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Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of:

POSTAL RATE AND FEE CHANGE

Docket No.

R2000-1

VOLUME 12

DATE: Wednesday, April 26, 2000

PLACE: Washington, D.C.

PAGES: 4673 - 4955

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Washington, D.C. 20036

(202) 842-0034

BEFORE THE
POSTAL RATE COMMISSION

-----X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
-----X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C. 20268

Volume XII
Wednesday, April 26, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:33 a.m.

BEFORE:

HON. EDWARD J. GEILMAN, CHAIRMAN
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. W.H. "TREY" LeBLANC, COMMISSIONER
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. RUTH GOLDWAY, COMMISSIONER

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1 APPEARANCES:

2 On behalf of the National Association of Letter
3 Carriers, AFL-CIO:
4 KEITH SECULAR, ESQ.
Cohen, Weiss & Simon
330 W. 42nd Street
New York, NY 10036

5 On behalf of the Newspaper Association of America:
6 ROBERT J. BRINKMANN, ESQ.
Newspaper Association of America
429 14th Street, NW
7 Washington, DC 20045

8 WILLIAM B. BAKER, ESQ.
9 Wiley, Rein & Fielding
1776 K Street, NW, Suite 1100
10 Washington, DC 20006

On behalf of the National Association of Presort
11 Mailers:
HENRY A. HART, ESQ.
12 Reed, Smith, Shaw & McClay, LLP
1301 L Street, NW
13 East Tower, Suite 1100
Washington, DC 20005

14 On behalf of the Classroom Publishers Association:
15 STEPHEN F. OWEN, JR., ESQ.
5335 Wisconsin Avenue, NW
16 Suite 920
Washington, DC 20015

17 On behalf of OCA-PRC:
18 KENNETH E. RICHARDSON, ESQ.
EMMETT RAND COSTICH, ESQ.
19 SHELLEY S. DREIFUSS, ESQ.
TED P. GERARDEN, DIRECTOR
20 Office of the Consumer Advocate
Public Rate Commission
21 1333 H Street, NW
Washington, DC 20005

22 On behalf of Hallmark Cards, Incorporated:
23 DAVID F. STOVER, ESQ.
SHELDON BIERMAN, ESQ.
24 2970 S. Columbus Street, Suite 1B
Arlington, VA 22206

25

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1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)

2 On behalf of ADVO, Incorporated; and the
3 Saturation Mail Coalition:
4 JOHN M. BURZIO, ESQ.
5 THOMAS W. McLAUGHLIN, ESQ.
6 Burzio & McLaughlin
7 1054 31st Street, NW, Suite 540
8 Washington, DC 20007

9 On behalf of the American Postal Workers Union,
10 AFL-CIO:
11 SUSAN L. CATLER, ESQ.
12 O'Donnell, Schwartz & Anderson, P.C.
13 1300 L Street, NW, Suite 1200
14 Washington, DC 20005

15 On behalf of the American Bankers Association:
16 IRVING D. WARDEN, ESQ.
17 1120 Connecticut Avenue, NW
18 Washington, DC 20036
19 On behalf of the Amazon.com:
20 WILLIAM B. BAKER, ESQ.
21 Wiley, Rein & Fielding
22 1776 K Street, NW, Suite 1100
23 Washington, DC 20006

24 On behalf of the Association of American
25 Publishers:
26 MARK PELESH, ESQ.
27 JOHN PRZYPYSZNY, ESQ.
28 Drinker, Biddle & Reath, LLP
29 1500 K Street, NW, Suite 1100
30 Washington, DC 20005

31 On behalf of the Alliance of Nonprofit Mailers;
32 American Library Association:
33 DAVID M. LEVY, ESQ.
34 CHRISTOPHER T. SHENK, ESQ.
35 Sidley & Austin
36 1722 Eye Street, NW
37 Washington, DC 20006

38 On behalf of the McGraw-Hill Companies,
39 Incorporated:
40 TIMOTHY W. BERGIN, ESQ.
41 Squire, Sanders & Dempsey, LLP
42 P.O. Box 407
43 Washington, DC 20044

25

ANN RILEY & ASSOCIATES, LTD.
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1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)
2 On behalf of the American Business Press:
3 DAVID STRAUS, ESQ.
4 MERCIA ARNOLD, ESQ.
5 Thompson, Coburn
6 700 14th Street, NW, Suite 900
7 Washington, DC 20005
8
9 On behalf of the Florida Gift Fruit Shippers
10 Association:
11 MAXWELL W. WELLS, JR., ESQ.
12 Maxwell W. Wells, Jr., PA
13 14 E. Washington Street, Suite 600
14 Orlando, FL 32802
15
16 On behalf of the Association for Postal Commerce;
17 Pitney-Bowes and the Recording Industry
18 Association; R.R. Donnelly & Sons Company:
19 IAN D. VOLNER, ESQ.
20 FRANK WIGGINS, ESQ.
21 HEATHER McDOWELL, ESQ.
22 Venable, Baetjer, Howard & Civiletti
23 1201 New York Avenue
24 Washington, D.C. 20005
25
26 On behalf of the Direct Marketing Association:
27 DANA T. ACKERLY, ESQ.
28 Covington & Burling
29 1201 Pennsylvania Avenue, NW
30 Washington, D.C. 20004
31
32 On behalf of Time Warner, Inc.:
33 JOHN M. BURZIO, ESQ.
34 TIMOTHY L. KEEGAN, ESQ.
35 Burzio & McLaughlin
36 1054 31st Street, NW, Suite 540
37 Washington, DC 20007
38
39 On behalf of ValPak Direct Marketing Systems,
40 Inc.; ValPak Dealers Association, Inc.; Carol
41 Wright Promotions, Inc.; Association of Priority
42 Mail Users, Inc.; District Photo, Inc.; Cox
43 Sampling; and Mystic Color Lab:
44 WILLIAM J. OLSON, ESQ.
45 JOHN S. MILES, ESQ.
46 William J. Olson, PC
47 8180 Greensboro Drive, Suite 1070
48 McLean, VA 22102
49

ANN RILEY & ASSOCIATES, LTD.
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1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)

2 On behalf of the United Parcel Service:
3 JOHN E. McKEEVER, ESQ.
4 Piper, Marbury, Rudnick & Wolfe, LLP
3400 Two Logan Square
18th & Arch Streets
Philadelphia, PA 19103

5 On behalf of the Dow Jones & Company, Inc.:
6 MICHAEL F. McBRIDE, ESQ.
7 BRUCE W. NEELY, ESQ.
8 JOSEPH FAGAN, ESQ.
LeBoeuf, Lamb, Greene & MacCrae, LLP
1875 Connecticut Avenue, NW, Suite 1200
Washington, DC 20009

9 On behalf of the Parcel Shippers Association; and
10 E-Stamp Corporation:
11 TIMOTHY J. MAY, ESQ.
12 Patton Boggs, LLP
2550 M Street, NW
Washington, D.C. 20037

13 On behalf of Stamps.com:
14 DAVID P. HENDEL, ESQ.
15 Wickwire Gavin, P.C.
8100 Boone Boulevard, Suite 700
Vienna, VA 22182

16 On behalf of the National Newspaper Association;
17 and the Professional Football Publication
18 Association:
19 TONDA F. RUSH, ESQ.
King & Ballow
6054 N. 21st Street
Arlington, VA 22205

20 On behalf of Key Span Energy; Long Island Power
21 Authority; and Major Mailers Association:
22 MICHAEL W. HALL, ESQ.
34693 Bloomfield Avenue
Round Hill, VA 20141

23 On behalf of the Mail Advertising Services
24 Association International; and Smart Mail, Inc.:
25 GRAEME W. BUSH, ESQ.
Zuckerman, Spader, Goldstein, Taylor & Kolken, LLP
1201 Connecticut Avenue, NW
Washington, DC 20036

ANN RILEY & ASSOCIATES, LTD.
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1025 Connecticut Avenue, NW, Suite 1014
Washington, D.C. 20036
(202) 842-0034

1 APPEARANCES: (continued)

2 On behalf of the Coalition for Religious Press
3 Associations:

4 JOHN STAPERT, ESQ.
5 1215 17th Street, NW
6 Washington, D.C. 20036

7 STEPHEN FELDMAN, ESQ.
8 Law Offices of Stephen M. Feldman
9 601 Pennsylvania Avenue, NW
10 Building SJE 900
11 Washington, D.C. 20004

12 On behalf of the Magazine Publishers of America:
13 JAMES CREGAN, ESQ.
14 ANNE NOBLE, ESQ.
15 Magazine Publishers of America
16 Suite 610
17 1211 Connecticut Avenue, NW
18 Washington, D.C. 20036

19 On behalf of the Mail Order Association of
20 America:
21 DAVID TODD, ESQ.
22 Patton Boggs L.L.P
23 2550 M Street, NW
24 Washington, D.C.

25

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C O N T E N T S

2

WITNESS

DIRECT

CROSS

REDIRECT

RECROSS

3

ANTHONY M. YEZER

BY MR. HOLLIES

4684

DAVID R. FRONK

4

BY MR. TIDWELL

BY MR. WARDEN

5

BY MR. MAY

BY MR. HALL

6

BY MR. COSTICH

BY MR.

7

BY MR.

BY MR.

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BY MR.

BY MR.

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DOCUMENTS TRANSCRIBED INTO THE RECORD:

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Designated Written Cross-Examination of
Anthony M. Yezer, USPS-T-31

4687

11

Designated Written Cross-Examination of
David R. Fronk, USPS-T-33

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E X H I B I T S

EXHIBITS AND/OR TESTIMONY

IDENTIFIED

RECEIVED

16

Direct Testimony and Exhibits of
Anthony M. Yezer, USPS-T-31

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Portion of Library Reference-241
Designated with a "Y"

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C O N T E N T S

1	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
2	ANTHONY M. YEZER				
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5	BY MR. TIDWELL	4705		4954	
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7	BY MR. MAY		4812		
8	BY MR. HALL		4830/4938		
9	BY MR. COSTICH		4876		
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16	David R. Fronk, USPS-T-33				4707

E X H I B I T S

17	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
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19	Anthony M. Yezer, USPS-T-31	4686	4686
20	Portion of Library Reference-241		
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P R O C E E D I N G S

[9:33 a.m.]

CHAIRMAN GLEIMAN: Good morning. If I am too loud now, please tell me and I'll move the mike further away. We did some adjusting last night to see if we could beef up the sound system and I think it worked, perhaps too well, so if I am giving you all a headache because of the volume as opposed to the words, let me know.

Today we continue our hearings to receive testimony of Postal Service witnesses in support of R2000-1. I have several procedural matters to discuss today before we begin our testimony.

There has been quite an exchange of documents concerning Keyspan Energy's Interrogatory KE/USPS-T33-3. As it stands now, the Postal Service has provided answers from both Witness Fronk and itself as an institution to various parts of the interrogatory. Keyspan has indicated it wants to explore these issues further during cross examination.

Mr. Hall, if you are here -- I don't see Mr. Hall here, so maybe he is not going to explore it further but we will find out later today. In any event, Mr. Hall may address questions arising from the discovery request to Witness Fronk. Hopefully the witness will be able to develop the record sufficiently and if Mr. Hall requires an opportunity to follow up on those sections of the discovery

1 request answered by the Postal Service as an institution,
2 and the Postal Service is able to identify one of its
3 current witnesses as having sufficient knowledge to answer
4 relevant and material questions, Mr. Hall may make a request
5 for relief consistent with Presiding Officer's Ruling Number
6 40, which is the ruling that said we would ask the Postal
7 Service to provide witnesses to respond to questions on
8 institutional responses.

9 I have a second procedural matter. Yesterday
10 afternoon Magazine Publishers of America filed a motion
11 seeking to postpone the date for receiving testimony from
12 Postal Service Witnesses Baron and Raymond for seven days,
13 from May the 2nd to May the 9th. ADVO Systems filed a
14 motion in support.

15 The motion further requests that the date for
16 filing rebuttal testimony related to the evidence sponsored
17 by these witnesses also be delayed seven days, from May 22nd
18 to May 29th. The motion indicates that Postal Service
19 counsel was notified on the 25th of April of this motion and
20 the question I have, Mr. Hollies, were you indeed informed
21 on the 25th?

22 MR. HOLLIES: I was not personally informed --
23 this mike has been turned up too.

24 If one of my co-counsel was informed I have no
25 reason to think that is incorrect. None of the three of us

1 here this morning I believe is prepared to respond.

2 CHAIRMAN GLEIMAN: Well, I have a message for you
3 to take back to whichever co-counsel may have been informed.
4 That is that we would like to have an answer to the motion
5 that was filed by the Magazine Publishers and we would like
6 to have it by close of business tomorrow, the 27th, so that
7 we can make adjustments as may be necessary in our schedule.

8 MR. HOLLIES: With any luck I can impart that this
9 morning.

10 CHAIRMAN GLEIMAN: Appreciate it.

11 Does any participant have a procedural matter to
12 bring up today? Mr. Hall -- I don't know whether you missed
13 the first part or not, but I spoke to your concerns about
14 KE-T33-3 and reserved your right to cross examine on that
15 and also pointed out that if you are dissatisfied at the end
16 of the day you will have an opportunity pursuant to Ruling
17 40 to request that the Postal Service provide a witness to
18 respond to the institutional aspects of the answer to that
19 interrogatory.

20 MR. HALL: Thank you very much.

21 I have two relatively minor matters. One is a
22 potential scheduling matter for Friday. Let me take that
23 up. We have determined based on all of the written cross
24 designations that we have made that we are going to have
25 extended cross examination for USPS Witness Campbell and we

1 try to be kind to the other parties whenever we can, and I
2 see that Mr. Campbell is not scheduled to be the last
3 witness of the day. Perhaps it would be helpful to the
4 other parties if the order of witnesses could be rearranged
5 and I would be happy to go along with that if the other
6 parties so desire.

7 CHAIRMAN GLEIMAN: We will take it under
8 advisement. Is there any way we can arrange the schedule of
9 the Commissioners so that we don't have to be burdened late
10 on a Friday afternoon? I guess not.

11 And the second matter?

12 MR. HALL: The second matter involves something
13 that has been important to us in particular and I don't know
14 if other parties are affected by it, but the Postal Service
15 has been filing Library References for items which are not
16 particularly bulky or lengthy -- for example, I think we
17 have one Library Reference that we are still waiting to get
18 where the entire size of the Library Reference is two pages.

19 I think it would be helpful to the parties if we
20 could get some sense from the bench that where you have a
21 document that is not going to be terribly burdensome to
22 provide at least to the party that has requested the
23 information that the Postal Service would do that and could
24 then file a Library Reference, so that it wouldn't have to
25 go through all of the burden of serving all the other

1 parties.Commission

2 CHAIRMAN GLEIMAN: Early on in this proceeding --
3 I think, because they all roll together after awhile -- we
4 had a discussion about the availability of copies of Library
5 Reference and my recollection is that we concluded that we
6 would stick with the current rules and that arrangements of
7 an informal nature between the Postal Service and the
8 particular Intervenors who had an interest in the Library
9 Reference would be the best way to go and I think the Postal
10 Service in the event that the Library Reference is indeed
11 relatively short in nature would probably be willing -- they
12 seem to have made attempts to accommodate Intervenors during
13 the course of this case in that regard and I suspect they
14 would if you were to talk to them directly about which
15 Library References --

16 MR. HALL: Oh, and we have. It is just that when
17 it requires the extra call, it requires, you know, finding
18 the counsel. It requires a lot of more logistical effort
19 than a simple understanding might have, but I would be happy
20 to continue to pursue it in that way and counsel has been
21 very responsive when requested.

22 CHAIRMAN GLEIMAN: I think that while I can
23 appreciate that it may pose some logistical problems on your
24 end and their end in terms of making the right connections I
25 am reluctant to set a rule that anything under "x" number of

1 pages ought to be provided along with the response to an
2 interrogatory or what have you, because I am sure that
3 whatever number I pick is the wrong number, because the next
4 Library Reference that someone is interested in will be
5 whatever that number is plus one, so I would prefer to stick
6 with the informal arrangements.

7 MR. HALL: Thank you. Those are the only items I
8 have.

9 CHAIRMAN GLEIMAN: Thank you, sir. Are there any
10 other procedural matters that anyone wishes to bring up?

11 [No response.]

12 CHAIRMAN GLEIMAN: We have two witnesses appearing
13 today, Witness Yezer and Witness Fronk.

14 Mr. Hollies, would you introduce your first
15 witness?

16 MR. HOLLIES: The Postal Service calls Professor
17 Anthony M. Yezer.

18 CHAIRMAN GLEIMAN: Mr. Yezer, before you settle
19 in, if I could get you to raise your right hand.
20 Whereupon,

21 ANTHONY M. YEZER,
22 a witness, was called for examination by counsel for the
23 United States Postal Service and, having been first duly
24 sworn, was examined and testified as follows:

25 DIRECT EXAMINATION

1 BY MR. HOLLIES:

2 Q Professor Yezer, good morning.

3 A Good morning.

4 Q I believe you have before you two copies of a
5 document marked USPS-T-31, Direct Testimony of Anthony M.
6 Yezer on behalf of United States Postal Service. Is that
7 correct?

8 A Yes.

9 Q Do you recognize that document?

10 A Yes.

11 Q Is that your testimony in this proceeding?

12 A Yes, it is.

13 Q Was it prepared by you or under your direction?

14 A Yes, by me.

15 Q And were you to testify orally today, would your
16 testimony be the same?

17 A Yes, it would.

18 MR. HOLLIES: With that, Mr. Presiding Officer,
19 the Postal Service moves that the testimony of Professor
20 Yezer be accepted as evidence in the record and I believe
21 per our normal standards not transcribed.

22 CHAIRMAN GLEIMAN: Is there any objection?

23 Hearing none, I will direct counsel to provide the
24 reporter with two copies of the direct testimony of the
25 witness and the testimony will be received into evidence

1 and, as was indicated by Postal Service counsel, will not be
2 transcribed into the record.

3 [Direct Testimony and Exhibits of
4 Anthony M. Yezer, USPS-T-31, was
5 received into evidence.]

6 CHAIRMAN GLEIMAN: Mr. Hollies, is this witness
7 sponsoring any Category 2 Library References?

8 MR. HOLLIES: Yes, in part. Library Reference 241
9 consists of Professor Yezer's input and output data. That
10 Library Reference is largely electronic in form and has a
11 number of files in it. All of those whose file names begin
12 with a "Y" are Dr. Yezer's material.

13 BY MR. HOLLIES:

14 Q Dr. Yezer, do you sponsor that Library Reference
15 material?

16 A Yes, I do.

17 CHAIRMAN GLEIMAN: That being the case, we will
18 admit those portions of Library Reference-241 that are
19 designated with a "Y" and that have been attested to by
20 Witness Yezer into evidence and that material will not be
21 transcribed into the record.

22 [Portion of Library Reference-241
23 Designated with a "Y" was received
24 into evidence.]

25 CHAIRMAN GLEIMAN: Any others?

1 MR. HOLLIES: No, there are no others.

2 CHAIRMAN GLEIMAN: Mr. Yezer, have you had an
3 opportunity to examine the packet of designated written
4 cross examination that was made available to you earlier
5 today?

6 THE WITNESS: Yes, I have.

7 CHAIRMAN GLEIMAN: And if the questions were asked
8 of you today, would your answers be the same as those you
9 previously provided in writing?

10 THE WITNESS: Yes, they would.

11 CHAIRMAN GLEIMAN: Counsel, that being the case,
12 if you would please provide two copies of the designated
13 written cross examination of the witness to the reporter,
14 the material will be received into evidence and transcribed
15 into the record.

16 [Designated Written
17 Cross-Examination of Anthony M.
18 Yezer was received into evidence
19 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS ANTHONY M. YEZER
(USPS-T-31)

Party

Douglas F. Carlson

Office of the Consumer Advocate

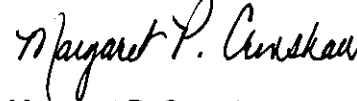
Interrogatories

DFC/USPS-T31-1-7

DFC/USPS-T31-1-7

OCA/USPS-T31-1-5

Respectfully submitted,



Margaret P. Crenshaw
Secretary

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**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-1. Please explain in detail how you calculated facility rental costs for post-office boxes located at facilities that the Postal Service owns.

RESPONSE:

I estimated cost per square foot of interior space if the facility were leased on a standard 5-year basis. Cost per square foot for facilities that the Postal Service owns was estimated in the same fashion as those for all other facilities used by the Postal Service. The technique used to estimate rent per square foot follows directly from my testimony. Once estimates of equation (1) are obtained, the estimated parameter values are multiplied by the characteristics of the facility and the resulting value of the function is the estimate of rent per square foot. Specific results are discussed in my supplementary testimony where the estimate parameters for equation (1) - which was estimated separately for various states and cities - are presented.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-2. For facilities that the Postal Service owns, did you impute a rental cost to the facility based on market rental costs near the facility? If the answer is yes, please explain why imputing a rental cost does not overstate the cost of the facility to the Postal Service and box customers. Please explain your answer.

RESPONSE:

Imputed rental costs of facilities that the Postal Service owns are based on equations estimated using facility rents paid by the Postal Service in the same state or city. The imputed rental costs reflect the opportunity cost of space in facilities owned by the Postal Service and this is the appropriate cost concept in economics if an efficient supply of post office boxes is to be provided. If prices do not reflect opportunity cost of space then the Postal Service does not have the proper incentive to expand services.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-3. Please provide the percentage of facilities that have post-office boxes that are in government-owned buildings. If a distinction exists between government-owned buildings and Postal Service-owned buildings, please explain and provide information for both.

RESPONSE:

Government ownership of buildings did not play a role in my analysis. The econometric estimates were based on buildings for which there was lease information. If there was no lease information, the reason, particularly specific ownership, was of no concern to me.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-4. For the facilities that have post-office boxes that are in government-owned buildings or Postal Service-owned buildings, please provide the median and average construction date (or age) of these buildings and the median and average rental cost per square foot for boxes that you assigned for these buildings.

