

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH DISCOVER
FINANCIAL SERVICES, INC.

Docket No. MC2004-4

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS AYUB
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-43)
(August 26, 2004)

The United States Postal Service hereby provides its response to the following interrogatory: Office of the Consumer Advocate Follow-up Interrogatory to United States Postal Service Witness Ali Ayub (OCA/USPS-T1-43), filed on August 16, 2004.

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

Respectfully submitted,
UNITED STATES POSTAL SERVICE

By its attorneys:

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August 26, 2004

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OCA/USPS-T1-43. Please refer to your response to OCA/USPS-T1-30(d), and the response of witness Plunkett to POIR No. 2, Question 5, in Docket No. MC2002-2, which states

Once discounts intended to influence mailer behavior are established, it is not possible to “observe” what mailer behavior would have been without such discounts.

a. Your response to part (d) states:

The relevant risks arise, not from the possibility that Before Rates volumes will be higher or lower than projected, or that After Rates volumes will be higher or lower than projected, but from the possibilities that the *differential* between After Rates and Before Rates volumes will be smaller than projected. (Emphasis original)

Please confirm that it is not possible to know the effect of exogenous variables on a mailer’s BR volumes and, consequently, the differential between BR and AR volumes, after price discounts are offered. If you do not confirm, please explain.

b. Your response to part (d) also states:

If Before Rates volumes are higher than projected, it is probable that the exposure (or “discount leakage”) was underestimated. However, by that same token the projected ACS cost savings will also have been underestimated.

Please confirm that to the extent Before Rates volumes are higher than projected, the discount leakage cannot be eliminated. If you do not confirm, please explain.

c. Please confirm that to the extent Before Rates volumes are materially higher in Year 3, the discount leakage at a \$0.045 discount will be \$0.027 [\$0.045 - \$0.018]. If you do not confirm, please explain.

RESPONSE:

a) Confirmed that it is not possible to model the total effect of exogenous factors on the BR volume. However, any exogenous factor that influences the BR volume will also affect the AR volume.

b) Confirmed that discount leakage cannot be eliminated.

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c) Not confirmed. Assuming no adjustments to threshold, as is possible under the NSA, and that Discover BR rates actual volume in Year 3 were greater than 515,000,000, the discount leakage would be \$0.045 per piece of BR volume above 515,000,000. Discount leakage is the value of the price incentives applied to BR volume above the threshold. The marginal contribution of a marketing piece that results in discount leakage would be \$0.102 (0.147-0.045).

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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