

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE CONSUMER ADVOCATE

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: JAMES F. CALLOW (USPS/OCA-T500-12-21)
(January 30, 1998)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T500-12-21, dated January 16, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



SHELLEY S. DREIFUSS
Attorney
Office of the Consumer Advocate

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T500-12-21

USPS/OCA-T500-12. Please confirm that the classification of post offices by CAG is based upon post office revenue, rather than post office costs. If you do not confirm, please explain your answer fully and provide the source of your information.

A. Confirmed. See OCA-T-500 at 6-7.

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USPS/OCA-T500-13. Please confirm that post office box fees are based (in part) on post office costs, but not on post office revenues. If you do not confirm, please explain your answer fully and provide the source of your information.

A. I am unable to answer this question. It is not clear from the question whether reference is being made to the Postal Service's post office box fee proposal or my proposal. In developing my fee proposal, I would note that my new fee groups are based upon groupings of CAGs, which are dependent upon post office revenues.

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USPS/OCA-T500-14. Please refer to page 3, line[s] [11-] 14, of your testimony, where you state that "the Postal Service's current allocation methodology results in higher volume-variable unit box costs in smaller offices and lower unit costs in larger offices than if costs were allocated according to office location and size, as measured by CAG."

(a) Please explain how a CAG designation can be used to "measure" an office's location.

(b) In what way does a CAG designation indicate an office's size?

(c) Please confirm that an office's CAG designation does not provide information on the costs, number of employees, size of facility, or volume of incoming mail processed for that office. If you do not confirm, please explain your answer fully and the source of your information.

A. (a) Strictly speaking, an office's CAG designation does not "measure" location. However, a CAG designation does reveal something about an office's location. According to the Postal Service, "CAG A and B offices tend to be located in higher-rent urban areas, while CAG K and L offices tend to be located in lower rent rural areas." Docket No R90-1, U.S. Postal Service Library Reference F-183 at 15.

(b) Revenues, as measured by revenue units. See Glossary of Postal Terms, Publication 32, April 1988, at 16. See also U.S. Postal Service Handbook F-4, June 1992, at 22.

(c) Not confirmed. It is my understanding that the CAG level of an office is highly correlated with the items listed. However, I do not have facility-specific information available to me to demonstrate the correlation.

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USPS/OCA-T500-15. Please refer to page 8 beginning at line 9, where you state that

aside from average postal rental costs, other costs vary by CAG, and are higher in larger CAG offices. Two conditions produce this result. First, certain labor costs are not incurred in smaller post offices. While the salaries and benefits of mailhandlers are uniform nationwide, there are more mailhandlers in higher CAG offices, and proportionately more costs, than in lower offices. In fact, there are virtually no mailhandlers, and consequently almost no mailhandler costs, to be found in CAG F-L offices. Similarly, there are virtually no supervisors in offices CAG H or below. Hence, virtually no supervisor costs are incurred in such offices.

(a) Is it your contention that window service costs related to post office box service are lower in small offices than in large ones because small offices have no supervisors or mail handlers?

(b) Are you aware that clerks and postmasters in small offices often perform the same functions in small offices as mailhandlers and supervisors perform in larger offices? Please provide your understanding of how the functions performed by mailhandlers and supervisors in larger offices are performed in small offices.

(c) Are you aware that postmasters in large offices generally do not perform window service activities related to post office box service? Please provide your understanding of how the functions of postmasters differ in large and small offices.

A. (a) In developing my cost allocation methodology for All Other costs, I examined Postal Service data showing the absence of mailhandlers and supervisors in smaller offices. I considered it reasonable to conclude that where there were no mailhandlers or supervisors there would be no such costs associated with post office box service. At that time, I had no other basis for allocating costs. It should be noted that those costs I determined to be clerk costs are allocated in the same manner as witness Lion.

(b) I do not know how the functions performed by mailhandlers and supervisors in larger offices are performed in small offices. However it would not be unreasonable to expect clerks and postmasters in smaller offices to perform similar

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functions as mailhandlers and supervisors in larger offices.

(c) I do not know how the functions of postmasters differ in large and small offices. However, it would not be unreasonable to expect postmasters to perform different activities in larger versus smaller offices.

