

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: JAMES F. CALLOW (USPS/OCA-T300-22-27a.-b. and 28-29)
(NOVEMBER 8, 1996)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T300-22-27a.-b. and 28-29, dated October 25, 1996. Interrogatory USPS/OCA-T300-27c. and d. has been redirected to witness Sherman. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

Shelley S. Dreifuss
SHELLEY S. DREIFUSS
Attorney
Office of the Consumer Advocate



ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-22. On page 1, column 9 of OCA-LR-3, TYAR Total Costs for post office boxes are reported to be \$466,254,352.

- a. Please explain the derivation of this figure in detail, providing all spreadsheets, workpapers and other related documents.
- b. Please explain in detail why TYAR Total Costs for post office boxes of \$466,254,352 differ from the TYAR total attributable costs for post office boxes of \$516,598,000 shown in Exhibit USPS-T-5I, page 2.
- c. In deriving the TYAR Total Costs for post office boxes of \$466,254,352, did you assume that post office box attributable costs would decline in a larger proportion or by a larger percentage than the decrease in the number of post office boxes in use? If so, please explain the rationale underlying this assumption in detail. If not, please explain in detail what assumptions you did make.
- d. Please explain in detail all evidence or other supporting data which indicate that a decrease in the number of post office boxes in use would be accompanied in the test year by a like decrease in the space and rental related costs associated with post office boxes.
- e. Is it your testimony that postal facilities, in the test year, would convert the space to other uses or activities? If so, please explain in detail all evidence or other supporting data for this conclusion.
- f. In USPS-T-5, Appendix B, lines 10-14, witness Patelunas stated, "Additionally, it was assumed that there would be no change in the space and rental related costs associate [sic] with the decrease in Post Office Boxes in use because these costs would not respond immediately in the test year, but rather, they would respond some time after the test year." Do you disagree with this statement? If so, please explain why in detail and discuss all evidence or other supporting data for your contrary conclusion.

A. a.-f. See revised library reference OCA-LR-3, filed November 5, 1996. The revised figure for TYAR Total Costs in column [9] for all post office boxes is \$518,452,742. Since this cost corresponds to the Postal Service's rate proposal without the

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CONTINUATION OF ANSWER TO USPS/OCA-T300-22:

non-resident surcharge, it makes sense that this figure is slightly larger than witness Patelunas' TYAR cost of \$516,598,000 because volumes are slightly larger. In calculating the TYAR Total Costs figure of \$518,452,742, I assumed that there would be no change in total Space Support and Space Provision costs in the test year. Only the total cost for All Other varies due to volume changes in the test year.

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USPS/OCA-T300-23. At page 23, lines 1-2 of your testimony, you state, "My proposal relies on cost estimates presented by Postal Service witness Lion (USPS-T-4)." Please confirm that you used Postal Service cost data to derive your post office box proposal rather than the Commission's costs presented in PRC-LR-1 and 2.

- a. If you do not confirm, please explain in detail.
- b. If you did not review and/or consider the Commission's costs presented in PRC-LR-1 and 2 to derive your post office box proposal, why did you need an extension of time from September 25, 1996 to September 30, 1996 to prepare and file your testimony?

A. Confirmed.

a. Not applicable.

b. I did not ask for a new filing date, nor was I involved in the OCA's decision to support MMA's motion for an extension of time.

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USPS/OCA-T-300-24. OCA witness Sherman says that "[t]here is a broad general problem in pricing post offices boxes that is not considered explicitly in the [Postal Service's] proposal. That problem is that there may be a cost savings in delivery to a post office box rather than to a business or residence." OCA-T100, page 27, lines 1-4. At pages 24-29 of your testimony, you discuss various pricing criteria of the Postal Reorganization Act. In that discussion, you do not address OCA witness Sherman's "problem in pricing post office boxes."

- a. Do you disagree with witness Sherman's assessment? Please explain in detail.
- b. If you do not disagree with witness Sherman, then why did you not address his idea in the context of the pricing criteria of the Act? Please explain in detail.

A. a.-b. I agree with witness Sherman's assessment that there may be cost savings in delivery to a post office box rather than to a business or residence. The absence of appropriate data on this point prevented me, in this proceeding, from setting box fees to reflect such potential savings. See witness Sherman's response to USPS/OCA-T100-36. Likewise, I did not address potential cost savings in my consideration of the pricing criteria of the Act.

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USPS/OCA-T300-25. Please refer to OCA-LR-3, Post Office Boxes USPS Proposal, page 1.

- a. Please confirm that columns 1 (TYBR number of boxes) and 2 (TYAR number of boxes) represent post office boxes in use. If you do not confirm, please explain in detail.
- b. Please confirm that columns 8 (TYBR Total Costs) and 9 (TYAR Total Costs) were both calculated using the same cost per box from column 3. If you do not confirm, please explain in detail.
- c. Please confirm that the cost per box from column 3 was calculated using witness Patelunas's TYBR post office box attributable cost figure of \$529,374,000 from Exhibit USPS-T-5E, at 8. If you do not confirm, please explain in detail.
- d. Is it your testimony that the unit cost per box for post office boxes in use would remain the same in the test year before rates and the test year after rates? Please explain fully.

