

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

Postal Rate and Fee Changes, 2006)

Docket No. R2006-1

RESPONSES OF OFFICE OF CONSUMER ADVOCATE
WITNESS JAMES F. CALLOW TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/OCA-T5-2-5)
(September 28, 2006)

The Office of Consumer Advocate hereby submits responses of James F. Callow to interrogatories USPS/OCA-T5-2-5, dated September 14, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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RESPONSE OF OCA WITNESS JAMES F. CALLOW
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USPS/OCA-T5-2.

On page 17, lines 14-17, of your testimony, you state:

Consequently, Platinum subscribers were assigned the largest fee increase of \$9,500, representing an increase of 95 percent. I assume such an increase will have little or no effect on the number of Platinum subscribers.

Witness Mitchum has noted that 29 of the 45 current Platinum subscription holders would pay less under the Postal Service's proposed fee schedule. Tr. 14/3976. As you note in your testimony on page 8, lines 12-14, these represent those 29 subscribers that use fewer than 169 million units (or as noted in witness Mitchum's response to OCA/USPS-T40-57, an equivalent of 60,357,167 scans).

- (a) Please confirm that, under your proposal, each of these 29 subscribers could become Gold subscribers for \$5,200, and obtain 62 million scans by buying two additional blocks of scans for \$750 each, for a total fee of \$6,700 dollars. If you do not confirm, please explain why not.
- (b) Please explain how your assumption that there will be "little or no effect on the number of Platinum subscribers" took into consideration that, under your proposal, 29 current Platinum subscribers could save at least \$12,800 by choosing a Gold subscription, rather than a Platinum subscription.
- (c) Please confirm that a Gold subscription with 114 million additional scans (164 million total) would cost \$19,500. If you do not confirm, please explain why not.
- (d) Please confirm that a potential Confirm user who was planning to use fewer than 164 million scans would have a lower total fee if they chose a Gold subscription rather than a Platinum subscription.
- (e) Please explain how your assumption that there will be "little or no effect on the number of Platinum subscribers" took into consideration an opportunity to save money by getting a Gold subscription and purchasing additional scans, for a subscriber expecting to use fewer than 164 million scans.
- (f) Given that a Gold subscription can be upgraded to a Platinum subscription for the remainder of the subscription period, simply by paying the difference of the respective subscription fees (DMM 503.13.3.2(b)(3)), do you think that, except for subscribers who are confident of using at least 164 million scans, subscribers would choose the Gold subscription initially and upgrade only if it becomes clear they are going to be using more than 164 million scans?
- (g) Please explain how your assumption that there will be "little or no effect on the

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number of Platinum subscribers" took into consideration the opportunity for a subscriber to choose a less expensive Gold subscription initially, and upgrade only when they determine that they will be using enough scans to make a Platinum subscription less expensive.

RESPONSE TO USPS/OCA-T5-2

(a) Confirmed.

(b) See my response to parts (e) – (g), below.

(c) Not confirmed. The total cost would be \$19,450 ($\$5,200 + (\$750 * 19$ additional blocks of 6 million scans)).

(d) Confirmed.

(e) – (g) For current Platinum subscribers using less than 92 million scans, it is presently less expensive for such subscribers to become Gold subscribers. At 92 million scans, a Platinum subscriber pays \$109 ($\$10,000 / 92$) per million scans, while a Gold subscriber pays \$106 ($(\$4,500 + (7 \text{ additional blocks of } 6 \text{ million scans} * \$750)) / 92$) per million scans.

For a current Platinum subscriber using 62 million scans or less, such a subscriber could save at least \$4,000 ($\$10,000 - (\$4,500 + (2 \text{ additional blocks of } 6 \text{ million scans} * \$750))$) by becoming a Gold subscriber. Consequently, since all 29 identified current Platinum subscribers use 62 million scans or less, all 29 should have converted and become Gold subscribers. Apparently, the 29 identified Platinum subscribers are not as price sensitive as implied by the question. This fact has not been explained by the Postal Service.

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Nevertheless, at 62 million scans or less, if any of the 29 identified current Platinum subscribers decide to become Gold subscribers, they could save \$12,800 ($\$19,500 - (\$5,200 + (2 \text{ additional blocks of } 6 \text{ million scans} * \$750))$), assuming OCA's proposal is implemented. However, such a decision on the part of the 29 identified Platinum subscribers is not assured. Thus my conclusion that there would be "little or no effect on the number of Platinum subscribers."

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USPS/OCA-T5-3.

