

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-T5-21-24)
(October 20, 2006)

The Office of the Consumer Advocate hereby submits responses of James F. Callow to interrogatories USPS/OCA-T5-21-24, dated October 6, 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-T5-21.

Please refer to your response to USPS/OCA-T5-6 and to pages 7 and 8 of your revised testimony, where you state:

Current Silver subscribers, depending upon the number of quarterly subscriptions purchased during the year and use of First-Class Mail scans, will experience fee changes ranging from -14 to 190 percent. Silver subscribers that purchased one, two, or three quarterly subscriptions will pay between 6 and 190 percent more than currently as combined total fees (i.e., the annual user fee plus declining block user fees) rise with usage. Only Silver subscribers that purchased four sequential quarterly subscriptions will experience a decrease in combined total fees of between -8 and -14 percent under the Postal Service's proposal.

- (a) In your response to USPS/OCA-T5-6(d) you note that the potential fee decrease for a Silver subscriber is 37.5 percent. Please confirm that this is more than twice the amount of savings you present in your revised testimony. If you do not confirm, please explain.
- (b) Please confirm that your revised testimony is inconsistent with your response to USPS/OCA-T5-6(d), in that the potential savings for Silver subscribers is greater than stated in the testimony. If you do not confirm, explain fully.
- (c) At the time your testimony was submitted were you aware that your presentation did not reflect the possibility of Silver subscribers renewing their subscription quarterly even if they do not use all 15 million scans? If you were aware, please explain fully why your testimony seems to have ignored this possibility.

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(a) - (b) I can confirm that the potential fee decrease for a Silver subscriber of 37.5 percent, provided in response to USPS/OCA-T5-6(d), differs from the range of fee changes provided in my revised testimony. However, I cannot confirm that my response to USPS/OCA-T5-6(d) is inconsistent with my revised testimony if the purpose of estimating the percentage change in fees is to present realistic estimates.

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In preparing my testimony, I made one set of assumptions about the usage of scans by Silver subscribers during each quarterly subscription period. The response to USPS/OCA-T5-6(d) makes a different set of assumptions than in my testimony. While the assumptions in my testimony may not capture all possible combinations of quarterly subscriptions and usage, the range of fee changes presented in my testimony—from -14 to 190 percent—is more realistic than the single estimate of -37.5 percent.

As stated in my testimony quoted in this interrogatory, the fee changes range from -14 to 190 percent, based upon “the number of quarterly subscriptions purchased during the year and use of First-Class Mail scans.” The response to USPS/OCA-T5-6(d) applies only to current Silver subscribers purchasing four quarterly subscriptions and using less than 1 million First-Class Mail scans in total. Although there are three current Silver subscribers that purchased four quarterly subscriptions, it seems highly unlikely they used less than 1 million scans. More realistically, as stated in my testimony quoted above, if these three current Silver subscribers used between 45 million and 60 million scans, they would “experience a decrease in combined total fees of between -8 percent to -14 percent under the Postal Service’s proposal.” If it is assumed these three current subscribers used between 2 million scans up to 45 million scans, the resulting decrease in combined total fees under the Postal Service's proposal would range from -36.6 percent $\left(\frac{((\$5,000 * 1 \text{ million scans}) + (\$70 * 1 \text{ million additional scans}))}{\$8,000} - 1\right)$ to -14 percent $\left(\frac{((\$5,000 * 1 \text{ million scans}) + (\$70 * 9 \text{ million additional scans}) + (\$35 * 35 \text{ million additional scans}))}{\$8,000} - 1\right)$.

Moreover, the response to USPS/OCA-T5-6(d) does not apply to current Silver subscribers purchasing between one and three quarterly subscriptions. Based upon

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the assumptions in my testimony, the table below presents the range of the percentage change in combined total fees under the Postal Service's proposal for the 13 current Silver subscribers purchasing one, two or three quarterly subscriptions using the specified number of First-Class Mail scans:

Quarterly Subscriptions Purchased	Range of First-Class Mail Scans (Millions)	Range of Fee Increases (Percent)
1	1 - 15	150 - 190
2	16 - 30	46 - 58
3	30 - 45	6 - 14

Source: OCA-T-5, Attachment 1 (Revised 10-20-06)

It seems reasonable to assume that current Silver subscribers purchasing one quarterly subscription would use between 1 and 15 million scans, making the range of fee increases presented in the table realistic and accurate. Even if some current Silver subscribers purchased a second quarterly subscription without using all 15 million scans during the first subscription period, it doesn't necessarily mean the range of fee increases presented in OCA-T-5, Attachment 1 (Revised 10-20-06) for such subscribers is unrealistic or wrong. For example, assume a Silver subscriber, after using 12 million scans on three First-Class mailings (4 million scans per mailing), decides to purchase a second quarterly subscription. If sometime during the second quarterly subscription period the subscriber enters one more First-Class mailing using 4 million scans, or a total of 16 million scans, the subscriber's fee increase would be 46 percent.

Nevertheless, the percentage change in fees would differ from those presented in OCA-T-5, Attachment 1 (Revised 10-20-06) if it were assumed that current Silver subscribers purchased two consecutive quarterly subscriptions and used 15 million or

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fewer scans, or three consecutive quarterly subscriptions and used 30 million or fewer scans. The percentage change in fees under the Postal Service's proposal for a current Silver subscriber purchasing two consecutive quarterly subscriptions using 15 million or fewer scans would range from 25 percent $\left(\frac{(\$5,000 * 1 \text{ million scans})}{\$4,000} - 1\right)$ to 45 percent $\left(\frac{(\$5,000 * 1 \text{ million scans}) + (\$70 * 9 \text{ million additional scans}) + (\$35 * 5 \text{ million additional scans})}{\$4,000} - 1\right)$. The percentage change in fees for a current Silver subscriber purchasing three quarterly subscriptions using 30 million or fewer scans would range from -17 percent $\left(\frac{(\$5,000 * 1 \text{ million scans})}{\$6,000} - 1\right)$ to 5 percent $\left(\frac{(\$5,000 * 1 \text{ million scans}) + (\$70 * 9 \text{ million additional scans}) + (\$35 * 20 \text{ million additional scans})}{\$6,000} - 1\right)$.

