

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

NOTICE OF THE OFFICE OF THE CONSUMER ADVOCATE
CONCERNING ERRATA TO THE REBUTTAL TESTIMONY
OF OCA WITNESS: JAMES F. CALLOW OCA-RT-1
(August 1, 2000)

The Office of the Consumer Advocate hereby gives notice of the filing of the following revisions to the rebuttal testimony of James F. Callow (OCA-RT-1), filed on July 27, 2000. The changes to the testimony are set forth below. The revised pages are attached.

Respectfully submitted,



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<u>Page</u>	<u>Line</u>	<u>Correction</u>
2	15	Delete "an" and insert "and"
2	22	Delete "of" and insert "for"
5	4	Move footnote number "5" to line 3, after "correction."
11	Note 13	Delete "/d." and insert "Tr. 34/16542. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000."
12	7	Delete "core" and insert "cover"
14	19	Delete the first "the"
15	4	Delete "Table 2" and insert "Table 1"
19	15	Insert "a" between "such" and "rate"

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 This testimony addresses Postal Service forecasting of the number of additional
3 ounces per piece for single-piece First-Class Letter Mail in the test year. In this
4 proceeding, the Postal Service has proposed two methodologies for forecasting the
5 number of additional ounces per piece: the "as-filed" methodology, presented at the
6 time of its original request, and the "revised" methodology, introduced several months
7 thereafter. The "as-filed" methodology results in a forecast showing an increase in the
8 number of additional ounces per piece between the base year and the test year,
9 consistent with the long-term trend of an increase in the number of additional ounces
10 per piece. The "revised" methodology produces a forecast showing that the number of
11 additional ounces per piece remains the same between the base year and the test year.

12 I propose that the Commission adopt the "as-filed" methodology for forecasting
13 the number of additional ounces per piece in the test year. The "revised" methodology
14 fails to reflect the historical trend of an increasing number of additional ounces per
15 piece, and average weight per piece, for single-piece First-Class Letter Mail.

16 The "revised" methodology appeared at the same time the Postal Service made
17 a necessary correction to account for the omission of the net overpayment of First-
18 Class postage in its revenue calculation. Correcting that error increased total net
19 revenue for single-piece First-Class Letter Mail by \$192.3 million. By contrast, the
20 "revised" methodology reduced net revenue for single-piece First-Class Letter Mail by
21 \$172.2 million. The "revised" methodology thus served to offset nearly all of the
22 increase in net revenue for single-piece letters from the error correction.

1 piece First-Class Letter Mail by \$172.2 million. In effect, introduction of the "revised"
2 methodology served to offset all but \$47.2 million of the revenue resulting from the error
3 correction.⁵ The Postal Service proposes to add the \$47.2 million to the net revenues
4 of First-Class Mail in the test year.

5 The Commission should adopt the "as-filed" methodology for forecasting of
6 number of additional ounces per piece in the test year. The "revised" methodology fails
7 to recognize the long-term trend showing an increasing number of additional ounces
8 per piece, and average weight per piece, for single-piece First-Class Letter Mail.

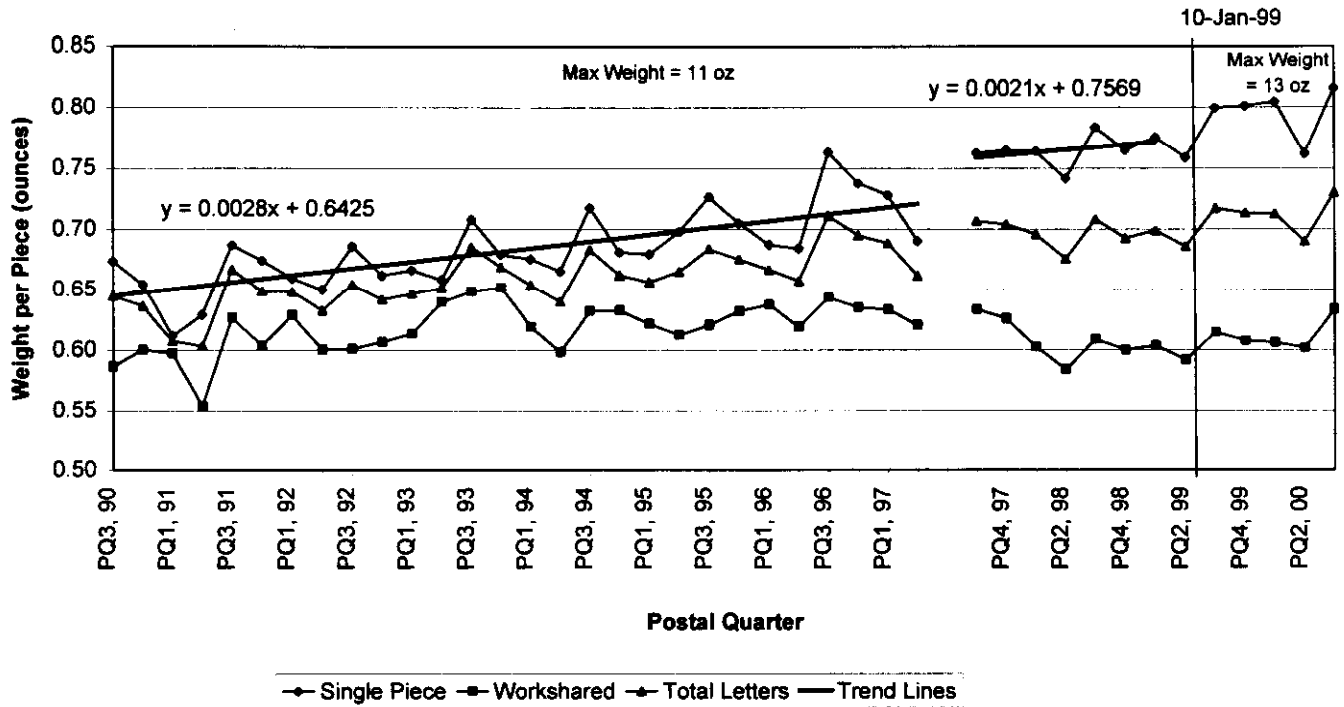
9 A. The "As-Filed" Methodology Properly Reflects the Increasing Long-Term
10 Trend in the Number of Additional Ounces per Piece, and Average Weight
11 per Piece, for Single-Piece Letters

