

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

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Postal Rate and Fee Changes

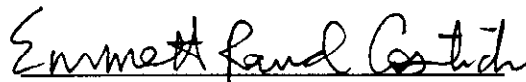
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Docket No. R2000-1

NOTICE OF THE OFFICE OF THE CONSUMER ADVOCATE
CONCERNING ERRATA TO THE RESPONSES OF OCA WITNESS
CALLOW TO INTERROGATORIES OF THE DIRECT MARKETING
ASSOCIATION (DMA/OCA-T6-2(b)-(c), 8-9, AND DMA/OCA-T1-5(e)-(f))
(June 29, 2000)

The Office of the Consumer Advocate hereby gives notice of the filing of the following revisions to the responses of witness James F. Callow to interrogatories of the Direct Marketing Association, DMA/OCA-T6-2(b)-(c), 8-9, and DMA/OCA-T1-5(e) and (f), redirected from OCA witness Gerarden, and filed on June 16, 2000. The changes to the responses are set forth below. The revised pages are attached.

Respectfully submitted,



TED P. GERARDEN

Director

Office of the Consumer Advocate

EMMETT RAND COSTICH

Attorney

1333 H Street, N.W.
Washington, D.C. 20268-0001
(202) 789-6830; Fax (202) 789-6819

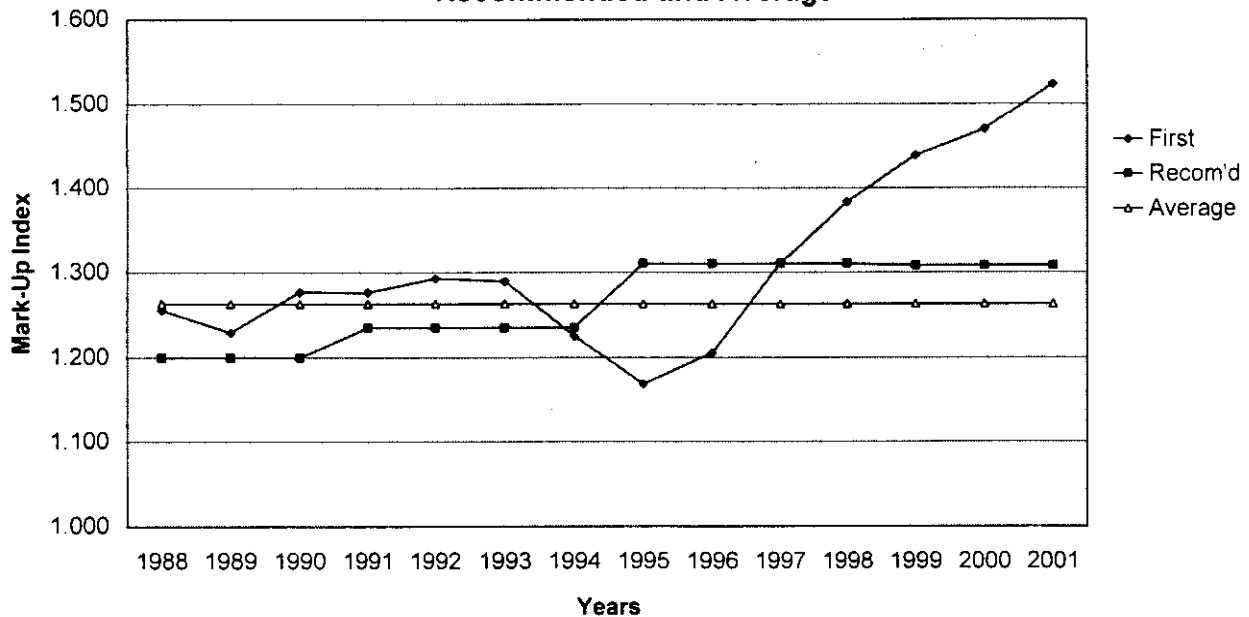
- DMA/OCA-T6-2(b) Replace Table 4 and Figure 4 to reflect change for 1998. Change "1.308" to "1.310"
- DMA/OCA-T6-2(c) In the second to the last line of the response, change "FY 1997" and "FY 1998" to "FY 1998" and "FY 1999," respectively
- DMA/OCA-T6-2(c) Replace the table at the end of the response to reflect change for 1998. Change "\$1,312" to "\$1,292"
- DMA/OCA-T6-8 Change "RESPONSE TO DMA/OCA-T6-1-8" to "RESPONSE TO DMA/OCA-T6-8"
- DMA/OCA-T6-9 Change "RESPONSE TO DMA/OCA-T6-1-9" to "RESPONSE TO DMA/OCA-T6-9"
- DMA/OCA-T1-5(e) In the last line of the response, change "DMA/OCA-T6-3(a)-(c)" to "DMA/OCA-T1-3(a)-(c)"
- DMA/OCA-T1-5(f) Change "DMA/OCA-T6-3(b)" to "DMA/OCA-T6-3(b)-(c)"

