

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

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Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
WITNESS: JAMES F. CALLOW (USPS/OCA-T1-11-12),
REDIRECTED FROM WITNESS GERARDEN
(June 22, 2000)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T1-11-12, dated June 8, 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 USPS/OCA-T1-11-12

USPS/OCA-T1-11

On page 6 of your testimony at lines 14-16 you state that, "Moreover, as proposed by the OCA, there would be a 'safety valve' that would permit the SPFC rate to be increased in two consecutive rate cases if a failure to do so would create a severe shortfall in the reserve account, or cause excessive shifting of First-Class Mail between single-piece and workshare categories."

- (a) Please define "severe shortfall" as used in this sentence.
- (b) Please define "excessive shifting" as used in this sentence.
- (c) Who would decide when circumstances justified using the "safety valve"?
- (d) On page 6 at lines 24 of your testimony, you state, "The Postal Service would continue to decide when to file rate cases and what rates to propose for each rate class and category." On page 6 at lines 1-2 of your testimony, you state, "It [reserve account proposal] is designed to safeguard the prerogatives of the Postal Service. . . ." Does this mean that, under your proposal, the Postal Service would decide when it is necessary to use the "safety valve"? Please explain.

RESPONSE TO USPS/OCA-T1-11.

(a) Although I do not use the phrase "severe shortfall," this concept is also described in my testimony, OCA-T-6, Part II, at 45-46, lines 22-23, and 1-3, respectively. The reference in witness Gerarden's testimony is to circumstances causing the "calculated" non-integer rate to be established at a level at which, without a change in the SPFC integer rate, the SPFC Reserve Account would accrue a large expected deficiency (e.g., more than the revenue generated in the first rate case period) during the second rate case period. Consequently, I define a "severe shortfall" as a negative balance in the SPFC Reserve Account estimated for the end of the second rate case period such that waiting until the third rate case to increase the SPFC

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integer rate would produce "rate shock."

(b) Although I do not use the phrase "excessive shifting," this concept is also described in my testimony, OCA-T-6, Part II, at 46, lines 3-8 and 19-23. I define "excessive shifting" as a circumstance where the volume shifting between single-piece and workshare mail would be greater than approximately 5 percent. This is likely to occur at the point where the "calculated" non-integer single-piece rate is 1.5 cents above the SPFC integer rate.

(c) - (d) Although I do not use the phrase "safety valve," this concept is also described in my testimony, OCA-T-6, Part II, at 45-46. In the first instance, the Postal Service could invoke the "safety valve" in its request at the time of the second rate proceeding. The Postal Service would estimate the volume of single-piece First-Class mail through the test year based upon its model of First-Class volumes. I would also expect the Postal Service to know the balance in the SPFC Reserve Account at the time of the filing and to estimate the balance through the duration of the first rate case period. This information would in turn permit an estimate of the amount of revenue to be "drawn" from the SPFC Reserve Account during the second rate case period, and a determination as to whether the requested increase in the "calculated" non-integer single-piece rate is such that there should be an increase in the SPFC integer rate to avoid a negative balance in the SPFC Reserve Account at the end of the second rate case period. Of course, estimates, projections, and all other factors involved in establishing the "calculated" non-integer single-piece rate and the SPFC integer rate

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would be subject to litigation by all parties. I would expect the Commission to review the estimates and information submitted by the Postal Service, as it does now, and to make an independent recommendation as to whether there should be any changes in the SPFC integer rate. Ultimately, however, this would be a policy decision of the Board of Governors acting upon the Commission's recommended decision.

Moreover, I would hope the Postal Service and the Commission would collectively be able to agree on the circumstances under which an increase in the SPFC integer rate would be warranted. As I suggest in my testimony, in circumstances where the "calculated" single-piece non-integer rate in the second rate proceeding is expected to increase by more than 1.5 cents above the existing SPFC integer rate, a change in the SPFC rate could be warranted. See OCA-T-6, Part II, at 46.

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USPS/OCA-T1-12

In the initial implementation of the proposed reserve account, is the intention of the OCA to build up a surplus in the early years that would then be drawn down in the later years as the second rate case period ends?

- (a) If so, have you evaluated, either quantitatively or qualitatively, how consumers feel about the tradeoff between essentially overpaying postage for approximately two years in return for possible rate stability in later years? Please explain and provide any documentation and supporting information.
- (b) Do you see any conflict between this proposal and the statutory requirements under which the Postal Service operates, for example, that it breakeven and cover its costs?

RESPONSE TO USPS/OCA-T1-12.

More precisely, the intent is to generate sufficient revenues to produce a positive reported balance in the SPFC Reserve Account in the first rate case period to permit the SPFC integer rate to be maintained through the second rate case period. During the second rate case period, where maintenance of the same SPFC integer rate would likely cause a revenue "deficiency," the existing positive balance in the SPFC Reserve Account from the first rate case would be used to make up this deficiency. See OCA-T-6, Part II, at 38.

(a) No. See my response to USPS/OCA-T6-2.

(b) I am not a lawyer. Consequently, I cannot give a legal opinion to the extent this question seeks one. That said, however, my proposal would not preclude or otherwise interfere with Postal Service's obligations to meet the "breakeven" requirement or cover the costs of postal services. As envisioned here, my proposal

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would simply permit a longer period of stability for the single-piece First-Class rate by generating sufficient revenues in the first rate case period in order to maintain the SPFC integer rate through two rate case periods. The intent is that single-piece First-Class mail "breakeven" over the two rate case periods in which the same SPFC integer rate is in effect.

DECLARATION

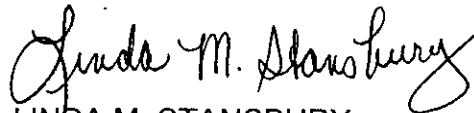
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T1-11-12 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 6-22-00

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.


LINDA M. STANSBURY

Washington, DC 20268-0001
June 22, 2000