

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

NOTICE OF THE OFFICE OF CONSUMER ADVOCATE
CONCERNING ERRATA TO THE TESTIMONY OF
OCA WITNESS: JAMES F. CALLOW OCA-T-2
(February 3, 2003)

The Office of the Consumer Advocate hereby gives notice of the filing of revisions to the testimony of James F. Callow (OCA-T-2), filed on December 20, 2002. The changes are found on: Page 13, Footnote 36, at the end of the second line, change "Tr. 4" to "Tr. 3"; Page 15, Footnote 40, change "Tr. 3" to "Tr. 2"; Page 24, Footnote 55, in the last line, change "817" to "831"; and, Page 30, line 7, capitalize "s" in "Service". The revised pages are attached.

Respectfully submitted,

SHELLEY S. DREIFUSS
Director
Office of the Consumer Advocate

EMMETT RAND COSTICH
Attorney

1333 H Street, N.W.
Washington, D.C. 20268-0001
(202) 789-6830; Fax (202) 789-6819

- 1 • the number of First-Class mailers authorized by the Postal Service to
2 receive electronic address correction notices under the experimental
3 classification;³⁴
4
5 • the number of First-Class mailers requesting authorization under the
6 experimental classification whose requests were denied. This data shall
7 be accompanied by all documentation supporting the Postal Service's
8 determination to deny authorization;
9
10 • the number of First-Class mailers authorized by the Postal Service under
11 the experimental classification whose authorization was withdrawn. This
12 data shall be accompanied by all documentation supporting the Postal
13 Service's determination to withdraw authorization;
14
15 • the total number of unique permit accounts used by each authorized First-
16 Class mailer to enter presorted First-Class mailpieces;
17
18 • the volume of presorted First-Class mailpieces by rate category entered
19 for each unique permit account;³⁵
20
21 • the volume of presorted First-Class mailpieces that are forwarded, and the
22 mailer's volume of repeat forwards.³⁶ The data collected should include
23 the volume of mailpieces forwarded through CFS units, forwarded from
24 destination delivery units not covered by a CFS unit, forwarded locally,
25 and forwarded through PARS. To collect these data, a special study
26 supported by accompanying documentation and calculations will be
27 required;
28

³⁴ Pursuant to OCA's proposed changes to the DMCS, mailers must be authorized by the Postal Service to use both experimental classifications. OCA-T2 Attachment A, § 610.41; OCA-T2 Attachment B, § 620.41. Where the Postal Service declines to authorize a mailer pursuant to the experimental classifications, the Postal Service should report the reasons for any decision not to authorize such a mailer.

³⁵ This data was requested in the Postal Service's data collection plan. See USPS-T-2 (Plunkett), at 12.

³⁶ The Postal Service does not know the total number of First-Class mailpieces that are forwarded, although it has "some sense" for mailpieces "captured within processing in our CFS units." See Tr. 3/657. Nor does the Postal Service collect data on the number of mailpieces forwarded by specific First-Class mailer. Id. Moreover, Capital One has "no way to estimate" the total number of solicitation mailpieces that were forwarded in previous or future years. Tr. 2/89 (OCA/COS-T1-9(c)); see also Tr. 2/98 (OCA/COS-T1-18). As part of the data collection plan, the Postal Service should complete a special study on the volume of Capital One's forwarded mail for solicitation mailpieces.

1 concurrently with a Postal Service request for a permanent classification change,
2 whichever is earlier.

3 B. Offering the Proposed Experimental Address Correction Service At No
4 Charge Reduces Costs to the Postal Service and First-Class Mailers

5 The proposed experimental address correction service will reduce costs to the
6 Postal Service and authorized First-Class mailers. According to the Postal Service,
7 each electronic notice reduces costs to the Postal Service when a First-Class mailpiece
8 is forwarded or in lieu of physical return. Witness Crum estimates that an electronic
9 notice is less costly to provide than physically returning a mailpiece to the mailer.⁴⁰ This
10 estimate of reduced costs, based upon Capital One's circumstances, would be the
11 same for any First-Class mailer that received electronic notices in lieu of physical
12 returns in the same manner as Capital One.⁴¹ Witness Crum also maintains that in the
13 case of Capital One, electronic notices reduce Postal Service costs by reducing the
14 number of mailpieces that are repeat forward to an address.⁴² This estimate of reduced
15 costs, although less certain than the savings for avoided physical returns, suggests that
16 additional cost reductions will accrue to the Postal Service from electronic address
17 correction notices for forwarded mailpieces.⁴³

