

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 TO PRESIDING OFFICER'S
INFORMATION REQUEST NO. 1, QUESTIONS 5 TO 8**
(July 10, 2006)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 1, issued June 30, 2006. The following witness is sponsoring the identified responses to this POIR:

Witness Ayub: Questions 5-8.

Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony Alverno
Chief Counsel, Customer Programs

Frank R. Heselton
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-5204; Fax -6187
July 10, 2006

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

5. Please refer to the Revised Testimony of Michael Rapaport, WMB-T-1, page 3, lines 10-12, where he states that “[b]y 2004, Providian’s ‘turnaround’ was largely successful and the company’s new marketing strategy was fully implemented.” Given that the marketing restructuring implemented by Providian was completed by 2004, would it be more appropriate to begin an analysis of Before Rates volume trends with the year 2004, rather than include earlier years? If not, why not?

RESPONSE:

No. Although the changes to Washington Mutual’s account acquisition studies affected the both the absolute and relative levels of Standard Mail and First-Class Mail advertising that Washington Mutual sent, and therefore need to be taken into account in any analysis of their volume data, there is still valid information about their mailing habits in their historical data. In addition, the Postal Service feels that its analysis should make use of as much valid data as is available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

6. Please refer to page 8, Table 5 of the Supplemental Testimony of Ali Ayub (USPS-T-1). Please provide the formula, data sources, and data values, used to calculate the value for the cell found at the intersection of "column 680,000,000" and "row 80.00%".

RESPONSE:

The formula is $\text{column head} \times (\text{row stub} \times \text{average FCM price} + (1 - \text{row stub}) \times \text{average Standard Mail price})$, where the average FCM price and the average Standard Mail price are taken from Appendix A of my testimony (sheets "Mktg unit rev" and "SM rev calcs", respectively). The value has been rounded to the nearest million dollars.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

7. Article III. D. of the original NSA states that “[i]f by the end of the first year of this Agreement, Washington Mutual mails less than 375 million First-Class mail pieces...Washington Mutual agrees to pay \$250,000.” The Amendment to the Negotiated Service Agreement (“Amended NSA”) between the United States Postal Service (“USPS”) and Washington Mutual Bank (“WMB”) has increased the First-Class mail volume thresholds at which WMB would begin to obtain incremental discounts by 50 million first class mail pieces.

- a. Please confirm that the Amended NSA does not adjust the minimum volume of First-Class mail that WMB must mail during the first year of the agreement before being required to pay the Postal Service \$250,000.
- b. If confirmed, please explain if and how the incentives provided by this provision have changed given the revisions to the volume estimates and rate schedule volume block levels.

RESPONSE:

- a. Confirmed.
- b. There are no significant changes to the incentives provided by this provision, because both the original and the revised volume history and projections for Washington Mutual indicate a negligible risk that their First-Class Mail volume will fall below this threshold.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS AYUB TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

8. This question concerns the appropriateness of the Postal Service's method of calculating the after-rates average marginal price and the after rates average marginal discount in its response to OCA/USPS-T1-25a-c.
- a. Please confirm that the after-rates average marginal price of \$.274 is equal to the marginal price of First-Class mail at the volume tier that receives the \$.05 discount.
 - b. Please confirm that the after-rates average marginal discount of \$.07 is equal to the difference between the marginal price of First-Class mail at the volume tier that receives the \$.05 discount and the Standard mail price of \$.204.
 - c. Please explain why the after-rates average marginal price and the after rates average marginal discount were not calculated as rates weighted by the volume of mail in each discount tier.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Because the relevant price for these calculations is the price paid by the marginal piece.

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.

Frank R. Heselton

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1135
July 10, 2006