(c) No.

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USPS/OCA-T5-22.

Please refer to your response to USPS/OCA-T5-11.

- (a) Please explain fully why you chose to respond using a scenario in which a mailer "seeks to acquire a total of 459 blocks of 1 million units, or nearly 164 million (163,928,571) scans," rather than the 164 million scans as stated in the question.
- (b) Please confirm that the total fee under the Postal Service proposal for 164 million scans, as stated in the original interrogatory, will be \$15,080 (\$5,000 for the annual fee plus \$10,080 for the additional blocks of units). If you do not confirm, explain fully.

RESPONSE TO USPS/OCA-T5-22

(a) - (b) Assuming a weighted average 357,143 scans per block of 1 million units, a mailer could not acquire 164 million scans. More specifically, a mailer could purchase either 163,928,571 scans, a total of 459 blocks of 1 million scans (458 additional blocks plus the 1 block included with the annual user fee), or 164,285,714 scans, a total of 460 blocks of 1 million scans (459 additional blocks plus the 1 block included with the annual user fee). Assuming the mailer wanted to acquire up to but not more than 164 million (i.e., 163,928,571) scans, the total cost to the subscriber would be \$15,062.50, as stated in the response to USPS/OCA-T5-11. However, I can confirm that if the mailer wanted to acquire more than 164 million (i.e., 164,285,714) scans, the total cost to the subscriber would be \$15,080.

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USPS/OCA-T5-23.

Please refer to your response to USPS/OCA-T5-12.

- (a) Please confirm that the column heading for cell AD9 of your original testimony on the worksheet that was previously titled "USPS Comps Gold&Plat" (which was changed without explanation as part of your September 22, 2006 revisions to "USPS Comps Platinum," where it is column V with the same column heading) is "Standard Cost per Million Scans" not "Weighted Average Cost Per Million Scans (\$)" as stated in your response.
- (b) Please refer to Cell V9 of worksheet "USPS Comps Platinum" of Attachment 1 of your revised testimony, which is under the column heading "Standard Cost per Million Scans". Please confirm that your response to USPS/OCA-T5-12 should have been a confirmation, and that the value should be \$25,000. If you do not confirm, please fully justify why that specific cell contains a different equation than all cells in the array from V10 to V192, which in the original version of your testimony would have been AD10 to AD35 before you expanded this column in your notice of errata filed on September 22, 2006.
- (c) Please explain why you expanded this column in your errata filed on September 22, 2006.

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- (a) Confirmed.
- (b) Confirmed. See the errata to OCA-T-5, Attachment 1 (Revised 10-20-06), filed this date.
- (c) In OCA-T-5, Attachment 1, as originally filed, column AD relies on figures in column AA, which in turn relies on column Z. Column Z, entitled "Number of First-Class Scans per Million Units," contained various discrete "scans per million" (i.e., 1, 2, 9, 10, 11, 15, etc.) from 1 to 175, rather than all scans 1 through 175. OCA-T-5, Attachment 1 revised September 22, 2006, contained scans per million 1 through 175, inclusive, in order to provide calculations for several subsequent interrogatories.

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USPS/OCA-T5-24.

Please refer to your response to USPS/OCA-T5-14(b).

- (a) Please confirm that, under the Postal Service proposal, a fee is charged for each additional block of 1 million units used by a Confirm subscriber. If you do not confirm, explain fully.
- (b) Please confirm that if this subscriber were to move to a reseller, then the reseller would need to buy additional blocks of units to procure the scans for their new customer. If you do not confirm, explain fully.
- (c) Please confirm that the difference in the amounts of revenue lost between the two proposals should include both the difference in the total fees the subscriber had previously paid, which is \$2,670 in your response to USPS/OCA-T5-14(b), plus the amount of revenue the Postal Service would acquire as a result of the reseller purchasing enough additional blocks to procure the scans for the customer. If you do not confirm, explain fully.
- (d) Please confirm that a reseller would need to purchase 560 additional blocks of units to fulfill this customer's need for 200 million scans. If you do not confirm, explain fully and provide all calculations.
- (e) Please confirm that 560 additional blocks of units will cost \$9,800 if all blocks are purchased at the \$17.50 price per block, and could cost more if the reseller had not previously purchased 99 additional blocks of units. If you do not confirm, explain fully and provide all calculations.
- (f) Please confirm that the total loss to the Postal Service under its proposal would be at most \$7,030, which is \$16,830 less the \$9,800 referenced in part (e). If you do not confirm, explain fully and provide all calculations.
- (g) Please confirm that the revenue loss under the Postal Service proposal would be \$12,470 (\$19,500 - \$7,030) less than under your proposal, not \$2,670 as stated in your response to USPS/OCA-T5-14(b). If you do not confirm, explain fully and provide all calculations.

RESPONSE TO USPS/OCA-T5-24

- (a) Confirmed.

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(b) Confirmed, assuming the Confirm subscriber required the same number of scans upon becoming a client of the reseller.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed.

(g) Confirmed.