

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS FRONK TO INTERROGATORIES OF E-STAMP
(E-STAMP/USPS-T33-1 AND 2)

The United States Postal Service hereby provides the responses of witness Fronk to the following interrogatories of E-Stamp: E-STAMP/USPS-T33-1 and 2 (filed on February 15, 2000).

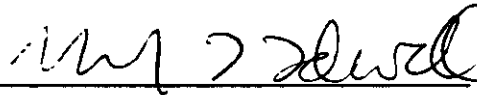
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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March 1, 2000

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF E-STAMP CORPORATION

E-STAMP/USPS-T33-1. On page 23 of your testimony you describe QBRM mail as clean, pre-barcoded mail. You say this type of mail is used daily by millions of individuals and small businesses and that, by recognizing the cost savings associated with such mail, the Postal Service is able to permit a broader base of customers to share more directly in the benefits of automation. Internet postage with Information Based Indicia (IBI) is also clean, prebarcoded mail that incurs less costs than non-barcoded mail. Currently the Postal Service has approved two vendors of this type of Internet postage, and two more are in beta testing. Would not a discount in recognition of the cost savings associated with this type of mail also permit a broader base of customers to more directly share in the benefits of automation, much as you describe is the case with QBRM?

RESPONSE: The Postal Service is optimistic about the future of Information Based Indicia (IBI) and PC Postage Products. While the program is in its infancy, the future is promising. As stated on the Postal Service's IBIP web site (www.usps.com/ibip),

It is our vision to bring the Post Office to the people. Providing electronic access to postage reflects the Postal Service response to technology trends and desire to reach customers where they are and how they work – in their homes and offices using personal computers and the Internet. PC Postage provides access to postage 24 hours a day, seven days a week.

Products from IBI vendors E-Stamp Corporation and Stamps.com were just approved for commercial distribution in August 1999. A Neopost product, Simply Postage, has also been approved by the Postal Service for commercial distribution. As your question notes, other products are in testing.

I am informed that one of the Postal Service's goals with the IBI program is to work with vendors to make a range of products available to mailers, thereby meeting different mailer needs. For example, while the Simply Postage product prints the same kind of indicia (two-dimensional IBI barcode) as the E-Stamp and Stamps.com products, it does not incorporate their ability to check address hygiene and it does not print a delivery point barcode on the mail piece.

At this point, just several months after approval of the first IBI products, it is my understanding that the Postal Service is faced with a number of issues which affect its ability to adequately and fully evaluate any potential IBI-related discount. These issues include the following.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF E-STAMP CORPORATION

RESPONSE to E-STAMP/USPS-T33-1 (continued)

First, as indicated above, IBI mail is not homogeneous. For example, some of it has been checked for address quality and some has not. This lack of homogeneity makes it more difficult to measure the cost savings to the Postal Service from processing an IBI mail piece.

Second, it is my understanding that mail bearing an IBI may not comply with all of the standards of the Domestic Mail Manual for automation-compatible mail. Specifically, a customer may use this form of postage on a mail piece that exceeds size, shape, and weight limitations for automation-compatible mail. Mail bearing an IBI can contain anything the customer decides to mail that is acceptable for the class of mail being presented. Consequently, the Postal Service has no assurance that use of an IBI as postage on a mail piece will guarantee its automation compatibility. Third, since these products are so new, it is unclear to what extent the technology will be embraced by the marketplace and the volume of mail likely to be affected.

Another issue is related to the fact that billions of pieces of single-piece First-Class Mail travel in courtesy reply envelopes, with a FIM A and preprinted addresses. A discounted postage rate for IBI would potentially create an incentive for mailers to throw away their courtesy envelopes in favor of making their own envelopes with a discounted rate. This would likely raise the ire of businesses that receive courtesy reply mail and have standardized processes in place for dealing with it. In addition, the Postal Service would need to reflect on revenue/enforcement issues, since single-piece mail bypasses the acceptance procedures in place to ensure that bulk mail meets the mail preparation requirements needed to qualify for a discount.

Again, while the Postal Service is optimistic about the prospects for IBI, it presently views the consideration of an IBI discount as premature.

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E-STAMP/USPS-T33-2. In your Attachment 33B, on page 46 of your testimony, you provide the costs for First-Class Mail Before and After Rates, both for the letter and card sub-class.

- (a) In calculating the before and after rate costs for the non-presorted letters and single-piece cards, did you assume that any of these letters and cards would be Internet postage mail with destination point barcodes, that is, mail utilizing the IBI indicia, such as the Postal Service has currently approved for E-Stamp and Stamps.com, and which is currently in beta testing by Pitney Bowes and Neopost?
- (b) If the answer to (a) is in the affirmative, please supply your estimate of the volumes, costs, and revenues of that category of mail, before and after rates, and the assumed unit costs for that category of FCM letters and cards.

RESPONSE:

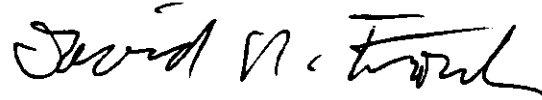
(a) I present the cost data in my Attachment USPS-T33B as part of an overall First-Class Mail Test Year summary, which includes volumes, revenues, costs, and contribution. I did not calculate the cost data shown. Attachment USPS-33B references my workpaper (USPS-T-33 Fronk Workpaper) as the source of the summary data it presents. As indicated in my workpaper, the cost data presented in my Attachment USPS-33B are from the workpaper of witness Kashani (TYBR from USPS-T-14, Workpaper H, Table E; TYAR from USPS-T-14, Workpaper J, Table E).

Nevertheless, it is my understanding that these cost data and the underlying volume data do not make any assumption about mail pieces using IBI indicia.

(b) Not applicable.

DECLARATION

I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

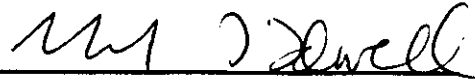


David R. Fronk

Dated: 3-1-00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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