BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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

Docket No. MC2006-3

RESPONSES OF WASHINGTON MUTUAL BANK WITNESS MICHAEL RAPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1 (QUESTIONS 1,2,3 AND 4)

Washington Mutual Bank hereby provides the responses of Michael Rapaport to Questions 1,2,3 and 4 of Presiding Officer's Information Request no. 1, issued JUNE 30, 2006. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

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RESPONSE OF WMB WITNESS RAPAPORT TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1.

1. Question 1 seeks to gain an understanding of the relation between solicitation mail and operational mail based upon estimates provided by witness Rapaport, and calculations made as shown in Table 1.

Table 1							
2005-Year 3 Before Rates Estimates					Percent Changes		
Mail Class	**2005**	**Year 1**	**Year 2**	**Year 3**	**2005 to Year 1**	**Year 1 to Year 2**	**Year 2 to Year 3**
	1	**2**	**3**	**4**	**5**	**6**	**7**
	Millions	Millions	Millions	Millions			
First-Class	524	450	475	500	-14.12%	5.56%	5.26%
Operational	121	120	125	130	-0.83%	4.17%	4.00%
Marketing	403	330	350	370	-18.11%	6.06%	5.71%
Standard Mail (Solicitation)	123	314	330	345	155.28%	5.10%	4.55%
Total Mail Volume	647	764	805	845	18.08%	5.37%	4.97%
Total Solicitation Mail Volume	526	644	680	715	22.43%	5.59%	5.15%
Estimated customers based on 12 operational mailings per year	10.08	10.00	10.42	10.83	-0.83%	4.17%	4.00%

a. Please confirm that the absolute volumes taken from Tables 1 and 3 of WMB-T-1 revised are reproduced in Table 1, columns 1-4, above and that the percentage calculations in columns 5-7 made based on those volumes are correct.

b. Page 7 of WMB-T-1 Revised states that Before Rates volumes will grow by approximately 5 percent annually in year 2 and Year 3 of the Negotiated Service Agreement ("NSA")

i. Were these estimates based on estimates of booking and response rates for Year 2 and Year 3 of the NSA?

ii. Please explain why the growth rate in before-rates total solicitation mail volume appears to decline from 22.43 percent (2005 to Year 1) to approximately 5 percent in the following two years.

c. Please refer to Table 1 above. Please explain why a 22.43 percent growth in total solicitation mail volume between 2005 and Year 1 would result in essentially no growth in customers, while a 5.59 percent growth in total solicitation mail volume between Year 1 and Year 2, would result in a 4.17 percent growth in customers.

RESPONSE

a. Confirmed with one caveat. The assumption that each customer receives 12 operational mailings is not accurate since not every customer receives a statement every month and operational mail includes miscellaneous mail (e.g., replacement plastics) in addition to monthly statements.

b. i) As described on page 7 of my testimony, these estimates were primarily based on internal projections forecasting account growth of five (5) percent per year. A secondary factor considered was expected increases in marketplace competition and list fatigue, which generally reduce response rates, thus increasing the cost to acquire a new account.

ii) In the 4th quarter of 2005 (after WMB acquired Providian Financial), we began mailing credit card offers to existing Washington Mutual customers. Also, in the 4th quarter of 2005, we began mailing more offers to existing credit card customers. So, 2005 only contains one quarter of this additional mail volume whereas the Year 1,

Year 2 and Year 3 forecasts include full year volumes for credit card cross-sell programs to WMB customers and the change in marketing strategy to existing credit card customers. This results in a more significant volume gain in Year 1 with smaller increases in Years 2 and 3.

c. As my answer to 1a explains, the absolute number of accounts in Table 1(a) is not entirely accurate. However, there is a trend to higher account growth with lower solicitation growth and is explained as follows.

The large increase in solicitation volume from 2005 to Year 1 is mostly a result of increases in Standard Class mail volume, which yields lower response rates and, therefore, lower numbers of new accounts. In addition, we estimate that the relative lack of growth in accounts from 2005 to Year 1 is a reflection of increased competition in our market space which means lower response rates and higher attrition rates for our existing customers.

From Year 1 to Years 2 and 3, our expectation is that our credit card sales in Washington Mutual retail stores (aka branches) will become a greater percentage of our account growth - these accounts are booked without a solicitation mailing accompanying it.

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2. This question seeks to understand the own-price elasticity estimates of First Class Mail that can be derived from data provided in WMB-T-1. Please confirm that using the change in First Class marketing mail volumes in WMB-T-1 Revised, Table 2, which is explained to be what would have been the response to an across-the-board rate increase of 5.4 percent in all mail classes, coupled with operational volume data of 120 million pieces provided for Year 1 in Table 3 in your Revised Testimony, would produce an own-price elasticity of First-Class Mail equal to approximately -3.2 as shown in Table 2 below.

