

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-T1-10-21)  
July 16, 2004

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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-T1-10. Please refer to pages 12 and 13 of your testimony.

- a. Did you perform or obtain different projections of Discover's before- and/or after-rates volumes for the years that the NSA will be in effect? If so, please provide such projections and supporting documentation. If not, why not?
- b. Did you perform or obtain (e.g., from Finance) analyses of the effect of the NSA on postal finances other than the analysis contained in Appendix A of your testimony? If so, please provide such analyses and supporting documentation. If not, why not?

OCA/USPS-T1-11. Please refer to page 16 of your testimony.

- a. Please assume that Discover's Year-1 before-rates volume estimate of 451 million pieces is normally distributed. Please confirm that under this assumption, the probability that before-rates volumes in Year 1 would be greater than 451 million is 50 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
- b. Please assume that Discover's Year-1 before-rates volume estimate of 451 million pieces is normally distributed with standard error of ten percent.
  - i. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 451 million is 50 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
  - ii. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 466 million is

approximately 37 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

- iii. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 481 million is approximately 25 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
- iv. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 496 million is approximately 16 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

OCA/USPS-T1-12. Please refer to the attachment to this interrogatory and confirm that under the Commission's MC2002-2 methodology, the stop-loss volume for Discover would be 497.6 million pieces. If you do not confirm, please provide the correct volume and show its derivation.

OCA/USPS-T1-13. Please assume that Discover's Year-1 before-rates volume estimate of 451 million pieces is normally distributed. Under this assumption, please confirm that the standard error of that estimate must be no greater than 6.1 percent in order for the probability of the Postal Service's not losing money to be greater than 95 percent. If you do not confirm, please provide an estimate of the maximum standard error and explain its derivation.

OCA/USPS-T1-14. Please provide an estimate, and explain its derivation, of the standard error of Discover's

- a. Year 1 volume estimate of 451 million pieces;
- b. Year 2 volume estimate of 446 million pieces;
- c. Year 3 volume estimate of 441 million pieces.

OCA/USPS-T1-15. Please confirm that *ceteris paribus* the standard error of a volume projection increases as one projects farther into the future. If you do not confirm, please explain.

OCA/USPS-T1-16. Please confirm that 85 percent of Discover's mail that shifts from Standard to First-Class will incur *new* electronic return costs. Please confirm that 15 percent of Discover's mail that shifts from Standard to First-Class will incur *new* manual return costs. If you do not confirm, please explain. If you confirm, please indicate where this cost is accounted for in Appendix A of your testimony.

OCA/USPS-T1-17. Please refer to page 16 of your testimony.

- a. Please assume that Discover's Year-1 before-rates volume estimate of 451 million pieces is normally distributed with standard error of ten percent.
  - i. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 436 million is approximately 63 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

- ii. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 421 million is approximately 75 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.
- iii. Please confirm that under these assumptions, the probability that before-rates volumes in Year 1 would be greater than 406 million is approximately 84 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

OCA/USPS-T1-18. Please assume that Discover's Year-1 before-rates volume estimate of 451 million pieces is normally distributed. Under this assumption, please confirm that the standard error of that estimate must be greater than 6672 percent in order for the probability of Discover's Year-1 before-rates volume being less than 406 million to be at least 75 percent. If you do not confirm, please provide an estimate of the minimum standard error and explain its derivation.

OCA/USPS-T1-19. Please assume that Discover's Year-1 before-rates volume estimate of 451 million pieces is normally distributed. Under this assumption, please confirm that the standard error of that estimate must be at least 14.8 percent in order for the probability of Discover's Year-1 before-rates volume being less than 406 million to be at least 25 percent. If you do not confirm, please provide an estimate of the minimum standard error and explain its derivation.

OCA/USPS-T1-20. Please assume that Discover's Year-1 threshold is 405 million pieces and that its before-rates volume estimate of 451 million pieces is normally distributed with standard error of 10 percent. Under these assumptions, please confirm that the probability of the Postal Service's paying discounts on mail that it would receive in the absence of discounts is 84.6 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

OCA/USPS-T1-21. Please assume that Discover's Year-1 threshold is 405 million pieces and that its before-rates volume estimate of 451 million pieces is normally distributed with standard error of 14.8 percent. Under these assumptions, please confirm that the probability of the Postal Service's paying discounts on mail that it would receive in the absence of discounts is 75.5 percent. If you do not confirm, please explain, provide the correct probability, and show its derivation.

**DISCOVER NSA**  
Stop Loss Estimate

**TABLE 1**  
**ACS Related Savings**

[1]	Manual Letter Returns Unit Cost	\$0.55
[2]	Electronic Letter Returns Unit Cost	\$0.34
[3]	Discover Return Rate - Solicitation Mail	9.3%
[4]	Address Change Service (ACS) Success Rate	85%
[5]	Discover TYBR Customer Mail Volume	295,000,000
[6]	Discover TYBR Solicitation Mail Volume	156,000,000
[7]	Solicitation Mail % of TYBR Volume	34.59%
[8]	Discover ACS Unit Cost Savings	\$0.00568739
[9]	Discover TYBR Equilibrium Solicitation Volume	497,630,513
[10]	Total ACS Test Year Savings	<b>\$2,830,220</b>

**TABLE 2**  
**Discount Leakage**

<u>Volume Block</u>		<u>Incremental Volume</u>	<u>Discount</u>	<u>Discount Leakage</u>
[a]	[1]	[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
	[b]			
405,000,000	to 435,000,000	30,000,000	\$0.025	\$750,000
435,000,001	to 465,000,000	29,999,999	\$0.030	\$900,000
465,000,001	to 490,000,000	24,999,999	\$0.035	\$875,000
490,000,001	to <b>497,630,513</b>	7,630,512	\$0.040	\$305,220
515,000,001	to		\$0.045	\$0
				<b>\$2,830,220</b>

**TABLE 1**

Notes & Sources

- [1] USPS-T-1 (Ayub), Appendix A, page 1
- [2] USPS-T-1 (Ayub), Appendix A, page 1
- [3] USPS-T-1 (Ayub), Appendix A, page 1
- [4] USPS-T-1 (Ayub), Appendix A, page 1
- [5] USPS-T-1 (Ayub), Appendix A, page 2
- [6] USPS-T-1 (Ayub), Appendix A, page 2
- [7] = [9] / ([8] + [9])
- [8] = ([1] - [2]) \* [3] \* [4] \* [7]
- [9] = Table 2 [1b]
- [10] = [8]] \* [9]

**TABLE 2**

Notes and Sources:

- [1] Request, Attachment B
- [3] Request, Attachment B