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USPS/OCA-T500-16. Please refer to page 9, line 3, of your testimony, where you state that:

postmaster salaries and benefits are dependent, in part, on CAG and therefore vary by CAG. In Fiscal Year 1996, the average salary for postmasters in CAGs K-L was \$39,309, while the average salary for CAG A-G postmasters was \$55,220 - 40 percent greater than the average salary of CAG K-L postmasters.

(a) Please confirm that the example you have used reflects a difference in the average salaries of postmasters, not a difference in the total cost of Postmasters relating to post office box service. If you do not confirm, please explain your answer fully.

(b) Assume that postmasters in smaller offices spend a greater proportion of their time on post office box functions than postmasters in large offices. Under this scenario would the additional hours spent on post office box functions by postmasters in smaller offices result in a larger portion of their salaries being spent on post office box operations than in larger offices where fewer or no postmaster hours are spent on post office box operations? If your answer is other than yes, please explain your answer fully.

(c) Please refer to pages 9 and 10 of Exhibit USPS-5A (Testimony of Joe Alexandrovich). Please confirm that volume variable costs are allocated to post office box service for postmasters EAS 23 and below, but not for postmasters EAS 24 and above. If you do not confirm, please explain your answer fully.

(d) Please confirm that postmasters EAS 23 and below are generally found in smaller post offices, and that postmasters EAS 24 and above are generally found in larger post offices. If you do not confirm please explain your answer fully.

A. (a) Confirmed.

(b) Yes.

(c) Confirmed.

(d) Confirmed.

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USPS/OCA-T500-17. Please refer to page 14, line 8 of your testimony where you state:

I propose to restructure post office box fee groups by creating six new fee groups. Three new fee groups would be formed from the current Fee Group C and three from current Fee Group D, based upon CAG. CAG A-D post offices in Fee Groups C and D would become new Fee Groups C-I and D-I, respectively.

(a) In determining that CAG A-D city delivery offices are analogous to and properly included in the same group as CAG A-D non-city delivery offices, have you examined the individual characteristics of any CAG A-D non-city delivery offices in this category and compared them to CAG A-D city delivery offices? If so, please present any conclusions you reached based on your examination.

(b) Are you aware that CAG A-D non-city delivery offices may be very small offices in towns having a very large plant load mailer providing enough revenue to qualify the office for a CAG A-D classification?

(c) To what extent would the type of CAG A-D non-city delivery office described in part (b) share cost characteristics with CAG A-D city delivery offices? Please explain.

(d) Should small CAG A-D non-city delivery offices in towns having a very large plant load mailer have the same post office box fees as much larger CAG A-D city delivery offices? Please explain your answer fully.

(e) How does your post office box fee proposal address the issue discussed in part (d)?

A. (a) No

(b) I have no personal knowledge of the situation described, and I doubt that there are very many examples this situation. Since I did not examine the individual characteristics of any CAG A-D non-city delivery offices, however, I do not know the extent of the situation described.

(c) I did not examine the cost characteristics of any CAG A-D city delivery or non-city delivery offices. Therefore I am unable to answer this question.

(d) Yes, in the absence of data concerning the extent of the situation

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described. In developing my fee proposals, I relied on the Postal Service's conclusion in Docket No. R90-1 Library Reference F-183 that there is a significant relationship between the CAG designation of a facility and its associated square-foot rent, wherein higher CAG offices have higher rents and lower CAG offices have lower rents. It would not be unexpected to find exceptions to this "significant relationship." However, I did not examine the individual characteristics of any CAG city-other or non-city delivery offices to know the extent of the situation described.

(e) My fee proposal did not address the situation discussed in part (d). If the Commission adopts my proposal and the situation described in part (d) is found to be a significant problem, the Postal Service could consider, in this or a later proceeding, identifying those offices (or areas) by specific ZIP Codes, in the same manner as Fee Groups A and B, with separate fee schedules.

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USPS/OCA-T500-18. Please refer to your testimony at page 37. Please confirm that your method for allocating space provision costs is equivalent to the method used by witness Lion. If you do not confirm, please describe the differences between your methodology and witness Lion's.