Table 2

Mall Class	Year 1 Before 5.4% Rate Increase	Year 1 After 5.4% Rate Increase	% Change in First-Class Volume	% Change in Price	Own-Price Elasticity of First-Class mail
	1	2	3	4	5
			(2-1)/1		(4/3)
First-Class	447	370	-17.2%	5.4%	-3.2
Operational	120	120			
Marketing	327	250			

RESPONSE

2. I can confirm your calculations with the caveat that the volume figures in Table 2 accompanying this question exclude 80 million First-Class Mail marketing mail pieces sent to existing cardholders (see the note on Table 2 of my testimony). Also, since I am not an economist, I cannot address whether your approach to calculating the own-price elasticity of WMB's First-Class Mail is correct.

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3. For this question, please refer to Table 3 below.

Table 3									
	Mail Class	**2005**	**Year 1 After Rates**	**Price Per Piece Before Rates ($)**	**Increase in First-Class Volume (Millions)**	**% Change First-Class Volumes (Millions)**	**Average Discount Per Piece of First-Class Mail**	**% Change in Price Per Piece of First-Class Mail**	**Own Price Elasticity of First-Class Mail**
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
					(2a -1a)	**48/1 a**		**6a/3d**	**58/7a**
a	First-Class	471	713		242	51.33%	0.015	-4.35%	-11.80
b	Operational	121	120	0.326					
c	Marketing	350	593	0.346					
d	Weighted Average			0.341					

3d=Sumproduct(2b:2c,3b:3c)/(2b+2c)

6a = 15 million First-Class pieces at an incremental discount of $.035 + 40 million First-Class pieces at an incremental discount of $.04 + 153 million First-Class pieces at an incremental discount of $.045 + 153 million pieces at an incremental discount of $.05.

a. Please confirm that using data provided in USPS-T-1_Appendix_ARevisedv3.xls, Sheet "Contrib Inputs", cells D7 and D8 for cells 3b and 3c in Table 3; and data from worksheet "Volume calcs" cells F15, G15, F7, F8, G13, and G14 for cells 1a, 2a, 1b, 1c, 2b, and 2c in Table 3, along with Revised Rate Schedule 630A, used to calculate the Average Discount per Piece of First-Class mail in cell 6a of Table 3, yields an own price elasticity for First-Class mail estimate of -11.80 as shown in Table 3 above.

b. Please account for the difference in estimates of the own-price elasticity of First-Class Mail shown in Question 2, Table 2, of negative 3.2, and Question 3, Table 3, of negative 11.80.

RESPONSE

(a) Confirmed assuming that the $0.015 figure in column 6 is calculated by dividing the Year 1 NSA discount by the entire After Rates volume.

Also, my testimony estimates that the average discount per incremental piece of First-Class Mail is $0.041 (see Exhibit A of my testimony). Substituting $.041 for $.015 in Table 3, Column 6 generates a "% Change in Price Per Piece of First-Class Mail" figure in Column 7 of approximately 12% and an "Own Price Elasticity of First-Class Mail" figure in Column 8 of 4.3.

(b) I am not an economist and am uncomfortable commenting on the exact meaning of the different elasticities calculated in Tables 2 and 3.

Nonetheless, I would note that the NSA discounts (which are analyzed in Table 3) substantially reduce the price difference between First-Class Mail and Standard Mail while the "across-the-board" rate increase (which is analyzed in Table 2) does not. As discussed in Section VI of my testimony, the price difference between First-Class Mail and Standard Mail has a large influence on our mail class decision for marketing mail. The reduction of the price difference between First-Class Mail and Standard Mail may be contributing to the larger elasticity calculated in Table 3.

Also, Table 3 compares 2005 volumes with Year 1 volumes. Some of the change in First-Class Mail volume shown in Table 3 relates to the growth in total solicitation volume between 2005 and Year 1 Before Rates (see POIR No. 1, Table 1).

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4. WMB-T-1 Revised, page 10, states that "...since the NSA as negotiated just exceeds breakeven for WMB Card Services, I believe that implementing the agreement's requirements would not be economically justifiable if Card Services only received postage discounts for a year." Please explain the meaning of "breaking even" in this context. For example, isn't it the case that your breakeven analysis shows that the NSA is economically beneficial to WMB during the first year of the agreement?

RESPONSE

4. "Breakeven" as used in the quoted statement from my testimony refers to the breakeven analysis described on lines 3 to 12 of page 8 of my testimony. As shown in Exhibit A of my testimony, the breakeven analysis found that the NSA discounts will provide an economic benefit to WMB in the first year of the agreement.

If the NSA discounts are only available for one year, WMB will have to address the question of whether the benefit of the NSA for one year justifies (i) the effort required to implement the NSA; and (ii) the address hygiene, solicitation mail volume, and other commitments WMB made as part of the agreement. I am not sure that the Year 1 economic benefit is sufficient to justify implementing the NSA. In addition, there would be the disruption attendant upon converting much of our solicitation mail from first-class back to standard mail.