

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
CAPITAL ONE SERVICES, INC. (COS/OCA-T2-5-12)
(January 16, 2003)

The Office of Consumer Advocate hereby submits the answers of James F. Callow to interrogatories COS/OCA-T2-5-12, dated January 6, 2003. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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COS/OCA-T2-5

You have proposed discounts for First-Class Mail volumes above a unique volume threshold “determined for each mailer based upon the mailer’s historical First-Class volume data.” (Page 3).

- (a) Is the decline in First-Class Mail volume currently a serious problem confronting the Postal Service?
- (b) Does your threshold requirement prohibit the Postal Service from halting First-Class Mail volume declines for a particular mailer by offering that mailer a discount to maintain volumes?
- (c) Does your “threshold” approach obviate the possibility of the so-called “free rider” problem, that is, the possibility that discounts may be granted for First-Class Mail volume increments which would have materialized in the absence of the discount? Please explain your answer.

RESPONSE TO COS/OCA-T2-5

(a) The volume of First-Class Mail has declined recently. If this is a permanent trend, it is a serious problem.

(b) No.

(c) No. The financial risks to the Postal Service of establishing a volume threshold for any mailer cannot be entirely eliminated. However, the risks can be minimized in several ways. Under the Experimental Volume-Based Declining Block Rates classification, a First-Class mailer’s access to declining block rates is linked to participation in the Experimental Automated Address Correction Service. According to the Postal Service, every piece of First-Class Mail “returned” electronically reduces Postal Service’s costs, and thereby makes an additional contribution to the Postal Service. USPS-T-3 (Crum) at 5. Moreover, the total amount of discounts available to any one mailer is limited to a maximum quantity of mail equal to 15 percent of that

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mailer's volume threshold. Such a limit also reduces the Postal Service's financial risk associated with developing a volume threshold that is too "low."

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COS/OCA-T2-6

On page 4 of your testimony, you state that your experimental classifications “could eliminate the need to negotiate individual agreements with each mailer and to rely on unverifiable, private information.” Please confirm that this necessarily means that the only criteria that the Postal Service could use in determining a volume threshold is actual volume data for a particular mailer, and the Service cannot include any evidence relating to the intentions or plans of that mailer. In responding, please state as explicitly as you can what you regard as the “objective terms”, as you use that phrase on page 6 of your testimony, as the basis for accessing declining block rates.

RESPONSE TO COS/OCA-T2-6

To facilitate providing a thorough response to compound questions, the relevant portion of each question addressed is quoted verbatim, followed by the response.

“Please confirm that this necessarily means that the only criteria that the Postal Service could use in determining a volume threshold is actual volume data for a particular mailer . . .”

Not confirmed. The Postal Service could use any publicly available information in establishing a mailer’s volume threshold, including historic volume data verified by the Postal Service.

“Please confirm that . . . the Service cannot include any evidence relating to the intentions or plans of that mailer.”

Not confirmed. The Postal Service could use any publicly available information, such as SEC filings, relating to the intentions or plans of a mailer in establishing that mailer’s volume threshold.

Publicly available information, such as SEC filings, provide an objective basis for establishing a volume threshold because such filings are made for purposes other than

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the establishment of a volume threshold. Historic volume data, if verified, also provides an objective basis for establishing a volume threshold, as it permits the Postal Service to make an independent judgement about the value of such data in establishing a mailer's volume threshold.

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COS/OCA-T2-7

On page 18 of your testimony, you state that for your experimental classification “a mailer’s recent historic First-Class Mail volume can be used to develop a volume threshold.” Please explain in detail how this data would be developed so that it would present an objective and verifiable volume threshold, and in the course of that explanation please explain how data can be both “recent” and “historic”.

RESPONSE TO COS/OCA-T2-7

A mailer’s recent historic First-Class Mail volume data could be developed from the permit system based on the mailer’s specific identification of its permit account numbers. The Postal Service could verify the mail volumes entered through such permit accounts in past years. The Postal Service could also use volume data from mailing statements provided by a mailer in establishing a mailer’s volume threshold.

All prior annual volume data of a mailer would be “historic.” Annual volume data closer in time to the present would be “recent.”

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COS/OCA-T2-8

On page 25 of your testimony, you state that the Postal Service “has an affirmative duty to find that any First-Class mailer, if authorized access to the volume- based declining block rates, will generate an additional contribution to institutional costs.” You then say that if the Postal Service finds that such additional contribution is not likely, “it may decline to authorize a mailer’s access to the volume-based declining block rates.” While, as you say, the Postal Service “may” decline to authorize a mailer’s access to the volume-based declining block rates, may they nevertheless do so?

RESPONSE TO COS/OCA-T2-8

No. Please refer to the proposed DMCS for Experimental Volume-Based Declining Block Rates at OCA-T2 Attachment B, DMCS § 620.41, which states

Mailers must receive authorization from the Postal Service to obtain access to volume-based declining block rates; **provided**, the Postal Service finds there is a reasonable expectation that any mailer so authorized will make an additional contribution to institutional costs from access to the volume-based declining block rates.

