

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  
NEWSPAPER ASSOCIATION OF AMERICA (NAA/OCA-T2-1-9)  
(January 24, 2003)

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The Office of Consumer Advocate hereby submits the answers of James F. Callow to interrogatories NAA/OCA-T2-1-9, dated January 14, 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 NAA/OCA-T2-1-9

NAA/OCA-T2-1

Please refer to pages 15, line 18 to page 16, line 3 of your testimony, where you summarize the cost and charges of physical returns and electronic address correction service.

- a. Please confirm that the Postal Service estimates an average mailstream processing cost of 29.95 cents (USPS-LR-1/MC2002-2, page 1) to return a piece of Capital One First-Class Mail from the CFS back to the mailer, for which the effective charge is zero because it is a service feature of First-Class mail.
- b. Please confirm that the Postal Service estimates that the cost of providing electronic Address Change Service (“ACS”) for non-forwardable First-Class Mail is approximately 14.5 cents (USPS-LR-1/MC2002-2, page 2), and that this 14.5 cent cost also supports the current 20 cent charge for eACS.
- c. Is pricing at zero a service that costs the USPS an estimated 29.95 cents to provide sending economically efficient price signals?

RESPONSE TO NAA/OCA-T2-1

(a) Confirmed that the “Mailstream Processing” cost to physically return a mailpiece to the mailer is 29.95 cents.

Not confirmed that the charge to the mailer is zero. The 29.95 cent average Mailstream Processing cost to physically return a mailpiece is borne by all First-Class mailers in the First-Class rates paid by such mailers, including the mailer that receives the returned mailpiece. That charge, however, is not explicit.

(b) Confirmed that the estimated cost of providing electronic Address Change Service (ACS) for First-Class mailpieces that cannot be forwarded is 14.5 cents. The 14.5 cents is also the test year attributable cost for electronic ACS, which is marked-up to 20 cents.

(c) Sometimes bundling a number of valuable services can be efficient. As stated in my response to Part a. above, the charge to the mailer is not zero. If

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consumers want to purchase a bundle of services under a single, average rate, those bundled services should be offered to consumers.

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NAA/OCA-T2-2

Please refer to page 16, lines 7-8, of your testimony. Do the “more timely and ‘richer’ data” for mailers to use in updating their address databases have value to mailers?

RESPONSE TO NAA/OCA-T2-2

According to the testimony of Capital One witness Jean, electronic “return mail data [ ] will improve timeliness, and we expect the improved information to increase the quality of our address database and reduce our return rate, due to enhanced address suppression on subsequent mailings.” Tr. 2/42 (Jean, COS-T-1). The receipt of this “more timely and ‘richer’ data” in electronic notices in lieu of physical returns is expected to reduce mailers’ costs. Tr. 2/85.

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NAA/OCA-T2-3

Please confirm that under your proposed discount rate schedule, the discounts that a mailer could claim are not tied to a particular incremental volume block, but instead are based on the highest volume block that a mailer's volume happens to achieve. If you cannot confirm, please explain the relationship between the incremental volume blocks and the discounts which a mailer could claim.

RESPONSE TO NAA/OCA-T2-3

Not confirmed for a mailer whose mail volume is less than 45 percent of its volume threshold. Discounts available to the mailer will be associated with one or more incremental volume blocks, since mail volume of less than 45 percent would fall within one or more incremental volume blocks. Such a mailer, however, could only claim discounts on a maximum quantity of mail equal to 15 percent of the mailer's volume threshold. Moreover, the mailer could claim the highest discounts allowable up to the maximum volume of 15 percent. Two examples illustrate this situation. In Example 1, if a mailer offers mail volume equal to 30 percent of its volume threshold, the mailer could claim discounts of 4.5 cents on pieces equal to 3 percent of its volume threshold, 5.0 cents on 6 percent and 5.5 cents on an additional 6 percent of its threshold.

EXAMPLE 1

Amount Mailed =	<b>130,000,000</b>					
Volume Limit =	15,000,000					
Discount Threshold =	100,000,000					
[1]	[2]	[3]	[4]	[5]	[6]	[7]
<u>Incremental Volume Blocks</u>		<u>% Change</u>	<u>Difference</u>	<u>Discount Volume</u>	<u>Discount</u>	<u>Revenue</u>
100,000,001	104,000,000	4.0%	3,999,999		\$0.030	
104,000,001	108,000,000	8.0%	3,999,999		\$0.035	
108,000,001	112,000,000	12.0%	3,999,999		\$0.040	
112,000,001	118,000,000	18.0%	5,999,999	3,000,002	\$0.045	\$135,000
118,000,001	124,000,000	24.0%	5,999,999	5,999,999	\$0.050	\$300,000
124,000,001	<b>130,000,000</b>	30.0%	5,999,999	5,999,999	\$0.055	\$330,000
TOTAL				15,000,000		\$765,000

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See also my response to USPS/OCA-T2-10(e).

