

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 PITNEY BOWES
(PB/USPS-T33-6 THROUGH 11)

The United States Postal Service hereby provides the response of witness Fronk to the following interrogatories of Pitney Bowes: PB/USPS-T33-6 through 11, filed on March 15, 2000.

When filed, these interrogatories were numbered as "PB/USPS-T33-1" through "T33-6." However, previous Pitney Bowes interrogatories to witness Fronk had been numbered "T33-1" through "T33-5." The Postal Service has re-numbered the interrogatories filed on March 8, 2000 as "T33-6" through "T33-11."

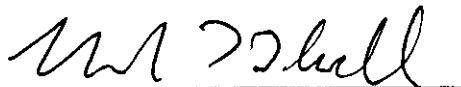
Each re-numbered interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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March 29, 2000

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF PITNEY BOWES**

PB/USPS-T33-6 (renumbered; originally filed as PB/USPS-T33-1, but that number had already been used). For purposes of this set of interrogatories, the term "Metering Technology" means a machine or system that evidences the pre-payment of postage by imprinting the postage value on the mailpiece, and encompasses both traditional, stand alone meters and devices or systems authorized by the Postal Service under its Information Based Indicia Program ("IBI"). At page 18 of your testimony, you state that the Postal Service and Commission are in agreement that worksharing discounts "should be limited to activities exhibiting identifiable savings" to the Postal Service. Please confirm that:

- (a) Costs incurred by the Postal Service in the manufacture and distribution of postage stamps and other accountable paper are not caused by users of Metering Technology.
- (b) Users of Metering Technology that is reset without taking the meter or device to a Post Office (remote or computerized meter resetting) do not cause the Postal Service to incur any of the Window Service Costs associated with the sale of stamps and other accountable paper.
- (c) A small (and declining) percentage of Metering Technology in operation today is taken to a postal facility to be reset.
- (d) None of the "identifiable savings" that the Postal Service realizes today in the cost of manufacturing and distribution of postage stamps and in Window Service Costs resulting from Metering Technology is explicitly recognized in the rate design that you have proposed for the First-Class single piece category.
- (e) If you do not confirm any of subparts (a) through (d), please explain your response in detail and provide any supporting workpapers, studies or other documents.

RESPONSE: I am uncomfortable with this question's lumping together of traditional, stand-alone meters and IBI products under the heading of "Metering Technology" when asking about worksharing discounts. While considering both together is appropriate at some level, the potential of some IBI technology -- in terms of address verification, barcoding, and other attributes -- goes far beyond the historical concept of metered mail.

- (a) Confirmed – this is my understanding.
- (b) Confirmed – this is my understanding.

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RESPONSE to PB/USPS-T33-6 (continued)

- (c) Clearly, this is the case for IBI products where postage is purchased over the Internet. I am unsure what is meant by "small," but this statement reflects my general understanding of trends in how traditional meters are reset.**
- (d) Confirmed.**
- (e) N/A.**

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PB/USPS-T33-7 (renumbered; originally filed as PB/USPS-T33-2, but that number had already been used). Please provide copies of any workpapers, studies or other documents prepared by or on behalf of the Postal Service examining the extent to which Metering Technology results in avoided costs to the Postal Service in connection with the manufacture, distribution and sale of postage stamps.

RESPONSE: I am not aware of any such documents.

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PB/USPS-T33-8 (renumbered; originally filed as PB/USPS-T33-3, but that number had already been used). Do you agree that Metering Technology enables users of First-Class Mail to acquire postage, especially postage of varying amounts (such as \$0.22 for an extra ounce of First-Class mail, or \$3.20 for Priority Mail), more easily than would be the case if they relied on and used only stamps? If your answer is other than an unqualified affirmation, please explain your response in detail and provide any supporting workpapers, studies or other documents.

RESPONSE: Yes.

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PB/USPS-T33-9 (renumbered; originally filed as PB/USPS-T33-4, but that number had already been used). Do you agree that providing users of the First-Class single piece category with incentives to use Metering Technology in lieu of stamps may increase mail volume because such technology makes it easier to acquire postage? If your answer is other than an unqualified affirmation, please explain your response in detail and provide any supporting workpapers, studies or other documents.

RESPONSE: I am unsure what incentives are being referred to in this question. Nevertheless, I agree that greater use of Metering Technology may increase mail volume because it makes postage easier to acquire and can make the use of the mail more convenient, though I have no evidence that it actually does so.

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PB/USPS-T33-10 (renumbered; originally filed as PB/USPS-T33-5, but that number had already been used). Assume for purposes of this interrogatory that the Postal Service realizes identifiable cost savings in the manufacture, distribution and sale of stamps resulting from the use of Metering Technology. Would such savings be unrelated to mail processing savings associated with single piece first-class mail that would exist when mail is automation compatible? If your answer is other than an unqualified affirmation, please provide a detailed response and any supporting workpapers, studies or other documents.

RESPONSE: Assuming there are such identifiable savings, they would be separate from mail processing cost savings.

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PB/USPS-T33-11 (renumbered; originally filed as PB/USPS-T33-6, but that number has been used). Is it correct that:

- (a) Your response to E-Stamp interrogatory T33-1 (in which you concluded that "the consideration of an IBI discount" is "premature") was based solely upon asserted difficulties in measuring the cost savings to the Postal Service in the mail processing function of an IBI mailpiece?
- (b) Your response to E-Stamp interrogatory T33-1 did not address the question of whether it is possible to measure costs avoided in the manufacture, distribution and sale of stamps and other accountable paper as the result of the use of Metering Technology?
- (c) If your answers to subparts (a) or (b) of this interrogatory are other than an unqualified affirmation, please explain your answer in detail and provide any supporting workpapers, studies or other documents.

RESPONSE:

- (a) Not correct. I prefaced my discussion of the issues identified in my response to E-STAMP/USPS-T33-1 with the statement, "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." The issues I identified included: (1) the Postal Service's need to reflect on IBI 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, (2) a potential incentive for mailers to discard courtesy reply envelopes in favor of making their own envelopes with a potential discounted IBI rate. Neither of these issues is related to mail processing per se.

In addition, as I noted in my responses to E-STAMP/USPS-T33-4 and STAMPS.COM/USPS-T33-4, the Postal Service's evaluation of the discount potential of IBI has been limited to a general, conceptual review. Accordingly, the issues I listed in my response to E-

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RESPONSE to PB/USPS-T33-11 (continued)

STAMP/USPS-T33-1 are not meant to be an exhaustive, nor has the Postal Service studied the identified issues in detail.

- (b) Correct , but I have not studied whether or not it is possible to measure such avoided costs. Also, please see my response to part (a).
- (c) Please see my responses to parts (a) and (b).

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: 3-29-00

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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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