

UNITED STATES OF AMERICA
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

PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

(Issued November 3, 2006)

The United States Postal Service is requested to provide the information described below to assist in developing a record for the consideration of the Postal Service's request for a recommended decision on proposed rates, fees, and classifications. To facilitate inclusion of the required material in the evidentiary record, the Postal Service shall attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers. Written answers to these questions shall be due no later than November 14, 2006. However, it would be desirable for Postal Service witness Bernstein to be prepared to discuss the answers to these questions orally during the November 9, 2006 hearing.

1. Please refer to USPS-RT-1 (revised October 23, 2006), pages 31-32. Witness Bernstein presents two illustrative examples of estimated changes in Washington Mutual's First-Class Mail volume in response to the proposed discounts. The first example uses overall (or average) workshare elasticities, while the second uses elasticities estimated based on assumptions about the price-sensitivity of First-Class advertising mailers in general, and Washington Mutual Bank specifically.

- a. The first example forecasts a volume increase of 7.2 percent. To estimate the number of additional pieces using this figure, would it be most appropriate to apply the 7.2 percent to Washington Mutual Bank's total First-Class Mail volume, First-Class advertising volume, or some other volume? Please explain the rationale for your response.
 - b. The second example forecasts a volume increase of 41.9 percent. To estimate the number of additional pieces using this figure, would it be most appropriate to apply the 41.9 percent to Washington Mutual Bank's total First-Class Mail volume, First-Class advertising volume, or some other volume? Please explain the rationale for your response.
2. On page 21, lines 17-18 USPS-RT-1 (revised October 23, 2006), witness Bernstein states that "...the 1.115 percent increase must be almost entirely reflected in changes in advertising volume...".
 - a. Please confirm that the price-difference elasticity of First-Class Workshared letters estimated by witness Thress in his Docket No. R2006-1 testimony would be based in part on any changes in operational mail brought about by changes in the difference between the price of First-Class Workshared letters and the price of Standard Regular letters, even if this change operated through the change in accounts of banking institutions brought about by response to the change in price of First-Class Workshared letters.
 - b. If confirmed, please discuss how this might affect witness Bernstein's analysis.
 - c. If not confirmed, please explain the reasons for not confirming.

3. Pages 33 through 39 of witness Bernstein's testimony (USPS-RT-1, revised October 23, 2006) argues that the contractual requirement for Washington Mutual Bank to send 90 percent of its credit card solicitation mail, or a minimum of 500 million pieces as First-Class Mail is a non-price factor affecting volume. The contractual requirement is referred to as the "Solicitation Mail Volume Guarantee" and appears in the contract at section II.J.
- a. Should the severity of the penalty for non-compliance associated with the Solicitation Mail Volume Guarantee be considered when analyzing this contract provision as a non-price factor affecting volume? Please include a discussion of how a hypothetical mailer might react to a penalty the mailer views as severe versus how a hypothetical mailer might react to a penalty a mailer considers relatively minor.
- b. Please confirm that at the Year 1 projected total mail volume of 713 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), and the Year 1 projected operational mail volume of 120 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), Washington Mutual Bank must send a minimum of 84.4 percent (500 million pieces) of its solicitation mail as First-Class Mail in order to comply with the Solicitation Mail Volume Guarantee (rounded up to the next higher tenth of one percent). If not confirmed, please explain and show all calculations.
- $$500 \text{ million (Solicitation Mail Volume Guarantee)} / (713 \text{ million (total mail volume)} - 120 \text{ million (operational mail volume)}) = 84.4 \text{ percent}$$
- c. Please confirm that at the Year 2 projected total mail volume of 750 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), and the Year 2 projected operational mail volume of 125 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), Washington Mutual Bank must send a

minimum of 80 percent (500 million pieces) of its solicitation mail as First-Class Mail in order to comply with the Solicitation Mail Volume Guarantee. If not confirmed, please explain and show all calculations.

$$500 \text{ million (Solicitation Mail Volume Guarantee)} / (750 \text{ million (total mail volume)} - 125 \text{ million (operational mail volume)}) = 80 \text{ percent}$$

- d. Please confirm that at the Year 3 projected total mail volume of 785 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), and the Year 3 projected operational mail volume of 130 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), Washington Mutual Bank must send a minimum of 76.4 percent (500 million pieces) of its solicitation mail as First-Class Mail in order to comply with the Solicitation Mail Volume Guarantee (rounded up to the next higher tenth of one percent). If not confirmed, please explain and show all calculations.

$$500 \text{ million (Solicitation Mail Volume Guarantee)} / (785 \text{ million (total mail volume)} - 130 \text{ million (operational mail volume)}) = 76.4 \text{ percent}$$

4. Assume the Year 1 projected total mail volume of 713 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), and the Year 1 projected operational mail volume of 120 million pieces (see WMB-T-1 at 9, Table 4, revised June 8, 2006), and assume that Washington Mutual Bank fails to comply with the Solicitation Mail Volume Guarantee by only mailing 499 million pieces of solicitations mail by First-Class Mail, thus failing to send one million pieces of First-Class Mail that otherwise would have allowed compliance. All other solicitations are mailed by Standard Mail. Given these assumptions, what is the dollar value of discounts provided to Washington Mutual Bank at this point?

What is the penalty in dollars that Washington Mutual Bank is liable to pay the Postal Service at this point? Please show all calculations.

5. Page 37 of witness Bernstein's testimony (USPS-RT-1, revised October 23, 2006) states that "[i]n order to receive the discount, WMB would have to send at least 90 percent of its marketing mail as First-Class Mail."
 - a. Do all parties to the contract agree that Washington Mutual Bank will not receive any discounts if it does not send at least 90 percent of its marketing mail as First-Class Mail?
 - b. Does the terminology "or a minimum of 500 million credit card solicitations" affect the accuracy of witness Bernstein's statement or change the response to question a. above?

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Presiding Officer