

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

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

Docket No. MC2006-3

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS AYUB TO INTERROGATORIES OF VALPAK DIRECT MARKETING
SYSTEMS, INC., AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1—1-2, 4-8)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatories of ValPak Direct Marketing Systems, Inc., and ValPak Dealers' Association, Inc.: VP/USPS-T1—1-2, 4-8, filed on April 24, 2006. An objection to VP/USPS-T1—3 was filed on May 3, 2006. The interrogatories are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC., AND VALPAK DEALERS' ASSOCIATION, INC.

VP/USPS-T1-1. Please refer to your testimony at page 3, lines 18-21.

- a. At the time the Postal Service filed Docket No. MC2002-2, the Capital One Services, Inc. NSA, did the Postal Service then view the cost savings mechanism contained in that NSA as an integral part of that NSA?
- b. If your response to preceding part a is affirmative, does the Postal Service continue to regard the cost savings mechanism as an integral part of the Capital One NSA?
- c. If your answer to preceding part a is not an unqualified affirmative, please explain the Postal Service's current position with respect to the cost savings mechanism contained in the Capital One NSA.
- d. Is this the first NSA in which the Postal Service has concluded that "additional worksharing on the mailer's part is not a necessary element of a successful NSA" (ll. 20-21)? If not, please explain when the Postal Service reached the decision that all savings elements could be completely decoupled from NSAs with declining block discounts.
- e. If "additional worksharing on the mailer's part" is not necessary, what was the rationale for including it in the NSA with Washington Mutual Bank ("WMB")?

VP/USPS-T1-1 Response

- a. Yes.
- b. Yes.
- c. N/A
- d. The Bookspan NSA (Docket No. MC2005-3) does not contain a cost savings component and employs declining block rates.
- e. The Postal Service considers utilization of ACS by First-Class Mail customers – particularly those that employ First-Class Mail as an advertising medium to be advantageous for a number of reasons and elected to incorporate that requirement in the WMB contract. In a similar vein, the Capital One requirement specifies that Capital One will maintain and expand its commitment to MPTQM despite the fact that the benefits of doing so were not quantified or considered to be "integral" in the sense implied here.

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VP/USPS-T1-2.

Please refer to your testimony at page 3, lines 15-18, and lines 21-22, where you discuss the Postal Service's desire to use NSAs to achieve additional volume and contribution to institutional cost.

- a. When the declining block discount for First-Class Mail serves only to convert existing Standard Mail to First-Class status, would you agree that net new volume of mail (i.e., First-Class Mail and Standard combined) is not a consideration in the evaluation of that NSA? If not, please explain why not.
- b. When the mailer that is party to the NSA, WMB in this case, in fact reduces its total combined volume of Standard and First-Class Mail, would you agree that in such a circumstance the NSA involves a trade-off between change in volume and contribution to institutional cost? That is, would you agree that in order for the Postal Service to obtain the increased contribution to institutional cost, it will realize a reduction in the total volume of mail entered by the mailer? Please explain any disagreement.
- c. Under circumstances such as that discussed here, are not references to "additional volume" somewhat academic and irrelevant? If not, please explain why not.

VP/USPS-T1-2 Response

- a. The scenario in the question is confirmed, but I note that in this case, we do not project an absolute increase in the number of total pieces.
- b. I would generally not describe this effect as a trade off as the term implies an intentional exchange. I would describe the reduction in Standard Mail as a byproduct of the intended result of the NSA: an increase in First-Class Mail sent by WMB.
- c. No. That particular section of the testimony refers – in a general sense – to the Postal Service's policy position on NSAs and not to the particular features of any one contract. In that regard, the reference is anything but "academic and irrelevant".

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VP/USPS-T1-3.

With respect to each previous NSA (i.e., Docket No. MC2002-2, Capital One Services, Inc.; Docket No. MC2004-3, Bank One Corporation; Docket No. MC2004-4, Discover 4 Financial Services, Inc.; and Docket No. MC2005-2, HSBC North American Holdings, Inc.) for which actual data are now available:

- a. How much Standard volume has been diverted to First-Class?
- b. How much net new mail volume, Standard and First-Class combined, has been generated?

Response:

Objection filed.

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VP/USPS-T1-4.

At page 4, lines 3-8, of your testimony, you discuss using NSAs as a tool to convert Standard Mail to First-Class, thereby increasing “the proportion of relatively high contribution First-Class Mail volume...” (l. 9).

a. Is it the Postal Service’s intention to use NSAs to create within First-Class Mail a de facto subclass of First-Class bulk solicitation mail limited to a few mailers? Please explain any negative answer.

b. Even if it is not the Postal Service’s design or intention to create within First-Class Mail a de facto subclass of First-Class bulk solicitation mail limited to a few mailers, will not that be the effective result of this NSA, along with the Capital One, Bank One, Discover, and HSBC NSAs? Please explain any negative answer.

c. Instead of using a mailer-by-mailer approach to creation of such a subclass, would not it be more fair and more sensible for the Postal Service to file a request to create a bulk solicitation subclass within First-Class Mail? Unless you agree, please explain why not.

d. Why is a series of NSAs, each of which is exclusive to an individual mailer, and which may exclude many similarly-situated mailers, more fair and superior to a niche classification or a new First-Class bulk solicitation subclass?

e. Please explain fully all reasons why the three conditions on page 12, lines 6-8, of your testimony could not be incorporated into a set of requisite conditions for either a niche classification or a new First-Class bulk solicitation subclass.

