

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

**RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS AYUB TO INTERROGATORY OF THE OFFICE OF CONSUMER  
ADVOCATE (OCA/USPS-T1-34)  
(July 26, 2006)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatory of the Office of Consumer Advocate: OCA/USPS-T1-34, filed on July 12, 2006.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

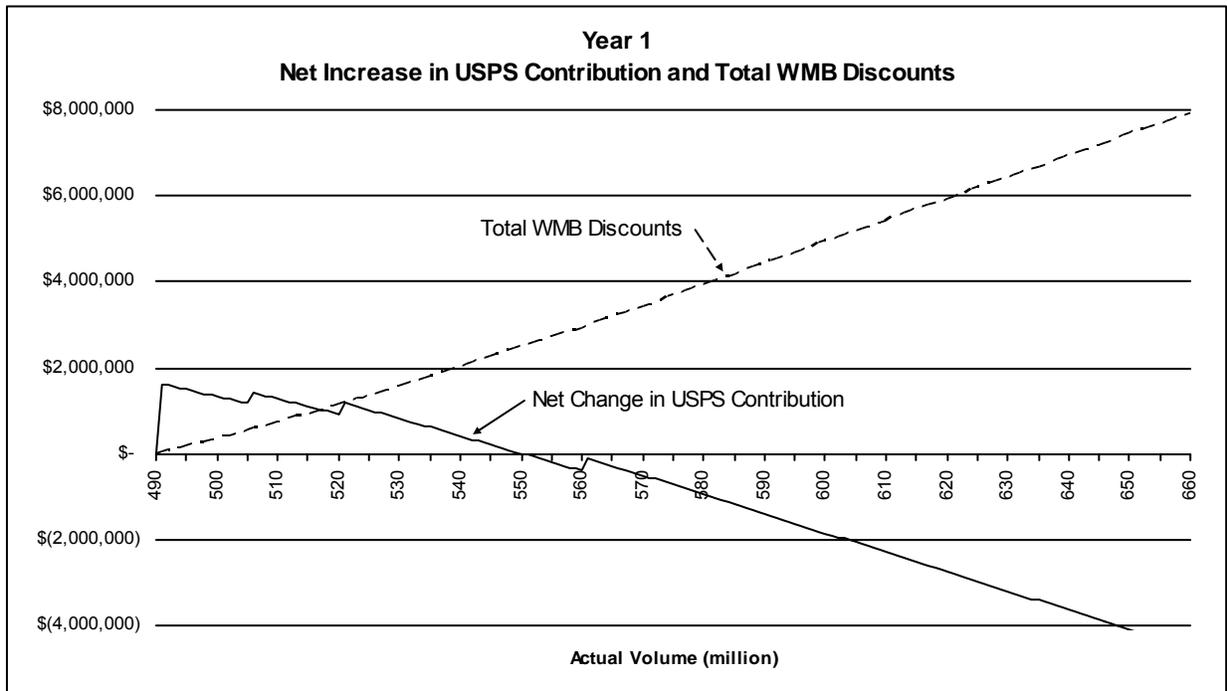
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July 26 2006

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO INTERROGATORY OF THE OCA

**OCA/USPS-T1-34.** This interrogatory seeks information that could be used to reduce financial risk to the Postal Service from the Washington Mutual Bank (WMB) NSA. Please refer to your testimony, Appendix A, the following charts entitled “Net Increase in USPS Contribution and Total WMB Discounts” for Years 1, 2, and 3 of the WMB NSA [sic], and the accompanying electronic Excel file “OCA Exh2\_Panzar Test-WMB.” In Year 1, for volumes up to 551 million, please confirm that the Postal Service will not lose First-Class Mail contribution under the WMB NSA, according to the Panzar test. If you do not confirm, please explain, and show all calculations and all sources used.



### RESPONSE:

In answering this interrogatory, I am assuming that the ‘FC Wksh Cross-Price Elasticity’ in the attached worksheet refers to Witness Thress’ Average Standard Regular Letters Discount (Relative to First Class) elasticity.

Please also note that at 490 million pieces, the net increase in USPS contribution is \$25,000. See paragraph IIJ of the Negotiated Service Agreement between the United States Postal Service and Washington Mutual Bank.

The chart above is true if the following conditions are met:

1. The own-price elasticity of WMB’s First-Class Mail is zero;
2. The discount elasticity of WMB’s First-Class Mail (relative to Standard Mail) is equal to the system-wide average of  $-.115$ ;

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO  
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**OCA/USPS-T1-34 Continued**

3. The discount elasticity and volume as a proportion of total marketing mail of WMB's Standard Mail conform to the following limits:

<b>WMB After-rates First-Class Mail Volume</b>	<b>Minimum Standard Mail Discount Elasticity</b>	<b>Maximum Before-rates Standard Mail proportion</b>
490,000,001–505,000,000	0.869	12.8%
505,000,001–520,000,000	0.851	13.3
520,000,001–560,000,000	0.832	13.8
560,000,001+	0.814	14.3

In other cases, not confirmed.

Also, it seems inappropriate to perform a Panzar analysis using a systemwide average cross-price elasticity (rather than a cross-price elasticity calculated from WMB data) and an own-price elasticity of zero, apparently based upon WMB's testimony. Consistently using systemwide elasticities or WMB elasticities would result in a higher estimate of the volume above which USPS would lose First-Class Mail contribution under the Panzar analysis.

## **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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