

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 THE DIRECT MARKETING ASSOCIATION
WITNESS: JAMES F. CALLOW (DMA/OCA-T1-1-6),
REDIRECTED FROM WITNESS GERARDEN
(June 16, 2000)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories DMA/OCA-T1-1-6, dated June 2, 2000, and redirected from witness Gerarden. 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 DMA/OCA-T1-1-6

DMA/OCA-T1-1. Please refer to your testimony, OCA-T-1, at page 5.

- a. Have you made a legal analysis of the consistency between your "single-piece first-class rate stability proposal" and the provisions of the Postal Reorganization Act of 1970?
- b. If so, please describe the results of your analysis in as much detail as possible.
- c. Please describe in as much detail as possible your opinion, if any, as to whether your First-Class rate stability proposal is consistent with the requirement that postal rates implemented pursuant to a particular PRC proceeding be supported by the record created in that proceeding.
- d. Please describe in as much detail as possible your opinion, if any, as to whether your first-class rate stability proposal is consistent with USPS management prerogatives relating to the timing of the filing of omnibus postal rate proceedings and the timing of implementation of postal rate changes.

RESPONSE TO DMA/OCA-T1-1.

(a) - (b) No. I am not a lawyer and, therefore, have not made a legal analysis of the type you describe. However, I would note that my proposal is designed so that single-piece First-Class Mail will "break-even" over two rate case periods in which the same single-piece First-Class rate is in effect. It is also intended that, if adopted, single-piece First-Class Mail would continue to bear its related direct and indirect costs, so as not to adversely affect other classes of mail.

(c) Since I am not a lawyer, I cannot give a legal opinion to this question. That said, however, under my proposal, the "calculated" single-piece non-integer rate would be determined in each rate proceeding, and in the same manner as past proceedings, including compliance with the test year break-even requirement. It would also preserve the right of every participant to litigate any issue in every case, including the single-

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

piece First-Class ("SPFC") rate. Consequently, I would expect the record to have sufficient evidence to permit the Commission to determine the SPFC integer rate, including maintaining the SPFC rate in the next rate case after the SPFC rate has been established under this approach.

(d) My proposal does not affect postal management's prerogatives with respect to the timing of the filing of omnibus postal rate cases and the timing of implementation of postal rate changes. See OCA-T-6, at 4 and 47. Under my proposal, postal management is able to file omnibus rate proceedings, and to select the implementation date of rate changes, at its discretion. However, given that postal management is evidently planning to initiate future rate proceedings approximately every two years, see OCA-T-6, Part II, at pages 34-35, my proposal would accommodate the differing interests of household and business mailers with respect to such rate adjustments.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

DMA/OCA-T1-2. Please refer to your testimony on page 5, lines 22-23, where you state: "The SPFC rate stability proposal is intended to provide greater convenience to consumers. . . ."

- a. In addition to the asserted "greater convenience to consumers," are there any other valid purposes that would be served by your proposal and that may provide additional reasons for the Commission to recommend your proposal? If so, please describe any and all such purposes in as much detail as possible.
- b. During the course of developing this proposal, did you consider the relative usage of single-piece First Class Mail by various types of mailers? If so, please describe in as much detail as possible what these considerations were and the data concerning SPFC usage that was available to you at that time.
- c. Do you currently have data concerning the relative usage of SPFC mail by households, "small businesses" and large businesses over the last five years? If so, please provide this data in tabular form.

RESPONSE TO DMA/OCA-T1-2.

(a) Yes. The SPFC rate stability proposal would accommodate the differing interests of household and business mailers with respect to the amount and timing of rate changes related to First-Class Mail. See OCA-T-6, Part II, at 30-35. Moreover, my proposal proposes that workshare discounts be determined by reference to a "calculated" non-integer single-piece rate, rather than the single-piece integer rate used now. In so doing, rates for workshare mail would more accurately reflect costs. See OCA-T-6, Part II, at 38-39.