VP/USPS-T1-4 Response

a. No. The Postal Service has not considered whether the different demand characteristics associated with First-Class Mail advertising are sufficient to warrant separate subclass treatment.

b. See response to part a. Moreover, I do not agree that NSAs have to be “limited” to a few mailers; the functional equivalency provisions of the Commission’s rules enable similarly situated mailers to participate in NSAs once a baseline is established. In my opinion, the high transaction costs associated with bringing NSA cases to the Commission serve as a barrier to prevent widespread usage among mailers for NSAs.

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- c. The Postal Service and WMB have negotiated a contract that includes a number of safeguards designed to ensure that the incentives achieve the intended result. These safeguards would be more difficult to standardize in a subclass. For instance, the contract with WMB (as with all of the other NSAs) prohibits WMB from using its incentives to mail on behalf of other customers. This is intended to ensure that the NSA does not serve to breed consolidation and the inadvertent payment of incentives for mail that merely is transferred from one company to another.
- d. The purpose of my testimony is to establish that the Washington Mutual NSA conforms to the pricing and classification criteria of the Act, and to quantify the expected financial results of the contract. I did not attempt to evaluate the relative superiority of the NSA relative to alternative approaches. Moreover, similarly situated customers are able to avail themselves of functionally equivalent agreements if they choose to, and thus are not excluded.
- e. I have not attempted to identify all of the conditions that would have to exist to support the creation of a niche classification as herein described. Nor have I attempted to design prices for a subclass of this kind. I would point out that for the most part, prices in all other subclasses are uniform with respect to quantity.

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VP/USPS-T1-5.

Your testimony at page 4, lines 6-8, points out that the contribution of First-Class Mail is relatively high in comparison to the contribution of Standard Mail.

- a. Would you agree that the effect of the block discounts for First-Class Mail contained in the NSA is to reduce, but not equalize, the difference in contribution? If you do not agree, please explain why not.
- b. Would you agree that, within the context of an NSA, a discount for First-Class Mail is the only way to narrow the difference in contribution between First-Class Mail and Standard Mail? If you do not agree, please indicate other ways of which you are aware that the Postal Service, as a practical matter, could narrow the difference in contribution between First-Class Mail and Standard Mail in an NSA.
- c. Would you agree that within the context of an omnibus rate case the difference in contribution also could be narrowed by increasing the contribution on Standard Mail relative to the contribution on First-Class Mail? If you do not agree, please explain why not.

VP/USPS-T1-5 Response

- a. Yes
- b. No, I would not. For instance, a customer may be willing to pay a premium over existing Standard Mail rates that would have the same effect.
- c. All other things being equal, the hypothetical approach contained in this question would have the effect described.

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VP/USPS-T1-6.

At page 5, line 23, of your testimony, you refer to “functionally equivalent” mailers.

- a. Could any user of Standard Mail potentially be a “functionally equivalent” mailer? Please explain why or why not.
- b. Could any Standard mailer that enters letter-shaped mail potentially be a functionally equivalent mailer? Please explain why or why not.
- c. Unless your answer to preceding parts a or b is affirmative, please explain what distinguishes Washington Mutual Bank from other Standard mailers — at least those with volumes at least equal to those of WMB.

VP/USPS-T1-6 Response.

a-c. Theoretically, any Standard Mail customer willing to accept the same terms as WMB might be functionally equivalent. I am not aware of Standard Mail customers that have come forward to do so, however.

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VP/USPS-T1-7.

At page 7, lines 6-11, you discuss the address correction element contained in the WMB agreement. Also, at page 11, lines 11-13, you discuss Postal Service benefits from replacing the physical return of First-Class Mail with electronic notice.

a. Does the Postal Service have any plans to equalize the rates charged to all users of discounted First-Class Mail for electronic address correction and physical return of Undeliverable as Addressed ("UAA") pieces?

b. Please explain why the Postal Service relies solely on NSAs to obtain the benefits of replacing physical return with electronic notice.

VP/USPS-T1-7 Response

a-b. Please refer to the testimony of Drew Mitchum (R2006-1, USPS-T-40, p.6)

which addresses the Postal Service's proposed revision to ACS pricing.

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VP/USPS-T1-8.

At page 32, lines 17-18, you refer to "any similarly situated company." Please explain all characteristics of those companies that you believe to be similarly situated.

VP/USPS-T1-8 Response

In general, similarly situated companies would be those who currently send Standard Mail advertising and who may be interested in switching their volumes to First-Class Mail with appropriate rate incentives.

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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