

UNITED STATES OF AMERICA  
Before the  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 2000

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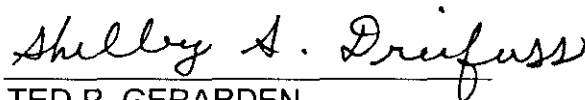
Docket No. R2000-1

ANSWER OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION, INC.  
WITNESS: TED P. GERARDEN (DMA/OCA-T1-7)  
(June 8, 2000)

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The Office of the Consumer Advocate hereby submits the answer of Ted P. Gerarden to interrogatory DMA/OCA-T1-7, dated June 2, 2000. The interrogatory is stated verbatim and is followed by the response. Interrogatories DMA/OCA-T1-1-6 have been redirected to OCA witness Callow (OCA-T-6).

Respectfully submitted,



TED P. GERARDEN

Director

Office of the Consumer Advocate

Shelley S. Dreifuss  
Attorney

1333 H St. NW  
Washington, DC 20268-0001  
(202) 789-6830; Fax (202) 789-6819

ANSWER OF OCA WITNESS TED P. GERARDEN  
TO INTERROGATORY DMA/OCA-T1-7

DMA/OCA-T1-7. Please refer to your testimony at page 8, line 4 and page 11, lines 2-3.

a. Please describe in as much detail as possible your choice of "ten" as the number of courtesy make-up stamps to be sent to each delivery address.

b. Was this number chosen (i) arbitrarily, (ii) in order to permit the lost revenues to be offset by estimated cost savings, (iii) some other reason, or (iv) a combination of the foregoing? Would you agree that the Postal Service could confer a more substantial benefit upon the mailing public, both in terms of convenience and in terms of easing the transition to higher postal rates, through distributing larger amounts of courtesy make-up stamps?

c. Would you agree that, in order partially to offset the impact of "rounding up" single-piece First Class rates to the nearest integer, the Postal Service could distribute for free, large amounts of courtesy make-up stamps, perhaps as many as an estimated one-year supply? Would you support such a proposal?

RESPONSE TO DMA/OCA-T1-7:

a. I considered 10, 12, and 15 as possible numbers of courtesy make-up stamps to suggest for this outreach activity. Each number could be printed efficiently on a pane (i.e., 2x5; 2x6 or 3x4; 3x5) that could be enclosed in a trifold-style mailing. I selected ten for two reasons. First, Household Diary Study data indicate that the average household sends slightly less than 12 First-Class letters and cards per month. To permit the Postal Service to realize savings from a reduced number of window transactions by consumers, the number of courtesy make-up stamps should permit a reasonable portion of the population to buy new stamps at the time they would otherwise have purchased additional stamps, thus avoiding an extra trip to the Post Office for make-up stamps and/or new stamps to enable them to mail items at the time the rate changes. I considered ten to be a reasonable minimum to achieve this result. Second, the number of stamps impacts the level of revenue foregone by the Postal

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Service. For this reason, the number of courtesy stamps should not be excessive. Each increase of one stamp per delivery address (using 130 million delivery addresses and an assumed 90% usage rate) would increase the revenue foregone cost to the Postal Service by \$1.17 million.

b. As indicated in the response to (a), the choice was not arbitrary, but was intended to balance the benefit to the public with the cost to the Postal Service. The choice was also intended to encourage stamp purchasing behavior by the public that would provide the Postal Service with offsetting cost savings from reduced window transactions. I agree that the Postal Service could provide greater convenience to the public by distributing a larger number of courtesy make-up stamps, but the number should be limited by considerations of the cost to the Postal Service. Keep in mind that the purpose of this proposal is to ease the transition to new rates, not to avoid the impact of higher stamp rates when such higher rates are determined to be necessary, while having a modest net cost impact on the Postal Service.

c. No to both questions. This subpart attempts to mix two separate OCA proposals. In proposing that single-piece First-Class ("SPFC") rates be held constant over two rate cases, the OCA is suggesting that the Postal Service can accommodate different interests of different customers—consumers who rely on stamps and mail mostly single-piece items versus large business mailers who generally use permits or metered postage at discounted rates. The device suggested to accomplish this rate stability benefit for consumers without adversely affecting other mailers is to set an integer rate for SPFC mail that would allow a positive balance to build up in the

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proposed SPFC Reserve Account, thus permitting the Postal Service to retain the same SPFC rate for the next rate case. Distributing a larger amount of courtesy "make-up" stamps would, as the question suggests, partially "offset" the impact of rounding up to an integer rate. This presumably would reduce or eliminate the balance in the Reserve Account, undercutting the ability of the Postal Service to maintain the same SPFC rate for the next rate case. If DMA's concept is to distribute enough courtesy stamps to completely eliminate the impact of rounding up to an integer rate, the effect would also be to "recouple" the workshare discounts to the integer rate.

Moreover, distributing "large amounts of courtesy make-up stamps, perhaps as many as an estimated one-year supply" makes little sense. The cost of printing such stamps (\$0.003 per stamp) would be 30 percent of the stamp's postage value (assuming a one-cent increase in the First-Class rate). As the public exhausts its supply of old 33-cent stamps (and the Postal Service exhausts its inventory), new denomination stamps would have to be purchased and the make-up stamps would become useless. Even if the make-up stamps could be used as one-cent stamps, it would be impractical if not impossible to fit enough on an envelope or card to add up to First-Class postage. I would not support such a proposal.

## DECLARATION

I, Ted P. Gerarden, declare under penalty of perjury that the answer to interrogatory DMA/OCA-T1-7 of the Direct Marketing Association, Inc. is true and correct, to the best of my knowledge, information and belief.

Executed June 6, 2005

Ted P. Gerarden

## 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 12 of the rules of practice.

  
JENNIE WALLACE

Washington, DC 20268-0001  
June 8, 2000