RESPONSE:

As noted in the response to DFC/USPS-T31-3, details of ownership were not part of my analysis. In addition, construction date (or age) of structure played no role in the analysis. No reliable raw data indicating construction date or age were available to me.

R2000-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-5. Please provide the median and average rental cost per square foot for rented space (not government-owned or Postal Service-owned).

RESPONSE:

The mean rent per square foot for rented space in any facility is \$7.35 and the median rent per square foot is \$5.96.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-8. Please provide the median and average rental cost per square foot for facilities that have post-office boxes.

RESPONSE:

The mean rent per square foot for rented space in facilities with post-office boxes is \$7.27 and the median is \$5.94.

R2000-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T31-7. Please refer to your response to OCA/USPS-T31-2.

- a. Please provide all facts and information that you possess or upon which you relied to determine that customers will find post-office boxes located in malls to be convenient.
- b. Which proportion of box customers whose boxes are located in a mall would find a location away from the mall more convenient than a location in a mall due to problems associated with traffic, parking, and other maladies that may plague malls (e.g., in peak shopping seasons)? Please explain.
- c. Please explain the choice that customers have about the place where the Postal Service decides to locate post-office boxes.
- d. You stated that the convenience associated with mall locations should be reflected in pricing for boxes. Please discuss why it would be fair to charge a premium for the convenience that you have identified of mall locations to customers who are indifferent to mall locations or who dislike mall locations.
- e. Please confirm that, due to Postal Service decisions on locating postal facilities, customers may use a postal facility for reasons other than the convenience of the facility's location. (For example, a post office located in a mall may be the only post office in a particular city or community.) If you do not confirm, please explain.

RESPONSE:

- a. This was not part of my study although I did find that space in enclosed malls was often more expensive. Accordingly, if this space is not more convenient for customers, then equally attractive post office boxes can be provided at lower cost in other locations. This is precisely why fees should reflect the opportunity cost of space.
- b. This was not part of my study. See response to part (a) and note that customers who prefer locations where space costs are higher will now pay higher fees than those who prefer locations where space costs are lower. Given that this is true of other services in our economy, it is also appropriate for post-office boxes.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

- c. If prices reflect the opportunity cost of additional space, as determined by my estimates, then the Postal Service will have an incentive to expand wherever consumer demand is expanding because fees will be sufficient to justify that expansion. If fees are below opportunity cost, then consumers may want more post-office boxes at current fee levels and yet there is no economic incentive to expand because fees are below opportunity cost.
- d. It is fair to charge higher prices where costs are higher and lower prices where costs are lower. That is the basis of our economy. There is no premium in pricing at cost. For similar reasons, it is fair to charge more for a larger box. If costs are higher, a fair pricing scheme charges more. It is unfair to charge the same price when costs differ.
- e. I do not understand the question. In the example given, the post office is used because of the convenience of its location.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-1. Please refer to your testimony at page 2, lines 7-11.

- (a) Please identify by name and provide citations to the "significantly smaller group of papers" that have considered office rents in selected cities.
- (b) Please explain how the predictive model developed in your research for the Postal Service is consistent with the research in the papers identified in part (a) of this interrogatory.
- (c) Please explain how the predictive model developed in your research for the Postal Service is inconsistent with the research in the papers identified in part (a) of this interrogatory.

RESPONSE:

- (a) (1) William C. Wheaton, Raymond G. Torto, and Jon A. Southard, "The CB Commercial/Torto Wheaton Database," *Journal of Real Estate Literature*, Volume 5. 1997. Pages 59-139.
- (2) William C. Wheaton and Raymond G. Torto, "Office Rent Indexes and Their Behavior Over Time," *Journal of Urban Economics*, Volume 35. 1994. Pages 121-139.
- (3) Brian Brennan, Roger Cannaday, and Peter Colwell, "Office Rent in the Chicago CBD," *AREUEA Journal*, Volume 12. 1984. Pages 243-260.
- (b) Following the literature, I use data on individual leases and explain rent per square foot of space in terms of lease terms, physical characteristics of the property including interior space, and location.
- (c) My estimates cover the entire country, as opposed to one city or a group of 56 cities, and model rents within cities in terms of distances from the central CBD measured precisely in miles as opposed to rents in predetermined city districts. I use rent per square foot rather than the logarithm of rent per square foot as a dependent variable. My rent data is all from a given renter, the Postal Service, as opposed to heterogeneous

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

renters in other studies. I have more information on property characteristics and lease terms than others have had and this means that my model has more independent variables. I use robust estimation techniques to deal with measurement error and I strongly suspect that other authors use casewise deletion.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-2. Please refer to your testimony at pages 2 and 3 lines 20-21 and lines 1-2, respectively. Please explain whether you agree with the Postal Service's decision to use the econometric model developed in your research to predict rent per square foot for specific facilities rather than an index of rental price differences over space. In your answer, please compare and contrast the advantages and disadvantages of the former and latter.

RESPONSE:

I was commissioned as an expert witness because of my knowledge of real estate economics and not as an expert on the regulatory process faced by the Postal Service. Nevertheless, the difference in using facility-specific rental estimates versus a rental price index appears straightforward. Use of facility-specific rental estimates means that post office box costs will reflect both spatial variation in rental prices and rent variation due to the quality of the specific space in the facility. For example, space in a shopping mall is generally significantly more expensive than space in general retail facilities. Should the extra convenience and extra cost associated with location in malls and office buildings be reflected in P.O. box pricing? It seems to me that this is appropriate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-3. Please refer to your testimony at page 3, lines 9-10. Has your research for the Postal Service been used to predict rent per square foot at facilities that do *not* provide post office box service?

RESPONSE:

In the course of my research, I estimated rents for all Postal Service facilities in the data base given to me and these estimates were forwarded to Postal Service staff. In cases where there was more than one facility per ZIP Code, I reported estimated rent for the facility with the most post office boxes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-4. Please refer to your testimony at page 3, lines 11-17.

- (a) Please confirm that the Postal Service offers post office box service in facilities that are postal-owned. If you do not confirm, please explain.
- (b) Please explain how your econometric model predicts the rent per square foot in postal-owned facilities having post office boxes. In your answer, please explain any assumptions about the age, location, condition, and suitability of postal-owned facilities having post office boxes as compared to leased facilities having post office boxes.

RESPONSE:

- (a) Many facilities that appear to be postal-owned in my database have post office boxes.
- (b) My econometric model is used to predict rents in all facilities, whether they are rented or postal-owned. The data do not include information on the age of buildings or the condition. I am not sure what the term suitability means in this context. Given the property address information, I use geographic information systems to determine location precisely. There is also information about setting of the facility that differentiates shopping malls, office parks, free standing retail buildings, etc.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-5. Please refer to your testimony at pages 6 and 7, lines 19-20, and line 1 respectively. Please explain how knowing the "distance north-south or east-west from the [Central Business District]" improves the prediction of rent per square foot.

RESPONSE: In some cities the spatial pattern of office rents looks like a large cone with the point at the center of the Central Business District (CBD). In such cases, distance north-south or east-west was not statistically significant and was dropped from the list of independent variables used. However, the pattern in other cities looks like a cone but the point of the cone is displaced from the CBD center. In such cases, either (or both) north-south or east-west distance was significant in the regression estimates and was included in the final estimating equation. In a few cities, particularly on the coast, distance east-west is very important because it reflects access to the coast.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross-examination for the witness?

3 There does not appear to be any --

4 MR. HOLLIES: Mr. Presiding Officer, it appears
5 that an Intervenor did file such a further designation
6 yesterday. I cannot tell what it is, as the electronic file
7 is not visible behind the webpage indication, but I believe
8 Mr. Carlson was attempting to designate some additional
9 interrogatories.

10 CHAIRMAN GLEIMAN: I believe that the material was
11 included in the packet. It was DFC/USPS-T31-1-7, so I think
12 we have got that one covered, but I appreciate you bringing
13 it to our attention.

14 It is always good to have somebody check and make
15 sure that we get the record as complete as possible the
16 first time around.

17 That brings us to oral cross-examination and no
18 participant has submitted a written request for oral
19 cross-examination. Is there any party in the room who
20 wishes to cross examine this witness?

21 If not, questions from the bench? There don't
22 appear to be any, and if there were no questions there can't
23 be any redirect, which means, Mr. Yezer, that that completes
24 your appearance here today.

25 We do appreciate your appearance and certainly

1 your contributions to the record and we want to thank you
2 and you are excused.

3 THE WITNESS: Thank you very much.

4 [Witness excused.]

5 CHAIRMAN GLEIMAN: Mr. Tidwell, your next witness
6 when you are ready.

7 MR. TIDWELL: The Postal Service calls David Fronk
8 to the stand.

9 Whereupon,

10 DAVID R. FRONK,
11 a witness, having been called for examination and, having
12 been first duly sworn, was examined and testified as
13 follows:

14 DIRECT EXAMINATION

15 BY MR. TIDWELL:

16 Q Mr. Fronk, on the table before you are two copies
17 of a document which is entitled, "The Direct Testimony of
18 David R. Fronk on Behalf of the United States Postal
19 Service." It has been designated for purposes of this
20 proceeding as USPS-T-33. Was that document prepared by you
21 or under your supervision?

22 A Yes, it was.

23 Q If you were to provide the contents of that
24 document today as oral testimony, would that testimony be
25 the same?

1 A Yes, it would.

2 MR. TIDWELL: Mr. Chairman, with that, the Postal
3 Service moves the direct testimony of Mr. Fronk into
4 evidence.

5 CHAIRMAN GLEIMAN: Is there any objection?

6 [No response.]

7 CHAIRMAN GLEIMAN: Hearing none, if counsel would
8 provide the reporter with two copies of the testimony of
9 Witness Fronk, the testimony will be received into evidence
10 and not transcribed into the record.

11 [Direct Testimony of David R.

12 Fronk, USPS-T-33, was received into
13 evidence.

14 CHAIRMAN GLEIMAN: Mr. Tidwell, is Witness Fronk
15 sponsoring any Category 2 Library References?

16 MR. TIDWELL: Yes, Mr. Chairman.

17 BY MR. TIDWELL:

18 Q Mr. Fronk, there is a Library Reference filed by
19 the Postal Service in this proceeding, Number I-169, which
20 is, I believe, an electronic version of the spreadsheet
21 associated with your testimony. Are you sponsoring that
22 Library Reference today?

23 A Yes, I am, as revised on April 17.

24 CHAIRMAN GLEIMAN: The revised Library Reference
25 will be entered into evidence and not transcribed into the

1 record.

2 [Library Reference Number I-169, as
3 revised, was received into
4 evidence.]

5 CHAIRMAN GLEIMAN: Mr. Fronk, have you had an
6 opportunity to examine the packet of designated written
7 cross-examination that was made available earlier today?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: If those questions were asked
10 of you today, would your answer be the same as those you
11 previously provided in writing.

12 THE WITNESS: Yes, they would.

13 CHAIRMAN GLEIMAN: That being the case, if counsel
14 could provide two copies of the designated written
15 cross-examination of Witness Fronk to the reporter, I will
16 direct that the material be received into evidence and
17 transcribed into the cord.

18 MR. TIDWELL: Mr. Chairman, we did make one change
19 when we looked through the package this morning.
20 OCA-T-33-13 in the package was not the revised version, so
21 we substituted the version as revised on April 17th, and we
22 have taken care of that for these.

23 CHAIRMAN GLEIMAN: We appreciate that. Thank you.

24 [Designation of Written
25 Cross-Examination of David R.

1 Fronk, USPS-T-33, was received into
2 evidence and transcribed into the
3 record.]
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS DAVID R. FRONK
(USPS-T-33)

<u>Party</u>	<u>Interrogatories</u>
American Bankers Association and National Association of Presort Mailers	ABA&NAPM/USPS-T33-1, 5-9, 10a, e, 11, 16, 19, 21, 23, 26-27
E-Stamp Corporation	E-Stamp/USPS-T33-1-2, 4-5 PB/USPS-T33-6, 10 Stamps.com/USPS-T33-1-5, 7-9
KeySpan Energy	KE/USPS-T33-1, 3a-c OCA/USPS-T33-1, 4, 6
Mail Order Association of America	ABA&NAPM/USPS-T33-2, 17, 23-24 MMA/USPS-T33-2, 7 NAA/USPS-T33-1, 3-4
Major Mailers Association	ABA&NAPM/USPS-T33-6, 10a, e, 19-20 MMA/USPS-T33-1-3, 5, 7 MMA/USPS-T24-3k redirected to T33 OCA/USPS-T33-10a, g, 11a, g, 13, 16 PB/USPS-T33-1d
Newspaper Association of America	ABA&NAPM/USPS-T33-2, 7, 19 MMA/USPS-T33-3, 5, 7 NAA/USPS-T33-3-8 OCA/USPS-T33-13 UPS/USPS-T33-1

Office of the Consumer Advocate

E-Stamp/USPS-T33-1, 3-5

MMA/USPS-T33-5

OCA/USPS-T33-1-2, 7, 9a, c-d, 10a, g, 11a, g,
13-16

Stamps.com/USPS-T33-1, 4, 8

Pitney Bowes Inc.

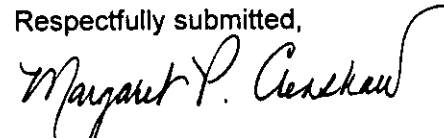
OCA/USPS-T33-1

PB/USPS-T33-1d, 6-11

Stamps.com

ABA&NAPM/USPS-T33-8

Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is fluid and cursive, with a long, sweeping line extending from the end of the name.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS DAVID R. FRONK (T-33)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

ABA&NAPM/USPS-T33-1
ABA&NAPM/USPS-T33-2
ABA&NAPM/USPS-T33-5
ABA&NAPM/USPS-T33-6
ABA&NAPM/USPS-T33-7
ABA&NAPM/USPS-T33-8
ABA&NAPM/USPS-T33-9
ABA&NAPM/USPS-T33-10a
ABA&NAPM/USPS-T33-10e
ABA&NAPM/USPS-T33-11
ABA&NAPM/USPS-T33-16
ABA&NAPM/USPS-T33-17
ABA&NAPM/USPS-T33-19
ABA&NAPM/USPS-T33-20
ABA&NAPM/USPS-T33-21
ABA&NAPM/USPS-T33-23
ABA&NAPM/USPS-T33-24
ABA&NAPM/USPS-T33-26
ABA&NAPM/USPS-T33-27
E-Stamp/USPS-T33-1
E-Stamp/USPS-T33-2
E-Stamp/USPS-T33-3
E-Stamp/USPS-T33-4
E-Stamp/USPS-T33-5
KE/USPS-T33-1
KE/USPS-T33-3a
KE/USPS-T33-3b
KE/USPS-T33-3c
MMA/USPS-T33-1
MMA/USPS-T33-2
MMA/USPS-T33-3
MMA/USPS-T33-5
MMA/USPS-T33-7

Designating Parties:

ABA&NAPM
MOAA, NAA
ABA&NAPM
ABA&NAPM, MMA
ABA&NAPM, NAA
ABA&NAPM, Stamps.com
ABA&NAPM
ABA&NAPM, MMA
ABA&NAPM, MMA
ABA&NAPM
ABA&NAPM
MOAA
ABA&NAPM, MMA, NAA
MMA
ABA&NAPM
ABA&NAPM, MOAA
MOAA
ABA&NAPM
ABA&NAPM
E-Stamp, OCA
E-Stamp
OCA
E-Stamp, OCA
E-Stamp, OCA
KeySpan
KeySpan
KeySpan
KeySpan
MMA
MMA, MOAA
MMA, NAA
MMA, NAA, OCA
MMA, MOAA, NAA

MMA/USPS-T24-3k redirected to T33	MMA
NAA/USPS-T33-1	MOAA
NAA/USPS-T33-3	MOAA, NAA
NAA/USPS-T33-4	MOAA, NAA
NAA/USPS-T33-5	NAA
NAA/USPS-T33-6	NAA
NAA/USPS-T33-7	NAA
NAA/USPS-T33-8	NAA
OCA/USPS-T33-1	KeySpan, OCA, Pitney Bowes
OCA/USPS-T33-2	OCA
OCA/USPS-T33-4	KeySpan
OCA/USPS-T33-6	KeySpan
OCA/USPS-T33-7	OCA
OCA/USPS-T33-9a	OCA
OCA/USPS-T33-9c	OCA
OCA/USPS-T33-9d	OCA
OCA/USPS-T33-10a	MMA, OCA
OCA/USPS-T33-10g	MMA, OCA
OCA/USPS-T33-11a	MMA, OCA
OCA/USPS-T33-11g	MMA, OCA
OCA/USPS-T33-13	MMA, NAA, OCA
OCA/USPS-T33-14	OCA
OCA/USPS-T33-15	OCA
OCA/USPS-T33-16	MMA, OCA
PB/USPS-T33-1d	MMA, Pitney Bowes
PB/USPS-T33-6	E-Stamp, Pitney Bowes
PB/USPS-T33-7	Pitney Bowes
PB/USPS-T33-8	Pitney Bowes
PB/USPS-T33-9	Pitney Bowes
PB/USPS-T33-10	E-Stamp, Pitney Bowes
PB/USPS-T33-11	Pitney Bowes
Stamps.com/USPS-T33-1	E-Stamp, OCA
Stamps.com/USPS-T33-2	E-Stamp
Stamps.com/USPS-T33-3	E-Stamp
Stamps.com/USPS-T33-4	E-Stamp, OCA
Stamps.com/USPS-T33-5	E-Stamp
Stamps.com/USPS-T33-7	E-Stamp
Stamps.com/USPS-T33-8	E-Stamp, OCA
Stamps.com/USPS-T33-9	E-Stamp
UPS/USPS-T33-1	NAA

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-1. Consider two products whose costs and physical attributes are identical, but one of which has copyright protection (at no charge) which enables the seller to charge a price higher than the competitive price. Assume the price of the competitive product is \$1, and the price of the copyrighted product is \$2. The windfall economic profit from the copyrighted product is \$1, and the price gap between the two representing the degree of distortion from a competitive price system is also \$1. Now, a lower percentage increase is applied to the higher priced product than to the competitively priced product, 8% and 10%, respectively.

- (a) Please confirm that the price gap between the two products further widens despite the fact that the percentage increase is lower for the higher priced product, thus worsening the degree of economic distortion away from a competitive price system.
- (b) Please confirm that in this example the windfall economic profit grows from \$1 to \$1.06.

RESPONSE:

- (a) – (b) It is arithmetically correct that the \$1 gap between \$2 and \$1 will increase to a gap of \$1.06 if \$2 is increased by 8 percent (to \$2.16) and \$1 is increased by 10 percent (to \$1.10). I am confused by the premise of the hypothetical. One product seems to enjoy costless copyright protection and seems unable to earn a return on the activities (such as R&D) that led to the copyright. The second identical (infringing?) product appears to exist in spite of the copyright protection. I am having trouble relating this hypothetical to postal markets and commenting on the concepts of economic distortion and windfall gains under these circumstances.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM

ABA&NAPM/USPS-T33-2.

- (a) Regarding your comment at page 23, line 9, is there any reason why the extra ounce rate should be "returned" to the rate that "prevailed from 1991 until 1999" just because it was unchanged over that period?
- (b) Does the constancy of the extra ounce rates over that period reflect the fact that it has been set primarily to meet the overall revenue requirement?
- (c) Please confirm on page 24, lines 1-6, that "underlying costs" is only the third mentioned factor you cite as affecting the setting of the extra ounce rate in this case, the revenue requirement and First-Class cost coverage factors being the first and second, respectively.

RESPONSE:

- (a) My use of the word "returned" in this context was only meant to put my proposal within the context of historical additional ounce rates. It was not meant to suggest that returning a rate to some previous level is a ratemaking goal in and of itself.

I would also note that the additional ounce rate declined significantly in real terms between February 1991 and January 1999. In 1991 dollars, the rate declined from 23 cents in 1991 to approximately 19 cents by January 1999 (calculation uses CPI for All Urban Consumers; Series ID CUUR0000SAO from BLS; index value of 134.8 in February 1991 and 164.3 in January 1999).

- (b) No. For example, in Docket No. R94-1, the Postal Service proposed a 25-cent additional ounce rate primarily because it was consistent with the Postal Service's uniform across-the-board increase (Docket No. R94-1 Opinion and Recommended Decision at paragraphs 5010 and 5011). In its Opinion and Recommended Decision, the Commission recommended retention of the 23-cent rate, stating that this decision reflected the consideration of two competing concerns – revenue generation and cost tracking (Ibid. at paragraph 5028).

The revenue importance of the additional ounce rate is clear, however. As I note in my testimony, in FY 1998, additional ounces generated about \$4.7 billion in revenue (USPS-T-33 at page 23).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

RESPONSE to ABA&NAPM/USPS-T33-2 (continued)

- (c) I confirm that "underlying cost" is the third factor I list, but that is not meant to imply that underlying costs are of greater or lesser importance than the other two listed factors. As I state in my testimony,

Several considerations went into developing the proposed 23-cent rate, including achievement of the revenue requirement and the First-Class cost coverage provided by witness Mayes. The Postal Service also considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover (USPS-T-33 at page 24).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-5.

- (a) From Table 4, please confirm that the absolute increase (571 million pieces) and percentage increase (1.4%) in First-Class workshared letters, flats and IPPs, has substantially fallen in the latest available year, relative to past history.
- (b) To what degree is the lack of incentives from the then-existing discount structure responsible for this slowing of volume increases.
- (c) To what degree is the improvement in volume growth of workshared mail in GFY 1999 (5.5% from RPW data) due to the increase in discounts that went into effect January 10, 1999.

RESPONSE:

- (a) Table 4 from my testimony presents First-Class Mail volume trends by year from 1971-1998. As indicated in my testimony (USPS-T-33 at pages 8-12), my purpose in including these data was to discuss general trends in volume over this time period, for example, the trend in single-piece letter volume over the 1987-1998 period that is referenced in ABA&NAPM/USPS-T33-6. This question asks about a specific year-to-year comparison (1997 versus 1998). It is my understanding that there have been changes to RPW that affect this comparison. It is my further understanding that the last year of data in Table 4, which is 1998, would reflect these changes, but 1997 would not since it represents 1997 as reported at that time. However, the workpapers of witness Thress (USPS-T-7/Thress, Workpaper 1 at page 14) reflect these changes and present a set of data more suitable for the type of comparison postulated in this question.