A. Confirmed. Using witness Lion's methodology for allocating space provision costs, the "constant of proportionality" i.e., $c = \$223,226,000/Q$, in Table 12 of OCA-T-500, would be 1.338800798.

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USPS/OCA-T500-19. Please refer to your testimony at page 48, lines 8 to 10. Witness Lion defines "All Other" costs as "primarily labor costs for window service, and related supervisory and personnel costs." USPS-T-24 at 19, lines 21-22.

(a) Please confirm that your estimate of volume variable mailhandler costs of \$12,039,000 assumes that mailhandler costs make up the same proportion of post office box Cost Segment 3 "All Other" post office box service costs as they make up of total Cost Segment 3 costs. If you do not confirm, please explain why not.

(b) Why do you believe that mailhandlers would perform post office box service functions to the same extent they perform all other Cost Segment 3 functions?

(c) On what basis do you believe that mailhandlers perform window service type functions?

A. (a) Confirmed.

(b) - (c) I made a simplifying assumption based upon the information I had available at the time.

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USPS/OCA-T500-20.

(a) Please provide versions of Tables 18 and 19, Summary of Revenues and Costs, Proposed and New Fee Groups, TYBR and TYAR, (pages 63 and 64) - based on the cost methodology presented by witness Lion (USPS-T-24), i.e., without your proposed new allocation of costs.

(b) To what extent does the closer fit of costs you claim for your proposed fee groups depend on the changes you are proposing to witness Lion's cost methodology?

A. (a) See Tables 18 and 19, attached.

(b) My proposed cost allocation methodology distributes only a portion of volume-variable post office box costs by CAG. Only \$22,753,000, or 21.8 percent of total All Other costs of \$104,580,000 in the TYBR, are distributed by CAG. However, under my methodology, more than one-half of the \$22,753,000 is distributed to boxes in the largest, e.g., CAG A-D, offices.

