

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

Experimental Rate and Service Changes )  
To Implement Negotiated Service Agreement )  
With Capital One Services, Inc. )

Docket No. MC2002-2

ANSWERS OF OFFICE OF CONSUMER ADVOCATE  
WITNESS JAMES F. CALLOW TO INTERROGATORIES OF  
AMERICAN POSTAL WORKERS UNION, AFL-CIO (APWU/OCA-T2-1-9)  
(January 13, 2003)

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The Office of Consumer Advocate hereby submits the answers of James F. Callow to interrogatories APWU/OCA-T2-1-9, dated January 3, 2003. 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 APWU/OCA-T2-1-9

APWU/OCA-T2-1

Have you estimated the changes in revenue and costs to the Postal Service of implementing the two experimental mail classifications that you propose in your testimony? If so, please provide those results and the assumptions that underlie your results. Please include in the description of your assumptions any changes that might arise from the implementation of PARS. If you have not made such cost and revenue estimates, why not?

RESPONSE TO APWU/OCA-T2-1

No. What I have tried to do is create classifications that substantially increase the likelihood that the Postal Service will generate an increase in contribution to institutional costs. That said, however, additional information is needed to estimate precise changes in revenue and costs associated with the experimental classifications. For the Experimental Volume-Based Declining Block Rates classification, I would need estimates of mail volume to be provided by, and the Postal Service-established volume threshold for, each mailer to estimate changes in revenues. For the Experimental Automated Address Correction Service, I would need an estimate of undeliverable-as-addressed (UAA) mailpieces to estimate changes in costs. I have made no assumptions with respect to the phased deployment of PARS. With respect to PARS, however, my data collection plan proposes that the Postal Service prepare a special study to develop

separate estimates of the cost savings to the Postal Service of providing electronic notices for 1) pieces that are forwarded and 2) in lieu of the physical return of pieces that cannot be forwarded, including the effect on such cost estimates resulting from the implementation of PARS.

OCA-T-2, at 14, lines 20-23.

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APWU/OCA-T2-2

Please confirm that all mailers participating in the experimental address correction classification that you propose would use the CSR-Option 2 endorsement.

RESPONSE TO APWU/OCA-T2-2

Confirmed. OCA-T-2, at 9, lines 4-6.

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APWU/OCA-T2-3

You state on page 9 of your testimony that "mailers would have an affirmative obligation to use address correction information to correct their address databases, and to do so within two days of receiving electronic notices."

- a) Is this the same as requiring mailers to process all their future mailing lists against the information received from the ACS program? If not, please explain in more detail what actions the mailer would need to undertake to be in compliance with this requirement. Would this prohibit the mailer from mailing to an addressee at an address that has had a notice of a prior return?
- b) How would the Postal Service monitor compliance with this requirement?

RESPONSE TO APWU/OCA-T2-3

(a) Yes. Where the mailer receives an electronic notice with respect to a mailpiece that is forwarded, the mailer's obligation is to correct its address databases; that is, eliminate the name/address combination from use in any future mailing. Where the mailer receives an electronic notice in lieu of the physical return of a mailpiece, the mailer must update its address databases; that is, the mailer must note that an address is from a mailpiece that is electronically "returned," although the mailer would not be precluded from mailing to such an address.

This distinction between "corrected" and "updated" is practical and warranted. A mailer should be required to eliminate from future use a name/address in its address databases where an electronic notice provides the mailer with a correct move-related address. Doing so eliminates repeat forwards and reduces costs to the Postal Service. An electronic notice in lieu of physical return provides mailers with the reason for the non-delivery of a mailpiece. Such reasons include Not Deliverable as Addressed—Unable to Forward (Forwarding Order Expired), or Moved—Left No Address. In

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practical terms, mailers are unlikely to reuse a name/address where the reasons are as provided above. However, there are other reasons for non-delivery, including Temporarily Away, or No Mail Receptacle. Thus, in such circumstances where a name/address is correct but the mailpiece is nevertheless “returned,” a mailer might use this information in combination with other information available to it, to attempt another mailing that would have a higher likelihood of the mailpiece being delivered.

(b) The proposed DMCS for Experimental Automated Address Correction Service requires that mailers provide the Postal Service with a commitment to “retrieve or receive” address correction information weekly or more often. See OCA-T2 Attachment A, DMCS § 610.42. Mailer receipt of this information can be monitored by the Postal Service and is the starting point for compliance. Ultimately, the Postal Service should determine whether correcting address databases reduces the number of mailpieces that are repeat forwards to the same address. At the present time, however, the Postal Service does not collect data on the number of mailpieces forwarded by any specific First-Class mailer. Tr. 3/657. The data collection plan I propose would require the Postal Service to collect data on “the volume of presorted First-Class mailpieces that are forwarded, and the mailer’s volume of repeat forwards.” OCA-T-2, at 13, lines 21-22.

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APWU/OCA-T2-4

You state on page 18 of your testimony that under your experimental volume-based declining block rates, a unique volume threshold for each mailer would be determined from "a mailer's recent historic First-Class Mail volume." Are you proposing to use a specific methodology for determining this unique threshold value? If so, what methodology are you proposing? Once set, would these threshold amounts stay constant for all future years of the agreement?