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T6-1-9

Table 4
COMPARISON OF FIRST-CLASS LETTER MARK-UP INDEX TO RECOMMENDED AND AVERAGE MARK-UP INDICES

| Mark-Up Index | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| First | 1.256 | 1.230 | 1.277 | 1.276 | 1.293 | 1.289 | 1.228 | 1.169 | 1.206 | 1.311 | 1.384 | 1.439 | 1.469 | 1.524 |
| Recom'd | 1.200 | 1.200 | 1.200 | 1.235 | 1.235 | 1.235 | 1.235 | 1.310 | 1.310 | 1.310 | 1.310 | 1.308 | 1.308 | 1.308 |
| Average | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 | 1.263 |

Figure 4: Comparison of First-Class Letter Mark-Up Index to Recommended and Average



Source: For FY 2001, Exhibit USPS-32A (revised 4-21-00) at 1.

Beginning in FY 1995, the actual markup index for First-Class Letters rises rapidly through FY 1999. Moreover, using R97-1 rates, the estimated mark-up index continues rising through FY 2001, to 1.524 $((16,631.177 / 24,627.081) / (18,459.138 / 41,647.946))$. During this same period, the Commission-recommended index is essentially constant at about 0.05 above the four-rate-case average. If one calculates the excess First-Class Letter Mail contribution relative to the recommended contribution over the two most recent rate cases, one finds a smaller excess. But the

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T6-1-9

annual excess increases every year. Thus, the acceleration in the amount of the excess in recent years remains even after accounting for the Commission's recent higher recommended mark-up indexes.

(c) No. The table below is an excerpt from Table 11 showing the period FY 1995 through FY 2001. This excerpt displays the excess contribution made by First-Class Letter Mail calculated using the Commission's recommended mark-up indexes—1.310 for FY 1995 through FY 1998, and 1.308 for FY 1999 through FY 2001. The excess rises rapidly.

EXCERPT FROM TABLE 11 IN OCA-T-6

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-----------|---------|-------|---------|---------|---------|---------|
| (\$1,221) | (\$841) | \$117 | \$1,292 | \$1,505 | \$2,229 | \$1,210 |

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES DMA/OCA-T6-1-9

DMA/OCA-T6-8. Please refer to your testimony at page 37, line 20 through page 38, line 5.

- a. Would the 33-cent SPFC stamp you propose produce a "positive balance" in the "SPFC Reserve Account" that you propose, in the test year?
- b. If so, how large do you estimate the reserve would be at the end of test year?
- c. On pages 21 through 23 of your testimony, you argue that First-Class letter mail has contributed an excess of revenues over the past twelve years. Is it your testimony that, in effect, there is already a "positive balance" to the "credit" of SPFC mail that should cause the Commission to recommend SPFC rate stability in this proceeding by maintaining the 33-cent rate recommended in R97-1?
- d. Have you made an analysis as to whether similar "excess contributions" have been made by other classes or subclasses of mail that should be used to maintain rate stability for those classes, as well? If so, please describe such analyses in detail.

RESPONSE TO DMA/OCA-T6-8

(a) - (b). In this proceeding, if the Commission maintains the current First-Class rate at 33 cent, rate stability will effectively be provided through two rate case periods, Docket Nos. R97-1 and R2000-1. Under these circumstances, I would not expect the Commission to recommend my rate stability proposal in this proceeding; it would be more appropriate to recommend this proposal in the next rate proceeding. Please note that to illustrate the operation of my proposal, I assumed a 34 cent SPFC rate and a "calculated" non-integer single-piece rate of 33 cents, the rate from which workshare discounts are set. Under these illustrative assumptions, which could be recommended by the Commission in this proceeding, I estimate that the SPFC Reserve Account would accumulate \$517 million in the test year. See OCA-T-6, part II, Table 13, at 40.

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DMA/OCA-T6-9. What are the cost coverage and mark-up index for First-Class letters implied by the OCA 33-cent SPFC proposal in the Test Year both (1) using Test Year costs proposed by the Postal Service and (2) using Test Year costs as estimated by OCA witness Thompson. See OCA-T-9.

RESPONSE TO DMA/OCA-T6-9

With respect to (1) Test Year costs proposed by the Postal Service, the cost coverage and mark-up index for a 33 cent single-piece First-Class rate would be 190.1 percent and 1.369, respectively.

With respect to (2) Test Year costs estimated by OCA witness Thompson, the cost coverage and mark-up index for a 33 cent single-piece First-Class rate would be 180.4 percent and 1.353, respectively.

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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-T1-3(a)-(c).

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

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.


EMMETT RAND COSTICH

Washington, D.C. 20268-0001
June 29, 2000