

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BANK OF AMERICA CORPORATION

Docket No. MC2007-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS AYUB TO INTERROGATORY OF THE OFFICE OF CONSUMER
ADVOCATE (OCA/USPS-T1-31)
(April 4, 2007)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatory of the Office of Consumer Advocate: OCA/USPS-T1-31, filed on March 7, 2007. The interrogatory is stated verbatim and is followed by the response.

UNITED STATES POSTAL SERVICE

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INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T1-31. Please refer to response to OCA/USPS-T1-2(c). Your response refers to the following assumptions from your testimony at Appendix A: Assumptions, at Page 2:

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
[4] Reduction in Operations Return Rate Due to NSA	0.0%	5.0%	10.0%
[5] Reduction in Standard UAA Rate Due to NSA	0.0%	5.0%	10.0%
[6] Reduction in Marketing Return Rate Due to NSA	0.0%	10.0%	20.0%
[7] Reduction in Forwarding Rate Due to NSA	0.0%	10.0%	20.0%
[8] Increase in USPS First-Class Mail Read/Accept Rates	0.1%	0.7%	1.3%
[9] Increase in USPS Standard Mail Read/Accept Rates	0.1%	0.7%	1.6%

Also, please refer to the testimony of Bank of America Corporation (BAC) witness Jones (BAC-T-1) at pages 17 and 18, lines 25-26, and lines 1-4, respectively, which state:

- The mail processing performance of the mail covered by the NSA will improve by one percentage point.
 - The percentage of the mail covered by the NSA that is undeliverable as addressed will decline by ten percent.
 - The percentage of the mail covered by the NSA that requires forwarding will decline by ten percent.
- a. For Fiscal Years 2007, 2008, and 2009, please confirm that the percentage figures in Lines [4] through [9], referenced above, represent your assumptions as to the expected improvement in performance for each category by BAC. If you do not confirm, please explain.
 - b. Refer to response to OCA/USPS-T1-2(c), where you state: "The percentages listed in the column labeled FY 2007 (i.e., Year 1 of the NSA), are based on my assumption that this NSA will not cause any such improvements during FY 2007." For FY 2007, please explain the percentage figure 0.1% in Lines [8] and [9].
 - c. Refer to the first bullet in the testimony of witness Jones, referenced above, which identifies a one percent improvement in mail processing performance. For FY 2009, please explain the percentage figures of 1.3% and 1.7% in Lines [8] and [9], respectively.
 - d. Refer to the second bullet in the testimony of witness Jones, referenced above, which identifies a ten percent decline in UAA mail. For FY 2009, please explain the percentage figure of 20% in Lines [6] and [7].
 - e. Refer to the third bullet in the testimony of witness Jones, referenced above, which identifies a ten percent decline in forwarded mail. For FY 2008, please explain the percentage figure of 5% in Lines [4] and [5].

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RESPONSE:

- a. Confirmed. The estimated improvement percentages set forth in the table quoted above, like the corresponding estimates in the testimony of witness Jones (BAC-T-1, at 17-18), are offered only as rough predictions of how BAC's mail performance will change in response to the NSA incentives. They are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. These predictions are, of necessity, uncertain. Neither we nor BAC knows the precise amount of resources that the company will find optimal to spend on improved mail performance, or the precise payoff that the expenditure will generate. In addition, BAC's projections are based on an assumed implementation date of August 1, 2007, and would change if there is a significantly later implementation date. Neither Mr. Jones nor I mean to suggest that our estimates are precise. Precision in this area is not critical because the discounts offered by the Postal Service pass through less than 100 percent of the cost savings generated by BAC's performance improvements. Hence, the NSA will generate a positive contribution for the Postal Service, regardless of the extent of performance improvement actually achieved by BAC, as long as some performance improvement occurs.
- b. In my response to OCA/USPS-T1-2(c), I should have noted that my assumption that this NSA will not cause any improvements in the performance of BAC's mail was limited to the improvement categories listed in Lines [4] through [7]. Under this NSA, I have assumed that BAC will improve its read and accept rates for BAC First-Class Mail and Standard Mail by one tenth of a percentage point in the

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first year. The Postal Service will file errata to Appendix A to my testimony and my response to OCA/USPS-T1-2(c). Please also see my comments in response to part (a) concerning the inherent imprecision of these forward-looking estimates, and contribution-positive nature of the NSA regardless of the actual level of improvement in BAC mail performance.

- c. Mr. Jones' estimate of one percent is an average figure covering all three years of the life of the NSA. My improvement percentage figures of 1.3% and 1.7% are for the third year of the NSA only. The performance improvements I estimate for the first two years of the NSA are below one percent. Please also see my comments in response to part (a) concerning the inherent imprecision of these forward-looking estimates, and contribution-positive nature of the NSA regardless of the actual level of improvement in BAC mail performance. The Postal Service will file errata to Appendix A to my testimony and my response to OCA/USPS-T1-2(c).
- d. Please see my response to parts (a) and (c) above.
- e. Please see my response to part (a) above.

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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