

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

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS FRONK TO INTERROGATORIES OF STAMPS.COM
(STAMPS.COM/USPS-T33-1 THROUGH 5)

The United States Postal Service hereby provides the responses of witness Fronk to the following interrogatories: STAMPS.COM/USPS-T33-1 through 5 (filed on March 3, 2000).

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

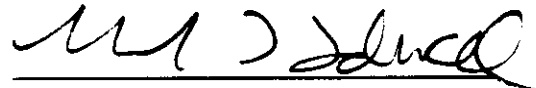
The following interrogatory has been redirected to the Postal Service for response: STAMPS.COM/USPS-T33-6.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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March 17, 2000

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF STAMPS.COM

STAMPS.COM/USPS T-33-1. Reference page 305 of the PRC's Opinion and Recommended Decision, R97-1, May 11, 1998, wherein it was noted that the Postal Service was concerned that differently-rated postage stamps for single-ounce First Class mail was operationally infeasible. USPS was also concerned there could be "administrative and enforcement problems associated with what would happen if the general public were expected to use differently-rated stamps for its First-Class Mail correspondence and transactions."

Please confirm that a discounted First-Class Mail rate for IBI (Information Based Indicia) mail that has been checked under USPS's AMS database and modified to meet USPS automation addressing requirements: (a) is not operationally infeasible, and (b) would not present any of the administrative and enforcement problems associated with what would happen if the general public were expected to use differently-rated stamps for its First-Class Mail correspondence and transactions. If you disagree, please explain why.

RESPONSE:

- (a) I am unable to confirm (or not confirm) the operational feasibility of an IBI discount at this point because I have not studied such a potential discount to the extent needed to formulate such a definitive opinion. As I stated in my response to E-Stamp/USPS-T33-1, "...while the Postal Service is optimistic about the prospects for IBI, it presently views the consideration of an IBI discount as premature." As I also stated in that response, "... it is my understanding that the Postal Service is presently faced with a number of issues which affect its ability to adequately and fully evaluate any potential IBI-related discount."
- (b) I am unable to confirm that an IBI discount would not present any of the administrative and enforcement concerns associated with two first-ounce stamps for the reasons set forth in (a) above. I would agree that IBI PC postage products do have the potential to address some of the issues of confusion and burden associated with what would happen if the general public were expected to use differently-rated stamps for its First-Class Mail correspondence and transactions. However, it is my understanding that this potential effectiveness in addressing issues of burden and confusion has not been something measured to date in the implementation of IBI.

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STAMPS.COM/USPS T-33-2. In preparing its rate request proposal for this proceeding, did the Postal Service consider offering a discount for IBI users for any class or type of mail? If so, please explain what discounts USPS was considering and why they were not included as part of the final rate request proposal.

RESPONSE: In preparing its Docket No. R2000-1 rate request, the Postal Service did consider offering a First-Class Mail discount for IBI users. However, the Postal Service did not consider specific discount levels or attempt to prepare a cost study that would indicate what the cost savings associated with this mail might be because it viewed the consideration of an IBI discount as premature. Accordingly, the Postal Service's evaluation of the discount potential of IBI was limited to a more general, conceptual review.

As I described in my response to E-Stamp/USPS-T33-1, the Postal Service is optimistic about the future of Information Based Indicia (IBI) and PC Postage products. 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. Please see my response to E-Stamp/USPS-T-33-1 for further discussion.

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STAMPS.COM/USPS T-33-3. Reference your testimony on pages 16 - 17, wherein you state that a key issue affecting First-Class Mail rate design is establishing an appropriate point of comparison for determining automation-related cost savings. This point of comparison is frequently called a "benchmark" because it is the mail type used as the standard for computing costs savings.

- (a) Do you agree with USPS witness Campbell that the appropriate benchmark for determining automation-related costs savings of QBRM mail is handwritten mail? If not, explain why.
- (b) The IBI mail provided by Stamps.com and E-Stamp is checked and modified for address quality before printing. Do you agree that handwritten mail is the appropriate benchmark for determining the automation-related cost savings of this type of IBI mail? If not, explain why.
- (c) If you agreed with (a) above, but not (b) above, explain why the same benchmark is not equally applicable to QBRM and IBI First-Class mail pieces that have been checked and modified for address quality.