RESPONSE TO APWU/OCA-T2-4

No. The proposed DMCS for Experimental Volume-Based Declining Block Rates directs that the "Discount Threshold" be "established by the Postal Service using only its own or publicly available data." See OCA-T2 Attachment B, DMCS § 620.61. In the absence of a mailer merging with or acquiring another entity, the unique volume threshold (i.e., Discount Threshold) once established for each mailer would be unchanged for the three-year period of the experiment.

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APWU/OCA-T2-5

Under your proposed experimental volume-based declining block rates, when would the discounts be applied? Since mailers can claim the highest discount available based on the amount by which their mail volume exceeds their threshold amounts, would the discounts be provided as a retroactive rebate once the full year's volume is determined? If not, please explain further the procedures for implementing the discounts. If so, will the volume totals be determined through the PERMIT system based on a set of permit numbers registered at the time of the Postal Service approves the mailer to participate in the program?

RESPONSE TO APWU/OCA-T2-5

Discounts will be rebated to the mailer "at the end of each postal fiscal year" where "the Postal Service determines the mailer has provided eligible First-Class Mail in excess of the [mailer's] discount threshold." See OCA-T2 Attachment B, DMCS § 620.62. Yes. The proposed changes to the DMCS for Experimental Volume-Based Declining Block Rates states that "Mailers must enter eligible First-Class Mail through unique permit accounts [and] provide the Postal Service with the numbers of such unique permit accounts." Id., DMCS § 620.42. Moreover, mailers "must use different permit accounts for ineligible First-Class Mail." Id.

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APWU/OCA-T2-6

Under your proposed experimental volume-based declining block rates, would the amount of the discounts available to each mailer be the same (for example always starting at 3 cents and progressing to 6 cents) but the threshold amounts differ or would the amount of the discounts available also be dependent on the size of the threshold amount? Would the size of the incremental blocks be adjusted to the specific mailer?

RESPONSE TO APWU/OCA-T2-6

Under the Experimental Volume-Based Declining Block Rates classification, each authorized mailer would have access to discounts that start at 3 cents and increase to 6 cents for mailpieces in excess of each mailer's volume threshold. The discounts—3.0, 3.5, 4.0, 4.5, 5.0, 5.5, and 6.0 cents—at each incremental volume block are unchanged for each mailer participating in the experimental classification. However, the size of each incremental volume block could be larger or smaller as between two mailers, since each incremental volume block is calculated as a fixed proportion of each mailer's volume threshold.

If it is assumed only two mailers participate in the Experimental Volume-Based Declining Block Rate classification, the difference in the size of each incremental volume block can be illustrated by comparing the table below with Table 2 in my testimony. OCA-T-2, at 20. Table 2 shows a "Discount Threshold" of 1.225 billion mailpieces. The table below assumes another mailer's Discount Threshold is 1 billion mailpieces. The absolute size of each incremental volume block in the table below is proportionally smaller as compared to the incremental volume blocks in Table 2. However, the discounts for each incremental volume block in each table are the same.



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<b>Discount Threshold =</b>		1,000,000,000			
[1]		[2]		[3]	[4]
<u>Incremental Volume Blocks</u>				<u>% Change</u>	<u>Discount</u>
1,000,000,001	to	1,040,000,000		4.0%	\$0.030
1,040,000,001	to	1,080,000,000		8.0%	\$0.035
1,080,000,001	to	1,120,000,000		12.0%	\$0.040
1,120,000,001	to	1,180,000,000		18.0%	\$0.045
1,180,000,001	to	1,240,000,000		24.0%	\$0.050
1,240,000,001	to	1,300,000,000		30.0%	\$0.055
1,300,000,001	to	above			\$0.060

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APWU/OCA-T2-7

Under your proposed experimental volume-based declining block rates, how would mergers or acquisitions among mailers be handled? Could a mailer meet its threshold target by purchasing another mailer and adding the acquired mail volume to its own?

RESPONSE TO APWU/OCA-T2-7

See OCA-T2 Attachment B, DMCS § 620.63. No. If a mailer authorized to participate in the Experimental Volume-Based Declining Block Rate classification merged with or acquired one or more entities, and the mergers and/or acquisitions met the requirements of OCA-T2 Attachment B, DMCS § 620.63, the “Discount Threshold” for the authorized mailer would “be adjusted upward by the volume of eligible First-Class Mail sent by the other entity (or entities) during the 12 months preceding the merger or acquisition.” Id.

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APWU/OCA-T2-8

Under your proposed experimental volume-based declining block rates, does the mail volume used to qualify for the discount have to be generated by the mailer? Could a mailer contract to mail other mailers volume in order to qualify for the discounts?

RESPONSE TO APWU/OCA-T2-8

Yes. No.

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APWU/OCA-T2-9

Under your proposed experimental volume-based declining block rates, the Postal Service can decline access to the volume-based declining block rates to a specific mailer if it does not believe that additional contribution to institutional costs can be generated. Are there any other reasons that the Postal Service can decline access to the volume-based declining block discounts to a specific mailer? If so what would those be?

RESPONSE TO APWU/OCA-T2-9

Yes. The Postal Service “may decline to provide an authorization for any legitimate data collection, administrative or logistical reason.” See OCA-T2 Attachment B, DMCS § 620.41.