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Attachment to Response to
USPS/OCA-T500-20(a)
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Table 18. Summary of Revenues and Costs, Proposed New Fee Groups, TYBR and TYAR											
New Fee Groups											
Fee Group	Box Size	OCA TYBR Boxes	Current Box Fees	OCA Proposed Box Fees	OCA TYAR Boxes	TYBR Revenues	TYAR Revenues	OCA TYBR Total Costs	OCA TYAR Total Costs	OCA TYAR TTL Rev - TTL Costs	OCA TYAR Cost Cover-age
A	1	72,138	\$48	\$75	50,960	\$3,462,625	\$3,822,014	\$3,678,000	\$3,536,864	\$285,150	1.08
	2	4,501	\$74	\$110	3,186	\$333,056	\$350,447	\$329,245	\$320,482	\$29,965	1.09
	3	2,524	\$128	\$190	1,892	\$323,090	\$359,568	\$352,511	\$348,301	\$11,267	1.03
	4	242	\$242	\$330	197	\$58,595	\$64,891	\$65,019	\$65,716	-\$825	0.99
	5	69	\$418	\$550	57	\$28,713	\$31,617	\$37,003	\$36,928	-\$5,311	0.86
Total A		79,474			56,293	\$4,206,080	\$4,628,536	\$4,462,777	\$4,308,290	\$320,246	1.07
B	1	124,912	\$44	\$65	96,390	\$5,496,107	\$6,265,339	\$5,240,303	\$5,050,225	\$1,215,114	1.24
	2	29,996	\$66	\$95	22,055	\$1,979,763	\$2,095,190	\$1,787,873	\$1,734,946	\$360,244	1.21
	3	10,802	\$112	\$160	8,410	\$1,209,804	\$1,345,605	\$1,215,801	\$1,199,861	\$145,744	1.12
	4	1,561	\$218	\$290	1,295	\$340,285	\$375,429	\$341,003	\$339,228	\$36,202	1.11
	5	1,524	\$372	\$485	1,285	\$566,923	\$623,133	\$655,725	\$654,131	-\$30,997	0.95
Total B		168,795			129,434	\$9,592,883	\$10,704,697	\$9,240,704	\$8,978,391	\$1,726,306	1.19
C-I	1	3,202,901	\$40	\$56	2,534,252	\$128,116,026	\$141,918,088	\$101,457,958	\$97,001,861	\$44,916,227	1.46
	2	1,463,355	\$58	\$81	1,112,183	\$84,874,580	\$90,086,804	\$64,665,736	\$62,325,410	\$27,761,394	1.45
	3	495,338	\$104	\$146	391,986	\$51,515,132	\$57,229,916	\$40,483,732	\$39,794,959	\$17,434,956	1.44
	4	116,404	\$172	\$240	92,628	\$20,021,558	\$22,230,648	\$18,253,201	\$18,094,745	\$4,135,903	1.23
	5	28,158	\$288	\$402	22,399	\$8,109,453	\$9,004,508	\$8,643,507	\$8,605,130	\$399,378	1.05
Total C-I		5,306,156			4,153,447	\$292,636,749	\$320,469,963	\$233,504,133	\$225,822,105	\$94,647,858	1.42
C-II	1	1,944,781	\$40	\$46	1,792,531	\$77,791,222	\$82,456,416	\$55,905,612	\$54,891,970	\$27,564,446	1.50
	2	758,767	\$58	\$67	687,515	\$44,008,463	\$46,063,521	\$30,195,281	\$29,720,439	\$16,343,082	1.55
	3	243,090	\$104	\$120	223,768	\$25,281,331	\$26,852,110	\$17,730,929	\$17,602,160	\$9,249,950	1.53
	4	45,357	\$172	\$198	41,815	\$7,801,448	\$8,279,348	\$6,315,052	\$6,291,444	\$1,987,904	1.32
	5	6,262	\$288	\$331	5,779	\$1,803,345	\$1,912,715	\$1,701,955	\$1,698,736	\$213,979	1.13
Total C-II		2,998,256			2,751,407	\$156,685,809	\$165,564,111	\$111,849,829	\$110,204,748	\$55,359,362	1.50
C-III	1	151,459	\$40	\$40	151,459	\$6,058,375	\$6,058,375	\$3,965,742	\$3,965,742	\$2,092,634	1.53
	2	47,532	\$58	\$58	47,532	\$2,756,864	\$2,756,864	\$1,708,781	\$1,708,781	\$1,048,083	1.61
	3	15,375	\$104	\$104	15,375	\$1,598,978	\$1,598,978	\$1,003,196	\$1,003,196	\$595,782	1.59
	4	1,612	\$172	\$172	1,612	\$277,319	\$277,319	\$199,683	\$199,683	\$77,636	1.39
	5	532	\$288	\$288	532	\$153,165	\$153,165	\$128,194	\$128,194	\$24,971	1.19
Total C-III		216,510			216,510	\$10,844,702	\$10,844,702	\$7,005,596	\$7,005,596	\$3,839,106	1.55
D-I	1	36,301	\$12	\$24	34,356	\$435,608	\$824,544	\$1,060,533	\$1,047,573	-\$223,029	0.79
	2	22,069	\$20	\$40	20,542	\$441,377	\$821,698	\$893,735	\$883,563	-\$61,865	0.93
	3	7,552	\$36	\$72	7,279	\$271,869	\$524,117	\$561,444	\$559,628	-\$35,511	0.94
	4	1,096	\$53	\$106	1,070	\$58,107	\$113,378	\$155,726	\$155,548	-\$42,170	0.73
	5	180	\$83	\$166	178	\$14,978	\$29,495	\$50,063	\$50,045	-\$20,549	0.59
Total D-I		67,198			63,425	\$1,221,940	\$2,313,232	\$2,721,502	\$2,696,357	-\$383,125	0.86