Example 2 shows a mailer that offers mail volume equal to 44 percent of its volume threshold. The mailer could claim discounts of 5.5 cents on 1 percent of its volume threshold and 6.0 cents on 14 percent of its threshold.

EXAMPLE 2

Amount Mailed =	<b>144,000,000</b>					
Volume Limit =	15,000,000					
Discount Threshold =	100,000,000					
[1]	[2]	[3]	[4]	[5]	[6]	[7]
<u>Incremental Volume Blocks</u>		<u>% Change</u>	<u>Difference</u>	<u>Discount Volume</u>	<u>Discount</u>	<u>Revenue</u>
100,000,001	104,000,000	4.0%	3,999,999		\$0.030	
104,000,001	108,000,000	8.0%	3,999,999		\$0.035	
108,000,001	112,000,000	12.0%	3,999,999		\$0.040	
112,000,001	118,000,000	18.0%	5,999,999		\$0.045	
118,000,001	124,000,000	24.0%	5,999,999		\$0.050	
124,000,001	130,000,000	30.0%	5,999,999	1,000,001	\$0.055	\$55,000
130,000,001	<b>144,000,000</b>	44.0%	13,999,999	13,999,999	\$0.060	\$840,000
TOTAL				15,000,000		\$895,000

Confirmed for a mailer whose mail volume is greater than or equal to 45 percent of its volume threshold. Discounts provided to the mailer will be the highest available, since mail volume of more than 45 percent would fall entirely outside the last bounded incremental volume block. Again, such a mailer could claim discounts on a maximum quantity of mail equal to 15 percent of the mailer's volume threshold. And, the mailer could claim the highest discounts allowable up to the maximum volume of 15 percent. A final example will illustrate this situation. In Example 3, if a mailer offers mail volume equal to 50 percent of its volume threshold, the mailer could claim discounts of 6.0 cents on 15 percent of its threshold.

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EXAMPLE 3

Amount Mailed =	<b>150,000,000</b>					
Volume Limit =	15,000,000					
Discount Threshold =	100,000,000					
[1]	[2]	[3]	[4]	[5]	[6]	[7]
<u>Incremental Volume Blocks</u>		<u>% Change</u>	<u>Difference</u>	<u>Discount Volume</u>	<u>Discount</u>	<u>Revenue</u>
100,000,001	104,000,000	4.0%	3,999,999		\$0.030	
104,000,001	108,000,000	8.0%	3,999,999		\$0.035	
108,000,001	112,000,000	12.0%	3,999,999		\$0.040	
112,000,001	118,000,000	18.0%	5,999,999		\$0.045	
118,000,001	124,000,000	24.0%	5,999,999		\$0.050	
124,000,001	130,000,000	30.0%	5,999,999		\$0.055	
130,000,001	<b>150,000,000</b>	50.0%	19,999,999	15,000,000	\$0.060	\$900,000
TOTAL				15,000,000		\$900,000

See also my response to USPS/OCA-T2-10(f).

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NAA/OCA-T2-4

Please refer to page 24 of your testimony, where you discuss your proposal that incremental volume thresholds for declining block rates should be based upon “publicly available and verifiable historical volume data.”

- a. To what “publicly available and verifiable historical volume data” do you refer?
- b. Are mailing statements “publicly available”?
- c. Assume mailer A receives a volume discount under your proposal and its competitor B wants to determine whether mailer A’s volumes and eligibility for discounts are calculated accurately. Could it do so? If so, how? If not, why not?

RESPONSE TO NAA/OCA-T2-4

(a) - (b) The changes to the DMCS for the Experimental Volume-Based Declining Block Rate classification directs that the “Discount Threshold” be “established by the Postal Service using only it’s own or publicly available data.” OCA-T2 Attachment B, DMCS 620.61. The Postal Service’s own information about a mailer’s historical volume should be “publicly available and verifiable historical volume data.” Such historical 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. The intent of the proposed change to the DMCS referenced above is to make the establishment a volume threshold transparent. However, to the extent that the Postal Service cannot or will not make mailing statements publicly available, the Postal Service should not rely on such statements.

(c) I interpret this question to mean that competitor B could undertake a contemporaneous or “real time” review of the Postal Service’s method used to establish



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the volume threshold for mailer A. I did not consider this possibility. In developing the Experimental Volume-Based Declining Block Rate classification, I contemplated that the Postal Service's establishment of the volume threshold for any mailer would be transparent to the Commission and anyone interested—although not contemporaneously. It is for this reason that my data collection plan proposes that the Postal Service provide

the publicly available and/or verifiable First-Class Mail volume data relied upon by the Postal Service in determining each mailer's unique volume threshold, including all supporting documentation and calculations used in determining the volume threshold;

OCA-T-2 at 23, lines 1-4.

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NAA/OCA-T2-5

Under your proposal, could the volume thresholds upon which a mailer's eligibility for declining volume discounts be set at levels below:

- a. the mailer's recent historical volumes?
- b. the mailer's projected volume?

Please explain your answer.