Page 14 of the Thress Workpaper 1 presents volumes for workshared letters, flats, and parcels by postal quarter under the variable heading GVOL1_3WS. These data can be summed to create PFY data for 1997 – 1999. While these are not GFY data, they do give a strong indication of annual trends for this period. Summing the quarters yields 38.6 billion pieces, 40.4 billion pieces, and 42.7 billion pieces for PFY 1997, 1998, and 1999, respectively. The percentage increase from 1997 to 1998 in workshared volume using these data is 4.7 percent, while the percentage increase from

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
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RESPONSE to ABA&NAPM/USPS-T33-5 (continued)

1998 to 1999 is 5.7 percent. Thus, these data do not confirm the substantial percentage decline described in the question.

(b) Please see response to part (a).

(c) The PFY data for 1997 – 1999 described in part (a) above show an improvement in volume growth of one percentage point for 1999 as compared with 1998. While I am unable to separate how much of this improvement is due to discount changes as opposed to other factors (such as general economic conditions), I would expect that the increase in workshare discounts was responsible for part of the increase.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-6. On page 11, lines 5-7, you state "Nonpresort letter, flat, and parcel volume has grown slowly and has fluctuated in the 54 billion to 57 billion piece range during the last 12 years."

- (a) Please confirm from your Table 4 that the peak in this volume trend was 56,788 million pieces in 1990.
- (b) Please confirm that there has been no observable growth trend in this volume over the 12 year period 1987-1998.
- (c) Please confirm that a simple trend line analysis of this volume data from 1990 to 1998 infers negative growth in this volume trend.

RESPONSE:

- (a) Confirmed — nonpresort letters, flats, and parcels volume was at its highest in 1990.
- (b) Note that the sentence preceding the one referenced above stated, "The growth in First-Class Mail since 1976 has been concentrated almost entirely in presorted (both automation and nonautomation) mail" (USPS-T-33, page 11 at lines 4-5). Thus, the quoted phrase "Nonpresort letter volume, flat, and parcel volume has grown slowly" is meant to apply to the period since 1976, not the 1987-1998 time period.

I confirm that there is no observable growth over the 1987-1998 time period, which is what the quoted phrase "fluctuated in the 54 billion to 57 billion piece range during the last 12 years" was meant to convey.

- (c) Confirmed — the 1998 volume is below the 1990 volume. I would note that whether a simple trend line analysis will show modest negative growth, modest positive growth, or essentially no growth is sensitive to the starting point and the length of time of the analysis.

~~REVISED~~ RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM
(4/17/00)

ABA&NAPM/USPS-T33-7. On page 13, you state that the additional ounce rate has grown from 9 cents to 23 cents, before being cut back to 22 cents in R97-1.

- (a) Please confirm that the extra ounce rate was also cut by a penny in December of 1975, a 10% increase from its base.
- (b) Over this period 1975-1998, for First-Class Mail, please state the annual contribution revenues from First Class extra ounces have contributed to postal finances.

RESPONSE:

- (a) Objection filed.
- (b) Objection filed. The Postal Service does not maintain records of the contribution generated by individual rate elements such as the additional ounce rate. In the current docket, it is possible to develop an approximation of the contribution to be generated by additional ounces in Test Year 2001 using numbers contained in my testimony and workpaper. As indicated in my testimony (USPS-T-33, page 25 at line 7) each additional ounce is estimated to add 12.7 cents to First-Class Mail costs. At the proposed rate of 23 cents per ounce, each additional ounce generates 10.3 cents in contribution (23 less 12.7). The billing determinants presented in my workpaper (USPS-T-33 Fronk Workpaper at page 4) estimate there will be ~~22.2~~ billion additional ounces on an after rates basis in TY 2001. This yields ~~\$5.1~~ billion in after rates additional ounce revenue in the TY, and ~~\$2.3~~ billion in contribution in the TY. Of course, to the extent an additional ounce rate other than 23 cents is ultimately implemented, these estimates would be affected accordingly. As indicated in Table 8 of my testimony (page 44), the letters subclass is estimated to generate \$36.2 billion in revenue and \$17.8 billion in contribution in Test Year 2001 after rates. Thus, additional ounces are estimated to account for ~~14.1~~ percent of letters subclass revenue and ~~12.9~~ percent of letters subclass contribution.

In Docket Nos. R97-1, MC95-1, and R94-1, the Postal Service did not provide First-Class additional ounce cost data or did not provide additional ounce cost data that it considered reliable. USPS LR-F-177 filed in Docket No. R90-1 did present data for the R87-1 Test Year, which was 1989.

~~REVISED~~ RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM
(4/17/00)

RESPONSE to ABA&NAPM/USPS-T33-7 (continued)

However, these data do not permit a comparable calculation to that shown for Docket No. R2000-1 without considerable data manipulation and unless several assumptions are made. This is because revenue and cost data are presented for pieces in total, not just for the additional ounce rate element, and because data for weight increments are grouped together, for example, data for 7-12 ounce pieces are aggregated.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-8.

- (a) Please explain why a discount "incentive" for postal services provided by private mailers should only exist if the mailer can prebarcode or presort "at a lower cost than the Postal Service," as you state on page 17, line 21.
- (b) Isn't competition for the Postal Service healthy in a competitive environment where costs (including the opportunity cost of capital) are the same or lower?
- (c) Aren't discounts warranted for such a competitive market environment?

RESPONSE:

- (a) In the cited portion of my testimony, I state that a mailer has an incentive to workshare only if the mailer can prebarcode or presort at a cost less than the Postal Service. The farther below the Postal Service's cost the mailer is, the greater the incentive to workshare. Technically, if the mailer can prebarcode or presort at exactly the same cost as the Postal Service, including a return on the mailer's investment, the mailer also has an incentive to workshare. My discussion should allow for this possibility.
- (b) – (c) If the mailer is able to prebarcode or presort at the same or lower cost (including a return on investment) than the Postal Service, then the workshared service will be produced at the lowest combined cost to the economy. The Postal Service will be indifferent as to whether it or a private mailer performs the prebarcoding/presorting if the mailer can do it at the same or a lower cost. Also, for activities where there are not economies of scale or scope, the competition engendered by worksharing can stimulate technical innovation and result in efficiency gains for the mail industry. I note that any discount proposal should be made in light of potential impacts on our customers and my proposal does so (see also my response to ABA&NAPM/USPS-T33-20).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-9.

- (a) Suppose postal mail processing services were priced directly in a competitive market without economies of scale or scope. If a "presort bureau" or other private mailer can provide postal services such as prebarcoding and presorting at a "price" equal to the Postal Service in such a market, please confirm that such private firms, ceteris paribus, can successfully compete.**
- (b) Please confirm that, unlike the market setting assumed in a., the Postal Service is now unconstrained from setting worksharing discounts so low that private sector mailers could not recover their costs.**
- (c) Please confirm that if the private sector can prebarcode and presort mail at a lower cost than the Postal Service including the opportunity cost of capital, in a competitive market, the market share of mail processing handled by the private sector should grow, while that of the Postal Service would shrink.**

RESPONSE:

- (a) Confirmed, in accordance with my response to ABA&NAPM/USPS-T33-8.**
- (b) Not confirmed. Postal prices are regulated and the Postal Service is quite constrained in its pricing of First-Class Mail products. Worksharing discounts proposed by the Postal Service must be done within the context of the statutory pricing criteria and must withstand the regulatory scrutiny of the ratemaking process.**
- (c) Confirmed, though I would expect that some mail is less expensive to prebarcode and presort than other mail and that such mail would be skimmed-off by the private sector first and quickly.**

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-10. Refer to footnote 2 on page 18.

- (a) What percentage of metered mail is entered as BMM?**
- (b) Do the BMM activities of traying the mail, and metering it, save the Postal Service any costs, and if so what costs at what levels?**
- (c) Please confirm that worksharing mailers perform traying operations that save the Postal Service costs, including the front end activity of building the trays from cardboard flats, and removing USPS tags from the trays.**
- (d) Please confirm that use of the BMM benchmark denies worksharing mailers the avoided costs of traying and metering even though they perform this activity.**
- (e) Please confirm that BMM receives no discount for the traying and metering activities it performs.**

RESPONSE:

- (a) The Postal Service does not maintain these data. The BMM benchmark is a pricing reference point for determining discounts.**
- (b) – (d) Redirected to witness Miller.**
- (e) Confirmed, BMM does not receive discounts.**

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-11.

- (a) Please confirm that worksharing activities for which private sector mailers are not compensated in the current structure of discounts are nonetheless costs for these enterprises or divisions of firms while also being cost savings for the Postal Service.**
- (b) Please confirm that these non-compensated worksharing activities must nonetheless be paid for by the structure of discounts, otherwise such private firms could not remain in business.**

RESPONSE:

- (a) The approach I used in recommending letter discounts in this docket is discussed in detail in my testimony (USPS-T-33 at pages 16-19). In that section of my testimony, I quote the Commission's Opinion and Recommended Decision in Docket No. R97-1:**

In general, the Commission agrees with the Service's basic approach to developing worksharing cost savings. In particular, the Commission commends the Service's proposed adoption of bulk metered mail (BMM) as the basis for calculating unit mail processing cost differences. It also agrees with the Service that the measured costs should be limited to activities exhibiting identifiable savings, namely unit processing and delivery costs." [paragraph 5027 at page 268]

I go on to state, "Consistent with precedent, the discounts the Postal Service is proposing here use the same approach as in Docket No. R97-1, that is the bulk metered benchmark is used in conjunction with mail processing and delivery costs to measure costs avoided" (USPS-T-33 at page 19, lines 1-4).

In the abstract, to the extent there are some unidentified worksharing activities for which private sector mailers are not compensated, these would represent costs for those mailers and could represent cost savings to the Postal Service. We would need to be careful in identifying such activities in practice, however. For example, ABA&NAPM/USPS-T33-10 asked about worksharing mailers not receiving a discount for avoided trayng costs. Since the benchmark mail the Postal Service used in measuring letter cost savings (bulk metered mail) is mail that is already trayed, there are no worksharing savings associated with this trayng activity.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

RESPONSE to ABA&NAPM/USPS-T33-11 (continued)

- (b) Confirmed, to the extent there are such unidentified activities. Please see my response to part (a) above. Also, as I state in my testimony, "The growth in First-Class Mail since 1976 has been concentrated almost entirely in presorted (both automation and nonautomation) mail" (USPS-T-33 at page 11). As indicated in my Table 4, from 1990-1998, workshared mail in the letters subclass increased from 27.6 billion pieces to 40.6 billion pieces. Putting aside theoretical approaches to discounts for a moment and focusing on actual marketplace results, it would appear that the prevailing discounts have stimulated considerable interest from private mailing firms.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-16. Beyond the "value of worksharing to the Postal Service" that you consider on page 20, lines 19 and 20, is there a value of worksharing to the general public? If mail processing was priced as a separate postal service, what would be the value of USPS mail processing to the marketplace, and whose price would be lower, the Postal Service's or private sector presort bureaus?

RESPONSE: The context of the quoted phrase above is as follows, "...if the cost data presented in this docket are the beginning of a new cost trend indicating the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discount proposals in the future" (USPS-T-33 at page 20, lines 18-21). In this context, I was referring to the costs avoided by the Postal Service when the mailer presorts and prebarcodes its mail. If these avoided costs are beginning to get smaller, I was trying to indicate that the mailing community might anticipate smaller associated discount proposals in future dockets.

Worksharing has a benefit to the general public and the economy as a whole when it results in mailing services being provided at the lowest combined cost to society. Also, for activities where there are not economies of scale or scope, the competition embodied in worksharing can stimulate technical innovation and result in efficiency gains for the mail industry.

In terms of mail processing being priced as a separate service, this question is complicated by the fact that mail processing costs vary significantly by shape of the mail piece and the characteristics of the mail piece. For example, it costs more to process a handwritten, stamped letter than a preaddressed, prebarcoded letter. If a separate mail processing price was based on the costs of processing both relatively expensive stamped mail and relatively inexpensive automation compatible mail, the resulting price would encourage the private sector to skim-off the least expensive mail to process where the price was significantly above cost. In effect, the workshare cost savings that provide the basis for discounts do unbundle mail processing and delivery activities that exhibit identifiable savings. I am unable to compare the Postal Service's and the

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

RESPONSE to ABA&NAPM/USPS-T33-16 (continued)

private sector's costs in this hypothetical because I do not know presort bureau costs.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-17.

- (a) Referencing lines 10-11 on page 21, is the basic one ounce rate also "the most visible and important rate in the eyes" of the Postal Service?**
- (b) Please confirm that the rates large volume mailers in First Class and Standard A commercial pay make up the bulk of the revenue and volume of the Postal Service.**
- (c) Are the rates that large volume mailers pay visible and important to the Postal Service?**

RESPONSE:

- (a) The portion of my testimony the question refers to states, "The basic one-ounce rate is the most visible and important rate in the eyes of the general public." This sentence was designed to make the self-evident point that to the average household, it is the stamp price that matters most. Clearly, the stamp price has great revenue importance for the Postal Service, but I am unable to rank rates in terms of their importance and visibility. The Postal Service values all of its customers.**
- (b) I have interpreted "large volume" First-Class mailers to mean those who workshare and mail at bulk, discounted rates. I can confirm the statement with respect to volume, but not with respect to revenue. In GFY 1998, of the total domestic mail revenues of \$56.4 billion (excluding special service revenues), approximately \$11.3 billion were generated by First-Class Mail automation and nonautomation presort letters, flats, parcels and cards, and approximately \$12.3 billion were generated by Standard (A) commercial mailers. The resulting total of \$23.6 billion is less than half of total domestic mail revenues of \$56.4 billion.**
- (c) Yes.**

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-19. Consider two First Class letters, one weighing just under one ounce and the other weighing between one and two ounces. For First Class single piece, BMM, and prebarcoded mail, please explain what postal services are provided for the extra ounce letter that are not already provided for and built into the less than one-ounce letter that might explain the higher marginal cost the Postal Service alleges is associated with the second ounce. Please do this by each cost pool.

RESPONSE: The details underlying witness Daniel's weight study are contained in USPS LR-I-91, First-Class Weight Studies. The requested data for single-piece letters are shown in Section 1 at page 25, as revised 3/1/00. The data on page 25 show unit costs by function by weight step for letters, indicating, for example, how mail processing or city delivery street costs change by weight step. The requested data for presort letters are shown in Section 2 at page 25, as revised 3/1/00. The Postal Service does not maintain such data for BMM.

Note, however, that in developing my additional ounce rate proposal, I did not use the weight study data on this disaggregated a basis (that is, disaggregated by shape and weight step). Instead, I used the weight study data in the aggregate to evaluate the alignment between the additional ounce rate and the overall costs it is designed to recover.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-20. In previous rate cases, the Postal Service has alleged that the "value of presortation goes down in an automated environment." Hundreds of private sector mailers have sought to fit into the new system by prebarcoding as well as presorting their mail, making substantial capital expenditures in the process. Now, in R2000-1, the Postal Service is alleging that "the value of worksharing to the Postal Service has peaked" in your testimony, page 27, lines 12-13.

- (a) Please confirm that the value of worksharing to the marketplace (i.e. the costs of mail processing to the consumer) is not the same thing as the value of worksharing to one competitor in the marketplace, namely the Postal Service.
- (b) Please confirm that the wage structure of the Postal Service renders the total cost of barcoding and sorting letter mail greater than the costs of the private sector for the same activities.
- (c) Please confirm that if mail processing was directly priced in the market, costs for private sector processing operations that are now not taken into account in setting discounts would be included in the cost-price structure of the marketplace, as both USPS operations and presort bureau operations incur these costs.
- (d) Please confirm that among these costs are all "associated worksharing" activities, including the mail processing operations USPS witness Miller has excluded in this case.

RESPONSE: This question mischaracterizes my testimony. In the cited portion of my testimony, I state, "As indicated earlier, if the costs presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future" (USPS-T-33, page 27 at lines 11-14). I have not "alleged that the value of worksharing to the Postal Service has peaked," but instead have pointed out what might happen if the cost estimates prepared for this docket mark the beginning of a new cost trend. In addition, I would note that in developing my rate proposal, I was mindful of the impact that changes in discount levels could have on mailers. On page 33 I state, "Mailers have invested significantly in automation equipment and changed their mail processes as a result of the recent expansion in worksharing incentives, and it would be unfair to sharply reverse these incentives."

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

RESPONSE to ABA&NAPM/USPS-T33-20 (continued)

- (a) Please see my response to ABA&NAPM/USPS-T33-16.**
- (b) I am unable to confirm (or not to confirm) since I do not know private sector costs for barcoding and sorting letter mail.**
- (c) Please see my response to ABA&NAPM/USPS-T33-16. Also, the conceptual approach to discounts described in my testimony (USPS-T-33 at pages 16-19) focuses on the identifiable savings in mail processing and delivery costs due to presorting and prebarcoding. To the extent that mail processing costs would not be affected by the worksharing activities of presorting and prebarcoding, they would not be included in the cost avoidance and discount calculation.**
- (d) It is my understanding that witness Miller has excluded certain mail processing costs as not related to worksharing in this docket. An approach that focused on all mail processing costs in an effort to somehow price mail processing separately would presumably include those excluded costs. Also, please see my response to ABA&NAPM/USPS-T33-16.**

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-21. You argue on page 31, line 4, that the costs for presort mail "catch up for heavier pieces" as a justification for not reducing the additional ounce rate for presort letters. Please confirm that almost all the presort extra ounce volume (93%) is concentrated in the 1 to 3 ounce range, and not the heavier pieces.

RESPONSE: Not confirmed. Using the data presented in USPS-T-28 at Table 2 (as revised 3/1/00), I calculate that 70 percent of the presort additional ounces are associated with the 1 to 3 ounce weight step $((1,220,177,444 + 615,346,227) / 2,639,970,578)$.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-23. Please confirm that in your rate proposal, the percentage rate increases for all First Class workshared letter mail are between 22% and 39% higher than the rate increase for First Class single piece letter mail, first ounce. What is your justification for such treatment for workshared mail?

RESPONSE: The proposed percentage increase in the stamp price is 3.03 percent. The proposed percentage increases in automation letter mail range from 3.70 percent for basic automation to 4.20 percent for carrier route. All of these percentage increases are relatively modest when compared with the percentage changes being proposed for some other mail classes in this docket.

I am not sure how meaningful it is to talk in terms of percentage changes on top of percentage changes, as this question does. I can confirm the arithmetic that 3.70 is 22 percent higher than 3.03, and that 4.20 is 39 percent higher than 3.03.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM

ABA&NAPM/USPS-T33-24. Please refer to your response to ABA&NAPM/USPS-T33-13. Please confirm that the CRA unit attributable cost you list for 1998 presort should be 9.4 cents (3,936,850,000 / 41,866,292,000 from the audited 1998 CRA dated April 6, 1999), not 9.7 cents, and that the CRA unit attributable cost you list for 1998 single-piece should be 21.8 cents (11,736,629,000 / 53,781,254,000 from the audited 1998 CRA dated April 6, 1999), not 21.6 cents.

RESPONSE: Not confirmed, since the 1998 cost per piece figures I cited in response to ABA&NAPM/USPS-T33-13 used the revised RPW data for 1998 -- a single piece volume of 54,273,024,000 pieces and a workshare volume of 40,634,252,000 pieces. I would note that even if the cost per piece numbers cited in the question were used, the 1995-1998 trend discussed in my response to ABA&NAPM/USPS-T33-24 would still remain and I would draw the same conclusion I did originally.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-26. Please refer to witness Miller's response to ABA&NAPM/USPS-T33-10, b. and c., to Attachment 18 in USPS witness Smith's testimony, and to the DMM requirements for First Class workshared letter mail being entered into the system in trays. Please confirm that the 0.3 cent differential between single piece metered and bulk metered mail First Class letter mail is the (assumed) avoided cost of traying, and that this is a worksharing activity which is not included in witness Miller's calculation, but from which you set your discounts for First Class workshared mail. If you can so confirm, please explain why.

RESPONSE: I can partially confirm. As witness Miller stated in his response to the referenced ABA&NAPM/USPS-T33-10 (b) – (d) and I as I state in my testimony (USPS-T-33, page 18 at footnote 2), it is assumed that bulk metered mail is entered in trays. Since both the bulk metered benchmark mail and workshared mail avoid traying costs, it is correct that traying costs are not included in the worksharing-related cost savings calculation.

The 0.3-cent difference cited above does not simply refer to the costs of traying per se, but to the cancellation and metered mail preparation costs that are avoided when bulk metered mail letters are entered in full trays (please see USPS-T-24, page 12 at lines 7-10).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FROM
TO INTERROGATORIES OF ABA&NAPM**

ABA&NAPM/USPS-T33-27. Please refer to your response to interrogatory ABA&NAPM/USPS-T33-13 where you cite a substantial decline in attributable costs for FCLM Single Piece and FCLM presort from the 1996 CRA to the 1997 CRA. Do you agree that nearly all if not all of such decline is due to a change in the methodology in the measurement of attributable costs of such rate categories from the 1996 CRA to the 1997 CRA, as opposed to an actual reduction in attributable costs of such rate categories? If you do not agree, how can you justify raising the rates for FCLM single piece and presort by a penny in this case in light of such a reduction in attributable costs?

RESPONSE: I prefaced my response to ABA&NAPM/USPS-T33-13 with the statement that I am not a cost expert. While I stated in my response that the changes in mail processing cost methodology that occurred for 1997 and 1998 could particularly influence historical cost trends, I do not know how much of the decline from 1996 to 1997 can be ascribed to that. Consequently, I am unable to confirm or not confirm whether all or nearly all the decline is due to a change in methodology.

