

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 THE CONSUMER ADVOCATE  
WITNESS JAMES F. CALLOW TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE (USPS/OCA-T5-6-16)  
(October 2, 2006)

---

The Office of Consumer Advocate hereby submits responses of James F. Callow to interrogatories USPS/OCA-T5-6-16, dated September 18, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

---

SHELLEY S. DREIFUSS  
Director  
Office of Consumer Advocate

KENNETH E. RICHARDSON  
Attorney

901 New York Avenue, NW Suite 200  
Washington, D.C. 20268-0001  
(202) 789-6830; Fax (202) 789-6891  
e-mail: [richardsonke@prc.gov](mailto:richardsonke@prc.gov)

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-6.

- (a) Please confirm that Attachment 1 of your testimony assumes that a Silver subscriber must use all 15 million scans included in a 3-month subscription before purchasing another subscription. If you do not confirm, please explain why not.
- (b) Please confirm that a Silver subscriber need not use all 15 million scans included in a 3-month subscription before purchasing another subscription. If you do not confirm, please explain why not.
- (c) Please confirm that a Silver subscriber could use 100,000 scans in each of four consecutive three 3-month subscription periods. If you do not agree, please explain why not.
- (d) Does your testimony on pages 7 and 8 recognize that Silver subscribers need not use all 15 million scans included with their subscription before purchasing a subsequent subscription. If it does, please explain how.

RESPONSE TO USPS/OCA-T5-6

(a) Confirmed. OCA-T-5, Attachment 1 (Revised 9-22-06), worksheet "USPS Comps Silver," attempts to show the proposed percentage fee increase (in column N) for a current Silver subscriber that purchased 1, 2, 3, or 4 consecutive quarterly subscriptions, assuming all 15 million scans are used before purchasing another quarterly subscription. Any current Silver subscriber that purchased another quarterly subscription before using all 15 million scans would experience a cost per million scans greater than the cost per million scans shown in the column, "Cost per Million Scans (\$)."

(b) Confirmed.

(c) Confirmed.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

(d) No. However, the percentage increase or decrease in fees can still be calculated for a Silver subscriber purchasing fewer than 1 million scans (or any other number of scans less than 1 million) per year. As assumed in part (c), above, the total cost to a current Silver subscriber using 100,000 scans per quarter (i.e., 400,000 scans per year) and purchasing four consecutive quarterly subscriptions would be \$8,000. If the Postal Service's proposal is implemented, the subscriber would acquire 1 million units, or 357,143 scans, for \$5,000—the price of the annual user fee. The subscriber would experience a proposed fee decrease of 37.5 percent ( $(\$5,000) / \$8,000 - 1$ ).

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-7.

- (a) Please confirm that a Silver subscriber who purchases four consecutive Silver subscriptions in a single year could save as much as \$3,000 under the Postal Service's proposal, which is a 37.5 percent fee reduction compared to either the existing pricing structure or your proposal. If you do not confirm, please explain why not.
- (b) Please confirm that your testimony on pages 7 and 8 incorrectly calculates the possible savings for Silver subscribers under the Postal Service's proposal. If you do not confirm, please explain why not.

RESPONSE TO USPS/OCA-T5-7

(a) Confirmed only for subscribers that purchased four consecutive quarterly subscriptions.

(b) Not confirmed, for current Silver subscribers purchasing the subscriptions indicated and using the First-Class Mailscans shown in OCA-T-5, Attachment 1 (Revised 9-22-06), worksheet "USPS Comps Silver."

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-8.

In witness Mitchum's response to Presiding Officer's Information Request No. 12, Question 6, he noted that during a 12 month period (February 1, 2005 to January 31, 2006), three subscribers purchased 4 consecutive quarterly subscriptions. Please confirm that under the Postal Service's proposal these subscribers would pay less than under current fees (or under your proposed fees), unless they use more than 77 million units (or 27,500,011 scans, assuming that on average there are 357,143 scans per million units, as derived in OCA/USPS-T40-29). If you do not confirm, please explain why not, and provide all supporting calculations.

RESPONSE TO USPS/OCA-T5-8

Confirmed for the three subscribers that purchased four consecutive quarterly subscriptions. It should be noted that current Silver subscribers purchasing three or four consecutive quarterly subscriptions, a total of \$6,000 or \$8,000, respectively, could have saved money by purchasing a single Gold subscription for \$4,500, thus indicating that subscribers do not always purchase the lowest price alternative.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-9.

Please confirm that the headings in cells Z8 and AA8 in the "USPS Comps Gold&Plat" worksheet of Attachment 1 to your testimony are not correct, and please provide corrected headings.

RESPONSE TO USPS/OCA-T5-9

Confirmed. See OCA-T-5, Attachment 1 (Revised 9-22-06), at indicated cells.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-10.

- (a) Please confirm that under the Postal Service's proposal a Confirm user will be able to purchase an annual subscription and 711 additional blocks of one million units (for a total of 712 million units) for less than \$19,500. If you do not confirm, please explain why not, and provide all supporting calculations.
- (b) Please confirm that 712 million units equates to more than 254 million scans, using the 357,143 scans per block of one million units factor, as derived in witness Mitchum's response to OCA/USPS-T40-29. If you do not confirm, please explain why not, and provide all supporting calculations.