The SPFC rate stability proposal could have some public relations value for the Postal Service. To the extent households find frequent rate changes inconvenient, maintaining the single-piece First-Class rate for longer periods would be viewed favorably, and redound to the benefit of the Postal Service.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

The SPFC rate stability proposal is expected to increase workshare volumes and presort mailer revenues, at least during the first rate case period. The additional revenues could permit some presort mailers to invest in new capital equipment, thereby increasing efficiency. See OCA-T-6, Part II, at 45.

(b) - (c) See OCA-T-6, Part II, at 30.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

DMA/OCA-T1-3. Please refer to your testimony at page 6, lines 11-13, where you state that "The Postal Service would track the excess or deficient revenues from single-piece mail over time in a reserve account."

- a. Please describe in as much detail as possible the manner in which this "reserve account" would be established and maintained.
- b. Would it be a separate account in which cash would be accumulated initially and then drawn down? If so, please explain in as much detail as possible what would happen when the assets in the account become fully depleted and additional charges to the account are made.
- c. Is the "reserve account" intended merely to be an accounting convenience?
- d. Whether the "reserve account" is an accounting convenience or an actual account in which assets are held, please describe in as much detail as possible the computations that would be made leading to the debiting or crediting of amounts to the account. Please address separately how the relevant costs would be computed in the test year, in the year following the test year, and in the years following implementation of a subsequent rate change.

RESPONSE TO DMA/OCA-T1-3.

(a) - (c) The SPFC Reserve Account is intended to be an entry in the book of accounts of the Postal Service for the purpose of recording the accumulation and reduction in revenues resulting from selecting (and then maintaining) the SPFC integer rate. See OCA-T-6, Part II, at 37-38. The amounts recorded in the SPFC Reserve Account represent the difference between the "calculated" non-integer rate and the SPFC rate multiplied by the volume of SPFC letters.

(d) I expect the balance in the SPFC Reserve Account to be determined each accounting period. Consequently, the amounts credited and debited in the SPFC Reserve Account would be the single-piece letter volume each accounting period

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

multiplied by the difference between the "calculated" non-integer rate and the SPFC rate. This calculation would take place each accounting period beginning with the accounting period in which the new SPFC rate established under this proposal is made effective.

DMA/OCA-T1-4. Please refer to your testimony at page 6, lines 7-11. Does your first-class rate stability proposal require the "rounding up" of the SPFC rate in the first case in which the proposal is implemented in order to create a "surplus" that could be "drawn down" in the succeeding proceeding? Please explain fully.

RESPONSE TO DMA/OCA-T1-4.

I do not use the term "rounding" or "rounding up" in my testimony since the choice of the SPFC integer rate may be more than 0.5 cents above the "calculated" non-integer rate in order to generate sufficient revenues for the SPFC Reserve Account. See OCA-T-6, Part II at 37- 40.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

DMA/OCA-T1-5. Please refer to your testimony at page 6, lines 10-11.

- a. Please describe in as much detail as possible your conclusion that, under your rate stability proposal, "the single-piece rate category would 'break even' over two rate case periods."
- b. Does your proposal assume that the SPFC "deficit" created by keeping the SPFC rate "stable" in the second proceeding would be equal to the "surplus" created during the effectiveness of the rates implemented pursuant to the first case?
- c. What would be the result, under your proposal, if the deficit that needed to be filled in the second case were twice the size of the surplus that had been accumulated under the first case?
- d. Under the scenario hypothesized in question 5.c. above, would the SPFC rate be "rounded up" again, permitting the "surplus" to continue to grow, or would the SPFC rate be rounded down, creating a deficit that would require higher rates in the third proceeding?
- e. Assuming that the surplus created pursuant to the first case is not exactly equal to the deficit created through rate stability in the second case, would you agree that your proposal amounts to nothing more than an accounting convention creating a "slush fund" that could be used in any rate case to justify rounding up or rounding down the SPFC rate from a "target" fractional rate to a rate with an even integer? If you do not agree, please explain fully.
- f. Given the significant number of judgmental factors that the Commission must consider in setting all postal rates, including the SPFC rate, please explain your views as to the relative importance of your proposed "reserve account" in relation to the other pricing factors.