12 The "as-filed" methodology recognizes the long-standing trend of the increasing
13 number of additional ounces, and average weight per piece, in forecasting additional
14 ounces.⁶ The "as-filed" methodology results in a forecast showing an increase in the
15 number of additional ounces per piece between the base year and the test year, and is
16 obtained in a three step process. First, the base year ratio of additional ounces per
17 piece for both presort letters and the First-Class Letters subclass as a whole is
18 calculated. Next, the base year ratios are applied to the test year volumes of presort

⁵ *Id.*

⁶ Witness Fronk characterizes the "as-filed" methodology as "a departure from the method the Commission itself has used in past rate cases." See Tr. 34/16533-34. According to witness Fronk, it is the "revised" methodology that represents a return to the traditional approach used by the Commission in the past five rate cases. See Tr. 34/16566. An exception noted by witness Fronk, however, is the Commission's opinion and recommended decision Docket No. MC95-1, where the Commission used a method for forecasting the number of additional ounces similar to the "as-filed" methodology. See Tr. 34/16537.

**Figure 4. Quarterly Weight per Piece
First-Class Letters (with Trend Lines)**



1 3. An increasing average weight per piece for single-piece letters
 2 creates an increase in the number of additional ounces per piece
 3 for single-piece letters

4 In his response to Notice of Inquiry No. 3, witness Fronk states that "it is the
 5 trend in additional ounces per piece . . . rather than average weight per piece, that is
 6 more directly related to revenue."¹³ Witness Fronk supports his statement by
 7 example:¹⁴

¹³ Tr. 34/16542. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

¹⁴ *Id.*

1 . . . for a given volume, the average weight of single-piece mail weighing
2 less than 1 ounce could hypothetically increase from 0.5 ounces to 0.7
3 ounces and the average weight of pieces weighing between 1 and 2
4 ounces could increase from 1.6 to 1.9 ounces. This would increase the
5 average weight of the single-piece mail stream, but leave revenue
6 unchanged since a first-ounce stamp would still cover the postage for a
7 0.7 ounce piece and an additional ounce stamp would still cover the
8 postage of the second ounce.

9 Witness Fronk's statement, while true, attempts to separate the relationship
10 between an increase in the average weight per piece and an increase in the number of
11 additional ounces per piece. His example, hypothesizing an increase in the average
12 weight of pieces within the same weight step, ignores the fact that an increase in the
13 average weight per piece in one weight step can just as well increase the number of
14 additional ounce pieces in next weight step. Another example, presented below,
15 illustrates a different relationship between the average weight per piece and number of
16 additional ounces per piece.

17 For a given volume of single-piece letter mail, the average weight per piece
18 within any given weight step is the sum of the weight of each piece divided by the
19 number of pieces in that weight step. To derive the average weight per piece, there is,
20 in effect, a distribution of pieces by weight around the average. As the average weight
21 per piece increases, the distribution of pieces around the average shifts to the right,
22 resulting in an increasing number of pieces crossing into the next higher weight step.

23 Figure 5 visually displays hypothetical data based on the example of witness
24 Fronk. It shows the effect on the number of additional ounces per piece in the first and
25 second ounce weight step when the average weight per piece in the first ounce is
26 increased from 0.5 to 0.7 ounces. The increase in the number of additional ounces in

1 the same between the base year and the test year. In forecasting the number of
2 additional ounces, the ratio of the number of additional ounces per piece for single-
3 piece letters in the base year is applied to the test year single-piece letter volume.

