

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001**

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**RATE AND SERVICE CHANGES TO  
IMPLEMENT BASELINE NEGOTIATED  
SERVICE AGREEMENT WITH  
WASHINGTON MUTUAL BANK**

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**Docket No. MC2006-3**

**FIRST INTERROGATORY OF WASHINGTON MUTUAL BANK  
TO OFFICE OF THE CONSUMER ADVOCATE  
WITNESS JAMES F. CALLOW (OCA-T1-1 & 2)  
(July 26, 2006)**

Washington Mutual Bank requests the Office of the Consumer Advocate to respond fully and completely to the following interrogatories and requests for production of documents pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure.

Respectfully submitted,

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Dated : August 24, 2006

**INTERROGATORY OF WASHINGTON MUTUAL BANK TO OFFICE OF THE  
CONSUMER ADVOCATE WITNESS CALLOW WMB/OCA-T1-1-4)**

**WMB/OCA-T1-1.** Please refer to lines 6 through 12 on page 16 of your testimony where you state:

Neither the Postal Service nor Washington Mutual, however, supplied a price-difference (or own-price) elasticity specific to Washington Mutual in this proceeding. In the absence of such a company-specific elasticity, I use the “Average Standard Regular Letter Discount (relative to First-Class)” developed by witness Thress (USPS-T-7) in Docket No. R2006-1. That elasticity, estimated at -0.1115, serves by default as a proxy for Washington Mutual’s elasticity of demand for Standard Mail with respect to the change in the price difference between First-Class Mail and Standard Mail.

Please also refer to witness Ayub’s response to OCA/USPS-T1-29(d) where he confirms that “if Washington Mutual’s First-Class mail volume had an own-price elasticity of demand equaling zero, the given equation could be solved as stated, within rounding” in response to OCA’s calculation of a -.8538 “discount elasticity” for WMB’s First-Class Mail volume.

Further, please refer to page 18 of your testimony where you discuss the volume above which the Panzar analysis indicates that “the Postal Service will lose First-Class Mail contribution in Year 1 of the agreement.”

Finally, please refer to the elasticities for workshared First-Class Mail presented on page 73 of witness Thress’ testimony (USPS-T-7) in Docket No. R2006-1.

- (a) Please confirm that the Panzar analysis presented in your testimony assumes that the own-price elasticity of demand of WMB’s First-Class Mail volume is zero. If not confirmed, please explain fully.
- (b) Please confirm that the Panzar analysis presented in your testimony does not take into account any cost savings from the NSA. If not confirmed, please explain fully.
- (c) Please confirm that the Panzar analysis in your testimony assumes that WMB’s “price-difference elasticity” is equal to the average for workshared First-Class Mail, but that its own-price elasticity is significantly less – zero – than the average for workshared First-Class Mail. If not confirmed, please explain fully.
- (d) Please confirm that the volume above which the Panzar analysis estimates “the Postal Service will lose First-Class Mail contribution” would be higher than presented in your testimony if it used average elasticities (for workshared First-Class Mail) for both the price difference elasticity and the own-price elasticity. If not confirmed, please explain fully.
- (e) Please confirm that the volume above which the Panzar analysis estimates “the Postal Service will lose First-Class Mail contribution” would be higher than presented in your testimony if it used the price-difference elasticity of -.8538 that OCA calculated in

**INTERROGATORY OF WASHINGTON MUTUAL BANK TO OFFICE OF THE  
CONSUMER ADVOCATE WITNESS CALLOW WMB/OCA-T1-1-4)**

OCA/USPS-T1-29(d) and an own-price elasticity of zero. If not confirmed, please explain fully.

- (f) Please provide revisions to Figures 1, 2, and 3 of your testimony based upon a Panzar analysis that uses a price-difference elasticity of  $-.8538$  and an own-price elasticity of zero. Please also provide all of your underlying calculations in an electronic spreadsheet format.
- (g) Please provide revisions to Figures 1, 2, and 3 of your testimony based upon a Panzar analysis that uses the average price-difference and own-price elasticities for workshared First-Class Mail. Please also provide all of your underlying calculations in an electronic spreadsheet format.

**INTERROGATORY OF WASHINGTON MUTUAL BANK TO OFFICE OF THE  
CONSUMER ADVOCATE WITNESS CALLOW WMB/OCA-T1-1-4)**

**WMB/OCA-T1-2.** Please refer to page 80 of the Commission’s Docket No. MC2005-3 Opinion and Recommended Decision where it states, “the Panzar test does not tell the whole story here since it does not take into account the potential benefits from the conversion of flats to letters or the positive benefits from Bookspan’s unique multiplier effect.” Please also refer to page 31 of witness Ayub’s testimony.

- (a) Please confirm that the Postal Service estimates that the WMB NSA will generate cost savings. If not confirmed, please explain fully.
- (b) Please confirm that the Panzar test “does not tell the whole story” in the WMB NSA because it does not take into account these cost savings. If not confirmed, please explain fully.
- (c) Please confirm that, in the Bookspan NSA, the Commission did, at least qualitatively, take into account potential benefits from the NSA that are not accounted for in the Panzar test. If not confirmed, please explain fully.
- (d) Please explain fully how you believe the cost savings from the WMB NSA should be taken into account.

**INTERROGATORY OF WASHINGTON MUTUAL BANK TO OFFICE OF THE  
CONSUMER ADVOCATE WITNESS CALLOW WMB/OCA-T1-1-4)**

**WMB/OCA-T1-3.** Please refer to Table 1 on Page 25 of your testimony, which presents your analysis of the Net Present Value of the Washington Mutual NSA.

- (a) Has the Commission required the net contribution of previously approved NSAs to cover negotiation costs? If so, please provide references to where the Commission in its previous Opinions and Recommended Decisions has required this.
- (b) Has the Commission required the net contribution of previously approved NSAs to cover litigation costs? If so, please provide references to where the Commission in its previous Opinions and Recommended Decisions has required this.
- (c) Has the Commission required the net contribution of previously approved NSAs to cover administrative costs? If so, please provide references to where the Commission in its previous Opinions and Recommended Decisions has required this.
- (d) Has the Commission required the net contribution of previously approved niche classifications to cover litigation costs? If so, please provide references to where the Commission in its previous Opinions and Recommended Decisions has required this.
- (e) Has the Commission required the net contribution of previously approved niche classifications to cover administrative costs? If so, please provide references to where the Commission in its previous Opinions and Recommended Decisions has required this.
- (f) Are the administrative, litigation, and negotiation costs shown in Table 1 institutional costs or attributable costs according to USPS costing methods? Please explain your response fully.
- (g) Are the administrative, litigation, and negotiation costs shown in Table 1 institutional costs or attributable costs according to PRC costing methods? Please explain your response fully.

**INTERROGATORY OF WASHINGTON MUTUAL BANK TO OFFICE OF THE  
CONSUMER ADVOCATE WITNESS CALLOW WMB/OCA-T1-1-4)**

**WMB/OCA-T1-4.** Please refer to footnote 44 on page 26. Please refer further to Tr. 2/184 where witness Ayub states, “I think [the penalty] is supposed to cover the transaction costs of pursuing the NSAs.”

- (a) Is the cited statement from Mr. Ayub the entire basis of your estimate of litigation costs? If not, please explain fully the basis of your estimate.
- (b) Please explain fully the basis of your assumption that the costs to negotiate an NSA are \$250,000.