RESPONSE TO DMA/OCA-T1-5.

(a) The entire sentence is

The difference would be that the single-piece First-Class rates for letters and cards would be set in one case at a level that would permit the rate to remain unchanged during the second rate case period, such that the single-piece rate category would "break even" over two rate case periods.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

This concept is also described in my testimony, OCA-T-6, Part II, at 37 and 38, lines 20-22, and 1-3, respectively. The intent expressed in both passages is that the SPFC rate would be selected so that sufficient revenues would be generated during the effective period of rates established at the time of the first rate case to permit the SPFC rate to be maintained through the following rate case period.

(b) That would be the intent when selecting the SPFC rate.

(c) - (d) My proposal anticipates the possibility that revenue generated during the first rate period may be insufficient to cover the likely revenue deficiency during the second rate period. If, at the time of the second rate proceeding, the SPFC Reserve Account is expected to have a revenue deficiency that is very large, such that the "calculated" non-integer rate is expected to increase by more than 1.5 cents above the existing SPFC integer rate, I propose that the Commission recommend a new SPFC integer rate at the time of the second rate proceeding to cover the estimated deficiency and generate additional revenues to build a positive balance in the SPFC Reserve Account to permit maintenance of the new SPFC rate through two rate cases. See OCA-T-6, Part II, at 45-46.

(e) No. My proposal is an effort to accommodate the interests of households for greater rate stability, while allowing business mailers smaller, more frequent and predictable rate adjustments. To do so, the SPFC integer rate would be set so that sufficient revenues would be generated to permit the single-piece rate paid by consumers to remain the same for two rate case periods, a duration of approximately

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

four years. The SPFC Reserve Account, an accounting convention, is the mechanism by which the accumulation and reduction in revenues during the two rate case periods are recorded. Please see my response to DMA/OCA-T6-3(a)-(c).

(f) Please see my response to DMA/OCA-T6-3(b).

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T1-1-6

DMA/OCA-T1-6. Please explain, in light of the fact that businesses mail large quantities of single piece First-Class mail, how under your rate stability proposal the Commission could craft a First-Class rate proposal that would preserve the desired incentives for mailers to apply bar codes and pre-sort their First Class mail. For example, under circumstances where the SPFC rate is reduced through the application of "monies" in the "reserve account," is it not the case that the incentives to pre-sort and apply bar codes to first class mail would be artificially reduced, to the detriment of overall USPS finances? Please explain your response fully.

RESPONSE TO DMA/OCA-T1-6.

Mail volumes are likely to shift between single-piece and workshare, alternately increasing workshare volume during the first rate case period, and decreasing in the second, as the workshare discount from the stable SPFC rate increases and then decreases. Over the period of two rate cases, however, there could be a small, positive change in total mail volume, with no adverse affect on Postal finances. See OCA-T-6, Part II, at 39-46.

However, please note that, contrary to the suggestion in the question that "the SPFC rate is reduced through the application of 'monies' in the 'reserve account,'" my proposal would leave the SPFC rate unchanged in the second rate case. That is, I do not propose to use the monies in the SPFC Reserve Account for a "reduction" in the SPFC rate.

DECLARATION

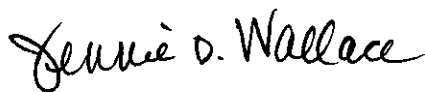
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories DMA/OCA-T1-1-6 of the Direct Marketing Association are true and correct, to the best of my knowledge, information and belief.

Executed 6-16-00

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.


JENNIE D. WALLACE

Washington, DC 20268-0001
June 16, 2000