RESPONSE:

- (a) Yes.
- (b) As I indicated in my response to Stamps.com/USPS T-33-2, the Postal Service is optimistic about the future of IBI, but it presently views the consideration of an IBI discount as premature. Consequently, I have not studied the issue of what an appropriate benchmark might be for any potential IBI-related discount. It is premature to formulate an opinion regarding the appropriate benchmark.
- (c) Not applicable.

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STAMPS.COM/USPS T-33-4. Reference your testimony at page 19, where you note that the Postal Service has been relying on automation to control mail processing costs, that USPS's goal has been to continue to work toward a mailstream that is as barcoded as possible, and that you have taken account of the importance of the automation program in proposing various First-Class mail discounts.

- (a) Do you agree that the IBI postage service offered by Stamps.com and E-Stamp (which contains an address that has been verified and modified to comply with the AMS database, contains a FIM C code or fluorescent label, and is prebarcoded) fully meets all USPS automation compatibility requirements? If not, explain which requirements are not met.
- (b) Do you agree that IBI mail described in paragraph (a) above meets the same automation compatibility requirements as QBRM mail? If not, explain which requirements are not met.
- (c) Do you agree that providing a discount for First-Class IBI mail would be consistent with USPS's policy in setting rates that take into account the importance of USPS's automation program?

RESPONSE:

- (a) No. As discussed in my response to E-Stamp/USPS-T33-1, 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. 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. For example, a customer may affix an IBI fluorescent label to a 5-ounce letter, which exceeds the maximum weight for an automation-compatible letter. Or, a customer may affix a label to a First-Class Mail parcel, which is non-automatable. Consequently, the Postal Service has no assurance that use of an IBI as postage on a mail piece will guarantee its automation compatibility. In addition, please note the typo indicating that IBI postage products use FIM C. IBI postage products use FIM D; FIM C is reserved for Business Reply Mail use.

Also, as noted by witness Campbell in his response to E-Stamp/USPS-T29-2(a), it is my understanding that the vision of the IBI program has been

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RESPONSE to STAMPS.COM/USPS T33-4 (continued)

to enhance the convenience of the mail by bringing the Post Office to the people. A goal of the IBI program is to work with vendors to make a range of products available to mailers, thereby meeting different mailer needs. While producing mail pieces that meet the requirements of automation-compatibility is also a program consideration, initial program efforts have not been geared toward ensuring that this is the case.

(b) No. Please see the response of witness Campbell to E-Stamp/USPS-T-29-2 (b).

(c) Not necessarily. The preamble in this interrogatory omits a key phrase in paraphrasing my testimony. On page 19, I state, "I have taken account of the importance of the automation program by proposing discounts that recognize the need for continued *bulk mailer* participation in that automation program [emphasis supplied]. Offering automation discounts to single-piece mailers raises additional issues concerning revenue protection and the enforcement of mail preparation standards since this mail bypasses bulk mail entry units. In addition, there could be other issues that would surface in a full evaluation of a potential IBI-related discount.

The Postal Service does not necessarily view such issues as insurmountable, but rather presently considers the offering of such a discount as premature.

While I recognize that the QBRM discount is a single-piece discount, it really represents a special case because it is single-piece mail that is received in bulk for the calculation of postage due and that meets mail preparation standards that ensure its automatibility (please see DMM Section S922.5.0).

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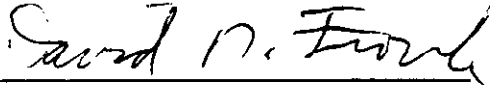
STAMPS.COM/USPS T-33-5. Reference your testimony at page 40 where you state that by recognizing some cost savings associated with QBRM mail, the Postal Service is able to "permit a broader base of customers to more directly share in the benefits of automation."

(a) Do you agree that providing a discount for IBI First-Class mail that has been checked and modified for address quality would also permit a broader base of customers to more directly share in the benefits of automation? If not, explain why.

RESPONSE: Yes, to the extent that customers who currently are ineligible for discounted postage could now qualify for lower rates for their mail pieces. Postal customers already benefit from automation indirectly because rates are generally lower than they would have been without automation.

DECLARATION

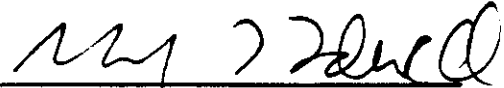
I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


David R. Fronk

Dated: 3-17-00

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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