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Attachment to Response to
USPS/OCA-T500-20(a)
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Table 18. Summary of Revenues and Costs, Proposed New Fee Groups, TYBR and TYAR (continued)											
New Fee Groups											
D-II	1	1,131,135	\$12	\$18	1,100,837	\$13,573,626	\$19,815,069	\$33,131,796	\$32,929,878	-\$13,114,809	0.60
	2	493,926	\$20	\$30	476,845	\$9,878,524	\$14,305,338	\$20,058,750	\$19,944,913	-\$5,639,575	0.72
	3	132,154	\$36	\$54	129,769	\$4,757,533	\$7,007,536	\$9,854,843	\$9,838,951	-\$2,831,415	0.71
	4	15,190	\$53	\$80	15,001	\$805,088	\$1,200,115	\$2,164,496	\$2,163,237	-\$963,122	0.55
	5	1,655	\$83	\$125	1,642	\$137,377	\$205,283	\$460,679	\$460,593	-\$255,310	0.45
Total D-II		1,774,061			1,724,095	\$29,152,148	\$42,533,342	\$65,670,563	\$65,337,572	-\$22,804,231	0.65
D-III	1	2,868,513	\$12	\$15	2,830,096	\$34,422,158	\$42,451,433	\$79,349,885	\$79,093,857	-\$36,642,424	0.54
	2	1,060,532	\$20	\$25	1,042,194	\$21,210,646	\$26,054,849	\$40,478,687	\$40,356,474	-\$14,301,626	0.65
	3	269,261	\$36	\$45	266,832	\$9,693,407	\$12,007,445	\$18,763,736	\$18,747,547	-\$6,740,102	0.64
	4	16,184	\$53	\$66	16,087	\$857,763	\$1,061,762	\$2,147,991	\$2,147,345	-\$1,085,583	0.49
	5	1,769	\$83	\$104	1,762	\$146,827	\$183,260	\$457,803	\$457,757	-\$274,497	0.40
Total D-III		4,216,260			4,156,971	\$66,330,801	\$81,758,749	\$141,198,101	\$140,802,980	-\$59,044,231	0.58
E	1	599,685	\$0	\$0	599,685	\$0	\$0	\$17,318,786	\$17,318,786	-\$17,318,786	0.00
	2	231,140	\$0	\$0	231,140	\$0	\$0	\$9,244,297	\$9,244,297	-\$9,244,297	0.00
	3	60,501	\$0	\$0	60,501	\$0	\$0	\$4,437,012	\$4,437,012	-\$4,437,012	0.00
	4	6,078	\$0	\$0	6,078	\$0	\$0	\$851,052	\$851,052	-\$851,052	0.00
	5	840	\$0	\$0	840	\$0	\$0	\$229,647	\$229,647	-\$229,647	0.00
Total E		898,243			898,243	\$0	\$0	\$32,080,794	\$32,080,794	-\$32,080,794	0.00
TOTAL		15,724,952			14,149,825	\$570,671,113	\$638,817,332	\$607,734,000	\$597,236,834	\$41,580,498	1.07
Caller Service		90,747	\$451	\$550	82,161	\$40,926,917	\$45,188,468			\$45,188,468	
Reserve Number		182,113	\$30	\$40	150,749	\$5,463,379	\$6,029,976			\$6,029,976	
GRAND TOTAL		15,997,812			14,382,735	\$617,061,409	\$690,035,776	\$607,734,000	\$597,236,834	\$92,798,942	1.16

Table 19. Comparison of Postal Service and OCA Proposals, TYAR		
Post Office Box and Caller Service	USPS Proposal	OCA Proposal
Revenues	\$683,362,079	\$690,035,776
Costs	\$589,954,455	\$597,236,834
Net Revenues	\$93,407,624	\$92,798,942
Cost Coverage	116%	116%

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TO INTERROGATORIES USPS/OCA-T500-12-21

USPS/OCA-T500-21. Refer to library reference OCA-LR-10, page 22. Please confirm that footnote [c] should read "[b] * Table 13E, Col. [b] by CAG." instead of "[b] / Table 13E, Col. [b] by CAG." If you do not confirm, please explain why not.

A. Confirmed. See OCA-LR-10, Table 13B, revised 1-23-98.

DECLARATION

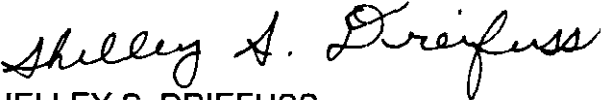
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T500-12-21 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed James F. Callow

1-30-98

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


SHELLEY S. DRIEFUSS
Attorney

Washington, DC 20268-0001
January 30, 1998