**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.

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

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.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
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E-STAMP/USPS-T33-3. In your response to E-Stamp/USPS-T33-1, you say that "IBI Mail is not homogeneous," and further that "this lack of homogeneity makes it more difficult to measure the cost savings to the Postal Service from processing an IBI Mail piece."

- (a)** Please explain why the non-homogeneity of IBI Mail makes it more difficult to measure the cost savings from processing an E-Stamp or Stamps.com IBI Mail piece?
- (b)** Has the fact that First-Class Letter Mail is not homogeneous, as you use the word in the cited answer, made it more difficult to measure the cost savings to the Postal Service from presorted First-Class letters, including each of the rate categories thereunder?

RESPONSE:

- (a)** In my response to E-Stamp/USPS-T33-1, I stated, "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." One of the issues I identified is the one you ask about here – the lack of homogeneity in IBI Mail. In describing this issue in my response, I stated, "For example, some of it has been checked for address quality and some has not." The cited example was referring to an earlier part of my response where I stated, "...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." As I further described in my E-Stamp/USPS-T33-1 response, "I am informed that one of the Postal Service's goals with the IBI program is to work with various vendors to make a range of products available to mailers, thereby meeting different mailer needs."

This question appears to be attempting to separate the Stamps.com and E-Stamp products from the Simply Postage product even though all three are IBI products. While I am not an IBI expert, it is my understanding that there are other factors affecting how homogeneous IBI mail is, which include the following.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
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RESPONSE to E-STAMP/USPS-T33-3 (continued)

First, not all IBI mail has a FIM D. As witness Campbell stated in his response to E-STAMP/USPS-T29-2(a):

In addition, it is my understanding that the E-Stamp user has two options for printing postage. IBI postage can be (1) printed directly onto the mail piece with a FIM D or (2) applied to a label which is placed onto the mail piece. When the latter option is selected, two labels are generated. One label has the delivery address and postnet barcode. A second label has IBI indicia, but does not include the FIM. In lieu of a FIM, the E-Stamp user is required to use a florescent label for purposes of facing the mail piece. These mail pieces are held out at the AFCS and routed for handling with traditional meter mail. As a result, characteristics of an IBI mail piece, such as potential presence of a Postnet barcode, may not be recognized and capturable from our automation platform.

Second, as discussed in my responses to E-Stamp/USPS-T33-1 and Stamps.com/USPS-T33-4, it is my understanding that mail bearing an IBI may not comply with all 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 that is acceptable to the class of mail being presented.

Thus, factors such as automation compatibility, presence or absence of a FIM, and presence or absence of a verified address all affect the homogeneity of IBI mail and the ability to isolate what the potential IBI cost savings are.

- (b) I would disagree with the premise of this question. Workshared mail receiving bulk discounts is homogeneous in the way I used the term. For example, letters qualifying for automation discounts must be automation compatible and meet address quality and mailpiece standards.

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

E-STAMP/USPS-T33-4. In your answer to E-Stamp/USPS-T33-1 you state that a discounted postage rate for IBI "would potentially create an incentive for mailers to throw away their courtesy reply envelopes in favor of making their own envelopes with a discounted rate."

- (a)** Are you aware that E-Stamp and Stamps.com charge a service fee that approximates 10% of the face value of the postage?
- (b)** Please explain why a mailer would throw away a courtesy envelope or card and substitute an IBI envelope or card when the cost of the IBI service fee would approximate the discount on the IBI rate, and further explain why the customer would want to go to the trouble and expense of providing an envelope or card when one has already been prepared for him as a courtesy reply.

RESPONSE:

- (a)** Generally, but I am not familiar with the details of their pricing. I think the key point is that these firms develop and control their own pricing plans, so that a pricing plan focusing on a service fee of 10% today (as described in your question) could easily evolve into something else in the future to respond to the needs of the marketplace.
- (b)** I am having difficulty responding to this question because it assumes some IBI discount of unknown magnitude. Nevertheless, please see my response to part (a) above, which indicates that any such incentive could change as vendor pricing plans change. Other factors could also enter in, such as the convenience of using PC postage or perhaps the lack of a stamp inventory when a PC postage product is being used. As I indicated in my response to STAMPS.COM/USPS-T-33-4, the Postal Service's evaluation of the discount potential of IBI has been limited to a general, conceptual review. Accordingly, it has identified issues such as the potential incentive to discard courtesy reply envelopes, but has not studied such issues in detail.

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

E-STAMP/USPS-T33-5. In your response to E-Stamp/USPS-T33-1 you state that 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."

- (a)** Is it not the case that current handwritten and metered First-Class Mail Letters also bypass acceptance procedures and create revenue/enforcement issues?
- (b)** Do you have any reason to believe that users of IBI postage would engage in misapplication of the correct postage for the letter being mailed to any greater or lesser extent than current mailers of single-piece handwritten and metered mail? Please explain any affirmative answer.

RESPONSE:

- (a)** Yes, all types of mail create revenue and enforcement issues to varying degrees. The primary point I was trying to make in my response to E-STAMP/USPS-T33-1 was that the Postal Service would need to study and reflect on IBI revenue/enforcement issues as part of a complete evaluation of any potential IBI discount.
- (b)** I have no information one way or the other. Also, please see my response to part (a) above.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF KEYSpan ENERGY**

KE/USPS-T33-1. On page 23 of your testimony, you state "QBRM is clean, prebarcoded mail and incurs less cost than non-barcoded mail."

- (a) Please state the basis for this statement and provide all documents that support your assertion.
- (b) How is this statement consistent with USPS witness Miller's finding that the derived unit cost to count QBRM pieces received in large quantities (2.0 cents LR-I-160, Schedule B-2) is over three-and-one-half times the unit cost to count nonletter-sized BRM pieces, which are non-uniform irregular parcels that are not barcoded (.57 cents (LR-I-160, Schedule K-1))?

RESPONSE:

- (a) The quoted statement appears in the portion of my testimony which proposes the QBRM postage rate of 31 cents for letters. (A similar statement appears on page 40 of my testimony (USPS-T-33), where I propose the QBRM postage rate of 18 cents for cards). As such, I note that this statement was not made within the context of a discussion of the BRM special service fees. (See the testimony of witness Mayo, USPS-T-39 at Section IV.D, for a discussion of BRM fees.)

When I state that QBRM is "clean, prebarcoded mail," I mean that QBRM by definition must be prebarcoded and must meet the format standards set forth in Section S922.5.0 of the Domestic Mail Manual. As indicated in that section of the DMM, those requirements include mail piece preparation and barcoding standards.

When I state that QBRM incurs less cost than non-barcoded mail, I am referring specifically to the QBRM cost study prepared by witness Campbell for this docket (USPS-T-29 at Section IV.D). As cited in my testimony (USPS-T-33 at page 39), witness Campbell's cost study shows a cost avoidance of 3.4 cents, applicable to both letters and cards.

- (b) I believe this question should refer to witness Campbell (USPS-T-29) rather than witness Miller. This question appears to be confusing two elements of the QBRM pricing structure – the discounted postage rates and the BRM postage due accounting fees. As discussed in my response to part (a) above, my statement was made within the context a discussion of QBRM postage rates, not QBRM fees.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF KEYSpan ENERGY**

KE/USPS-T33-3. Please refer to the Postal Service's institutional response to Interrogatory KE/USPS-T33-2. That interrogatory sought certain information regarding the effect on QBRM recipients of the Board of Governors' rejection, in Docket No. R97-1, of the Postal Service's own proposal to establish a new service called Prepaid Reply Mail (PRM).

- (a)** Is it your understanding that the potential customers for Prepaid Reply Mail (PRM) service were high volume BRM recipients who had qualified for the then effective BRMAS BRM per piece fee of 2 cents? If that is not your understanding, please explain.
- (b)** Please confirm that, under the Postal Service's fee design proposals in Docket No. R97-1, a potential Prepaid Reply Mail (PRM) customer would have to receive at least 200,000 pieces of PRM annually before the customer would begin to pay lower overall reply mail postage fees than the customer would pay as a QBRM recipient. If you cannot confirm, please explain why not.
- (c)** Please confirm that, when the Postal Service derived the per-piece fee for QBRM, the Service assumed that approximately 287 million pieces of high volume BRMAS BRM reply letters would migrate to the proposed Prepaid Reply Mail (PRM) service. See Docket No. R97-1, USPS-T-32, p.42.
- (d)** Is it your understanding that when the Board of Governors rejected the Postal Service's own proposal to establish a Prepaid Reply Mail (PRM) service in Docket No. R97-1, the Governors did not modify the Commission's QBRM cost analysis that supported the 5-cent QBRM per piece fee recommended to the Governors? Please explain.
- (e)** Is it your understanding that when the Board of Governors rejected the Postal Service's own proposal to establish a Prepaid Reply Mail (PRM) service, the Governors did not modify the Commission's 5-cent QBRM per piece fee that it recommended to the Board of Governors in Docket No. R97-1? Please explain.
- (f)** Do you agree that, when the Board of Governors rejected the Postal Service's own proposal to establish the Prepaid Reply Mail (PRM) service, existing high volume BRMAS BRM recipients, who had been paying a per piece fee of 2 cents, had no choice but to use QBRM service and pay a per piece fee of 5 cents, i.e two-and-a-half times the per piece fee they had been paying? If you do not agree, please explain what other options were available to these high volume BRMAS BRM recipients.
- (g)** Do you agree that, by rejecting the Postal Service's own PRM proposal and accepting without modification the Commission's QBRM cost analysis and 5-cent per piece rate recommendation, the Board of Governors effectively accepted a QBRM per piece fee that did not reflect 287 million lower-cost BRMAS BRM pieces in the derivation of the unit cost to process QBRM letters. If you do not agree, please explain.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF KEYSpan ENERGY

KE/USPS-T33-3 (continued)

- (h) In your opinion, is the current QBRM per piece fee of 5 cents as approved by the Board of Governors based on a cost analysis that overstates the unit cost to process QBRM letters? Please explain.

RESPONSE:

- (a) Yes, in part. In Docket No. R97-1, I testified that PRM volume would also come from certain courtesy reply mail recipients who would qualify (Docket No. R97-1, USPS-T-32, at page 42).
- (b) Confirmed.
- (c) Confirmed.
- (d) – (h) Redirected to the Postal Service.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA**

MMA/USPS-T33-1. In footnote 2 on page 18 of your prepared testimony you provide a definition for bulk metered mail (BMM).

- (a) Please provide the source for this definition.
- (b) Please provide copies of all Postal Service rules, regulations, operating procedures, and/or operating guidelines that pertain to the preparation, entry, and acceptance of BMM letters.
- (c) For the most recent 5 annual periods for which the Postal Service has representative data, please provide the volume of BMM letter mail received and processed by the Postal Service.

RESPONSE:

- (a) The description of bulk metered mail which appears in footnote 2 on page 18 of my testimony is the description set forth in Docket No. R97-1. Please see Docket No. R97-1, Opinion and Recommended Decision at paragraph 5050, and Tr. 4/1418.
- (b) The bulk metered benchmark described in my testimony (USPS-T-33 at pages 16-19) represents a pricing reference point to appropriately identify workshare savings. The standards governing bulk metered mail are the same as those governing metered mail and First-Class Mail generally. Please see Domestic Mail Manual sections C100, D100, E100, and P030.
- (c) No data are available which separate bulk metered letters that paid the single-piece rate from nonbulk metered letters that paid the single-piece rate. Available data which include both bulk and nonbulk metered letters are presented below. The percentage data below are from ODIS. These percentages were then applied to the total number of nonpresort pieces by year from RPW.

	% of Nonpresort (Letters, Flats & Parcels) <u>that is Metered Letters</u>	Number of Nonpresort Metered Letters (millions)
FY 1995	35.10%	19,283
FY 1996	35.05	18,978
FY 1997	35.60	19,308
FY 1998	34.99	18,988
FY 1999	34.07	18,326

**REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA
(4/17/00)**

MMA/USPS-T33-2. On page 20 of your prepared testimony you state that the "cost analysis performed for the current docket by USPS witness Miller (USPS-T-24) demonstrates that the cost differences between automation tiers are now smaller than they were estimated to be in Docket No. R97-1." On page 19 you state, "the discounts the Postal Service is proposing here use the same approach as in Docket No. R97-1..."

- (a) Please provide the specific "cost differences" that you relied upon in reaching your conclusion that the relevant cost differences are "now smaller than they were estimated to be in Docket No. R97-1."
- (b) Were the cost differences that you provided in response to part (a) of this interrogatory based on identical cost measurement methodologies? Please explain your answer and provide a complete list and description of any differences in the cost measurement methodologies used to derive the cost differences between automation tiers in the R97-1 and R2000-1 cases.
- (c) Are you aware that the Postal Service proposes in the R2000-1 proceeding to establish fees and presort/automation mail discounts based on, among other things, the theory that labor costs do not vary 100% with volume, whereas in the R97-1 proceeding the Commission recommended fees and automation discounts based on, among other things, the assumption that labor costs do vary 100% with volume?
- (d) Is it your review that, all other things being equal, the two distinct assumptions or theories regarding the volume variability of labor costs pointed out in part (c) have no impact on the derived presort/automation cost savings in Docket Nos. R97-1 and R2000-1? Please explain your answer.
- (e) Are you aware that in this case the Postal Service proposes that MODS labor cost pools be divided up into three distinct categories, including one for fixed costs that are unrelated to worksharing, whereas in the R97-1 case, the Postal Service proposed and the Commission adopted a cost analysis that divided MODS labor cost pools into two distinct categories, both of which are related to worksharing?
- (f) Is it your view that, all other things being equal, the two distinct assumptions regarding MODS labor cost pools pointed out in part (e) have no impact on the derived presort/automation cost savings in Docket Nos. R97-1 and R2000-1? Please explain your answer.
- (g) Are you aware that the Postal Service's cost models in this case overstated the alleged actual costs, causing USPS witness to derive and apply a CRA proportional adjustment factor that decreased the derived unit cost savings (see USPS-T-24, App. I, p. 1-5), whereas the Commission's cost models in Docket No. R97-1 understated actual costs, causing it to apply a CRA proportional adjustment factor that increased the derived unit cost savings?
- (h) Is it your view that, all other things being equal, the two distinctly different CRA proportional adjustment factors pointed out in part (g) have no impact on the derived presort/automation cost savings in Docket Nos. R97-1 and R2000-1? Please explain your answer.

**REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA
(4/17/00)**

RESPONSE: First, I would note that the juxtaposition of the two quotes from my testimony in the preamble to questions (a) – (h) may be misleading. Also, the incomplete quotation from page 19 of my testimony may be similarly misleading. The full quote from page 19 of my testimony states:

Consistent with precedent, the discounts the Postal Service is proposing here use the same approach as in Docket No. 97-1, that is, the bulk metered benchmark is used in conjunction with mail processing and delivery costs to measure costs avoided.

As the full quote indicates, in using the phrase "same approach" I was not referring to whether there were underlying costing changes proposed in this Docket which could affect the measurement of costs. Further, I was using "approach" in a manner consistent with the Commission's usage in its Docket No. R97-1 Opinion and Recommended Decision:

In general, the Commission agrees with the Service's basic approach to developing worksharing cost savings. In particular, the Commission commends the Service's proposed adoption of bulk metered (BMM) as the basis for calculating unit mail processing cost differences. It also agrees with the Service that the measured costs should be limited to activities exhibiting identifiable savings, namely unit processing and delivery costs." [paragraph 5027 at page 268]

(a) I was referring to the automation letter cost differences set forth in the Commission's Docket No. R97-1 Opinion and Recommended Decision, since these specific cost differences form the basis for the discounts currently in effect.

	<u>Unit Cost Difference Comparison (cents)</u>	
	<u>R97-1 Decision</u>	<u>R2000-1 Proposal</u>
Basic Automation	7.2	5.2
3-Digit	0.9	1.0
5-Digit	1.8	1.3
Carrier Route	0.5	0.3

Sources: Table 5-6 (at page 297) of the Commission's Docket No. R97-1 Opinion and Recommended Decision; Docket No. R2000-1, USPS-T-24 at Table 1, as revised 4/10/00.

REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA
(4/17/00)

RESPONSE to MMA/USPS-T33-2 (continued)

I recognize that the difference between the Basic Automation and 3-Digit tiers is 0.1 cent larger in the Postal Service's Docket No. R2000-1 proposal (from 0.9 to 1.0 cents). However, as I state in my testimony, "Since the discounts for the subsequent automation tiers are keyed to the basic automation starting point, any decision to reduce the basic automation starting would also work to reduce the discounts from the single-piece rate for 3-digit, 5-digit, and carrier route rates." (USPS-T-33 at page 34)

- (b) No - it is my understanding that the cost methodologies are not identical. For a description of the differences, please see the testimony of cost witness Miller (USPS-T-24, beginning at page 3).
- (c) Yes - this is my understanding.
- (d) No - in my view, differing assumptions or theories about volume variability can lead to differences in cost savings. Also, please see the opening paragraphs of my response to this interrogatory.
- (e) Yes - this is my understanding.
- (f) No - in my view, differing assumptions regarding MODS labor cost pools can lead to differences in cost savings. Also, please see the opening paragraphs of my response to this interrogatory.
- (g) I am confused by this question because it appears to be asking me whether I am aware of its assertion about "alleged actual costs." I will try to be responsive. While I would not characterize any adjustment as either overstating actual costs or understating actual costs, I am aware that CRA proportional adjustment factors are sometimes greater than one and sometimes less than one.
- (h) No - in my view, differing CRA proportional adjustment factors can lead to differences in cost savings.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA**

MMA/USPS-T33-3. On page 24 of your prepared testimony, you note that, in addition to several other factors, including revenue and cost coverage considerations, "[t]he Postal Service also considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover. The testimony of witness Daniel (USPS-T-28) presents the results of the First-Class Mail weight study prepared for this docket." You go on to state "...the weight study does provide a basis for evaluating, *in the aggregate*, the alignment between the additional ounce rate and the overall costs it is designed to recover." USPS-T-33, p. 24 (emphasis added).

- (a) Does the Daniel weight study provide any specific, non-aggregated information regarding the impact on cost caused by the additional ounce of a 2-ounce First-Class letter? If so, please state your conclusion and explain exactly what information you obtained from the study that led you to that conclusion.
- (b) Does USPS witness Daniel's weight study provide any specific non-aggregated information regarding the impact on cost caused by the additional 3rd ounce of a 3-ounce First-Class letter? If so, please state your conclusion and explain exactly what information you obtained from the study that led you to that conclusion.
- (c) Do you agree that the weight study of USPS witness Daniel that you reference did not provide, nor did it even attempt to provide, what you characterize as a "weight-step-by-weight-step" relationship between the weight of an average First Class letter and the cost of processing such a letter piece? If you do not agree, please explain.

RESPONSE:

- (a) Yes. The study includes the total unit cost of letter-shaped mail by ounce increment (including the 1 to 2-ounce and the 2 to 3-ounce increments). The information for single-piece letters is found in USPS-LR-I-91, Section I at page 15. The information for presort letters is found in USPS-LR-I-91, Section II at page 15. As described in my testimony (USPS-T-33 at pages 23-26), I used the weight study data in the aggregate as the appropriate basis for my proposed additional ounce rate.
- (b) See response to (a).
- (c) The question mischaracterizes my testimony. I make no characterization of any kind in my testimony about a weight step-by-weight step relationship between the weight of an average First-Class letter and the cost of processing such a letter piece. My use of the phrase "weight step-by-weight

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA

RESPONSE to MMA/USPS-T33-3 (continued)

step" (USPS-T-33, page 24 at lines 8-9) refers generally to the First-Class Mail rate structure where each additional ounce of weight up to 13 ounces increases the postage required. As I state in my testimony, "...the weight study does provide a basis for evaluating in the aggregate, the alignment between the additional ounce rate and the overall costs it is designed to recover." (USPS-T-33 at page 24). The overall costs the rate is designed to recover include weight-related costs, shape-related costs, and costs related to the degree of presortation.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA**

MMA/USPS-T-33-5. On page 26 of your prepared testimony, you state:

It might be argued that the rates for additional ounces should be strictly cost based. Under such a scheme, the rates for additional ounces would vary from ounce increment to ounce increment to reflect more-or-less constant cost coverage.

You then proceed to explain why the Postal Service would not want to offer varying rates from ounce increment to ounce increment.

- (a) You indicate that there are "at least" three reasons why the Postal Service considers a variable incremental ounce rate "undesirable." Are those the only three reasons that the Postal Service believes the particular rate structure you describe to be undesirable? If your answer is no, please state and explain any other objections the Postal Service has to the referenced rate structure alternative for First Class additional ounce rates.
- (b) Did the Postal Service ever consider any other rate structure other than the current fixed rate per additional ounce for First-Class? If yes, please indicate what rate structures the Postal Service considered and explain in detail why they were ultimately rejected? As part of your response please provide all documents discussing other possible rate structures for additional ounces considered by the Postal Service.
- (c) Is there a specific reason why the Postal Service could not offer the current rate structure for nonpresorted First-Class letters, yet a different rate structure for presorted First-Class letters?
- (d) In determining your proposed rates for additional ounces of First-Class letters did you consider the Commission's statement from the Opinion and Recommended Decision in Docket No. R94-1 that "letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces"? (Op. R94-1 at V-9) Please explain your answer.
- (e) Why did you not propose a reduced second or third ounce rate for (i) nonpresorted First-Class letters and (ii) presorted First-Class letters?

