailpieces. If you do not confirm, please explain.

**RESPONSE:**

Confirmed.

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**OCA/USPS-T1-2.** Please refer to your testimony, Appendix A, "Assumptions," Page 2, Line [3], and "Sources" Line [3].

- a. Please confirm that the baseline value forwarding rate for each year of the agreement (i.e. FY 2007, FY 2008, and FY 2009) is 1.7 percent. If you do not confirm, please explain.
- b. Please confirm that the "Source" of the baseline value forwarding rate of 1.7 percent is Bank of America, not Docket No. R2006-1, USPS LR-L-61, Table 2.3. If you do not confirm, please explain.
- c. Under "Sources," please explain in greater detail the meaning of phrases in Line [3] after "Docket No. R2006-1 USPS LR-L-61, Table 2.3 (FCM Automation Average)."

**RESPONSE:**

- a) Confirmed.
- b) Confirmed. Please see the testimony of BAC witness Jones (BAC-T-1) at page 17, lines 8 through 12.
- c) Apparently, when Appendix A to my direct testimony was converted from an xls spreadsheet to a PDF document for filing, the borderlines to all of the cells on page 2 were not preserved. As shown in the xls spreadsheet filed concurrently with my testimony, the phrases referred to in this interrogatory are contained in Appendix A, "Assumptions," page 2, "Sources," lines [4] through [9], and not in line [3], as this interrogatory suggests. With this understanding, the Postal Service provides the response below.

The percentages listed in the columns labeled FY 2007, FY 2008, and FY 2009, lines [4] through [9], represent the degree to which BAC is expected to improve the performance of its mail in each of the categories identified in lines [4] through [9]. The percentages listed in the column labeled FY 2007 (i.e., Year 1 of the NSA), lines [4]

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through [7], are based on my assumption that this NSA will not cause any such improvements during FY 2007. The percentages listed in the column labeled FY 2007, lines [8] and [9], are based on my assumption that BAC will improve its read and accept rates for BAC First-Class Mail and Standard Mail by one tenth of a percentage point in FY 2007. Please see my response to OCA/USPS-T1-31(b).

The percentages listed in the column labeled FY 2008 (i.e., Year 2 of the NSA), lines [4] through [9], are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. Please see my response to OCA/USPS-T1-31(a). The percentages listed in the column labeled FY 2009 (i.e., Year 3 of the NSA), lines [4] through [7], are based on the corresponding percentages in the column labeled FY 2008 accumulated for the two years.

The percentages listed in the columns labeled FY 2008 and FY 2009, lines [8] and [9], are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. Please see my response to OCA/USPS-T1-31(a) and (c). For BAC's First-Class Mail, I have assumed that BAC will improve its read and accept rates by 0.7 percent and 1.3 percent in FY 2008 and FY 2009 respectively. For BAC's Standard Mail, I have assumed that BAC will improve its read and accept rates by 0.7 percent and 1.6 percent in FY 2008 and FY 2009 respectively. Please see my response to interrogatory OCA/USPS-T1-31(a) and (c).

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**OCA/USPS-T1-3.** Please refer to your testimony, Appendix A, "Input Data," Page 3, Lines [4], [5], [6], [7], and "Carrier Route," which refers to the 2006 Billing Determinants for First-Class Mail and Standard Mail automation letters. Please confirm that the reference to "automation letters" indicates letter-shaped mailpieces. If you do not confirm, please explain.

**RESPONSE:**

Confirmed. To be precise, the term "automation letters" refers to letter-*rated* mailpieces, which include letters but not postcards.

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**OCA/USPS-T1-4.** Please refer to your testimony at page 23, lines 1-13.

- a. Please confirm that the discounts provided to Bank of America represent less than 100 percent of the Postal Service's estimated cost savings. If you do not confirm, please explain.
- b. For Rate Schedules 630A through 630E, please provide the "passthrough" percentages for each of the rate cells in each of the referenced rate schedules. Please show all calculations and provide references to all sources.

**RESPONSE:**

a) Confirmed, although the incentives set forth in Rate Schedules 630A and 630D contain "passthroughs" for some *individual* cells that exceed 100 percent of calculated savings at certain improvement levels. I emphasize that the *aggregate* savings calculated for Rate Schedules 630A and 630D equal the aggregate of the savings associated with improvements in accept rates for all individual rate-level mail volumes within each Rate Schedule. This aggregation results in passthroughs for Rate Schedules 630A and 630D that, although higher than each of the passthrough for Rate Schedules 630B, 630C, and 630E, are each less than 100 percent.