RESPONSE TO USPS/OCA-T5-10

(a) Confirmed.

(b) Confirmed.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-11.

Please confirm that under the Postal Service's proposal the total price for the average subscriber to purchase 164 million scans would be \$15,080, where the annual fee is \$5,000 and 459 additional blocks of units would cost \$10,080. If you do not confirm, please explain why not, and provide all supporting calculations.

RESPONSE TO USPS/OCA-T5-11

Not confirmed. Assuming a Platinum subscriber seeks to acquire a total of 459 blocks of 1 million units, or nearly 164 million (i.e., 163,928,571) scans, the total cost to the subscriber is \$15,062.50, calculated as follows: the \$5,000 ( $1 * \$5,000$ ) annual user fee, plus \$10,062.50 ( $(9 * \$70) + (90 * \$35) + (359 * \$17.50)$ ) for the 458 additional blocks.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-12.

Please confirm that cell AD9 in the "USPS Comps Gold&Plat" worksheet of Attachment 1 to your testimony should be \$25,000, not \$5,000.

RESPONSE TO USPS/OCA-T5-12

Not confirmed. The figure of \$5,000 in cell AD9 is correct, although the column heading, "Weighted Average Cost per Million Scans (\$)," may be confusing. The column heading should apply to all cells in the column following cell AD9.

Under the Postal Service's proposal, the \$5,000 annual user fee includes 1 million "units." If a subscriber seeks to acquire First-Class Mail scans, that subscriber will receive 1 million scans. By contrast, if the subscriber seeks to acquire Standard Mail scans, that subscriber will receive only 200,000 scans. However, the cost for the scans acquired, whether First-Class Mail or Standard Mail, remains the same, \$5,000.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-13.

The OCA's counsel during oral cross examination of witness Mitchum suggested that at least two resellers might be able to build their business under the current pricing structure so that they use 10 billion scans. Tr. 14/4159. The Postal Service estimates that there will be a total of 10 billion scans in the test year for all subscribers combined. See witness Mitchum's response to PB/USPS-T40-2(b).

- (a) Do you think it is likely that, as these two resellers approach 10 billion annual scans each, some of these additional scans would result from other subscribers switching to the resellers instead of subscribing to Confirm? Please provide a detailed response explaining your expectation.
- (b) If the number of existing Confirm subscribers were to decrease because some subscribers switched to a reseller, would the revenue projections under your proposal be affected? Please fully explain your answer, describing the impact on the revenue estimate.

RESPONSE TO USPS/OCA-T5-13

(a) - (b) I don't know whether it is likely or not that additional scans gained by resellers would come from current Confirm subscribers, since I am unfamiliar with the pricing and marketing practices of resellers, or the motivations of current Confirm subscribers. Resellers store scan data as well as offer other value-added services, and incur expenses as ongoing business concerns. The prices charged for such services may or may not cause current subscribers to become clients of resellers. Moreover, current Confirm subscribers may have valid reasons other than prices offered by resellers for remaining Confirm subscribers after implementation of new rates.

On the other hand, resellers collectively may be able to increase their business up to 10 billion scans through a combination of means other than recruiting current Confirm subscribers. Existing clients of resellers may no longer send their mailings. Rather, existing clients may place PLANET barcodes on every mailpiece in a mailing,

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

thus increasing the number of reseller scans. Or, existing reseller clients may increase the number of mailings that use PLANET barcodes. Resellers may also market new products, attracting clients that are new to Confirm, and thereby increase their business. Consequently, the revenue impact under my proposal cannot be estimated unless the client's history, or lack thereof, with Confirm service is known. Estimating the revenue impact also requires knowledge as to whether a subscriber that migrated to a reseller was previously a Silver, Gold, or Platinum subscriber. Assuming OCA's proposal is implemented, however, the loss of a Silver subscriber would reduce revenues by \$2,000 to \$8,000, depending upon the number of consecutive quarterly subscriptions, while the loss of any Gold or Platinum subscriber would reduce total revenue by \$5,200 or \$19,500, respectively.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-14.

Assume a Platinum subscriber who uses 200 million scans a year were to stop subscribing to Confirm service, and instead begin using a reseller for their Confirm needs.

- (a) Please estimate the revenue impact this would have for Confirm service under your proposal.
- (b) Please confirm that the revenue impact would be less under the Postal Service's proposal. If you do not confirm, please explain why not and provide calculations.

RESPONSE TO USPS/OCA-T5-14

(a) Under the OCA proposal, a loss of one Platinum subscriber using any number of scans would reduce total revenue by \$19,500.

(b) Confirmed. Assuming the loss of one Platinum subscriber that uses a weighted average number of scans equal to 200 million scans per year, the total loss of revenue under the Postal Service's proposal is \$16,830, or \$19,500 under the OCA proposal. The revenue loss under the Postal Service's proposal would be \$2,670 (\$19,500 - \$16,830) less.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-15.

