

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-T1-22-29)
July 22, 2004

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-T1-22. Please refer to your testimony at VI. Discount Cap, pages 15-17, and PRC Op. MC2002-2, page 154, footnote 83, which states:

This excludes any potential increased contribution as a result of Capital One responding to the declining block rate structure by increasing its volume of First-Class Mail. The commission is excluding this potential contribution because the record does not provide an adequate basis for evaluating the response of Capital One (and its competitors) to the declining block rates. See Chapter V, Section M, for the analysis leading to this conclusion.

Please expand on your testimony and address the Commission's concern with respect to unknown before rates volumes and the unknown response to discounts.

OCA/USPS-T1-23. Please refer to your testimony at VI. Discount Cap, pages 15-17, and PRC Op. MC2002-2, page 154, para. [8025], which states:

Third party mailers will be unharmed by the NSA so long as the dollar amount of the volume discounts the Postal Service makes available to Capital One is not greater than the costs it avoids as a result of the return mail feature of the agreement.

Please explain how the Postal Service has protected third party mailers from harm should the dollar amount of the volume discounts provided to Discover exceed the costs avoided as a result of the return mail feature of the Discover NSA.

OCA/USPS-T1-24. Please refer to your testimony at Appendix A, page 10, lines (2), (3), (6) and (7) for Year 1, and the accompanying notes.

- (a) For Year 1, please confirm that the "First-Class Operational Letter cost per Piece Before Rates" should be 0.106. If you do not confirm, please explain and provide all calculations.

- (b) For Year 1, please confirm that the “First-Class Operational Letter cost per Piece After Rates” should be 0.106. If you do not confirm, please explain and provide all calculations.
- (c) For Year 1, please confirm that the “First-Class Marketing Letter cost per Piece Before Rates” should be 0.148. If you do not confirm, please explain and provide all calculations.
- (d) For Year 1, please confirm that the “First-Class Marketing Letter cost per Piece After Rates” should be 0.131. If you do not confirm, please explain and provide all calculations.

OCA/USPS-T1-25. Please refer to your testimony Appendix A, pages 3, 4 and 5.

- (a) Please confirm that the “WEIGHTED AVERAGE/TOTAL” of 313,052,403 and 137,447,635 in column 11 on pages 4 and 5, respectively, sum to 450,500,038, the “Total Pieces” in column (3) on page 3. If you do not confirm, please explain.
- (b) On page 4, please explain how the “WEIGHTED AVERAGE/TOTAL” of 313,052,403 in column 11 was derived. Show all calculations.
- (c) On page 5, please explain how the “WEIGHTED AVERAGE/TOTAL” of 137,447,635 in column 11 was derived. Show all calculations.
- (d) Please confirm that the volumes for the specified Nonautomation Presort Letters and Automation Presort Letters rate categories in column 11 on pages 4 and 5 sum to the volumes of the same Nonautomation Presort Letters and Automation Presort Letters rate categories on page 3, column 1. If you do not confirm, please explain.

- (e) On page 4, please explain how the volumes of Nonautomation Presort Letters and Automation Presort Letters in column 11 were derived. Show all calculations.
- (f) On page 4, please provide all calculations that show the derivation of the percentages in column 12 associated with Nonautomation Presort Letters and Automation Presort Letters.
- (g) On page 5, please explain how the volumes of Nonautomation Presort Letters and Automation Presort Letters in column 11 were derived. Show all calculations.
- (h) On page 5, please provide all calculations that show the derivation of the percentages in column 12 associated with Nonautomation Presort Letters and Automation Presort Letters.

OCA/USPS-T1-26. Please refer to your testimony Appendix A, pages 4 and 5.

- (a) On page 4, in columns (14) and (16), please confirm that the “Total Unit Cost Estimates, Including Contingency” of 0.109 and 0.109, respectively, are not used anywhere in Appendix A. If you do not confirm, please explain.
- (b) On page 5, in columns (14) and (16), please confirm that the “Total Unit Cost Estimates, Including Contingency” of 0.151 and 0.135, respectively, are not used anywhere in Appendix A. If you do not confirm, please explain.
- (c) Please explain the rationale for calculating, and intended use of, the figures referred to in parts (a) and (b) of this interrogatory.

OCA/USPS-T1-27. Please refer to your testimony at VI. Discount Cap, pages 15-17, and PRC Op. MC2002-2, page 156, para. [8031]. Please confirm that in the case of Capital One, the Commission established an annual stop-loss amount equal to 95 percent of \$14,259 million, based upon an equilibrium annual volume of 1,559,248 thousand. If you do not confirm, please explain.

OCA/USPS-T1-28. Please refer to PRC Op. MC2002-2, pages 152-156, and the attachment to this interrogatory.

- (a) Please confirm that in Table 3, the calculated stop-loss estimate for Discover is consistent with the Commission's calculation of the stop-loss estimate with respect to Capital One. If you do not confirm, please explain and provide the correct stop loss estimate. Please show all calculations.
- (b) Please confirm that in Table 3, the stop-loss estimate, if recommended, would limit the total dollar amount of the discounts awarded to Discover to no more than 95 percent of the total dollar amount of savings realized by the Postal Service during the three year period of the Discover NSA. If you do not confirm, please explain.
- (c) Refer to Table 2 in Year 1. Please confirm that the TYBR volume of 497,630,513 would permit Discover to mail 92,630,513 ($497,630,513 - 405,000,000$) additional pieces in Year 1, more than 7.1 ($92,630,513 / 13,000,000$) times Discover's Year 1 estimated volume response of 13 million pieces. If you do not confirm, please explain.