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COS/OCA-T2-9

On page 9 of your testimony, you state that in the case of the Capital One NSA, “there is no requirement that Capital One receive electronic address correction notices. ...” In the footnote on that same page, however, you acknowledge that the Service maintains that Capital One will have such an obligation if it wishes to have the address correction fees waived and pieces counted toward the discount thresholds. Do you contest the Postal Service’s claim, and, if you do not, is it not then the case that, in order to qualify for the free electronic address correction service and volume discounts, Capital One will have to, as you say, “receive” electronic address correction notices?

RESPONSE TO COS/OCA-T2-9

According to the Postal Service, there is no requirement that Capital One receive electronic address correction notices. Tr. 4/743. As you state, however, it would be in Capital One’s interest to receive electronic notices if it wishes to have address correction fees waived and pieces counted toward the discount thresholds.

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COS/OCA-T2-10

On page 9 you say that, under your proposal, “mailers would be required to correct, not just update, their address databases in order to prevent incorrect addresses from being used in another mailing.” Please explain your understanding of the distinction between “correct” and “update”.

RESPONSE TO COS/OCA-T2-10

As stated in my response to APWU/OCA-T2-3(a), 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 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

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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.

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COS/OCA-T2-11

On page 12 of your testimony, you criticize the Postal Service's data collection plan as inadequate because it fails to collect data on the volume of Capital One's First-Class solicitation mail that is forwarded and also fails to account for the volume of forwards processed through CFS units or forwarded locally, and you criticize the agreement because it does not require the Postal Service to do a special study to determine the amount of forwarding and return for Capital One. And on page 13 of your testimony, you state that, under your proposal, the data to be collected for each mailer will include the volumes of mail pieces forwarded, repeat forwards, those processed through CFS units, those forwarded from destination delivery units not covered by CFS units, those forwarded locally and those forwarded through PARS; and to get this data "a special study supported by accompanying documentation and calculations will be required." Assume that hundreds, perhaps even thousands, of mailers choose to take advantage of your classifications, is it your testimony that for each such mailer, the Postal Service should make a "special study" to determine how much mail is forwarded for that particular mailer in all its variations of forwarding as you have described?

RESPONSE TO COS/OCA-T2-11

For purposes of the experiment, I would not expect the Postal Service to authorize hundreds, let alone thousands, of mailers to participate in the Experimental Automated Address Correction Service for administrative reasons. Small-volume mailers are likely to be discouraged by the experimental classification's requirement that mailers use NCOA or the *FASTforward* system. Moreover, the number of originators entering First-Class Mail volumes in excess of 250 million pieces a year was less than 30 in the most recent two years for which data is available. See Institutional, OCA/USPS-3. That said, the only mailer-specific data related to forwarded mailpieces in my data collection plan is the "mailer's volume of repeat forwards." Nevertheless, I would expect the Postal Service to collect mailer-specific data on forwarded mailpieces where such data can be collected from automated systems (i.e., CFS units, and PARS when deployed) without preparation of a special study for each mailer.

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COS/OCA-T2-12

In attachment B to your testimony, the DMCS schedule language, in 620.64 you give an example of the discounts that would be available on an increase of a billion mailings to 1.3 billion pieces. In that example, you multiply the volume blocks by the rate discounts as listed in your schedule 620A. Please confirm that the rates you use in the example are misstated by being one half cent per piece more than applicable, and that the actual total amount of discounts would be \$7,650,000, rather than the \$8.4 million you list there. Specifically, is it not the case that the discounts would be sixty million pieces at 5.5 cents per piece, sixty million pieces at 5 cents per piece, and thirty million pieces at 4.5 cents per piece?

RESPONSE TO COS/OCA-T2-12

Confirmed. An appropriate erratum will be filed.

Amount Mailed =	1,300,000,000					
Volume Limit =	150,000,000					
Discount Threshold =	1,000,000,000					
[1]	[2]	[3]	[4]	[5]	[6]	[7]
<u>Incremental</u>	<u>Volume</u>	<u>Blocks</u>	<u>% Change</u>	<u>Difference</u>	<u>Discount</u>	<u>Revenue</u>
				<u>Volume</u>		
1,000,000,001	1,040,000,000	4.0%	39,999,999		\$0.030	
1,040,000,001	1,080,000,000	8.0%	39,999,999		\$0.035	
1,080,000,001	1,120,000,000	12.0%	39,999,999		\$0.040	
1,120,000,001	1,180,000,000	18.0%	59,999,999	30,000,002	\$0.045	\$1,350,000
1,180,000,001	1,240,000,000	24.0%	59,999,999	59,999,999	\$0.050	\$3,000,000
1,240,000,001	1,300,000,000	30.0%	59,999,999	59,999,999	\$0.055	\$3,300,000
TOTAL				150,000,000		\$7,650,000