

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Service Changes to Implement)
Functionally Equivalent Negotiated Service) Docket No. MC2004-4
Agreement with Discover Financial)
Services, Inc.)

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS ALI AYUB (OCA/USPS-T1-1-9)
July 9, 2004

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/DSF-T1-1-5, dated June 25, 2004, are hereby incorporated by reference.

Respectfully submitted,

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OCA/USPS-T1-1. Please refer to 611.1 of Attachment A to the Request containing proposed DMCS language implementing the Discover NSA.

- (a) Please confirm that Discover's eligible First-Class Mail customer correspondence may consist of letter-shaped and flat-shaped pieces. If you do not confirm, please explain.
- (b) Please confirm that Discover's eligible First-Class Mail solicitations may consist of letter-shaped and flat-shaped pieces. If you do not confirm, please explain.

OCA/USPS-T1-2. Please refer to 611.2 of Attachment A to the Request containing proposed DMCS language implementing the Discover NSA.

- (a) Please explain how the 350 million-piece minimum was determined.
- (b) Please explain how the \$250,000 figure was determined.

OCA/USPS-T1-3. Please refer to 611.33 of Attachment A to the Request containing proposed DMCS language implementing the Discover NSA. Please define the term "domestic gross active accounts" as that term is used in 611.33

OCA/USPS-T1-4. Please refer to Attachment F of the Request, which contains the NSA between the Postal Service and Discover, Article II. A. Please provide citations to the "applicable Federal laws and Postal Service operating instructions" with respect to Postal Service disposal of the physical returns of Discover.

OCA/USPS-T1-5. Please refer to your testimony at page 9, lines 6-9, where it states “the threshold adjustment [will serve] to mitigate the risk that exogenous factors will result in threshold levels that do not provide the appropriate incentive for marketing mail.

- (a) Please identify and describe the “exogenous factors” referred to in the passage quoted above.
- (b) Please explain why it is important to address or limit the effects of exogenous factors through the threshold adjustment.

OCA/USPS-T1-6. Please refer to your testimony at page 10, lines 4-5, which states “it is unlikely the Postal Service’s exposure from misestimation could exceed the expected ACS savings from the Discover NSA.”

- (c) Please identify and describe all types of “misestimation” referred to in passage quoted above.
- (d) On what basis do you make the claim in the passage quoted above? Please provide any documentation supporting the basis for your claim.

OCA/USPS-T1-7. Please refer to your testimony at page 6, lines 13-18, and Tables 1, 2 and 3, below showing the incremental volume blocks for Capital One, Bank One, and Discover, respectively.

TABLE 1
Incremental Volume Blocks - Capital One NSA

<u>Volume Range</u>		<u>Change</u>	<u>% Change</u>	<u>Discount</u>
1,225,000,000	1,275,000,000	50,000,000	4.1%	\$0.030
1,275,000,001	1,325,000,000	49,999,999	3.9%	\$0.035
1,325,000,001	1,375,000,000	49,999,999	3.8%	\$0.040
1,375,000,001	1,450,000,000	74,999,999	5.5%	\$0.045
1,450,000,001	1,525,000,000	74,999,999	5.2%	\$0.050
1,525,000,001	1,600,000,000	74,999,999	4.9%	\$0.055
1,600,000,001	above			\$0.060

Source: Docket No. MC2002-2, Request of the United States.
Postal Service for a Recommended Decision on Experimental
Changes to Implement Capital One NSA, Attachment B,
Rate Schedule 610A.

TABLE 2
Incremental Volume Blocks - Bank One NSA

<u>Volume Range</u>		<u>Change</u>	<u>% Change</u>	<u>Discount</u>
535,000,000	560,000,000	25,000,000	4.7%	\$0.025
560,000,001	585,000,000	24,999,999	4.5%	\$0.030
585,000,001	610,000,000	24,999,999	4.3%	\$0.035
610,000,001	645,000,000	34,999,999	5.7%	\$0.040
645,000,001	680,000,000	34,999,999	5.4%	\$0.045
680,000,001	above			\$0.050

Source: Docket No. MC2004-3, Request of the United States.
Postal Service for a Recommended Decision on Classifications,
Rates and Fees to Implement a Functionally Equivalent
Negotiated Service Agreement with Bank One Corporation,
Attachment B, Rate Schedule 612A.

TABLE 3
Incremental Volume Blocks - Discover NSA

<u>Volume Range</u>		<u>Change</u>	<u>% Change</u>	<u>Discount</u>
405,000,000	435,000,000	30,000,000	7.4%	\$0.025
435,000,001	465,000,000	29,999,999	6.9%	\$0.030
465,000,001	490,000,000	24,999,999	5.4%	\$0.035
490,000,001	515,000,000	24,999,999	5.1%	\$0.040
515,000,001	above			\$0.045

Source: Docket No. MC2004-4, Request of the United States.
Postal Service for a Recommended Decision on Classifications,
Rates and Fees to Implement a Functionally Equivalent
Negotiated Service Agreement with Discover Financial
Services, Attachment B, Rate Schedule 611A.

In Table 1, relating to Capital One, the “% Change” column shows a decline from 4.1% to 3.9% to 3.8 % in the first three incremental volume blocks. The decline repeats itself in the next three volume blocks, although starting at a higher level, 5.5% to 5.2% to 4.9%. A similar pattern is exhibited in Table 2 relating to Bank One. In the case of Discover, however, the decline is monotonic, as shown in the “% Change” column in Table 3. Please explain the rationale for having larger volume blocks associated with lower discounts and vice versa.

OCA/USPS-T1-8. Please refer to your testimony at page 8, lines 11-12, and the Commission’s opinion in Docket No. MC2002-2, at pages 68-70.

- (a) Please confirm that the Postal Service developed an analysis of the type described by the Commission with respect to Discover’s future demand for First-Class solicitation mail. If so, please provide the analysis. If not please explain.
- (b) Please explain how each incremental volume block relates to Discover’s future demand for First-Class solicitation mail so as to provide an incentive to increase the incremental volume of solicitation mail.

OCA/USPS-T1-9. Please refer to your testimony at page 8, lines 11-12, and the Commission’s opinion in Docket No. MC2002-2, at pages 71-73.

- (a) Please confirm that the Postal Service has developed an analysis of the type described in the Commission’s opinion with respect to Discover. If you do confirm, please provide the analysis. If you do not confirm, please explain.

(b) Please explain how, in the absence of an analysis referred to in part (a) above, the Postal Service has avoided the “design defects” described in the Commission’s opinion with respect to the declining block rates applicable to Discover under the NSA.