

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 TO PRESIDING OFFICER'S
INFORMATION REQUEST NO. 2**

(July 27, 2006)

The United States Postal Service hereby provides the response to Presiding Officer's Information Request (POIR) No. 2, issued July 18, 2006. Witness Ayub is sponsoring the response to this POIR.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 27, 2006

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QUESTION:

- a. Have the co-proponents considered the impact of the recently issued Bank One and Bookspan Opinions on the Washington Mutual Bank Negotiated Service Agreement Request?
- b. What concerns and issues expressed by the Commission in the Bank One and Bookspan Opinions, including but not limited to the application of the Alternative Model for Negotiating Volume Discounts, have the co-proponents considered?
- c. Of the issues considered in 1(b) above, what were the results of any analysis performed, and what were the conclusions drawn from the analysis?
- d. What modifications have the co-proponents proposed to be made to the Washington Mutual Bank Negotiated Service Agreement Request after consideration of the analysis performed and conclusions drawn as referenced in 1(c) above?

RESPONSE:

- a. Yes, the Postal Service and WMB have discussed the potential impact of the recently issued Bank One and Bookspan opinions on the current NSA. The structure and development of the WMB NSA was completed prior to the recently issued Bank One and Bookspan Opinions. However, the Postal Service relied on Commission rulings in the Bank One filing that were issued prior to the WMB NSA filing.
- b. Both parties gave thoughtful consideration to the Commission's perspectives on caps, the "Panzar" test, mailer-supplied volume data, and the multiplier-effect. After consideration of these issues, however, the parties decided to proceed with the case as filed.
- c. After thoughtful consideration of this issue, the parties decided not to submit a supplemental evidentiary submission applying Dr. Panzar's test ("Panzar

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- test"). The parties decided that there were too many open questions raised by that approach, such as how to incorporate cross-price and own price elasticities into the equation. The areas of concern with the Panzar test were addressed in my responses to OCA/USPS-T1-25, -26 and -27. Moreover, the process of calculating the elasticity as described in the Panzar test does not appear to have practical applications in the developing NSAs. For example, the alternative model provides a basis for evaluating the after-rates response, but it does not provide guidance on the data needed to support the before-rates forecast. It also does not resolve issues raised by the variability in the before-rates volume. Further, we note that the Commission in its Bank One reconsideration opinion did not foreclose other devices to protect against financial harm. In this case, the Postal Service submits that the use of penalties in the NSA with WMB, the termination-at-will clauses, and the high thresholds for the first discount tier provide the Postal Service with the necessary tools it needs to protect its financial best interests.
- d. After thoughtful and careful consideration, the parties decided not to make modifications to the WMB NSA.

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

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