

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  
UNITED STATES POSTAL SERVICE (USPS/OCA-T2-20-24)  
(January 27, 2003)

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The Office of Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T2-20-24, dated January 17, 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 USPS/OCA-T2-20-24

USPS/OCA-T2-20

Are there differences in average per-piece discounts (total First-Class Mail workshare discounts plus proposed DMCS 620 discounts over total volume) between larger and smaller mailers? If so, please explain and provide examples. If not, please explain why not.

RESPONSE TO USPS/OCA-T2-20

There are no differences in total average per-piece discounts (i.e., total First-Class Mail workshare discounts plus proposed volume-based discounts over total volume) between larger and smaller mailers because of access to volume-based declining block rates. The availability of the volume-based declining block rates for every mailer is proportional to each mailer's volume threshold. Thus, a mailer with a volume threshold of 100 million receives a 3-cent discount if it offers additional mail volume of 4 million pieces—an amount equal to 4 percent of its threshold, which establishes the 3-cent incremental volume block. Similarly, a mailer with a volume threshold of 1.0 billion receives a 3-cent discount if it offers 40 million pieces in excess of the volume threshold.

Any change in total average per-piece discounts between larger and smaller mailers would be caused by differences in workshare discounts provided to larger and smaller mailers. In general, a larger mailer would be able to achieve a greater depth of sort than a smaller mailer that mails to the same geographic area. However, a larger mailer that mails on a nationwide basis might achieve less depth of sort than a smaller, localized mailer. Such a smaller mailer might achieve a greater depth of sort on average than the larger nationwide mailer, resulting in a greater average per piece workshare discount. Thus, when combined with the proportional volume-based

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discounts, there could be differences in the total average per piece discounts between larger and smaller mailers. However, such differences are caused by differences in the average workshare discount.

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USPS/OCA-T2-21

For purposes of this interrogatory, the term "presort bureau" refers to mailers that consolidate, barcode, and sort mail prepared by its customers. As such the bureaus do not necessarily maintain the address lists for the mail that they process. The address lists are maintained by their customers.

- a) Please confirm that presort bureaus would not be eligible for the experimental automated address correction service you propose. If you do not confirm, please explain.
- b) Please confirm that presort bureaus would not be eligible for the experimental automated address correction service you propose if they mail under their own (the presort bureau's) permit. If you do not confirm, please explain.
- c) Please confirm that presort bureaus would not be eligible for the experimental automated address correction service you propose if they mail under their customer's permit. If you do not confirm, please explain.
- d) Please explain under what circumstances presort bureaus would qualify for your proposed experimental volume-based declining block rates.
- e) Please list all other types of mail service providers (e.g., printers, consolidators etc.) that would not qualify for your proposed experimental volume-based declining block rates. For each listed type of mail service provider, explain why they would not be eligible.

RESPONSE TO USPS/OCA-T2-21

- (a) Confirmed.
- (b) Confirmed.
- (c) Not confirmed. If a presort bureau enters mail using a permit account of an "originator," and the Postal Service approves use of that permit account, then that mail would qualify. Nevertheless, the Postal Service may deny authorization to the "originating" mailer for any "legitimate data collection, administrative or logistical reason." See OCA-T2 Attachment A, DMCS § 610.41.
- (d) I did not intend that presort bureaus would participate in the Experimental

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Volume-Based Declining Block Rate classification. Consequently, I did not consider under what circumstances presort bureaus might participate in the classification.

(e) In developing the Experimental Volume-Based Declining Block Rate classification, I did not consider the various types of mail service providers that would *not* qualify for volume-based declining block rates. Rather, I contemplated that First-Class mailers, specifically “originators” of First-Class Mail, would have access to volume-based declining block rates, provided they complied with the requirements of the experimental classification.