RESPONSE TO NAA/OCA-T2-5

(a) - (b) Yes, provided that the Postal Service relies on publicly available and independently verifiable information in establishing a mailer's volume threshold.

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NAA/OCA-T2-6

Please refer to page 25, lines 9 through 12, of your testimony, where you state that the Postal Service would have an “affirmative duty” to find that any First-Class mailer authorized to use the volume discount proposal would “generate an additional contribution to institutional costs.”

- a. At what level in the Postal Service would this determination be made? At the postal facility of entry? At headquarters? Please explain.
- b. Would the additional contribution to institutional costs have to come from postage paid by the mailer?
- c. If the additional contribution could be based upon expected cost savings, how would the Postal Service identify the particular mailer to whom cost savings should be credited?

RESPONSE TO NAA/OCA-T2-6

(a) I did not consider who would be the responsible party or parties within the Postal Service to comply with the requirement that the “Postal Service find there is a reasonable expectation” a mailer will generate an additional contribution to institutional costs. See OCA-T2 Attachment B, DMCS § 620.41. Thus, I have not specified a responsible party or parties. The Postal Service is best situated to determine this issue.

(b) – (c) The Postal Service can increase the contribution to institutional costs in two ways. It can charge mailers higher rates, holding costs constant. Or it can maintain the same rates, and reduce costs. Thus, my response to Part b. is No, since the additional contribution to institutional costs could come from a reduction in costs under the Experimental Automated Address Correction Service, rather than additional postage paid by the mailer.

Prior to authorizing a mailer to participate in the Experimental Volume-Based Declining Block Rate classification, the Postal Service must make a finding that there is a reasonable expectation that each mailer will make an additional contribution to

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institutional costs. Thus, each mailer, and the classification on its own, is expected to provide an additional contribution to institutional costs. That said, the financial risks to the Postal Service of establishing a volume threshold for any mailer cannot be entirely eliminated. The “reasonable expectation” that a mailer’s access to volume-based declining block rates will generate additional contribution may not be realized. For that reason, I have linked a mailer’s access to volume-based declining block rates to participation in the Experimental Automated Address Correction Service to increase the likelihood that the Postal Service will generate an additional contribution to institutional costs. According to the Postal Service, every piece of First-Class Mail “returned” electronically reduces the Postal Service’s costs, and thereby makes an additional contribution to the Postal Service. USPS-T-3 (Crum) at 5. Moreover, it appears that electronic notices reduce Postal Service costs by reducing the number of mailpieces that are repeat forwards. Tr. 2/284.

Under the Experimental Automated Address Correction Service, the additional contribution will be derived from a reduction in costs from avoiding physical returns and reducing the number of repeat forwards. The identity of a particular mailer participating in this experimental classification can be determined by the requirement that “Mailers must enter eligible First-Class Mail through unique permit accounts.” See OCA-T2 Attachment A, DMCS § 610.44. The estimated reduction in costs to the Postal Service from a particular mailer could be determined from my data collection plan, which proposes that the Postal Service provide “the number of electronic address correction notices provided to each authorized First-Class mailer for . . . mailpieces that would otherwise be physically returned.” OCA-T-2 at 14, lines 4-6. An estimate of the

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average cost reduction to the Postal Service of providing all mailers with electronic notices for mailpieces that are forwarded would have to await completion of a special study by the Postal Service, which is also proposed in my data collection plan. See OCA-T-2 at 14, lines 20-25.

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NAA/OCA-T2-7

Please refer to page 25, line 12 through 13, where you state that if the Postal Service “does not find an additional contribution will be likely, it may decline to authorize a mailer’s access to the volume-based declining block rates.” (emphasis added)

- a. Under your proposal, could the Postal Service authorize a mailer to use the volume discounts if it determines that the net change in contribution would be zero? If so, please explain under what circumstances it could do so.
- b. Under your proposal, could the Postal Service authorize a mailer to use the volume discounts if it determines that the net change in contribution would be negative? If so, please explain why.

RESPONSE TO NAA/OCA-T2-7

(a) - (b) 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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NAA/OCA-T2-8

Please refer to the written denial of eligibility referred to in proposed DMCS section 610.5 in Attachment A to your testimony. Would a denial by the Postal Service of access to volume-based declining discounts be subject to administrative or judicial review? If so, please explain what review would be available? If not, please explain why not.

RESPONSE TO NAA/OCA-T2-8

I do not know. I am not a lawyer. Consequently, I gave no consideration to this issue. But see Response of United States Postal Service to Presiding Officer's Information Request No. 4, January 4, 2003.

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NAA/OCA-T2-9

Would a decision by the Postal Service to allow mailer A to receive the volume-based discounts that you propose be subject to administrative or judicial review by a competitor of mailer A? By another mailer that is not a competitor of mailer A? Please explain why or why not.

RESPONSE TO NAA/OCA-T2-9

I do not know. I am not a lawyer. Consequently, I gave no consideration to this issue. But see Response of United States Postal Service to Presiding Officer's Information Request No. 4, January 4, 2003.