- (d) Refer to Table 2 in Year 2. Please confirm that the TYBR volume of 501,928,341 would permit Discover to mail 96,928,341 ($501,928,341 - 405,000,000$) additional pieces in Year 2, more than 5.3 ($96,928,341 / 18,000,000$) times Discover's Year 2 estimated volume response of 18 million pieces. If you do not confirm, please explain.
- (e) Refer to Table 2 in Year 3. Please confirm that the TYBR volume of 506,540,893 would permit Discover to mail 101,540,893 ($506,540,893 - 405,000,000$) additional pieces in Year 2, more than 5.6 ($101,540,893 / 18,000,000$) times Discover's Year 3 estimated volume response of 18 million pieces. If you do not confirm, please explain.

OCA/USPS-T1-29. Please refer to your testimony at Appendix A, page 1. Please confirm that the Discover's first-year ACS unit cost saving for solicitation mail is \$0.00568739 [$(\$0.55 - 0.34) * 0.093 * 0.85 * 0.054823$], where $(\$0.55 - 0.34)$ represents the difference between manual return unit costs and electronic return unit costs, 0.09 represents Discover's physical return rate, 0.85 represents the ACS success rate, and 0.3459 represents the ratio of Discover's TYBR solicitation mail volume to the sum of Discover's TYBR customer mail and solicitation mail volume. If you do not confirm, please explain.

**DISCOVER NSA
 Stop Loss Estimate Model**

**TABLE 1
Year 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 Volume	497,630,513
[10]	Total ACS Test Year Savings	\$2,830,220

**TABLE 2
Year 1 - 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 497,630,513	7,630,512	\$0.040	\$305,220
515,000,001	to		\$0.045	\$0
Total				\$2,830,220
Difference - ACS Savings and Discount Leakage				\$0.054455

TABLE 1 (Years 1-3)

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] = $[6] / ([5] + [6])$
- [8] = $([1] - [2]) * [3] * [4] * [7]$
- [9] = Table 2 [1b]
- [10] = $[8] * [9]$

TABLE 2 (Years 1-3)

Notes and Sources:

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

**DISCOVER NSA
 Stop Loss Estimate Model**

**TABLE 1
Year 2 - ACS Related Savings**

[1]	Manual Letter Returns Unit Cost	\$0.57
[2]	Electronic Letter Returns Unit Cost	\$0.36
[3]	Discover Return Rate - Solicitation Mail	9.3%
[4]	Address Change Service (ACS) Success Rate	85%
[5]	Discover TYBR Customer Mail Volume	290,000,000
[6]	Discover TYBR Solicitation Mail Volume	156,000,000
[7]	Solicitation Mail % of TYBR Volume	34.98%
[8]	Discover ACS Unit Cost Savings	\$0.00598120
[9]	Discover TYBR Equilibrium Volume	501,928,341
[10]	Total ACS Second Year Savings	\$3,002,134

**TABLE 2
Year 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 501,928,341	11,928,340	\$0.040	\$477,134
515,000,001	to		\$0.045	\$0
Total				\$3,002,134
Difference - ACS Savings and Discount Leakage				\$0.0060996

**DISCOVER NSA
 Stop Loss Estimate Model**

**TABLE 1
Year 3 - ACS Related Savings**

[1]	Manual Letter Returns Unit Cost	\$0.60
[2]	Electronic Letter Returns Unit Cost	\$0.37
[3]	Discover Return Rate - Solicitation Mail	9.3%
[4]	Address Change Service (ACS) Success Rate	85%
[5]	Discover TYBR Customer Mail Volume	285,000,000
[6]	Discover TYBR Solicitation Mail Volume	156,000,000
[7]	Solicitation Mail % of TYBR Volume	35.37%
[8]	Discover ACS Unit Cost Savings	\$0.00629097
[9]	Discover TYBR Equilibrium Volume	506,540,893
[10]	Total ACS Third Year Savings	\$3,186,636

**TABLE 2
Year 3 - Discount Leakage**

<u>Volume Block</u>	[1]	<u>Incremental Volume</u>	<u>Discount</u>	<u>Discount Leakage</u>
		[2] = [1b] - [1a]	[3]	[4] = [2] * [3]
[a]	[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	506,540,893	16,540,892	\$0.040	\$661,636
515,000,001 to			\$0.045	\$0
Total				\$3,186,636
				Difference - ACS Savings and Discount Leakage
				\$0.0199391

DISCOVER NSA

TABLE 3
Calculation of Total Stop Loss Estimate

	<u>Volume</u> [1]	<u>Discount Leakage</u> [2]	<u>Return Cost Savings</u> [3]
Year 1	497,630,513	\$2,830,220	\$2,830,220
Year 2	501,928,341	\$3,002,134	\$3,002,134
Year 3	506,540,893	\$3,186,636	\$3,186,636
			<u>\$9,018,990</u>
Passthrough Percent			95%
TOTAL STOP LOSS ESTIMATE			\$8,568,040

Notes and Sources

[1] & [2] TABLE 2, for the year indicated

[3] TABLE 1, for the year indicated