The attached spreadsheets, labeled MC2007-1 Passthrough.xls, include the "passthrough" percentages for Rate Schedules 630A through 630E. Passthrough percentages for each Rate Schedule are based on the per-piece discount reflected in each schedule, by cell, divided by the expected per piece value to the Postal Service of the mail processing improvement reflected in the Rate Schedule, by cell. The calculations I used to generate these passthroughs may be found in the attached spreadsheets.

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The “passthroughs” for Bank of America’s First-Class Mail and Standard Mail UAA mail volumes were calculated using the following improvement percentages:

|                        | FCM Operations<br>Return Rate | FCM<br>Marketing<br>Return Rate | FCM<br>Forwarding<br>Rate | Standard<br>Mail UAA<br>Rate |
|------------------------|-------------------------------|---------------------------------|---------------------------|------------------------------|
| Percent<br>Improvement | New Baseline                  |                                 |                           |                              |
| 0.1                    | 0.6300%                       | 0.02403                         | 0.0153                    | 0.0576                       |
| 0.2                    | 0.5600%                       | 0.02136                         | 0.0136                    | 0.0512                       |
| 0.3                    | 0.4900%                       | 0.01869                         | 0.0119                    | 0.0448                       |
| 0.4                    | 0.4200%                       | 0.01602                         | 0.0102                    | 0.0384                       |
| 0.5                    | 0.3500%                       | 0.01335                         | 0.0085                    | 0.032                        |
| 0.6                    | 0.2800%                       | 0.01068                         | 0.0068                    | 0.0256                       |
| 0.7                    | 0.2100%                       | 0.00801                         | 0.0051                    | 0.0192                       |
| 0.8                    | 0.1400%                       | 0.00534                         | 0.0034                    | 0.0128                       |
| 0.9                    | 0.0700%                       | 0.00267                         | 0.0017                    | 0.0064                       |

The “passthrough” calculations for UAA mail volumes are based on the estimated savings to the Postal Service from the expected decrease in Bank of America’s First-Class Mail and Standard Mail UAA mail volumes.

The cost savings used to calculate the “passthroughs” for the improvements in accept rates of BAC First-Class Mail and Standard Mail have two components, mail processing and delivery. The estimated cost savings for the different levels of mail processing are reflected in the model on the line “Total Savings” in worksheets Savings SM – MP and Savings FCM – MP in the attached “Passthrough” worksheet. The delivery cost savings from improvements in accept rates is a function of increases in the amount of Bank of America’s mail volumes that can be Delivery Point Sequenced (DPS). The table below indicates the relationship between percentage improvement

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and increases in BAC DPS mail volumes. The savings associated with each level of improvement are shown in the attached "Passthrough" worksheet.

| Percent Improvement | SM - Increase in DPS Volume | FCM - Increase in DPS Volume |
|---------------------|-----------------------------|------------------------------|
| 0.10%               | 1,900,000                   | 1,400,000                    |
| 0.20%               | 3,800,000                   | 2,800,000                    |
| 0.30%               | 5,700,000                   | 4,200,000                    |
| 0.40%               | 7,600,000                   | 5,600,000                    |
| 0.50%               | 9,500,000                   | 7,000,000                    |
| 0.60%               | 11,400,000                  | 8,400,000                    |
| 0.70%               | 13,300,000                  | 9,800,000                    |
| 0.80%               | 15,200,000                  | 11,200,000                   |
| 0.90%               | 17,100,000                  | 12,600,000                   |
| 1.00%               | 19,000,000                  | 14,000,000                   |
| 1.10%               | 20,900,000                  | 15,400,000                   |
| 1.20%               | 22,800,000                  | 16,800,000                   |
| 1.30%               | 24,700,000                  | 18,200,000                   |
| 1.40%               | 26,600,000                  | 19,600,000                   |
| 1.50%               | 28,500,000                  | 21,000,000                   |
| 1.60%               | 30,400,000                  | 22,400,000                   |
| 1.70%               | 32,300,000                  | 23,800,000                   |
| 1.80%               | 34,200,000                  | 25,200,000                   |
| 1.90%               | 36,100,000                  | 26,600,000                   |

Please note that these passthrough calculations reflect only the savings implicit in the Rate Schedules. The Agreement requires cost-saving activities by BAC, such as enhanced mail preparation and entry standards, for which BAC will receive no discounts but will incur costs, neither of which are reflected in these calculations.

b) Please see my response to (a) above.

## 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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