RESPONSE:

- (a) Those are not necessarily the only three reasons. The three reasons described reflect the Postal Service's general concerns about a varying additional ounce rate. If faced with the details of another specific additional ounce proposal, other objections and concerns could surface.
- (b) No. My additional ounce rate proposal was developed in light of the weight study prepared for this docket by witness Daniel, in light of the Test Year revenue requirement and the First-Class Mail cost coverage target, and in light of concerns about a varying rate structure cited in the preamble to this question.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA

RESPONSE to MMA/USPS-T33-5 (continued)

- (c) Please see the three reasons referenced in part (a) of this question and described in my testimony (USPS-T-33 at page 26).
- (d) While I am *mindful of statements contained in Commission recommended decisions*, in this instance my conclusions about additional ounce costs were guided by the weight study prepared for the current docket.
- (e) Please see response to parts (b) and (c).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA**

MMA/USPS-T33-7 (renumbered by the PRC; originally filed as MMA/USPS-T33-FU-1). Please refer to your response to MMA/USPS-T33-5(d). In that response you note that while you are mindful of the Commission's statement that "letters processed with automation incur minimal or possibly no extra costs for letters weighing up to three ounces," your conclusions about additional ounce costs were guided by USPS witness Daniel's weight study.

- (a) In your opinion, does the Daniel weight study refute the Commission's statement with respect to First-Class nonpresorted letters? Please explain your answer and provide or reference all documents you relied upon to formulate that answer and explanation.
- (b) In your opinion, does the Daniel weight study refute the Commission's statement with respect to First-Class presorted letters? Please explain your answer and provide or reference all documents you relied upon to formulate that answer and explanation.
- (c) In your opinion, does the Daniel weight study refute the Commission's statement with respect to Standard Mail (A) regular letters? Please explain your answer and provide or reference all documents you relied upon to formulate that answer and explanation.

RESPONSE: MMA/USPS-T-33-5 (d) asked me if I considered the above-referenced Commission statement from the Opinion and Recommended Decision in Docket No. R94-1 in determining my proposed additional ounce rate. My full response was:

While I am mindful of statements contained in Commission recommended decisions, in this instance my conclusions about additional ounce costs were guided by the weight study prepared for the current docket.

- (a) In my opinion, the data presented in the witness Daniel weight study support a different conclusion than that contained in the quoted statement. The data in USPS LR-1-91 (Section 1, page 15, as revised 3/1/00) show that the total unit cost of a 0 to 1 ounce single-piece letter is 19.6 cents. A 1 to 2 ounce single-piece letter costs 32.7 cents, or 13.1 cents more than the first ounce. A 2 to 3 ounce single-piece letter costs 47.4 cents, or 14.7 cents more than a 1 to 2 ounce letter. Please note, however, that in developing my additional ounce rate proposal, I did not use the weight study data on this disaggregated a basis (that is, disaggregated by shape and by weight step). Instead, I used the weight study data in the aggregate to evaluate the

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF THE MMA**

RESPONSE to MMA/USPS-T33-7 (continued)

alignment between the additional ounce rate and the overall costs it is designed to recover. In addition, I would note that cost was not the only factor used in developing my additional ounce proposal. The additional ounce rate is an important factor in helping First-Class Mail meet its cost coverage target and in helping the Postal Service meet its revenue requirement (see USPS-T-33 at pages 24-26).

- (b) In my opinion, the data presented in the witness Daniel weight study support a different conclusion than that contained in the quoted statement. The data in USPS LR-I-91 (Section 2, page 15, as revised 3/1/00) show that the total unit cost of a 0 to 1 ounce presorted letter is 9.8 cents. A 1 to 2 ounce presorted letter costs 25.0 cents, or 15.1 cents more than the first ounce. A 2 to 3 ounce presorted letter costs 38.3 cents, or 13.4 cents more than a 1 to 2 ounce letter. Also, please see response to part (a) above.
- (c) The scope of my testimony is limited to the First-Class Mail rate design. I have not formed an opinion with respect to Standard (A) costs.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF MMA REDIRECTED FROM WITNESS MILLER**

MMA/USPS-T24-3 On page 12 of your prepared testimony, you state that BMM is "the most likely to convert to worksharing."

- (a) What is the average unit weight for First-Class metered letters?
- (b) What portion of metered First-Class letters is prebarcoded?
- (c) What portion of First-Class BMM letters is prebarcoded?
- (d) What volume of First-Class letters was entered as BMM during the base year?
- (e) What was the average volume per BMM mailing during the base year?
- (f) What incentives are there for BMM mailers to drop their trayed letters at a local post office?
- (g) Are there any address requirements for BMM, similar to those in effect for Automation First-Class letters?
- (h) When a First-Class mailer includes reply envelopes in outgoing BMM letters, is there a requirement that such reply envelopes be prebarcoded and machineable, the requirement applicable for reply envelopes included in outgoing Automation First-Class letters?
- (i) Before volumes of nonpresorted letters were able to convert to presorted letters by virtue of being commingled with other First-Class letters by a presort bureau, were such letters brought to the post office in trays, similar to BMM? Please explain your answer.
- (j) Are presort bureaus the major source for new First-Class Automation letter volumes which convert from First-Class Single Piece letters?
- (k) Assuming that the presort discount offered by the Postal Service were lower than a mailer's incremental cost to qualify for presort rates, would you expect that the mailer would still take his letters to the post office in trays and enter them as BMM? Please explain your answer.

RESPONSE:

- (a) – (j) Answered by the Postal Service.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF MMA REDIRECTED FROM WITNESS MILLER**

RESPONSE to MMA/USPS-T24-3 (Continued)

- (k) The bulk metered benchmark (BMM) described in my testimony (USPS-T-33 at pages 16-19) represents a pricing reference point to appropriately identify workshare savings. The benchmark is not meant to imply that every new piece of mail that is workshared physically comes from a pool of bulk metered pieces, or that every piece of mail that is no longer workshared physically reverts to a pool of bulk metered pieces.

For example, in this proceeding, the Postal Service is proposing a 0.5-cent reduction in the discount for nonautomation presort letters and the maintenance of the discounts for automation letters. Should this proposal be recommended by the Commission and adopted by the Governors, some customers, given their mail preparation costs, would then find the nonautomation presort discount uneconomic. Some of those customers may then choose to send their mail at the single-piece rate and some may choose to barcode their mail, finding the automation discounts relatively more attractive. Others may find it beneficial to consolidate their mail with others and use a presort bureau.

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NAA/USPS-T33-1. Please refer to your direct testimony, USPS-T-33, page 24, lines 7-13. There you state:

As noted by witness Daniel (USPS-T-28), there is difficulty in measuring additional ounce costs with the highest degree of precision on a weight-step-by-weight-step basis. Nevertheless, the weight study does provide a basis for evaluating, in the aggregate, the alignment between the additional ounce rate and the overall costs it is designed to recover.

Please also refer to page 25, lines 11-14:

The cost data compiled witness Daniel also show that the first additional ounce of single-piece mail adds 22.4 cents to unit costs (USPS-T-28 at Table 1) while the first additional ounce of presort mail adds 17.7 cents to cost (Id. at Table 2). In general, subsequent additional ounces add less to costs than the first additional ounce for both single-piece and presort mail.

- (a) Does the second quoted passage represent an example of a "weight-step-by-weight-step" comparison as described in your first quoted passage?**
- (b) If not, please explain why not.**

RESPONSE:

- (a) No.**

- (b) I developed my additional ounce rate proposal by using aggregated cost data in the manner described in the page 24 quote described above (USPS-T-33, page 23, line 7, through page 25, line 10). The paragraph from page 25 quoted here and the page 25 paragraph which is quoted below in NAA/USPS-T33-2 go hand-in-hand, and are designed to provide a general description of how cost changes as weight increases. I included these paragraphs at this point in my testimony not in support of my own 23-cent proposal, but rather in response to previous proposals which had proposed a lower additional ounce rate for particular presort weight steps. For example, in Docket No. R97-1, ABA/NAA proposed reducing the additional ounce rate for the second and third ounces of workshared First-Class letters to 12 cents and maintaining the rate at its current level for the remaining weight steps. I was hopeful that by including the referenced page 25 paragraphs, I might provide more context in which to view the cost data.**

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INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T33-3. Please refer to your direct testimony at USPS-T-33, page 24, lines 5-6, where you cite the testimony of witness Daniel (USPS-T-28) as the basis for your rate design proposals for the additional ounce rate for single piece and presort mail. Witness Daniel in turn cites data from LR-I-91 through LR-I-102 for the creation of Tables 1 and 2 (Revised 3/1/00). Please also refer to LR-I-91, Section 1, page 11 of 34, which appears to be a regression with "single-piece [first-class] all shapes test year unit costs" as the dependent variable and "detailed (1/2 ounce) weight increment" as the independent variable.

- (a) Do you consider this regression to be a reliable measure of the effect of weight on unit costs?
- (b) Please provide all measures of reliability on which you base your answer to (a).
- (c) Do you consider any other regressions of unit costs on weight for single piece first class to be reliable?
- (d) If so, please explain fully the basis for your answer.

RESPONSE: I note that the cited regression appears to be in Section 1, page 10 of 32, as revised 3/1/00.

- (a) In my testimony, I explain how I used the additional-ounce cost study results presented in Tables 1 and 2 of USPS-T-28, as revised 3/1/00 (please see USPS-T-33 at page 24, lines 14-19). I did not use the regression analysis results cited in this question.

It is my understanding that this regression is not volume-weighted and is therefore of limited use in ascertaining the effect of weight on costs. Each data point is given equal weight, even though some data points may represent a relatively small portion of volume.

- (b) Please see my response to (a).
- (c) Please see my response to (a); I did not use regression analysis in developing my rate proposal.
- (d) Not applicable.

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NAA/USPS-T33-4. Please refer to LR-I-91, Section 2, page 10 of 30 which appears to be a regression of "Presort [first class] all shapes test year unit costs" as the dependent variable and "detailed (1/2 ounce) weight increment" as the independent variable.

- (a) Do you consider this regression to be a reliable measure of the effect of weight on unit costs?
- (b) Please provide all measures of reliability on which you base your answer to (a).
- (c) Do you consider any other regressions of unit costs on weight for presort first class to be reliable?
- (d) If so, please explain fully the basis for your answer.

RESPONSE:

- (a) Please see response to NAA/USPS-T33-3 (a).
- (b) Please see response to NAA/USPS-T33-3 (b).
- (c) Please see response to NAA/USPS-T33-3 (c).
- (d) Please see response to NAA/USPS-T33-3 (d).

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NAA/USPS-T33-5. Please refer to your direct testimony USPS-T-33, page 24, lines 1-3:

Several considerations went into developing the proposed 23-cent rate, including achievement of the revenue requirement and the First-Class Mail cost coverage provided by witness Mayes.

Please also refer to the response of NAA/USPS-T32-18 propounded to witness Mayes. She was asked in part:

What role did the one cent increase in the first and additional ounce rates play in your selection of the cost coverage for First Class Mail?

Her answer in part reads:

My testimony does not state that the cost coverage "results" in a one-cent increase in the first or additional ounce rates...I would not characterize the direction of causality the way that your question has.

- (a) Do you perceive any discrepancy between her characterization of the cause and effect and your own?**
- (b) If not, please explain fully why not.**

RESPONSE:

(a) No.

- (b) As witness Mayes also stated in the same response, "Establishing the actual rate design within the subclass in conjunction with the target cost coverage is the responsibility of witness Fronk (USPS-T-33)."**

In developing the First-Class Mail rate proposal, there were a number of rate elements that could be changed to achieve the target First-Class Mail cost coverage and revenue, including the additional ounce rate. As I stated in my testimony:

The additional-ounce rate continues to be an important source of revenue for the Postal Service. In FY 1998, additional ounces generated about \$4.7 billion in revenue or 14 percent of First-Class Mail revenue for the year...Accordingly, the additional ounce rate is an important factor in helping First-Class Mail meet its cost coverage target and in helping the Postal Service meet its revenue requirement. [USPS-T-33, page 23 at lines 16-23]

Within the context of the overall First-Class Mail rate design, an increase of one-cent in the additional ounce rate was the amount I considered most appropriate in light of the ratemaking issues discussed in the rate design section of my testimony (USPS-T-33, at pages 16-42).

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NAA/USPS-T33-6. Please refer to page 24, line 4, of your testimony, where you state that the Postal Service "considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover." Please define the word "reflects" as you use it in the quoted passage.

RESPONSE: The quoted portion of my testimony appears within the following context:

Several considerations went into developing the proposed 23-cent rate, including achievement of the revenue requirement and the First-Class Mail cost coverage provided by witness Mayes. The Postal Service also considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover. [USPS-T-33, page 24 at lines 1-5]

As indicated in this quote, the additional ounce rate is not strictly cost-based. Thus, I am using "reflects the underlying costs" in the sense of "takes into account the underlying costs."

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NAA/USPS-T33-7. Did you take into consideration the rate design proposals for subclasses of mail in other classes which may serve as substitutes for First-Class Mail? If so, please identify the particular subclasses and rate design proposals you considered, and what effect those proposals had on your proposals?

RESPONSE: Yes. The TYAR forecast volumes at proposed rates obtained from RCF take into account the cross-price elasticity between workshared First-Class letters and Standard (A) regular mail (please see USPS-T-7 at pages 17-20). I combined these TYAR forecasts with the proposed First-Class Mail rates to determine if the resulting revenue met the cost coverage target.

In addition, the volume of former Priority Mail pieces migrating into the "new" 11-12 ounce and 12-13 ounce First-Class Mail weight increments (effective 1/10/99) is affected by the relationship between Priority Mail and First-Class Mail prices (see USPS-T-33, Workpaper at pages 8 and 9, which cite USPS-LR I-114 at pages 8 and 15 and USPS-T-7, Workpaper 4, Table 1).

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NAA/USPS-T33-8. Please refer to page 25 lines 6-15, of your testimony, where you discuss the markup for the additional ounce rate in terms of witness Daniel's cost data. Please provide the average markup and unit contribution, for each ounce increment, for:

- (a) Presorted (non-automation) First Class letters and
- (b) Automation First Class letters.

RESPONSE:

It is my understanding that the requested breakdown (separating nonautomation presort letters from automation presort letters) is not available. (The weight study (USPS-LR-I-91) provides data for all presort letters at Section 1, pages 13-15.)

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INTERROGATORIES OF THE OCA

OCA/USPS-T33-1. Please refer to Table 3 on page 9 of your testimony and the percentages you cited from the "Household Diary Study: Fiscal Year 1998."

- (a) Would you agree that for fiscal year 1998, the volume of First-Class Mail generated by households was 14.9 billion pieces (0.148 X 100.434 billion)?
- (b) The 1999 RPW shows 54.3 billion pieces of single-piece First-Class Mail for fiscal year 1998. Is it the case that about 39.4 (54.3-14.9) billion pieces of single-piece First-Class Mail were generated by nonhouseholds? Please explain.
- (c) Please provide any documents which reconcile the percentages in the "Household Diary Study: Fiscal Year 1998" with actual volumes of First-Class Mail.

RESPONSE:

- (a) The calculation performed in the question combines two data sources and multiplies the total volume of pieces of First-Class Mail in 1998 (100.434 billion pieces from the RPW system as shown in Table 3 of my testimony) by the percentage of First-Class Mail which originated in households in 1998 (14.8% from the Household Diary Study as cited on page 6 of my testimony). I would note that the RPW data used in the calculation are on a Government Fiscal Year (GFY) basis, while the data reported in the Household Diary are on a Postal Fiscal Year (PFY) basis (see Appendices C and D of the Household Diary study). I do not think, however, that this GFY/PFY point makes any material difference to the calculation performed in this question. I agree that this calculation results in a reasonable approximation of the volume of First-Class Mail generated by households in 1998.
- (b) The 54.3 billion pieces of single-piece First-Class Mail cited in the questions refers to the letters subclass only. There were also 3.0 billion single-piece cards, as shown in the cited RPW report. Thus, a better approximation of the volume of nonhousehold single-piece First-Class Mail would be obtained by adding 3.0 billion pieces to the 54.3 billion pieces shown in the question. The result is 42.4 (54.3 + 3.0 - 14.9) billion pieces of single-piece mail generated by nonhouseholds. Also, please see response to part (a).
- (c) I am not aware of any such documents. The question appears to imply that the OCA may be aware of some discrepancy. If this is the case and the OCA can be more specific, I may be able to be of greater help in this area.

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RESPONSE to OCA/USPS-T33-1 (Continued)

Also, please see my comment about GFY data versus PFY data in my response to part (a) above. This difference becomes relevant if reconciliations are being performed.

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INTERROGATORIES OF THE OCA**

OCA/USPS-T33-2. Please refer to your testimony on page 6, where you discuss the "Household Diary Study: Fiscal Year 1998" and to the following table.

Year	Total First Class	Household Diary Percentages	Number of Pieces
1987	78,869	21.30%	16,799
1997	99,660	16.30%	16,245
1998	100,434	14.80%	14,864

- (a) In looking at Table 4-1 of LR-I-116 would you agree that during the period 1987 to 1998, volume growth in First-Class Mail has been generated by nonhouseholds? Please explain any negative answer.
- (b) Do you believe that increases in the single-piece First-Class Mail rate during this period have contributed to the decline (21.3 percent to 14.8 percent or 16.8 billion pieces to 14.8 billion pieces) in the percentage and absolute volume of First-Class Mail generated by households?
- (c) Are there other factors that you believe led to the decline in household generated First-Class Mail? Please explain.

RESPONSE:

- (a) Yes. I make the same point in a different way in my testimony where I state:

The growth in First-Class Mail since 1976 has been concentrated almost entirely in presorted (both automation and nonautomation) mail. Nonpresort [single-piece] letter, flat, and parcel volume has grown slowly and has fluctuated in the 54 to 57 billion piece range during the last 12 years. [USPS-T-33 at page 11]

- (b) No. When the stamp price goes up, there is a dampening effect on volume in the short-term, but I do not think that stamp price increases are responsible for the decline shown over the 1987-1998 period. Since postal reorganization in 1971, the price of a stamp has generally tracked the inflation rate. Depending on the time period selected, the increase in the price of a stamp may be somewhat higher or lower than the inflation rate over that same period. Focusing on the 1987-1998 period selected for this question, the price of a stamp went from 22 cents in 1988 to 32 cents in 1998, an increase of 45.5 percent. Over the same period, the Consumer Price Index (All Urban Consumers; Series ID CUUR0000SAO from BLS) increased by 43.5 percent (index value increase from 113.6 to 163.0). Thus, the

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RESPONSE to OCA/USPS-T33-2 (Continued)

stamp price over this particular period went up a little faster than the inflation rate, but for all practical purposes was fairly constant in real terms.

I would also note that the largest volume decrease shown in your table (16,245 million pieces to 14,864 million pieces) occurred between 1997 and 1998 when the price of a stamp did not change, remaining at 32 cents. We need to look for reasons other than the stamp price to account for this decline.

- (c) Yes. While a full exploration of these factors is beyond the scope of my testimony, I think the 1998 Household Diary Study sheds some light on reasons for the decline. Table 4-11 indicates that personal letters and cards (not greeting cards) sent by households in an average month declined from 3.1 pieces in 1987 to 1.2 pieces in 1998. Table 4-14 indicates that holiday/season's greeting cards sent by households in a season declined from 38.1 pieces in 1987 to 31.0 pieces in 1998. Table 4-48 indicates that First-Class Mail sent by households in response to advertising declined from 0.61 pieces per week in 1987 to 0.18 pieces per week in 1998. Households send less personal correspondence and greeting cards through the mail now than they did in 1987, perhaps because of lack of time or the availability of e-mail or the proliferation of cellular telephones and the decline of long-distance telephone rates.

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OCA/USPS-T33-4. Please refer to your response to OCA/USPS-T29-8 (redirected from Witness Campbell). You state, "My proposed increase in the passthrough in the current docket is consistent with a discount that is now established."

- (a) Please state all of the reasons you believe the QBRM discount is "now established."
- (b) Please provide all *actual* cost, revenue, and other data which have been collected for QBRM.

RESPONSE:

- (a) Since this rate was implemented on January 10, 1999 and is in existence, it has now been established.

While the Qualified Business Reply Mail (QBRM) discounted postage rate was new in Docket No. R97-1, the requirements mailers need to meet to qualify for the rate represent a continuation of the requirements of the Business Reply Mail Accounting System (BRMAS), which was established more than a decade ago in 1988. As with the former BRMAS program, QBRM mailers need to be pre-approved and prepare prebarcoded, automation-compatible Business Reply Mail. Thus, in important respects, the QBRM program has been established for many years.

- (b) QBRM revenue, volume, and weight data are available from the RPW system for Postal Quarters 2-4 1999 and GFY 1999. The QBRM rates were implemented during Quarter 2 on January 10, 1999.

	<u>Postage Revenue</u>	(000s) <u>Pieces</u>	<u>Weight</u>
<u>PQ2 1999</u>			
QBRM Letters	\$12,876	42,062	879
QBRM Cards	1,388	7,706	48
<u>PQ3 1999</u>			
QBRM Letters	\$36,070	118,649	2,317
QBRM Cards	1,977	10,904	68
<u>PQ4 1999</u>			
QBRM Letters	\$36,483	119,863	2,321
QBRM Cards	3,389	18,779	117
<u>GFY 1999</u>			
QBRM Letters	\$93,393	306,743	6,024
QBRM Cards	7,494	41,490	259

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RESPONSE TO OCA/USPS-T33-4 (continued)

The special service fee revenue and transaction count for QBRM (excluding BRMAS) are available for letters and cards combined for PQ3 and PQ4 1999. For PQ3 and PQ4, fee revenues for \$5,292 thousand and \$6,396 thousand, respectively. For PQ3 and PQ4, transactions were 105,860 thousand and 127,924 thousand, respectively.

It is my understanding that no actual cost data for QBRM have been collected.

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OCA/USPS-T33-6. Are you aware of any information that shows whether QBRM has "attracted more volume from First-Class Mail than anticipated?" If so, please provide all such information.

RESPONSE: As indicated in my response to OCA/USPS-T-33-4 (b), 1999 RPW data indicate that there were 129.6 million QBRM pieces (both letters and cards) in PQ 3 1999, and 138.6 million QBRM pieces in PQ 4 1999. These are the first two full quarters of data that are available following the implementation of the QBRM rate on January 10, 1999. As a very rough approximation of an annual QBRM volume, the sum of these two quarters (268.2 million) can be annualized by dividing by the seven accounting periods in PQ 3 and PQ4, and then multiplying by the 13 accounting periods in the year. The result is 498.1 million pieces for the year.