- (a) Please assume that the 29 existing Platinum subscribers that use fewer than 61 million scans choose to become Gold subscribers at a total price of \$6,700 (\$5,200 Gold subscription fee which includes 50 million scans, and two additional blocks of 6 million scans for \$750 each), realizing a savings of \$12,800 over your proposed Platinum subscription fee of \$19,500. If these subscribers choose the lower priced option, what would be the effect on your total revenue for Confirm service? Please provide all calculations.
- (b) Please confirm that the Platinum subscription fee under your proposal would need to be increased to in excess of \$42,500 to attain a cost coverage of 127.3 percent, if all but 16 Platinum subscribers chose Gold subscriptions (45 existing Platinum subscribers less 29 subscribers migrating to the Gold tier in part (a)), and the fees for the Silver and Gold subscriptions remained unchanged from your proposal. If you do not confirm, please explain why not.

RESPONSE TO USPS/OCA-T5-3

(a) Assuming all 29 of the identified Platinum subscribers become Gold subscribers, the total TYAR revenue would be \$1,114,350 $((\$2,000 * 16) + ((119 + 29) * \$5,200) + (\$750 * 1) + ((45 - 29) * \$19,500))$. However, it would require more than 22 of the 29 identified Platinum subscribers becoming Gold subscribers for the cost coverage of Confirm service to fall below 100 percent. Assuming 22 became Gold subscribers, the cost coverage would be 101.1% $(\$1,214,450 / \$1,200,890)$.

(b) Not confirmed. Under the assumptions stated, to generate a test year cost coverage of 127.3 percent would require a Platinum subscription fee increase of \$35,400 $(\$45,400 \text{ Total Platinum Fee} - \$10,000 \text{ Current Fee})$.

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USPS/OCA-T5-4.

On page 17, lines 9-12, of your testimony you state that the Postal Service estimates no loss in the number of Gold subscribers. Please confirm that the Postal Service proposal eliminates the three subscription tiers, and therefore does not "estimate no loss of Gold subscribers," and assumes only that overall there will continue to be 180 subscribers. See witness Mitchum's responses to OCA/USPS-T40-17 and 18 (Tr. 14/3938-40). If you are unable to confirm, please explain why not.

RESPONSE TO USPS/OCA-T5-4

Confirmed.

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USPS/OCA-T5-5.

Please refer to your testimony at page 17, lines 17-20, where you state:

a \$9,500 fee increase relative to total postage costs in the millions or hundreds of millions of dollars annually is quite small when amortized over millions of mailpieces.

- (a) Please explain in more detail how this 95 percent increase is "quite small," including what you mean by the reference to "amortized over millions of pieces."
- (b) In the context of total postage costs, would a \$29,500 fee increase also be "quite small?"
- (c) How large could the fee increase for Platinum subscribers be before you would not consider it to be "quite small?"

RESPONSE TO USPS/OCA-T5-5

(a) - (c) I propose a Platinum fee increase of \$9,500, not a fee increase of \$29,500. The additional cost per average mailpiece resulting from a Platinum subscription fee increase of \$9,500 would range from \$0.0629 per piece for 151,090 mailpieces to \$0.0001 per piece for 75,544,865 mailpieces, based upon the following calculations:

\$0.0629 per piece for 151,090 mailpieces ($\$9,500 / 357,187$ scans per block of 1 million units / 2.3638 average scans per mailpiece), equaling 357,187 scans from a block of 1 million units;

\$0.0010 per piece for 9,065,384 mailpieces ($\$9,500 / 21,428,571$ scans per block of 60 million units / 2.3638 average scans per mailpiece), equaling 21,428,571 scans from a block of 60 million units;

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\$0.0004 per piece for 25,534,164 mailpieces ($\$9,500 / 60,357,167$ scans per block of 169 million units / 2.3638 average scans per mailpiece), equaling 60,357,167 scans from a block of 169 million units; and,

\$0.0001 per piece for 75,544,865 mailpieces ($\$9,500 / 178,571,429$ scans per block of 500 million units / 2.3638 average scans per mailpiece), equaling 178,571,429 scans from a block of 500 million units.

For Platinum subscribers entering 9 million or more mailpieces, an additional cost of \$0.0010 (i.e., one-tenth of one cent) or less per mailpiece seems “quite small” to enhance the value of the host mailpiece in order to provide near real-time tracking information for mailers. These additional costs are also “quite small” in comparison to the millions of dollars spent for postage and other expenses mailers incur for materials, printing, and preparation of these mailpieces.