Please refer to your testimony at page 17, lines 17-20, where you state that 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 confirm that it is reasonable to assume that the number of scans used by Platinum subscribers varies greatly (from less than 50 million to nearly a billion) among the 45 existing subscribers. If you do not confirm, please explain why not.
- (b) Hypothetically, let's say there are four Platinum subscribers: the first uses 51 million scans, the second uses 164 million scans, the third 1 billion scans, and the fourth 10 billion scans. Please confirm separately for each of these four users that, as noted in your testimony on page 17 lines 17-20, the \$9,500 increase is "quite small" when amortized over the pieces mailed. For each user for which you do not confirm, please provide a detailed explanation as to why not.
- (c) Please confirm that the following table accurately portrays these subscribers' average prices per million scans under your proposal. If you do not confirm, please explain why not.

Millions of Scans Used	Average Price per Million Scans
51	\$382.35
164	118.90
1,000	19.50
10,000	1.95

- (d) Please explain how it is fair and equitable to charge a mailer who uses 51 million scans more than 198 times more per scan on average than a customer who uses 10 billion scans.
- (e) Please confirm that the following table accurately portrays these subscribers' average prices per million scans under the Postal Service's proposal. If you cannot confirm please explain why not.

Millions of Scans Used	Average Price per Million Scans
51	\$186.91
164	91.95
1,000	56.03
10,000	49.70

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

- (f) Please confirm that under the Postal Service's proposal the subscribers using 51 million or 164 million scans would pay less per million scans and in total fees than under your proposal. If you do not confirm, please explain why not.
- (g) Please confirm that under the Postal Service's proposal the average price for a million scans for a subscriber using 51 million scans would be less than 4 times the average price for a million scans for a subscriber using 10 billion scans.

RESPONSE TO USPS/OCA-T5-15

(a) I can confirm that the number of scans used by Platinum subscribers varies from less than 60,357,167 (Tr. 14/3976, OCA/USPS-T40-57) to nearly 750 million (Tr. 14/4144). However, neither witness Mitchum nor the Postal Service has provided an array or grouping of Platinum subscribers by the number of scans used.

(b) As stated in my response to USPS/OCA-T5-5(a)-(c), the cost per mailpiece for any Platinum subscriber entering 9 million or more mailpieces would be \$0.0010 (i.e., one-tenth of one cent) or less, which 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.”

(c) Confirmed. As column 2 of the table shows, the decrease in average price per million scans provides strong incentive for mailers to use PLANET barcodes on all their mailings. Moreover, my testimony on page 17, lines 17-20, states that the “\$9,500 fee increase . . . is quite small when amortized over millions of mailpieces. The table presented in part (c) is incomplete because it shows the cost for millions of scans rather than the cost per mailpiece. See the expanded table below.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

Millions of Scans Used	Average Price per Million Scans	Average Number of Mailpieces	Cost per Mailpiece
51	\$382.35	21,605,831	\$0.0004
164	118.90	69,350,186	\$0.0001
1,000	19.50	151,089,730	\$0.0001
10,000	1.95	1,510,897,302	\$0.0000

(d) The Postal Service has testified that presently there are no Platinum subscribers that use more than 750 million scans. See Tr. 14/4144. Nevertheless, one of the goals of my fee proposal, as stated in my testimony at page 14, lines 15-16, is to encourage the expanded use of Confirm service. The decrease in average price per million scans provides strong incentive for mailers to use PLANET barcodes on all their mailings (see my response to part (c), above). It is not unfair to provide price incentives that encourage mailers to make greater use of mail service, such as Confirm. It would be unfair to charge different prices to two different mailers that purchased the same number of scans. Under my fee proposal, for example, any Platinum subscriber purchasing 51 million scans would pay an average price of \$382 per million scans.

(e) Confirmed. However, Platinum subscribers would lose the option of unlimited scans for a fixed subscription fee.

(f) Confirmed. However, Platinum subscribers would lose the option of unlimited scans for a fixed subscription fee.

(g) Confirmed.

RESPONSE OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T5-6-16

USPS/OCA-T5-16.

One reason cited by witness Mitchum for using units in his proposed fee schedule, rather than scans, is to facilitate inclusion of different types of scan information in the future, for example, information from manual scans of containers. USPS-T-40 at 16-17.

- (a) Please describe how your proposal addresses the potential for introducing manual scans of containers into Confirm service? If it is not addressed, please explain why not.
- (b) Is it your opinion that manual scans of containers should be included in the Platinum tier of your proposal, at no additional charge? Please explain.
- (c) Is it your opinion that a manual scan of a container of mail should be priced the same as a passive scan on a letter for Gold and Silver subscribers under the fee structure in your proposal? Please explain.

RESPONSE TO USPS/OCA-T5-16

(a) – (c) My proposal does not address the potential introduction of manual scans of containers into Confirm service. I gave no consideration to this possibility, and therefore have no opinion on the pricing of manual scans of containers as part of my proposal.