

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Service Changes to Implement)
Baseline Negotiated Service Agreement) Docket No. MC2006-3
with Washington Mutual Bank)

OFFICE OF CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS ALI AYUB (OCA/USPS-T1-9-12)
(April 19, 2006)

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/USPS-T1-1-5 are hereby incorporated by reference.

Respectfully submitted,

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OCA/USPS-T1-9. This interrogatory seeks information that could be used to reduce financial risk to the Postal Service from the Washington Mutual Bank (WMB) NSA.

Please refer to your response to OCA/USPS-T1-1d. Your response reads,

If a variable causes a change in the before-rates forecast, holding all other factors constant, it should have a similar impact in the same direction on the after-rates forecast.

Please consider a situation where a variable other than postage costs (e.g., interest rates) differs in the future from expectations during negotiations.

- a. Could such a difference cause actual after-rates volumes to differ from forecasted after-rates volumes? If not, why?
- b. If thresholds were periodically adjusted (up or down) when variables other than postage costs (e.g., interest rates) differed from forecasted values, would financial risk to the Postal Service be reduced? If not, why?

OCA/USPS-TI-10. This interrogatory seeks information that could be used to reduce financial risk to the Postal Service from the Washington Mutual Bank (WMB) NSA.

Please refer to your response to OCA/USPS-T1-1a. In this response you say that “the impact of these variables on mail volume cannot be evaluated independently of other market conditions such as: consolidation within the industry, lower response rates, legislative changes, market saturation, and increases in postage costs.” Please consider a situation where several variables other than postage costs differ in the future from expectations during negotiations.

- a. Could such differences cause actual after-rates volumes to differ from forecasted after-rates volumes? If not, why?

- b. Does the possibility of such differences create financial risk for the Postal Service from the WMB NSA? If not, why?
- c. Do you understand the expression “risk management”? If so, please describe your understanding and explain how the Postal Service generally manages the risk of interest rates’ or gas prices’ differing in the future from current expectations.
- d. Do you know whether firms in the credit card industry engage in risk management? If so, please describe how such firms might manage the risk of interest rates’ differing in the future from current expectations.
- e. Do you understand there to be a difference between “risk management” and “risk mitigation,” as the latter term is used at page 29, line 17, of your testimony? If so, is it possible to manage a risk that cannot be mitigated? If so, how?
- f. You have stated in your testimony at page 29, lines 15-17 that “part of the Postal Service analysis is to identify the sources of variability, whether technical or financial, and to manage and reduce the variability.” Please list all “sources of variability” that you have identified with respect to the WMB NSA.
- g. You have stated in your testimony at page 28, lines 4-5 that “the Postal Service has attempted to point to exogenous factors that might affect mail volumes” Please list all such factors of which you are aware.
- h. Under the terms of the proposed NSA, and assuming that WMB fulfills all other terms of the NSA, does WMB have the right, but not the obligation, to purchase unlimited quantities of First-Class solicitation mail? Please provide the basis for

your response, including citations to DMCS and/or NSA provisions where appropriate.

OCA/USPS-T-11. This interrogatory seeks to determine the value of enhanced economic efficiency resulting from the WMB NSA. You have stated in your testimony at page 26, lines 1-4, that “setting a threshold below forecast volume is economically efficient because it reduces the mailer’s marginal price of First-Class Mail relative to other forms of solicitation, and reduces the gap between marginal price and marginal cost of the mailer’s First-Class Mail.”

- a. Is there a “marginal price of First-Class Mail” that would not be economically efficient? If so, please provide an example of such a price?
- b. Does improving economic efficiency provide a financial benefit to the Postal Service? If so, how?
- c. Would it improve economic efficiency if the Postal Service were to “reduce[] the gap between marginal price and marginal cost of the mailer’s First-Class Mail” for all mailers? If not, why?

OCA/USPS-T1-12. This interrogatory seeks to find a volume cap that would be satisfactory to the Postal Service. Please refer to your response to OCA/USPS-T1-3.

Your response reads,

Volumes eligible for discounts are not capped at WMB’s after-rates volume estimates because that could potentially discourage additional growth of WMB First-Class marketing volumes.

- a. If after-rates volume forecasts are accurate, given current expectations for variables other than postage costs, what would cause actual after-rates volumes to differ from forecasted after-rates volumes?
- b. Is it not the case that actual after-rates volumes in excess of forecasted after-rates volumes *must* be “anyhow volume”? Please explain your response.
- c. Do you expect WMB to mail in excess of 593 million First-Class solicitation pieces in Year 1?
- d. If WMB mails fewer than 593 million First-Class solicitation pieces in Year 1, would a 593-million-piece cap for Year 1 have an adverse effect on the Postal Service or WMB? If so, how?