A. a. and c. Confirmed.

b. Partially confirmed. The USPS TYBR Total Costs in column [8] were calculated using the per box costs in column [3]. The TYAR Total Costs in column [9] were not calculated using the per box costs of column [3]. See revised library reference OCA-LR-3 at 2, Note [9], filed November 5, 1996.

d. No. For each box, per box costs consist of space support, space provision and all other costs. The per box cost is calculated separately for each category and then summed. Space provision costs are calculated based on a capacity factor and

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CONTINUATION OF ANSWER TO USPS/OCA-T300-25:

rental costs per square foot derived in LR-SSR-99. (The rental costs per square foot represent the unweighted average of the rental cost per square foot for each facility, not the ratio of total cost to total area for all facilities in the delivery group.) The same process is used in the test year after rates. However, per box costs in the test year after rates will differ even though total space support and space provision costs are constant. This is because the all other costs vary with volume, the total space-related costs are allocated to each box size based on the after-rates volumes, and the after-rates volumes differ from the before-rates volumes. See revised library reference OCA-LR-3, filed November 5, 1996.

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USPS/OCA-T300-26. Please refer to OCA-LR-3, Post Office Box and Caller Service OCA Proposal, page 3.

- a. Please confirm that columns 1 (USPS TYBR number of boxes) and 2 (OCA TYAR number of boxes) represent post office boxes in use. If you do not confirm, please explain in detail.
- b. Please confirm that columns 8 (USPS TYBR Total Costs) and 9 (OCA TYAR Total Costs) were both calculated using the same cost per box from column 3. If you do not confirm, please explain in detail.
- c. Please confirm that the cost per box from column 3 was calculated using witness Patelunas's TYBR post office box attributable cost figure of \$529,374,000 from Exhibit USPS-T-5E, at 8. If you do not confirm, please explain in detail.
- d. Is it your testimony that the unit cost per box for post office boxes in use would remain the same in the test year before rates and the test year after rates? Please explain fully.

A. a. and c. Confirmed.

b. Partially confirmed. The USPS TYBR Total Costs in column [8] were calculated using the per box costs in column [3]. The OCA TYAR Total Costs in column [9] were not calculated using the per box costs of column [3]. See revised library reference OCA-LR-3 at 4, Note [9], filed November 5, 1996.

d. No. See my response to USPS/OCA-T300-25d.

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USPS/OCA-T300-27. On page 15, line 21-page 16, line 2 of your testimony, you state that "The Postal Service's discriminatory treatment of non-resident boxholders through the proposed non-resident surcharge is unfair and inequitable".

- a. Please provide the criteria upon which you have based your statement that a non-resident surcharge is unfair and inequitable.
- b. Under what circumstances or criteria would a non-resident surcharge be fair and equitable? Please explain fully.
- c. Do you consider the higher charges imposed on Metro riders in the Washington, D.C. area during rush hours to be unfair and inequitable? Please explain why or why not.
- d. With respect to Metro, please assume that the cost per rider is not higher during rush hour than at other times. How would that assumption affect your view about the fairness and equity of higher rush hour fares?

A. a. The Postal Service has not established that non-resident boxholders engage in cost-causing behaviors or activities that are different in kind than residents, or that non-residents engage in those or other activities in a significantly greater frequency than residents. The Postal Service's evidence is anecdotal on these points and limited to three admittedly atypical post offices.

USPS-T-3 at 10. Moreover, the Postal Service justifies the non-resident surcharge, in part, on the ground that non-residents are the cause of a shortage of boxes for residents. This is not supported by the evidence. OCA-T-300 at 12. The failure to establish these elements makes the non-resident surcharge unfair and inequitable.

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CONTINUATION OF ANSWER TO USPS/OCA-T300-27:

b. It is premature to speculate on what would be a fair and equitable non-resident surcharge given the absence of critical information. The following should be considered a base level of information needed for considering questions of fairness and equity with respect to a non-resident surcharge: Identify and quantify attributable costs associated with providing box service to non-resident boxholders. See OCA-T-300 at 5, lines 15-19. Establish that non-resident boxholders have a greater propensity to "present costlier situations" than resident boxholders. *Id.* at 7, lines 15-17. Determine whether the existence of post office box shortages is a nationwide problem for resident boxholders. *Id.* at 11, lines 3-4. Provide data on the number of boxholders subject to the Postal Service's definition of non-resident boxholders. *Id.* at 13, lines 14-15. With respect to market research, distinguish between resident and non-resident boxholders in testing the price sensitivity of non-resident boxholders to the non-resident surcharge. *Id.* at 15, lines 1-4.

c. Redirected to witness Sherman.

d. Redirected to witness Sherman.

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USPS/OCA-T300-28. On page 17 lines 6-8 of your testimony, you state that "[i]mplementing the proposed non-resident surcharge in the absence of critical costing information and demonstrated need would be unfair and inequitable".

- a. Specifically, what need would have be demonstrated to make the non-resident surcharge fair and equitable and how could it be demonstrated?
- b. What costing data would be needed to make the non-resident surcharge fair and equitable and how could it be obtained? Please explain fully.

A. a.-b. See my response to USPS/OCA-T300-27b.

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USPS/OCA-T300-29. On page 26, line 18-page 27, line 1 of your testimony, you state that:

Post office box service offers relatively low value. Box features such as privacy and security are offset by more limited boxholder access to the mail at post office box sections, as compared to carrier delivery.

- a. Please explain your conclusion that access to mail is more limited for boxholders than those receiving carrier delivery, including all data and other relevant information to support this claim.
 - b. Please explain how you determined that the value of privacy and security are offset by more limited boxholder access to the mail at post office box sections, as compared to carrier delivery, providing all data and other relevant information to support your claim.
- A.
- a. See OCA-T-300 at 27, lines 1-3.
 - b. See my response to USPS/OCA-T300-19.

DECLARATION

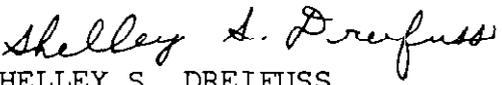
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T300-22-27a.-b. and 28-29 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed November 8, 1996

James F Callow

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.


SHELLEY S. DREIFUSS
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Washington, DC 20268-0001
November 8, 1996