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USPS/OCA-T2-22

Under your proposed Experimental Volume-Based Declining Block Rates,

- a) Please confirm that, under the example provided in your proposed DMCS language 620.64, as revised, the mailer who claims the discounts of \$.05 to \$.06 would not be able to claim discounts of \$.03, \$.035, and \$.04 on any of its volume. If you do not confirm, please explain.
- b) Please confirm that a mailer would not be able to claim the full range of discounts: \$.03, \$.035, \$.04, \$.045, \$.05, \$.055, and \$.06. If you do not confirm, please explain and provide a hypothetical showing how this is possible.

RESPONSE TO USPS/OCA-T2-22

(a) Confirmed, with the correction that the mailer would not claim a discount of \$0.06, as stated in the question. Please see my response to COS/OCA-T2-12. Based upon the example in OCA-T2 Attachment B, DMCS § 620.64 (revised 1-16-03), the response to COS/OCA-T2-12 shows the calculation of discounts for a mailer with a Discount Threshold of 1 billion pieces and a 15 percent volume limit of 150 million pieces ( $1 \text{ billion} * 0.15$ ) that enters 1.3 billion pieces. The mailer claims the highest discounts allowable on its incremental volume up to the maximum volume of 15 percent. Thus, the total amount of discounts would be \$7.65 million, composed of 60 million pieces at \$0.055, 60 million pieces at \$0.050, and 30 million pieces at \$0.045.

(b) Confirmed.

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USPS/OCA-T2-23

Please refer to the discount example in your proposed DMCS § 620.64.

- a) Please confirm that the marginal incentive for additional volume above 1.3 billion pieces is 1.5 cents. That is, one piece is added at a 6 cent discount, but one piece that had a 4.5 cent discount falls out of the 150 million pieces qualifying for a discount, and thus no longer gets any discount. If you do not confirm, please explain.
- b) Please confirm that there is no marginal incentive for additional volume over 1.45 billion pieces, because one piece with a 6 cent discount simply replaces another piece with a 6 cent discount. If you do not confirm, please explain.
- c) Please confirm that, in comparison to the cumulative total discount at 1.3 billion pieces of \$7.65 million, the cumulative total discount at 1.2 billion pieces would be \$6.35 million, and that, in this instance, the marginal unit discount when adding 100 million pieces of mail (from 1.2 to 1.3 billion) would be \$1.3 million divided by 100 million pieces, or 1.3 cents. If you do not confirm, please explain.

RESPONSE TO USPS/OCA-T2-23

(a) Confirmed.

(b) Confirmed.

(c) Not confirmed. The example in this question calculates the *average*, not the marginal, incentive or discount on pieces between 1.2 and 1.3 billion. Based upon a volume of 1.2 billion pieces, increasing the amount mailed by 100 million pieces is not a "marginal" increase. This additional volume represents an increase of 8.33 percent (100 million / 1.2 billion). The *marginal* incentive or discount, as shown in Part a) above, remains \$0.015 (\$0.060 – \$0.045); that is, when one piece is added at a \$0.060 discount another piece is excluded from the 150 million volume limit on which a \$0.045 discount can be claimed.

The \$0.013 average incentive or discount presented in the question is a

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weighted average of marginal incentives of \$0.010 or \$0.015. Thus, where the "Amount Mailed" increases from 1.2 billion up to 1.23 billion (i.e., 1,229,999,999) pieces, the marginal incentive is \$0.015. Where the "Amount Mailed" increases from 1.23 billion up to 1.24 billion (i.e., 1,239,999,999) pieces, the marginal incentive is \$0.010. Where the "Amount Mailed" increases from 1.24 billion up to 1.27 billion (i.e., 1,269,999,999) pieces, the marginal incentive is \$0.015. Finally, where the "Amount Mailed" increases from 1.27 billion up to 1.3 billion (i.e., 1,299,999,999) pieces, the marginal incentive is \$0.010.



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Under the Postal Service's proposed rate schedule 610A, please confirm that the marginal incentive for additional pieces over 1.6 billion is 6 cents.

RESPONSE TO USPS/OCA-T2-23

Confirmed.