In developing my QBRM proposal, I reviewed these data, as well as recent annual volumes of BRMAS mail. In GFY 1997 and GFY 1998, BRMAS volumes were 515.4 million pieces and 440.3 million pieces, respectively. Thus, in recent years, BRMAS/QBRM volumes appear fairly stable in the 400-500 million range.

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OCA/USPS-T33-7. Please refer to your testimony at page 15, lines 2-7.

- (a) Please confirm that Letters and Sealed Parcels subclass mail weighing one ounce or less that does not conform to the specified aspect ratio of at least 1 to 1.3 (i.e., that is, between 1 to 1 and 1 to 1.3) is nevertheless processed on the following mail processing equipment: facer-cancellers, OCRs, and BCRs. If you do not confirm, please explain.**
- (b) Please confirm that nonconforming mail identified in part (a) of this interrogatory is not returned to the sender or delivered to the recipient with a marking of postage due equal to the nonstandard surcharge. If you do not confirm, please explain. Include in your explanation an identification of the portion of such mail that is not returned to sender or delivered to the recipient with a marking of postage due.**
- (c) Please provide the total revenue produced by the nonstandard surcharge.**
 - (i) What portion of the total revenue produced by the nonstandard surcharge is from letters and sealed parcels below the specified aspect ratio of 1 to 1.3?**
 - (ii) What portion of the total revenue produced by the nonstandard surcharge is from letters and sealed parcels exceeding the specified aspect ratio of 1 to 2.5?**
 - (iii) What portion of the total revenue produced by the nonstandard surcharge is from letters and sealed parcels that exceed the standard letter-size dimensions?**

RESPONSE:

- (a) Not confirmed. Witness Miller discusses aspect ratio and its affect on processing in his testimony (USPS-T-24 at pages 20 and 21). Also, please note that to be standard, a mail piece needs to have an aspect ratio between 1.3 and 2.5, inclusive.**
- (b) Not confirmed. First, this question appears to assume that the nonstandard surcharge has not been paid. Nonconforming mail that has paid the surcharge will certainly not be returned to sender. In addition, please see the Postal Service's response to USPS/OCA-23(b) for a description of how shortpaid First-Class Mail is handled.**
- (c) The nonstandard surcharge produced approximately \$44.5 million in revenue in 1998. See part (iii) below for the underlying calculation.**
 - (i) The Postal Service does not maintain these data. Please note that to be standard, a mail piece needs to have an aspect ratio between 1.3 and 2.5, inclusive.**

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RESPONSE to OCA/USPS-T33-7 (continued)

- (ii) The Postal Service does not maintain these data. Please note that to be standard, a mail piece needs to have an aspect ratio between 1.3 and 2.5, inclusive (the lower bound of this range is not 1 as implied in the question).
- (iii) An estimate for 1998 can be developed as follows. According to the 1998 Billing Determinants (USPS-LR-I-125), there were 370,848 thousand nonstandard single pieces (Table A-1) and 74,016 thousand presort nonstandard pieces (33,924 thousand nonstandard nonautomation presort pieces from Table A-2 and 40,092 nonstandard automation flats from Table A-3). The distribution of these pieces by shape below is approximate and is based on 1998 mailing statement data for presort and domestic RPW data for single piece.

1998 Nonstandard Volume (millions)

	<u>All</u>	<u>Letters</u>	<u>Flats</u>	<u>Parcels</u>
Single Piece	370.8	64.6	287.3	19.0
Presort	<u>74.0</u>	<u>10.6</u>	<u>61.9</u>	<u>1.6</u>
Total	444.8	75.2	349.2	20.6

Total nonstandard revenue in 1998 was approximately \$44.5 million (370.8 million single pieces paying the 11-cent surcharge and 74.0 million presort pieces paying the 5-cent surcharge). Of this total, approximately \$36.9 million, or 83 percent, was produced by nonletter-size pieces.

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OCA/USPS-T33-9. Please refer to your testimony at page 27, lines 5-8.

- (a) Please identify and describe who you are referring to where it states "our customers mailing at the nonautomation presort rate."**
- (b) What percent of mail qualifying for the nonautomation presort rate in FY1998 was**
 - (i) prepared and presorted by firms "in-house" for entry directly with the Postal Service?**
 - (ii) simply presorted by firms commonly referred to as "presort bureaus?"**
 - (iii) prepared and presorted by firms commonly referred to as "service bureaus?"**
 - (iv) other firms providing printing or mail services?**
- (c) Please describe how "presort bureaus" are typically compensated for presorting First-Class**
 - (i) basic presort mail,**
 - (ii) basic automation mail,**
 - (iii) 3-digit automation mail, and**
 - (iv) 5-digit automation mail.**
- (d) Please describe in detail your understanding of the relationship between "presort bureaus" and their customers. Is it your understanding that a mailer requiring presort services typically enters into a contract or other arrangement that specifies a minimum volume of mail to be provided to the "presort bureau" on a weekly, monthly, or annual basis? Please explain.**

RESPONSE:

- (a) I simply meant any of our customers who may be submitting mailings at the nonautomation presort rate, whether businesses, presort bureaus, and the like. I did not have a specific list of customers in mind.**
- (b) Redirected to the Postal Service.**
- (c) My knowledge of how presort bureaus are typically compensated is very general. It is my understanding that presort bureaus typically view the details of such information as business confidential and proprietary. It is my understanding that in some instances presort bureaus are compensated at a flat rate. In some instances, they split the worksharing discount with the customer. In some instances, the presort bureau's customer may give the presort bureau a mailing metered with nonautomation presort postage. The presort bureau can then combine the mailing with those of other customers to qualify, for example, for the 3-digit automation discount. In this example, the presort bureau might keep the difference between**

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
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RESPONSE to OCA/USPS-T33-9 (continued)

the nonautomation presort rate and the 3-digit rate. Since the mail is already metered with the nonautomation presort rate, the Postal Service would provide a "value added refund" representing the postage difference between the nonautomation presort rate and the 3-digit rate. It may be more fruitful to direct interrogatories of this type to any presort industry witnesses who may submit testimony later in this proceeding.

- (d) Please see my response to part (c). It is my understanding that written contracts are sometimes used, especially for large volume mailers. I am also informed that verbal agreements and handshakes are also used in some instances. I have no information about required minimum volumes over particular time periods. It is my understanding that the terms of these contracts are often jealously guarded confidential business information.

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OCA/USPS-T33-10. Please refer to your testimony at pages 33 and 34, lines 21-22, and lines 1-2, respectively.

- (a) Please confirm that the term "Mailers" includes firms commonly referred to as "presort bureaus." If you do not confirm, please explain.**
- (b) Please provide the FY1998 First-Class letter volume, or an estimate thereof, for Basic Presort, Basic Automation, 3-Digit Automation, 5-Digit Automation, and Carrier Route entered with the Postal Service by "presort bureaus."**
- (c) Please provide the FY1998 First-Class flats volume, or an estimate thereof, for Regular Presort, Basic Automation, and 3/5-Digit Automation entered with the Postal Service by "presort bureaus."**
- (d) Please provide the FY1998 Standard (A) letter size and non-letter size volume, or an estimate thereof, for Basic Presort and 3/5-Digit Presort entered with the Postal Service by "presort bureaus."**
- (e) Please provide the FY1998 Standard (A) letter-size volume, or an estimate thereof, for Basic Automation, 3-digit Automation, and 5-Digit Automation, and the flat size volume, or an estimate thereof, for Basic Automation, and 3/5-Digit Automation entered with the Postal Service by "presort bureaus."**
- (f) Please provide the FY1998 Standard (A) letter-size volume, or an estimate thereof, for Basic ECR, Basic Automation ECR, High Density, and Saturation, and the non-letter size volume, or an estimate thereof, for Basic ECR, High Density, and Saturation entered with the Postal Service by "presort bureaus."**
- (g) Please confirm that "presort bureaus" (as distinct from "service bureaus") rely significantly on the presortation and entry of First-Class Mail for their livelihood. If you do not confirm, please explain and provide any data to support your answer.**

RESPONSE:

(a) Confirmed.

(b) - (f) Redirected to the Postal Service.

(g) Confirmed, that presort bureaus rely significantly on the presortation and entry of First-Class Mail for their livelihood. However, I am unsure what is meant by the term "service bureau," and this question may be attempting to make a distinction that is difficult to make in practice as the mailing industry evolves. One could talk in terms of the more traditional presort bureau activities such as mail pick-up, sorting, barcoding, combining the mail of different customers, and qualifying the mail for entry into the postal system. Beyond these core activities, presort bureaus could expand into other "services" such as printing, lettershop, mailroom management, and mailing list management.

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OCA/USPS-T33-11. Please refer to your testimony at pages 33 and 34, lines 21-22, and lines 1-2, respectively.

- (a) Please confirm that the term "Mailers" includes firms commonly referred to as "service bureaus." If you do not confirm, please explain.
- (b) Please provide the FY1998 First-Class letter volume, or an estimate thereof, for Basic Presort, Basic Automation, 3-Digit Automation, 5-Digit Automation, and Carrier Route entered with the Postal Service by "service bureaus."
- (c) Please provide the FY1998 First-Class flats volume, or an estimate thereof, for Regular Presort, Basic Automation, and 3/5-Digit Automation entered with the Postal Service by "service bureaus."
- (d) Please provide the FY1998 Standard (A) letter size and non-letter size volume, or an estimate thereof, for Basic Presort and 3/5-Digit Presort entered with the Postal Service by "service bureaus."
- (e) Please provide the FY1998 Standard (A) letter-size volume, or an estimate thereof, for Basic Automation, 3-digit Automation, and 5-Digit Automation, and the flat size volume, or an estimate thereof, for Basic Automation, and 3/5-Digit Automation entered with the Postal Service by "service bureaus."
- (f) Please provide the FY1998 Standard (A) letter-size volume, or an estimate thereof, for Basic ECR, Basic Automation ECR, High Density, and Saturation, and the non-letter size volume, or an estimate thereof, for Basic ECR, High Density, and Saturation entered with the Postal Service by "service bureaus."
- (g) Please confirm that "service bureaus" (as distinct from "presort bureaus") rely significantly on services other than presortation services and entry of First-Class Mail for their livelihood. If you do not confirm, please explain and provide any data to support your answer.

RESPONSE:

- (a) I am unsure what is meant by the term "service bureau." To the extent the usage here is consistent with my description in OCA/USPS-T33-10 (g), I can confirm.
- (b) - (f) Redirected to the Postal Service.
- (g) Please see my response to OCA/USPS-T33-10 (g) and the Postal Service response to OCA/USPS-T33-11.

**REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
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(4/17/00)**

OCA/USPS-T33-13. Please refer to interrogatory MMA/USPS-T33-7 and your response to part (a) thereof. You state "that in developing [your] additional ounce rate proposal, [you] did not use the weight study data [LR-I-91] on this disaggregated a basis (that is, disaggregated by shape and by weight step)."

- (a) Do the disaggregated data (by shape and by weight step) suggest that there are significant cost differences by shape for the single piece category of letters and sealed parcels? Please site specific data from the weight study to support your answer.
- (b) Has the Postal Service considered or studied shape-based rate differentials for First-Class letters and sealed parcels? Please provide copies of all documents related to this question.
- (c) Did you consider the desirability or need for shape-based rate differentials for First-Class letters and sealed parcels? Please elaborate on your response and provide copies of all documents related to this question.
- (d) Do the weighted (by volume within shape and weight cell) costs from the weight study match the total volume variable costs of First-Class letters and sealed parcels? Please site specific data from the weight study and billing determinants to support your answer.
- (e) Please show the rate schedule that would result from applying a cost coverage of 171.2 percent to unit attributable costs of single piece First Class letters and sealed parcels disaggregated by shape and by weight step. Please confirm that such a rate schedule would generate the same revenue as your proposed schedule. If you do not confirm, please provide an arithmetic demonstration using the same approach to calculating total revenue that you have used (i.e., assuming that billing determinants all change in the same proportion when going from before rates to after rates volumes).
- (f) Has the Postal Service observed any change in the proportions of First Class single piece letters and sealed parcels by weight step as a result of the R97-1 change in the additional ounce rate? Please provide the FY1998 and FY1999 volumes by weight step for First Class single piece letters and sealed parcels.

RESPONSE:

- (a) I am unsure what is meant by "significant" in this question. Nevertheless, the weight study clearly indicates that there are cost differences by shape (letters, flats, and parcels) in the letters subclass. In USPS LR-I-91 Section 1, please see pages 13-15 for letters, pages 16-18 for flats, and pages 19-21 for parcels.
- (b) In developing the rates for the nonstandard surcharge, the Postal Service has considered the effect of shape on costs. To the extent this question is referring to different single-piece rates for letters, flats, and parcels (letters and sealed parcels subclass) generally, the answer would be "no".

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RESPONSE to OCA/USPS-T33-13 (continued)

- (c) In developing the rate proposals for the nonstandard surcharge, I considered the effect of shape on costs, as discussed in my testimony (USPS-T-33 at pages 27-30). To the extent this question is referring to different single-piece rates for letters, flats and parcels (letters and sealed parcels subclass) generally, the answer would be "no". Consistent with past Postal Service policy and ratemaking practice, I considered it desirable to have a single, averaged first-ounce rate for all shapes and for the additional ounce rate. I viewed varying rates by shape as undesirable because of its effect on simplicity in rate design. A uniform rate design with a single stamp that can be used for the first ounce and a single stamp for each additional ounce of postage is simple and easy for the general public to use.
- (d) I am informed that the weighted costs (by volume within shape and weight cell) from the weight study represent TYBR costs, before final adjustments and contingency. The single-piece costs of \$13,003,251 thousand shown in USPS LR-I-91, Section 1 at page 1, match the total volume variable costs for the single-piece portion of the letters subclass shown in the testimony of witness Kashani in his Exhibit USPS-14H ("Cost Segments and Components, Test Year 2001, Current Rates with Workyear Mix Adjustment") at page 7. Note that these costs are not the same as the single-piece costs of ~~\$13,326,042~~ thousand included in my workpaper (USPS-T-33 Workpaper at page 2, ~~as revised 4/17/00~~), which represent TYAR total volume variable costs after final adjustments and including contingency (from witness Kashani, USPS-T-14. Workpaper J, Table E, ~~per USPS-T-33 Workpaper at page 2, as revised 4/17/00~~). I am also informed that the weight study volumes are TYBR.
- (e) The OCA can readily compute such an alternative rate schedule using data already supplied in this case and referred to in this question. Specifically, to obtain such a rate schedule, multiply the cited cost coverage of ~~171.9~~ by the Total Unit Costs shown for each weight step in the respective portions of USPS LR-I-91 cited in part (a) above. Since data in these sections are presented by half-ounce increment, to

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RESPONSE to OCA/USPS-T-13 (continued)

get ounce-by-ounce data the Total Costs (line 17) within each one-ounce increment for each shape need to be divided by the corresponding volume (line 1).

I note that I am uncomfortable with the implications of such a constant cost coverage approach to rates. I outline my concerns about taking such an approach to setting the additional ounce rate in my testimony at page 25, line 22, through page 26, line 16. More fundamentally, such an approach could conceivably lead to 39 different single-piece stamps (three shapes by 13 weight steps per shape). The potential burden and confusion such a scheme could create is large.

The cost coverage of ~~171.9~~ percent included in this question represents the implied TYAR cost coverage for the single-piece portion of the letters subclass (~~\$22,913,594~~ in revenue / ~~\$13,326,042~~ in costs), as included in my workpaper (USPS-T-33 Workpaper at page 2, ~~as revised 4/17/00~~). While it is arithmetically correct that multiplying the components of a sum by a constant will yield the same result as multiplying the sum by that constant, because the ~~171.9~~ percent is calculated using different underlying costs than those shown in USPS-LR-I-91 (see part (d) above), I cannot confirm that such a rate schedule would generate the same revenue as my proposed schedule.

- (f) The requested single piece data are shown in the attachment. Based on the proportions shown, it is difficult to discern any major change in volume distribution by weight step between 1998 and 1999. Of course, the increase in weight limit that took effect on January 10, 1999 did add two new weight steps for GFY 1999.

FIRST-CLASS SINGLE-PIECE MAIL IN LETTERS SUBCLASS: VOLUME BY WEIGHT STEP
GFY 1998 and GFY 1999

	Weight Not Over (ounces)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
<u>GFY 1998:</u>														
Volume (000s)	46,819,464	3,618,628	1,440,618	776,457	505,188	341,900	243,875	183,399	145,138	115,357	83,000	N/A	N/A	54,273,024
%	86.2665%	6.6675%	2.6544%	1.4306%	0.9308%	0.6300%	0.4493%	0.3379%	0.2674%	0.2126%	0.1529%	N/A	N/A	100.0000%
<u>GFY 1999:</u>														
Volume (000s)	46,357,005	3,555,528	1,404,186	760,402	498,520	332,308	248,430	184,075	146,335	115,168	89,560	52,583	39,518	53,783,619
%	86.1917%	6.6108%	2.6108%	1.4138%	0.9269%	0.6179%	0.4619%	0.3423%	0.2721%	0.2141%	0.1665%	0.0978%	0.0735%	100.0000%

FIRST-CLASS SINGLE-PIECE MAIL IN LETTERS SUBCLASS: VOLUME BY WEIGHT STEP
GFY 1998 and GFY 1999

	Weight Not Over (ounces)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
<u>GFY 1998:</u>														
Volume (000s)	46,819,464	3,618,628	1,440,618	776,457	505,188	341,900	243,875	183,399	145,138	115,357	83,000	N/A	N/A	54,273,024
%	86.2665%	6.6675%	2.6544%	1.4306%	0.9308%	0.6300%	0.4493%	0.3379%	0.2674%	0.2126%	0.1529%	N/A	N/A	100.0000%
<u>GFY 1999:</u>														
Volume (000s)	46,357,005	3,555,528	1,404,186	760,402	498,520	332,308	248,430	184,075	146,335	115,168	89,560	52,583	39,518	53,783,619
%	86.1917%	6.6108%	2.6108%	1.4138%	0.9269%	0.6179%	0.4619%	0.3423%	0.2721%	0.2141%	0.1665%	0.0978%	0.0735%	100.0000%

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OCA/USPS-T33-14. Please refer to interrogatory Stamps.Com/USPS-T33-4 and your response to part (c) thereof. You state, "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 . . . and that meets mail preparation standards that ensure its automatibility" Please estimate the proportion of courtesy reply envelopes that

- (a) is received in bulk,
- (b) meets mail preparation standards that ensure its automatibility.

RESPONSE: Stamps.com and E-Stamp have sent me interrogatories, including the one cited above, which ask me to compare QBRM and IBI postage products and which seem to be attempting to establish that the QBRM single-piece discount should be extended to IBI postage products at this time. My responses to E-Stamp/USPS-T33-1 and Stamps.com/USPS-T33-4(b) and (c) explain why these mailpieces are not the same as QBRM and why the Postal Service presently views an IBI discount as premature, though the Postal Service is optimistic about the prospects of IBI.

(a) This question omits the key phrase "for the calculation of postage due" in quoting my response in the preamble to this question. The complete portion of that response reads, "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)" [emphasis supplied].

In retrospect, my use of the term "bulk" in this response was somewhat inartful because it is my understanding that some QBRM customers may be receiving relatively small volumes of BRM on a day-to-day basis. What I was trying to convey is that an IBI mail piece could be received by any postal customer, household or business, while QBRM is processed through postage due units for counting and rating purposes. Thus, offering automation discounts to IBI mailers raises issues of revenue protection that QBRM does not raise due its processing through postage due units.

The Postal Service does not maintain data on the proportion of courtesy reply mail that is received by postal customers in bulk.

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RESPONSE to OCA/USPS-T33-14 (continued)

- (b) All letter-size reply envelopes enclosed in mailings claimed at automation rates must meet automation compatibility standards. Also, please see the response of the U.S. Postal Service to OCA/USPS-35.

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OCA/USPS-T33-15. Please refer to the response to interrogatory MMA/USPS-1.

- (a) Has the Postal Service considered or studied a separate charge for returning or forwarding First-Class letters and sealed parcels? Please provide copies of all documents related to this question.
- (b) Did *you* consider the desirability or need for a separate charge for returning or forwarding First-Class letters and sealed parcels? Please elaborate on your response and provide copies of all documents related to this question.
- (c) Please provide a complete copy of the UAA Mail Study performed in 1999.

RESPONSE:

- (a) I am not aware of any such consideration or study.
- (b) No. The Postal Service considers these services an integral part of the First-Class Mail product. Such services help create the high value of service associated with First-Class Mail.
- (c) Per the Postal Service response to MMA/USPS-1, this study has been filed as USPS LR-I-82.

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OCA/USPS-T33-16. Please refer to your testimony in Docket No R97-1 at page 42 and footnote 16. You stated, "In FY 1996, 12.51 percent of the single-piece First-Class Mail in ODIS (excluding BRM) was identified as Stamped and Metered FIM (see Response to OCA/USPS-T3-10 in Docket No. MC97-1). Applying this percentage to TY 1998 single-piece volume of 54.5 billion yields 6.8 billion pieces." Please provide an estimate of courtesy reply mail for the test year of the current proceeding.

RESPONSE: An estimate of 7.2 billion pieces can be developed here as follows. The response to OCA/USPS-42 includes an attachment which presents FY 1999 First-Class single-piece volumes. Stamped and Metered FIM letters and cards in ODIS total 8,438 million pieces, including BRM (7,858,453,241 stamped FIM letters + 476,214,459 metered FIM letters, 96,258,029 stamped FIM cards + 7,061,826 metered FIM cards). This represents 14.53 percent (including BRM) of First-Class single-piece mail (8,438 / 58,074 million). Applying this percentage to TYAR single-piece volume results in 8,086 million pieces (TYAR single-piece volume of 55,648 million * 14.53 percent). TYAR Business Reply Mail volume is estimated to be 914.3 million pieces (see USPS-T-39, WP-5). Subtracting this Business Reply Mail volume results in an estimate of 7.2 billion pieces of courtesy reply mail in the test year (8,086 million pieces – 914 million pieces).