18 Moreover, electronic notices are expected to reduce mailers' costs. Mailers
19 currently participating in the ACS program will receive their electronic notices at no

⁴⁰ USPS-T-3 (Crum), at 5; see also Tr. 2/389-90.

⁴¹ See Tr. 2/296-97 (OCA/USPS-T3-7 and 8).

⁴² See Tr. 2/284 (NAA/USPS-T3-11); see also Tr. 2/320-21 (Response of United States Postal Service Witness Crum to Presiding Officer's Information Request No. 2, Question 7).

⁴³ Tr. 2/303-04 (OCA/USPS-T3-16(d)).

1 volumes to materialize. A volume threshold set too “high” would prevent mailers from
2 providing volumes in excess of the threshold, thereby precluding additional
3 contributions to institutional costs.

4 For many reasons, the establishment of the “correct” volume threshold is
5 unknowable. However, the risks associated with establishing a threshold can be
6 minimized. One means is to base the threshold upon publicly available and verifiable
7 historical volume data. Moreover, linking the volume-based declining block rates with
8 known measures that reduce costs to the Postal Service also minimizes financial
9 risks.⁵⁵ Finally, limiting the total amount of discounts paid to any one mailer is another
10 means of limiting the Postal Service’s financial risk. This experimental classification
11 relies on all three means.

12 Under the experimental classification, a First-Class mailer’s access to the
13 volume-based declining block rates is linked to participation in the experimental address
14 correction service. In this manner, financial risks to the Postal Service are reduced.
15 Every piece of First-Class Mail “returned” electronically reduces Postal Service costs,
16 and thereby makes an additional contribution to the Postal Service—even if mail
17 volumes do not exceed the volume threshold. Moreover, it appears additional savings
18 accrue to the Postal Service when electronic notices reduce the number of mailpieces
19 that would be repeat forwards. Only where mail volumes exceed the threshold are
20 discounts paid, and the incremental volumes are likely to provide an additional

⁵⁵ The structure of the volume-based discounts also serves to reduce financial risks to the Postal Service. Under the NSA and this proposed experimental classification, discounts are paid only for incremental mail volumes above a volume threshold rather than for the entire volume of mail. USPS-T-2, at 4; see also Tr. 4/831.

1 Fees for current ACS participant mailers authorized under the experimental
2 classification will be waived. Mailers not currently ACS participants that become
3 authorized under the experimental classification will receive electronic address
4 correction notices at no charge.

5 Waiving the electronic address correction fee will improve “the degree of
6 preparation of mail for delivery into the postal system performed by the mailer and its
7 effect upon reducing costs to the Postal Service.” (Criterion 6) As noted previously,
8 reducing the number of First-Class mailpieces physically returned reduces costs to the
9 Postal Service. Similarly, reducing the number of mailpieces that are repeat forwards
10 reduces costs to the Postal Service. In order to obtain the fee waiver, mailers must
11 update their address databases with electronic address correction information with
12 respect to mailpieces that would otherwise be physically returned, and correct their
13 address databases with electronic information with respect to mailpieces that are
14 forwarded. Mailers must also comply more frequently with existing premailing address
15 hygiene requirements, which will further improve the quality of addresses used in
16 mailings.

17 Waiving the electronic address correction fee must be considered in the context
18 of the “simplicity of structure of the entire schedule and simple, identifiable relationships
19 between the rates or fees charged.” (Criterion 7) Waiving the fee adds a slight degree
20 of complexity to the fee schedule by effectively establishing another fee (e.g., \$0).
21 However, this fact should be balanced against the overall reduction in costs to the
22 Postal Service, and the elimination of the fee for participating mailers.