

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes)

Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE
WITNESS: JAMES F. CALLOW (PostCom/OCA-T6-1-5)
(June 13, 2000)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories PostCom/OCA-T6-1-5, dated May 30, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PostCom/OCA-T6-1-5

PostCom/OCA-T6-1. Should the parenthetical in the second line of note 3 at page 6 of your testimony read "(percentage by which the revenues exceed attributable cost)" with the emphasized word added?

RESPONSE TO PostCom/OCA-T6-1.

Yes. An appropriate errata will be filed.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
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PostCom/OCA-T6-2. Which of the measures of “relative institutional cost[] burden” (at T6, 6, line 14) do you believe [are] most accurately reflective of the phenomenon to be measured and why?

RESPONSE TO PostCom/OCA-T6-2.

In analyzing the relative institutional cost burden, I purposely did not choose between the cost coverage, mark-up index, or cost coverage index for the purpose of measuring the institutional cost burden on First-Class Letter Mail. Rather, I presented all three measures because of their familiarity and, with respect to cost coverage and mark-up index, their use by the Commission. Moreover, in preparing my testimony, I did not separately study the cost coverage, mark-up index, or cost coverage index and their relative merits, or lack thereof, as measures of institutional cost burden since there is a remarkable consistency among all three measures with respect to the increasing institutional cost burden on First-Class Letter Mail.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
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PostCom/OCA-T6-3. In your comparisons of the relative institutional cost burdens of First-Class letter mail and Standard (A) regular mail, how do you account for the creation of the Standard (A) ECR subclass?

RESPONSE TO PostCom/OCA-T6-3.

For revenues, I used the "Total Bulk Rate Regular" amount from the annual RPW, which includes the Carrier Presort rate category through PFY 1996, and the Standard (A) ECR subclass for years after PFY 1996. For costs, I used the "Total Regular" amount, which includes the Carrier Presort rate category through FY 1996, and the "Total Commercial" amount for years after FY 1996, which includes the Standard (A) ECR subclass, from the annual Cost Segments and Components. This permits a consistent measure of revenues and costs for commercial mail e.g., mail other than nonprofit and single-piece, as a whole during the entire period of my analysis.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PostCom/OCA-T6-1-5

PostCom/OCA-T6-4. Your proposal for First-Class rates in part 1 (iii) of your testimony appears to affect only single-piece First-Class letters. [a] Is this correct? [b] Please confirm that your analysis of cost burdens in part 1 (i) is based upon all First-Class letter mail, not solely single-piece First-Class letter mail. If you do confirm, please explain why you believe that the remedy you propose is justified by the proof you advance for it. If you do not confirm, please explain.

RESPONSE TO PostCom/OCA-T6-4.

(a) No. My proposal to maintain the single-piece First-Class rate would also affect the rates for workshare mail. I do not take a position on the proper discounts for workshare mail. I assume, for purpose of analysis, that the discounts from the single-piece rate would not change. As a result, my proposal would affect the rates for workshare mail.

In the body of my testimony, for purposes of illustration, I estimate the direct benefit to mailers of maintaining the single-piece rate at approximately \$607 million. See OCA-T-6, Part I, at 24. In Footnote 14, I present the total reduction in revenues for the entire First-Class Letter Mail subclass, an estimated \$1.076 billion.

(b) Confirmed. See my response to part (a) above.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PostCom/OCA-T6-1-5

PostCom/OCA-T6-5. At OCA-T6, 38, lines 12-14 you say:

At the time of the third rate proceeding, when it would again be time to change the SPFC integer rate, the balance in the SPFC Reserve Account, positive or negative, would be taken into account in setting the new SPFC rate.

- (a) Please explain how the SPFC reserve account balance “would be taken into account.”
- (b) Do you envision any other changes in the factors taken into account at present in omnibus rate cases in setting SPFC rates?

RESPONSE TO PostCom/OCA-T6-5.

(a) At the time of the third rate proceeding, I would expect the “calculated” non-integer single-piece rate to be determined in the same manner as in any rate proceeding. See OCA-T-6, Part II, at 37, lines 7-11. However, when the single-piece First-Class integer rate (paid by consumers) is set by the Commission, the balance in the SPFC Reserve Account would be considered. If the balance in the SPFC Reserve Account was positive and sufficiently large, there might not need to be a change in the integer rate paid by consumers, or the increase might be smaller than would otherwise be the case. Alternatively, if the balance was negative by a large amount, the integer rate paid by consumers would be increased to cover the negative balance and generate additional revenues to build a positive balance in the SPFC Reserve Account to permit maintenance of the new SPFC rate through the fourth rate case.

- (b) No.

DECLARATION

I, James F. Callow, declare under penalty of perjury that the answers to interrogatories PostCom/OCA-T6-1-5 of the Association for Postal Commerce are true and correct, to the best of my knowledge, information and belief.

Executed 6-13-00

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 12 of the rules of practice.

Samuel David Getch
JENNIE D. WALLACE for

Washington, DC 20268-0001
June 13, 2000