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PB/USPS-T33-1. Your testimony at page 19, lines 2-4, states that "[c]onsistent with precedent, the discounts the Postal Service is proposing here use the same approach as in Docket No. R97-1, that is, the bulk metered benchmark is used in conjunction with mail processing and delivery costs to measure costs avoided."

- a. For (i) Base Year 1998 and (ii) Test Year 2001, what is the estimated unit cost of First-Class bulk metered mail (as defined in footnote 2 at page 18 of your testimony)?
- b. For (i) Base Year 1998 and (ii) Test Year 2001, what is the estimated unit cost of all First-Class single piece nonpresort mail (i.e., *including* bulk metered mail)?
- c. For (i) Base Year 1998 and (ii) Test Year 2001, what is the estimated unit cost of all First-Class single piece nonpresort *excluding* bulk metered mail?
- d. For base Year 1998, what was the volume of bulk metered mail (as defined in footnote 2 at page 18 of your testimony)?

RESPONSE:

(a) -(c) Redirected to witness Miller.

- (d) The Postal Service does not maintain data which separate bulk metered mail that paid the single-piece rate from nonbulk metered mail that paid the single-piece rate. The bulk metered mail benchmark represents a pricing reference point to identify workshare cost savings.
-

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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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TO INTERROGATORIES OF PITNEY BOWES

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).
-

**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.

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

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.

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

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.

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

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

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

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).

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

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.

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

STAMPS.COM/USPS T-33-7. Reference your answer to E-Stamp/USPS-T-33-1, wherein you state that IBI mail is not homogenous because the IBI indicia produced by Simply Postage is not accompanied by mail that is barcoded or checked for address hygiene.

- (a) How does the lack of address checking and barcoding of mail that uses Simply Postage's IBI service affect providing a discount for an IBI service that does require address hygiene and barcoding (such as that provided by Stamps.com and E-Stamp)?**

RESPONSE:

- (a) Please see my response to E-STAMP/USPS-T33-3.**

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

STAMPS.COM/USPS T-33-8. Reference your answer to E-Stamp/USPS-T-33-1, wherein you state that customers might use their own envelope and IBI postage instead of the courtesy reply envelope provided by mailers, which would "raise the ire" of businesses who sent the envelopes.

- (a) Does the Postal Service have any estimate of how frequently customers would apply IBI postage to their own envelopes instead of using the courtesy reply envelope? If so, please state such estimate and the basis for it.**
- (b) Does the Postal Service have any estimate of the number or percentage of those businesses whose ire would be raised by customer use of IBI postage and their own envelope instead of the provided courtesy reply envelope? If so, please state such estimate and the basis for it.**

RESPONSE:

- (a) – (b) No. As I indicated in my response to 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, it has identified issues such as the potential incentive to discard courtesy reply envelopes, but has not studied such issues in detail.**

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

STAMPS.COM/USPS T-33-9. Reference your answer to E-Stamp/USPS-T-33-1, wherein you state that USPS is "optimistic about the prospects for IBI." Please explain what prospects concerning IBI that USPS is optimistic about, and why.

RESPONSE: While I am not an IBI expert, what I was trying to convey in that response was that the Postal Service is optimistic about the role that IBI and PC Postage Products can play in fulfilling the Postal Service's vision of bringing the Post Office to the people, reaching customers where they are and how they work. The Postal Service is optimistic about the way in which these products can enhance the convenience of the mail and potentially increase the relative attractiveness of hard-copy mail as a communication medium. Also, the Postal Service is optimistic about the role these products can play in better meeting the needs of our customers.

**REVISED RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF UPS
(4/17/00)**

UPS/USPS-T33-1. Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE: First, I reviewed FY 1999 Qualified Business Reply Mail (QBRM) volume and revenue data in developing my QBRM rate proposals for letters and cards for the current docket. I needed to review FY 1999 data because the QBRM postage discounts were implemented for the first time on January 10, 1999. The details of my review are described in my response OCA/USPS-T33-6.

The second instance is related to my use of First-Class Mail billing determinants. For the letters subclass, I use billing determinant relationships to estimate Test Year 2001 volumes and revenues associated with the nonstandard surcharge, the heavy piece discount, and the number of additional ounces associated with workshared ~~and single-piece~~ mail. As shown on page 7 of my workpaper, ~~as revised 4/17/00~~, I use GFY 1998 billing determinant data as the starting point for these estimates. I then need to make adjustments to these 1998 estimates to account for the increase in the First-Class Mail maximum weight limit from 11 to 13 ounces that took place on January 10, 1999. The adjustments I make are detailed in the note that appears on page 7 of my workpaper and the calculations shown on page 10 of the workpaper. In brief, I use PQ3 and PQ4 1999 RPW data to adjust nonstandard surcharge, heavy piece deduction, and additional ounce volumes for nonautomation presort mail and automation flats. ~~I use GFY 1999 weight distribution data for single-piece to revise the approach to use in estimating single-piece additional ounces, per the response to OCA/USPS-106(d).~~

In addition, my testimony and workpaper do include information from other witnesses who may have incorporated FY 1999 data in their work. These witnesses are Tolley (USPS-T-6), Thress (USPS-T-7), Musgrave (USPS-T-8), Kashani (USPS-T-14), Miller (USPS-T-24), Daniel (USPS-T-28), Campbell (USPS-T-29), Mayes (USPS-T-32), and Mayo (USPS-T-39). Please refer to their responses to this identical interrogatory.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross-examination. Eight parties have requested oral
6 cross-examination, American Banker Association and National
7 Association of Presort Mailers, jointly; E-Stamp
8 Corporation; Keyspan Energy; Major Mailers Association; the
9 Newspaper Association of America; the Office of the Consumer
10 Advocate; Pitney Bowes, Inc.,; and Stamps.com.

11 Is there any other party that wishes to
12 cross-examine this witness?

13 [No response.]

14 CHAIRMAN GLEIMAN: Mr. Warden, whenever you are
15 ready.

16 MR. WARDEN: I am Irving Warden, representing the
17 American Bankers Association, conducting cross-examination
18 on behalf of American Bankers Association and the National
19 Association of Presort Mailers.

20 CROSS-EXAMINATION

21 BY MR. WARDEN:

22 Q Mr. Fronk, calling your attention to your
23 Interrogatory Responses Number 9 and 10 to the American
24 Bankers Association and the National Association of Presort
25 Mailers.

1 A I have them.

2 Q You discuss in 9(c) the fact that the private
3 sector would, as you say, skim off mail that is less
4 expensive to pre-bar code. Would the mail that you expect
5 to be skimmed off, would that include or perhaps principally
6 be the mail that is in the category of Bulk Metered Mail?

7 A Not necessarily.

8 Q Now, the category of Bulk Metered Mail, which you
9 discuss, which you mention in, among other places,
10 Interrogatory Response Number 10, does that mail have
11 characteristics which make it less expensive to process than
12 other single piece mail?

13 A Yes, it does. The selection of the benchmark was
14 designed to define mail that was as close to work sharing
15 and others that resembled work sharing mail as closely as
16 possible. So that would typically be, for example, as
17 compared with a stamped piece, presumably cleaner and
18 cheaper to process than the typical stamped piece.

19 Q Now, who makes that mail cleaner and cheaper to
20 process?

21 A The mailer.

22 Q Thank you. Now, in your -- is it correct that in
23 your response to 10(a), you are saying that you don't know
24 what the volume of Bulk Metered Mail is?

25 A That's correct.

1 Q In your testimony on page 20, lines 12 through 14,
2 you mention that the cost differences between automation
3 tiers are now smaller than they are estimated to be in
4 Docket R97. Is it correct that what you are saying is that
5 the cost differences measured by the Postal Service
6 methodology in this case are smaller than were the cost
7 differences measured by the Commission using its methodology
8 in R97?

9 A That's correct. And I made an interrogatory
10 response to that effect, that that was the comparison I had
11 in mind when I made that statement.

12 Q All right. Thank you. Now, in your Interrogatory
13 Response Number 11 to ABA/NAPM, or your response to
14 Interrogatory Number 11, excuse me, the second paragraph
15 that starts in the abstract, in that first sentence there,
16 you discuss that some, what you call unidentified work
17 sharing activities for which private sector mailers are not
18 compensated, which could represent cost savings to the
19 Postal Service. Would those unidentified activities, would
20 those include things like isolating, facing and traying
21 mail?

22 A Potentially it could. I didn't have necessarily
23 specific work sharing activities in mind when I addressed
24 that. You were asking a question in the abstract and I was
25 kind of answering in the abstract. Traying activities, per

1 se, are something that is not included in the cost avoidance
2 calculation because the benchmark, the BMM mail, is assumed
3 to also be trayed.

4 Q Now, I am going to list some activities and if you
5 could tell me just if they could, here you have said
6 potentially be included. The fact that presort bureaus or
7 private sector mailers, might they also do things like
8 checking for unsealed envelopes, envelopes sticking
9 together, perhaps checking the eligibility such as size and
10 shape, would those normally be activities that are done that
11 are not specifically compensated for?

12 A I don't know if mailers are routinely performing
13 those functions or not. I would assume that some may be
14 performing activities related to making sure mail pieces are
15 sealed. What I was trying to get at here is, you know,
16 whether those are truly work sharing related activities. I
17 really haven't studied that to the extent that you appear to
18 be asking me.

19 Q Okay, so as I understand you, you're saying you
20 had no specific activities in mind, but you were talking
21 about activities that had not been included in your
22 testimony and the testimony of other Postal Service
23 witnesses; is that correct?

24 A What I was trying to get at here is that I think
25 that in this docket, we've done, in the cost work that's

1 performed, a very conscientious and methodical and thorough
2 job of trying to identify workshare-related savings for
3 First Class mail.

4 You're asking a hypothetical question here about
5 whether or not there might potentially be some other
6 possible savings. I'm not aware of specifically what those
7 might be, but I don't rule out the possibility that some may
8 exist.

9 Q So there may be the types of things I've
10 mentioned, and other things such as checking for short
11 postage or incorrect or illegible meter dates, tap test on
12 window envelopes, things like that; these are the same types
13 of things, is it correct, that you're saying that you're not
14 specifically addressing, but that might exist?

15 A I have not evaluated the extent to which I would
16 be willing to say that those are worksharing-related
17 activities or not.

18 They are activities that mailers perform, apart
19 from worksharing requirements, and apart from
20 presort/pre-bar-code activity.

21 And I don't know.

22 Q Okay, thank you. Going back to your testimony on
23 page 20, the lines 12 through 14 that we discussed before,
24 now, is it not correct that your testimony relied on some of
25 the analysis done by Postal Service witness, Miller?

1 A That's clearly correct.

2 Q Okay. Are you aware that in his response to
3 ABA/NAP Interrogatory Number 26, that Witness Miller has
4 said that he has not concluded that cost avoidance is
5 shrinking?

6 A I am not that familiar with that response, and I
7 think I would need to know about the context in which he is
8 making that statement, and what comparison he's making.

9 For example, the one you asked me about a few
10 questions ago was related to Commission costs in R97-1,
11 versus what I was presenting here.

12 MR. WARDEN: Thank you, I have no further
13 questions.

14 CHAIRMAN GLEIMAN: E-Stamp Corporation?

15 CROSS EXAMINATION

16 BY MR. MAY:

17 Q Mr. Fronk, I'm Tim May, representing E-Stamp, and
18 I have just a few questions about your responses to the
19 interrogatories concerning the Postal Service's view of IBI
20 PIC postage products.

21 Just for the record, you do understand what those
22 products are?

23 A I'm not an expert, but I have a basic
24 understanding of what they are, yes.

25 Q And these are -- this is where the postage is

1 affixed to a piece of mail that utilizes computers in one
2 way or another to have the postage and address applied to an
3 envelope, correct?

4 A I don't know that I would completely accept that
5 characterization, because it's my understanding that there's
6 a product out there, Simply Postage, which produces an IBI
7 indicia and that the Postal Service would consider part of
8 the IBI family of products that does not produce an address.
9 ^{It}~~It's~~ simply produces like a meter-like strip.

10 Q And I believe you would call that an IBI PC
11 postage product?

12 A I would consider that an IBI product, yes. It
13 produces an IBI indicia.

14 Q Now, the two products that I asked you about, and
15 I believe you will agree were the products used by E-Stamp
16 and Stamps.com; were they not?

17 A Yes.

18 Q And both of those products not only apply the
19 postage, but they also print out a Postally-screened correct
20 address and a bar code; is that not correct?

21 A Again, I'm not an IBI expert, but my understanding
22 of a product like E-Stamp is that the mailer has two
23 options: You can either take a mail piece, and the product
24 will go ahead and spray the address and the bar code on it,
25 along with a FIM, and an IBI indicia.

1 The mailer also has the potential option of using
2 labels. I guess this would be for oversized mail pieces.
3 I'm not sure of all of the -- or any kind of a mail piece,
4 potentially, that he wanted to.

5 Or one of the labels would contain, to my
6 understanding, would contain the address and the delivery
7 point bar code, and another label might include the IBI
8 indicia.

9 What the mailer might do, he could potentially not
10 use the address label, or choose not to have it produced,
11 based on my understanding of this. He could turn the FIM
12 off when he's producing a label.

13 That was what I was trying to get at in some of my
14 responses to the questions you were asking me, and trying to
15 draw distinctions between your product, Stamps.com's
16 product, Simply Postage, and just looking at the universe of
17 these new IBI indicia mail pieces.

18 Q So there are these several options that you have
19 described?

20 A Yes, it's my understanding of the IBI program that
21 what they've been trying to do is, they've been trying to
22 meet as many different mailer needs as possible; that
23 automation compatibility has been some kind of a goal for
24 the program, but a primary driver is to try to get, as the
25 website and the literature says, the postage -- the Post

1 Office to the people, so that the convenience of the mail is
2 enhanced through these products.

3 Q And one of these options that is available is to
4 print the address, the 9-digit-point bar-coded address and
5 the postage directly onto an envelope bearing an FIMD mark;
6 is that correct that that's one of the options?

7 A That's one of the options, that's my
8 understanding, yes.

9 Q Okay, and that option, it's not -- when that
10 option is elected, it's not really possible for the FIMD
11 mark to not be correctly centered; is it?

12 A If I understand your question, if I've got a
13 letter, you mean, and I'm printing the FIM on the letter?

14 Q On the envelope.

15 A On the envelope. You're stretching the limits of
16 my technical knowledge, but I would assume that the way the
17 products work, they're trying to put the FIM in the right
18 place with the right tolerance.

19 Q Thank you. Now, if you could refer to your
20 response to E-Stamp's T-33-3, in that response, you allude
21 to several reasons why IBI generic products are not
22 homogenous and may not meet DMM automation compatible
23 standards.

24 For example, you say that a proposed customer
25 using IBI postage may use it on a piece that exceeds the

1 size, shape, and weight limitations for
2 automation-compatible mail.

3 Let me ask you to assume that a rate category
4 exists for IBI PC postage letter mail, and that category is
5 limited to First Class letter mail bearing an FIMD mark,
6 bearing the requisite updated address information, and
7 delivery point bar code.

8 Assume there is such a category. Would that
9 category of mail present the difficulties to which you
10 allude in your response?

11 [Pause.]

12 A If I understand, I think that it still potentially
13 could, if it addressed some of the issues that the Postal
14 Service has identified in conjunction with IBI products, but
15 issues of revenue assurance, potentially; issues,
16 potentially, of trying to use these products in conjunction,
17 potentially, with courtesy envelope or courtesy reply mail
18 pieces.

19 There are also kind of acceptance enforcement
20 issues that a rate category could be established like that,
21 with those requirements, but how would we ensure that mail
22 pieces tendered under that rate category would, indeed, do
23 that, since single-piece mail bypasses our bulk mail entry
24 units?

25 Q Well, indeed, you raise that question, and you

1 don't say there's not an answer to that problem; do you?

2 A No. I'm not trying to paint too negative a
3 picture to indicate that all these things are ultimately
4 insurmountable.

5 I have tried to strike a delicate balance in some
6 of these interrogatory responses, and indicate that we've
7 identified issues that we think require further study, but
8 we think there's a lot of promise in IBI postage products
9 and don't at this point view any of these things,
10 necessarily, as insurmountable.

11 Q Okay. Now, would you refer to your answer to
12 E-Stamp's 33-4(b)? And in that response, you explain a
13 previous response you had given, that an IBI envelope or
14 card with a discounted postage rate might create and
15 incentive for mailers to throw away their courtesy reply
16 envelopes.

17 You had just referred to that in this last answer
18 as well. And you say, quote, "the convenience of using PC
19 postage or perhaps the lack of a stamp inventory when a PC
20 postage product is being used," you include those as reasons
21 why people might elect to use PC postage, rather than use
22 the courtesy envelope.

23 Could you explain how the convenience of using PC
24 postage, rather than using a preprinted courtesy reply mail,
25 how is that more convenient?

1 A Well, what I was trying to get at there is I am
2 trying to put myself in the place of a lot of different
3 kinds of individual mailers, and it is conceivable to me
4 that some of that is purchase the PC Postage product, is
5 using that. Maybe they enjoy the technology, they are not
6 maintaining a stamp inventory anymore. They log on to
7 produce their mail pieces and whatever correspondence or
8 bills they are paying, or whatever they are doing, and it is
9 simply convenient once they get started to do that. I was
10 just trying to anticipate different usages.

11 Q Now, this person has in his hands a preprinted
12 reply envelope. Now, you think he might believe it is more
13 convenient to throw that away and then to have to get an
14 envelope and have his PC product type an address? Do you
15 think he really would think that is more convenient?

16 A Potentially, I think it is possible for a certain
17 mailer, yes.

18 Q You mean if he is really hooked on his machine?

19 A Yes.

20 Q And he is really into it and he can't get -- can't
21 use it enough?

22 A Yeah, he enjoys it.

23 MR. MAY: There are some people like that, aren't
24 there. Yes.

25 CHAIRMAN GLEIMAN: We understand that counsel is

1 numbered among that group.

2 MR. MAY: Yes.

3 BY MR. MAY:

4 Q Now, let me ask you this, if the mailer -- you
5 say, well, the mailer may no longer keep stamps because he
6 has now got this toy, but let me ask you, if he doesn't have
7 stamps, and he uses this PC product rather than the
8 envelope, why would not that be to the advantage of the
9 sender of the courtesy reply envelope and in no event to the
10 disadvantage of the Postal Service? If this person doesn't
11 have any stamps any more, he isn't going to be able to send
12 this reply envelope back with his bill or his order, or
13 whatever it is that is desired, so something isn't going to
14 happen. Whereas, now, since he has his PC Postage product,
15 it is true he can't use his reply envelope, but at least he
16 then communicates, rather than simply not using his reply
17 envelope, or not communicating with the person who sent it
18 to him, because he has no postage. So how is that to the
19 disadvantage of anyone? Who is being disadvantaged there?

20 A I am afraid I lost the thread of what the question
21 is.

22 Q Well, you had said that one of the reasons that
23 people may discard their courtesy reply envelopes is that
24 maybe they no longer have postage that is required to be put
25 on the courtesy envelope, and so that they would, in that

1 event, use their PC Postage product, isn't that what you
2 said in your answer? You say --

3 A I raise that as a possibility among several, yes.

4 Q Okay. And if that should happen, who is that to
5 anyone's disadvantage? Is it to the disadvantage of the
6 Postal Service?

7 A I think I need to know a little more about what
8 the mail piece would ultimately look like. If it has got
9 the address hygiene, if it is bar coded, if it is preprinted
10 and all that kind of thing before I can make the comparison.

11 Q Well, I am asking you to assume that we have a
12 courtesy reply envelope that has the correct bar code on it,
13 which is I think what you have posited in your response, but
14 it has to have a stamp affixed to it. And the individual
15 doesn't have any stamps any more so he throws it away, which
16 is what you have conjured up in your response. And so he
17 then uses, he prints out an envelope with his PC Postage
18 product. That envelope also a bar code. It also has very
19 good address hygiene because the address comes from the
20 Postal Service's approved database of addresses, and it has
21 the correct postage on it. My question is, so what? How
22 has anybody been hurt if this phenomena does occur?

23 A If you are speaking from the standpoint of the
24 Postal Service in this hypothetical you have spun, it sounds
25 like these mail pieces would be relatively similar. When I

1 was preparing this response, I was thinking more in terms of
2 the recipient, the business who has got a remittance
3 processing system, for example, set up to process responses.
4 He has got a certain size envelope. He has got -- he is
5 just to go with that, and then all of a sudden we might
6 introduce potentially remittances flowing in a different
7 kind of a form.

8 Q Well, wouldn't he rather get this different size
9 envelope than nothing at all, which is what he is going to
10 get if this poor fellow has no postage to put on this
11 envelope? He is not going to get anything back.

12 A I am not sure what the question is.

13 Q The question is --

14 A Would somebody rather get paid or not get paid? I
15 assume they would rather get paid.

16 Q You said one of the reasons this person who has
17 the PC Postage product would throw away the courtesy
18 envelope is because he didn't have any postage. If he
19 doesn't have any postage, how can he send back anything that
20 this mailer is waiting to get back, his nice courtesy reply
21 envelope? He isn't going to get anything back because this
22 fellow doesn't have any postage to put on it. That is what
23 your answer was. He doesn't have postage any more.

24 A I think you are beginning to kind of carry this a
25 little farther than what I was intending in this. But,

1 yeah, okay, maybe he borrows a stamp, I don't know. But,
2 yes, if he --

3 Q I see, but that is more convenient?

4 A No, of course it isn't. But if, you know, --

5 Q Now, would you refer to that part of your response
6 that states, quote, "The Postal Service's evaluation of the
7 discount potential of IBI has been limited to a general
8 conceptual view." Now, I would also ask you to examine the
9 response to the Postal Service's institutional response to
10 the Consumer Advocate Question 109, and in that response,
11 the Postal Service has stated, quote, "The Postal Service
12 has also been working with the vendors of IBI and PC Postage
13 products and approved the first products for commercial
14 distribution in 1999. The Postal Service recognizes that
15 these products may make postage easier to acquire and
16 enhance the convenience of the mail."