4 This approach ignores the long-term trend of an increase in the number of
5 additional ounces, and the average weight per piece, for single-piece letter mail. It also
6 ignores the continuing, but smaller, rise in the number of additional ounces per piece in
7 more recent years.

8 1. The forecast for the number of additional ounces through the test
9 year is not supported by the long-term trend

10 Witness Fronk acknowledges that the "as-filed" methodology "may appear to be
11 more consistent with the long-term trend in additional ounces."¹⁵ Nevertheless, it is
12 claimed that the "revised" methodology should be adopted because "newly available
13 1999 data . . . indicate that the additional ounces per piece in th[e] 0-11 ounce weight
14 range have remained almost constant between 1998 and 1999."¹⁶

15 As noted previously, the number of additional ounces per piece for single-piece
16 letter mail has exhibited positive growth every year since 1990. Witness Fronk's
17 "revised" methodology incorporates negative growth for 2000, and zero growth for
18 2001. Not only is this inconsistent with the historical trend of the past 10 years, but it
19 ignores witness Fronk's own finding of positive, but smaller, growth in the number of

¹⁵ Tr. 34/16533. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

¹⁶ Tr. 21/9180-81. Witness Fronk, in his response to NOI No. 3, maintains that "data in 1999 and 2000 confirm that no change in the long-standing traditional method [e.g., the "revised" methodology] is necessary or appropriate." Tr. 34/16537 (emphasis added).

1 additional ounces per piece in 1999, and in the "hybrid" year 1999/2000. Table 1
2 shows the continuing growth in the number of additional ounces per piece as
3 determined by witness Fronk.¹⁷

4 Table 1
5

ADDITIONAL OUNCES PER PIECE, 1998, 1999, AND COMBINED 1999/2000			
	1998	1999	1999/2000
Single-Piece Letters	0.3378	0.3387	0.3396

6
7 This continuing positive, but smaller, growth in the number of additional ounces per
8 piece is consistent with the historical trend, which shows periods of smaller positive
9 growth followed by periods of more substantial growth.¹⁸

10 Moreover, with respect to total First-Class Letters, witness Fronk's use of the
11 "revised" methodology results in a forecast of two years of negative growth in the
12 number of additional ounces per piece. Since 1990, there have never been two
13 consecutive years during which growth has been negative.

14 2. The more recent data on the number of additional ounce per piece
15 are insufficient to predict a reversal of the long-term trend

16 It is premature to predict a reversal (or leveling-off) of the decade-long trend
17 toward an increasing number of additional ounces per piece for single-piece First-Class

¹⁷ Tr. 34/16538-39. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000. It should be noted that the positive, but smaller, growth in the number of additional ounces per piece occurs using data that reflects only "physical" additional ounces. See Tr. 34/16537.

¹⁸ For example, between 1990 and 1991, the annual percentage change in the number of additional ounces per piece was 0.2 percent. A similar change of 0.6 percent occurred between 1993 and 1994. See Notice of Inquiry, No. 3, First-Class Revenue Adjustment Factor (RAF) and Additional Ounce Method Change, June 30, 2000, Attachment 3.

1 thus served to offset nearly all of the identified increase in net revenue of single-piece
2 letters occasioned by witness Fronk's error correction.

3 Assuming that the Commission adopts the "as-filed" methodology, the resulting
4 \$192.3 million increase in the net revenue of single-piece letters should be used for the
5 benefit of single-piece mailers. The identified increase in net revenue is a consequence
6 of the behavior of single-piece mailers. According to witness Fronk, much of the
7 unexplained revenue is "most likely explained by single-piece mailers using first-ounce
8 stamps for additional ounce postage."²⁴

9 The net revenue resulting from the error correction therefore should be used for
10 the benefit of mailers paying single-piece First-Class Mail rates. The high and rising
11 cost coverage for First-Class Letter Mail will be exacerbated if no rate adjustment is
12 made. And the effect of the postage overpayment on reducing single-piece rates would
13 be significant. It amounts to more than 0.36 cents per piece, a figure exceeding one-
14 third of the rate increase sought for the first-ounce of First-Class Letter Mail.²⁵
15 Maintaining the single-piece First-Class Letter rate at 33 cents is such a rate adjustment
16 proposed in the direct case of the Office of Consumer Advocate that would benefit
17 single-piece mailers.

²⁴ Tr. 34/16536. Response of US Postal Service Witness Fronk to Notice of Inquiry No. 3, July 17, 2000.

²⁵ Based upon the Postal Service's single-piece letter volume in the test year after rates (\$192.3 million / 52,877.658 million). See USPS-T-6 (Tolley), Table 1, at 2.

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.


STEPHANIE WALLACE

Washington, D.C. 20268-0001
August 1, 2000