17 Now, they made that response to an inquiry from
18 the Consumer Advocate as to what the Postal Service was
19 doing to keep letter shaped letters more competitive with
20 electronic bill presentment and payment. Would not a
21 discounted PC Postage First Class mail category assist the
22 Postal Service in trying to remain competitive with
23 electronic bill presentment and payment?

24 A I have not specifically studied that issue. I
25 would acknowledge that it would have that potential, but I

1 haven't studied it enough to give you an answer.

2 Q Thank you. Would you refer to your response to
3 Stamps.com, Question T-33-4(c)? When responding to the
4 question of whether you agree that providing a discount for
5 First Class PC Postage mail would be consistent with U.S.
6 policy is setting rates that take into account the
7 importance of the Postal Service's automation program, you
8 responded that your testimony, on the contrary, was that you
9 have taken account of the recognition of the importance of
10 the automation program by proposing discounts for bulk
11 mailer participation in that program, and you underline and
12 italicize bulk mailer. Are you saying that as a matter of
13 policy, the Postal Service will not offer the opportunity to
14 participate in the automation program to non-bulk mailers?

15 A No, that is not what that -- that is not what this
16 says, and it is not what I, it is not, no --

17 Q Why was "bulk mailer" italicized?

18 A Well, because that was, in the context of the
19 discussion where you were quoting my testimony, we were
20 talking about existing automation and presort discounts, and
21 I was trying to put the statement that you were quoting
22 there within the context of my testimony. It is not that a
23 single piece discount ultimately is out of the question.
24 What I am trying to communicate is that we haven't studied
25 the issue enough to know definitively the merits or whether

1 or not there are insurmountable difficulties with that
2 ultimately.

3 Q So you weren't trying to send a signal that single
4 piece mailers can forget for all time ever being able to
5 participate in the benefits of your automation program, were
6 you?

7 A No, that is not what I was saying. What I was
8 trying to say is that the existing discounts are for bulk
9 mailers, that offering a similar discount for a single piece
10 mailer raises additional issues, some of what we have talked
11 about, revenue enforcement, automation compatibility, and
12 that we need to study those issues to make a determination
13 about the appropriateness of offering such a discount.

14 Q Now, you further allude in that answer to the
15 difficulties of offering discounts to single piece mailers
16 because of concern for revenue protection and the
17 enforcement of mail prep standards because the single piece
18 mail bypasses mail entry units. Now, if you were assured of
19 revenue protection, at least to no lesser extent than you
20 are with the bulk mail classes that participate in
21 automation discounts, and there was reasonable assurance
22 that preparation requirements were being met for automation
23 mail, other than being presorted and other than being
24 presented in bulk, except for those two requirements, would
25 you have a policy objection to provided a discount to single

1 piece PC Postage products?

2 A You have zeroed in on a couple of the issues that
3 have been identified.

4 Q Yes.

5 A We would still want to study related issues about,
6 you know, whether the mail always a FIM or doesn't have a
7 FIM, how the labels are used, the Simply Postage type
8 product versus the other kinds of products. I tried to
9 identify a panoply of issues that I think are important to
10 study in determining ultimately the merits of this.

11 Q Let me read the question again to you. If you
12 were assured that preparation requirements were being met
13 for automation mail. Now one of those is an FIM mark,
14 correct? Address hygiene, bar codes. I said if you were --
15 assume you were assured that those prep requirements were
16 being met for automation mail, all except the presorting
17 aspect and the fact that they have to be in bulk, and if you
18 were assured that there is no greater revenue protection
19 threat than in the case currently with your automation mail,
20 would you, as a matter of policy, oppose a discount for that
21 kind of mail?

22 A I am having difficulty giving you a hard and fast
23 answer to that question. I think that under those
24 assumptions that you're spinning in the hypothetical, those
25 are beginning to address some of the significant concerns

1 that have been identified.

2 Whether or not they would identify -- whether or
3 not they address all of the concerns, ultimately, that we
4 would have with this, I believe --

5 Q Well, that's what I'm trying to identify. What
6 else do you want so we can try to meet those requirements?

7 What else is it that you want?

8 A I'm not able to give you a definitive answer to
9 that question, because we haven't exhaustively studied the
10 potential for ^adiscount for PC postage.

11 We've done a preliminary evaluation of its
12 potential; we've looked at some of the things we think might
13 potentially create problems.

14 We don't view those as insurmountable. These
15 products are relatively new. They were introduced in August
16 of 1999, and I can't -- I'm not prepared to give you a
17 definitive answer to that question.

18 Q Okay.

19 A I don't think the Postal Service can at this
20 point.

21 Q Would you look at your answer to E-Stamp's 33-5?
22 In that response you concede that all types of mail create
23 revenue enforcement issues to varying degrees, including
24 handwritten and metered First Class mail that also bypass
25 acceptance procedures, and that you have no reason to

1 suppose that PC postage would entail greater or lesser
2 revenue enforcement issues.

3 Now, if that is the case, that it has no greater
4 instance than these other types of single-piece, First Class
5 mail, then would it not be correct to say that the cost
6 avoidance of PC postage would be the difference between
7 handwritten or type letter mail and delivery-point bar-coded
8 mail.

9 I'm not asking you to quantify that; I'm just
10 saying, wouldn't that be the measure of the cost avoidance?

11 A I can't necessarily agree with that. What the
12 benchmark would be for evaluating an IBI postage discount
13 potentially is another issue that we would need to study.

14 But I would want to know more about what kind of
15 mail converts to IBI postage. For example, if I'm a small
16 office, maybe the mail -- maybe I'm currently using a
17 traditional meter, have got a typewritten address.

18 It's not stamped, it's not handwritten addressed
19 mail, so the whole issue of what the appropriate benchmark
20 might be for evaluating such a potential discount is another
21 area of required study.

22 Q Well, currently you have two. You and the
23 Commission use two benchmarks; do you not? You use for
24 QBRM, your benchmark is handwritten letters; is it not?

25 A Yes.

1 Q And the Commission's benchmark. For other types
2 of mail, the benchmark is bulk metered mail; isn't that
3 correct?

4 A That's the -- yes, for the automation letters.

5 Q And what that has to do with is the probability
6 that the mail is converting from what, handwritten? Or is
7 it converting from typewritten, metered mail?

8 That's the issue you're suggesting; that you don't
9 know what kind of mail would be converting to PC postage?

10 A That's right, and what the appropriate benchmark
11 might be.

12 Q And to the extent that this is a home office use,
13 would that be more likely to? You don't know, or could you
14 hazard a guess?

15 A I don't know. I can't hazard a guess.

16 Q Well, now, on page 34 of your testimony, you point
17 out that the difference in unit costs between a basic
18 automation letter and a bulk metered benchmark letter, bulk
19 metered benchmark being like the highest quality prepared
20 letter other than being automated you can have; isn't it?

21 A That's one way to characterize it, yes.

22 Q And you say that the difference between a basic
23 automation letter and a bulk metered benchmark letter is 5.2
24 cents.

25 So, presumably, the addition of the automation

1 features to the -- over and above the quality of a bulk
2 metered mail, is what saves this 5.2 cents; is that --
3 without being too specific about what particular steps there
4 are, but overall, you've said it's 5.2 cents, correct?

5 A Right. I didn't actually do the cost work, but
6 I'm quoting the cost work --

7 Q Yes --

8 A -- that's just a result of the worksharing as a
9 savings of 5.2 cents.

10 Q Page 34 of your testimony. Now, the Postal
11 Service has assigned a value of presorting to be less than
12 1/10th of a cent, and that's Mr. Miller, USPS Witness Miller
13 on page 18, where he has a table where he shows that the
14 non-automation presort letters have total mail processing
15 costs of 10.337 cents, which is less than 1/10th of a cent
16 less than a bulk metered mail letter, suggesting that the
17 most savings that comes from presorting is 1/10th of a cent.

18 Are you familiar with that?

19 A I'm familiar with that cost result. I can't
20 explain exactly why that happens, but, yes.

21 Q In fact, the Commission had a POIR Number 9 in
22 which they asked about that very thing.

23 A I saw that.

24 Q If that is the case, is there any reason to
25 believe that the letters that will convert to IBI PC

1 postage, even assuming they're bulk metered mail, the
2 highest level, will have a unit cost that aren't also 5.2
3 cents less, once they convert and get all this automation
4 stuff, minus this 1/10th of a cent, because they're not
5 being presorted?

6 Is there any reason to suppose that the savings
7 are not of that magnitude, once they convert?

8 A I'm just not prepared to quantify what the savings
9 might potentially be, because we haven't studied the
10 appropriate benchmark and the issues with IBIP.

11 MR. MAY: That's all, Mr. Chairman, thank you.

12 CHAIRMAN GLEIMAN: Keyspan Energy?

13 CROSS EXAMINATION

14 BY MR. HALL:

15 Q Good morning, Mr. Fronk. My name is Mike Hall and
16 I am going to be asking you some questions on behalf of
17 Keyspan Energy.

18 Let me give you a little further identification
19 here, because maybe Keyspan Energy is a new name to you.
20 One of Keyspan's subsidiaries is the Brooklyn Union Gas
21 Company and do you recognize Brooklyn Union as one of the
22 supporters of the Postal Service's PRM classification
23 proposal in the last case?

24 A I recognize that, yes.

25 Q Do you have a copy before you of Keyspan

1 Interrogatory T33-3?

2 A Yes, I do.

3 Q Now you have answered so far only the first three
4 questions in that interrogatory, is that correct?

5 A That's correct.

6 Q And all of the other questions have been
7 redirected to the Postal Service?

8 A That is correct.

9 Q Have you reviewed the answer that the Postal
10 Service gave?

11 A Yes, I have.

12 Q Would the answers that the Postal Service gave be
13 the same answers that you would give if you were asked those
14 questions and had elected to answer them?

15 A Yes. I am familiar with the institutional
16 response and I agree with the substance of what has been
17 said.

18 Q I would like you to focus on question or part (f)
19 of that interrogatory. It reads, "Do you agree that when
20 the Board of Governors rejected the Postal Service's own
21 proposal to establish the prepaid reply mail, PRM, service,
22 the existing high volume BRAMIS, BRM, recipients who had
23 been paying a per piece fee of 2 cents had no choice but to
24 use QBRM service and pay a per piece fee of 5 cents, i.e.,
25 two and a half times the per piece fee they had been

1 paying?"

2 Do you see that question?

3 A Yes. Do I agree with it?

4 Q Yes, first --

5 A Without a PRM option if they would use QBRM, yes.

6 Q Okay. Now the answer that we got from the
7 institution was "yes, but" -- and I guess what they are
8 saying is, if I could -- you will tell me if I am
9 characterizing it in a fair manner -- they are saying yes,
10 that's true, but you really shouldn't be concerned because
11 you still have got the advantage of a three-cent reduction
12 in the First Class portion of the rate that QBRM customers
13 pay, is that correct?

14 A I don't read the response that way. To me the
15 response was just pointing out the fact that although PRM
16 was not an option for these mailers they did have a postage
17 rate decline that they could take advantage of so that,
18 well, the response kind of speaks for itself, so that you'd
19 pay a postage rate of 30 cents plus a 5 cent QBRM fee versus
20 the combined postage ^{and} a fee of 34 cents prior to the
21 implementation of R97-1, and that the increase was in the
22 neighborhood of what other First Class mailers had done, so
23 I just viewed that the response as trying to establish the
24 context for what situation QBRM mailers faced.

25 Q Okay, well let's go to context a little bit here.

1 In the Postal Service's proposals in that case you
2 offered potential PRM customers two things, didn't you?

3 First, you offered them a First Class rate
4 reduction of three cents, down to 30 cents, isn't that
5 right?

6 A For PRM customers, you said?

7 Q That's right.

8 A That was the proposal.

9 Q And you also offered them freedom from paying any
10 per piece fee, isn't that right?

11 A Yes, there was no per piece fee. The proposal I
12 believe was for a \$1000 monthly fee.

13 Q That's right, so are you saying or is the Postal
14 Service saying or do you agree that if the Postal Service is
15 saying oh, don't worry, that we offered you two distinct and
16 separate things as part of a package, don't worry that you
17 only got one of them?

18 Is that what this response is trying to tell us?

19 A I don't think the response is trying to say that
20 much. I think it is just on the face of it trying to say
21 what would happen to a BRM customer before and after the
22 implemented rate change.

23 I think it is supposed to be relatively
24 straightforward.

25 Q Well, okay. Let me change the question then.

1 Should QBRM customers who are being offered in
2 this case the choice of electing high volume QBRM service,
3 should they be concerned that perhaps the Board of Governors
4 will once again decide that the Postal Service's own
5 proposal doesn't stand muster, assuming that the Commission
6 agrees, as it did in the last case, and approves exactly
7 what the Postal Service is proposing?

8 MR. TIDWELL: Just a point of clarification. Are
9 we talking about the accounting fee or the postage rate?

10 MR. HALL: We are talking about both.

11 MR. TIDWELL: Well, the witness here is proposing
12 rates and the witnesses on Friday, Witness Mayo, deals with
13 the fees and so we would prefer that any questions related
14 to the fees be directed to Witness Mayo.

15 MR. HALL: Well, I am only asking this witness
16 because he is the witness who experienced what I am talking
17 about in the last case and I wonder if he has any guidance
18 for the witness in this case as to how the witness might
19 recommend or how the Postal Service will recommend that
20 mailers be protected or QBRM recipients be protected.

21 CHAIRMAN GLEIMAN: Why don't we see if the witness
22 can provide us a response on both sides of that coin, and if
23 not, he'll let us know.

24 THE WITNESS: Could I clarify your question again,
25 Mr. Hall? You are asking me about -- if you could repeat

1 it, please, I would be appreciative.

2 MR. HALL: Perhaps we could have it read back.

3 [The reporter read the record as requested.]

4 THE WITNESS: I don't know that I know how to
5 answer that. The Board of Governors will, given the record
6 and the PRC decision, always exercise the best judgment it
7 can, given the facts and circumstances. I don't know that I
8 can answer that.

9 BY MR. HALL:

10 Q I appreciate that you can't speak for the Board of
11 Governors, but can you speak for practicalities, that, given
12 the fact that the Board of Governors did reject the Postal
13 Service's own proposal in the last case, after the
14 Commission had swallowed that proposal hook, line and
15 sinker, should the --

16 A Don't characterize it that way.

17 Q You can differ with me if you like. Should there
18 be some alternative proposal in this case in the event that
19 the Board of Governors -- in the event that history decides
20 to repeat itself?

21 A I don't know how to answer that either. Why the
22 Governors did what they did in R97 is spelled out in the
23 decision they issued in June 1998. I don't know what to
24 say.

25 Q Well, do you recall the last time that the Board

1 of Governors rejected the Postal Service's own proposals,
2 when they have been approved by the Commission?

3 A I am not aware of another instance. I have been
4 with the Postal Service approximately four years and that is
5 the only one I can recall during that timeframe.

6 Q And you haven't heard of any others from the
7 earlier parts of Postal Service history, have you?

8 A I haven't heard of them.

9 Q So the fact that they have done something once and
10 they have done it very recently means that you can't rule
11 out that they might not do it again, right?

12 A I can't predict what they would do, no.

13 Q You have agreed, I believe, in that interrogatory
14 response that the 5 cent rate, per piece rate for QBRM, was
15 based on a cost that didn't include 287 million pieces of
16 QBRM received by high volume recipients, isn't that right?

17 A Are you asking me whether the response disagrees
18 with the treatment of the 287 million pieces?

19 Q No, I believe you answered that question.

20 A So now you are back on my response, not the
21 institution's. Okay.

22 Q The institution also deals with the question in
23 (g), but I believe you have answered it as well.

24 A The question again was?

25 Q We asked you in part (c) to confirm that when the

1 Postal Service derived the per piece fee for QBRM, the
2 Service assumed that approximately 287 million pieces of
3 high volume BRAMIS BRM reply letters would migrate to the
4 proposed prepaid reply mail service.

5 A Yeah, I confirmed that that is how the cost
6 witness did the cost analysis in R97.

7 Q Right. Well, when the Commission reached its
8 conclusion that the per piece fee should be set at 5 cents,
9 it didn't include back in those 287 million pieces, did it?

10 A Now we are returning to the institutional
11 response, and my understanding is that the Postal Rate
12 Commission did factor in those pieces in its recalculation
13 of the QBRM cost. My understanding is the same as what is
14 spelled out in the institutional interrogatory response,
15 that based on looking at the PRC Library Reference, I
16 believe it was 10 part (4), and based on the cited paragraph
17 in the decision, that the PRC chose to not accept the Postal
18 Service's migration of those pieces from PRM to QBRM.

19 Q Well, perhaps they didn't accept the ~~BRAMIS~~ ^{BRAMAS}
20 utilization factor proposed by the USPS witness in that
21 case, but they did accept the notion, didn't they, that 287
22 million pieces would be migrating to, of what was them
23 ~~BRAMIS~~ ^{BRAMAS} BRM, would be migrating to the PRM service, isn't
24 that correct?

25 A No, that is not my understanding. You are getting

1 beyond kind of the scope of my expertise. That calculation
2 was performed in the cost work of Witness Schenk in Docket
3 Number R97-1. But based on my understanding of what
4 happened, and, again, I was not involved in this
5 calculation, the PRC, in looking at the QBRM costs, reduced
6 -- excuse me, increased the ~~BRAMS~~^{BRAMS} coverage factor back up
7 to a level that essentially erased the effect of the
8 migration. Let me see if I can state that a little
9 differently, I am stretching my knowledge here.

10 When the cost witness in R97 chose to migrate
11 those pieces away from QBRM into PRM, she did that
12 methodologically by changing the ~~BRAMS~~^{BRAMS} coverage factor,
13 reducing it substantially, and that was how that was
14 captured methodologically in her cost analysis. My
15 understanding of what the Commission did is they did not
16 accept the reduced ~~BRAMS~~^{BRAMS} coverage factor, but restored it
17 to the higher level, thereby, in effect, not accepting the
18 recommendation or, essentially, the methodological approach
19 of migrating those approximately 300 million pieces. That
20 is my understanding.

21 Q Well, are you saying, in effect, then that the end
22 result was that, on a unit basis, that QBRM received in high
23 volumes costs as much to process as QBRM received in low
24 volumes, is that your testimony?

25 A That is a different question. I don't know if I

1 am qualified to answer that. That might be better for the
2 people that do the fee costs and the fees themselves.

3 Q Okay. But, in any event, you haven't studied
4 that, have you?

5 A Studied the costs of what, high volume QBRM versus
6 lower volume QBRM? No, I have not studied that.

7 Q Let's go back to your discussion of what I believe
8 it was Witness Schenk did with the coverage factor, the
9 ~~BRAMIS~~ ^{BRAMAS} coverage factor.

10 Why would the Commission have in effect assumed
11 that no ~~BRAMIS~~ ^{BRAMAS} BRM pieces would migrate to PRM if they
12 didn't know that the Board of Governors would be rejecting
13 the Postal Service's own proposal?

14 A Why the Commission did what it did in my
15 understanding, I don't know if the migration of those
16 pieces -- I mean you have to review the Library Reference or
17 ask the Commission. I don't know. I don't know what
18 motivated all the adjustments they made to the Postal
19 Service's cost methodology as I understand them.

20 Q So in other words it might have had something to
21 do with another consideration other than what we have been
22 discussing, namely migration of high volume ~~BRAMIS~~ ^{BRAMAS} BRM
23 customers or recipients over to the new PRM service, is that
24 right?

25 A I have no idea what motivated them, except what

1 they say in the Library Reference that's cited in the
2 institutional response and in the paragraph of the R97
3 decision that's cited in the institutional response to
4 ~~T33-3(g)~~.
~~T33(g)~~.

5 MR. HALL: Those are all the questions I have for
6 Keyspan Energy.

7 CHAIRMAN GLEIMAN: Well, before you switch hats
8 and become the Major Mailers Association, I think we will
9 take our mid-morning break, ten minutes, come back on the
10 hour.

11 [Recess.]

12 CHAIRMAN GLEIMAN: Mr. Hall, whenever you are
13 ready, if the witness and counsel are ready, and they appear
14 to be.

15 You are now wearing your Major Mailers Association
16 hat, as I recall.

17 MR. HALL: Thank you very much. Yes, I am indeed.

18 BY MR. HALL:

19 Q Mr. Fronk, my name is Mike Hall and I am going to
20 be asking you some questions today on behalf of Major
21 Mailers Association.

22 What I want to ask you about is several
23 interrelated areas, or at least they are interrelated as far
24 as I am concerned -- interrelated areas that affect your
25 recommendations for First Class presort discounts in this

1 case.

2 Some of the areas I want to talk about are, first,
3 the choice of an appropriate benchmark from which to judge
4 the worksharing contributions of presort mailers including
5 presort bureaus and, second, a general area of the factors
6 to be considered in setting the recommended discounts.

7 Let's start off with the question of the
8 benchmark.

9 You have indicated, I believe, that you think that
10 the choice of a benchmark is one of the key or critical
11 issues affecting the First Class rate design, is that
12 correct?

13 A Yes, I have identified that as a key issue. That
14 is correct.

15 Q And in this case you are recommending use of Bulk
16 Metered Mail as the benchmark piece, is that right?

17 A Yes, that is what I am using in this docket.

18 Q Okay. I want to understand why you chose BMM as
19 the benchmark. Do I understand correctly that you chose BMM
20 because it is the type of mail most like presort automation
21 mail but since it is still single piece mail it doesn't have
22 a barcode applied before entry into the system and isn't in
23 fact presorted?

24 A In part that is one of the reasons for the
25 selection of the Bulk Metered benchmark, that it does

1 resemble the workshared mail except for the presortation or
2 the prebarcoding and would require presumably relatively few
3 changes to qualify for worksharing.

4 Another factor in the selection of the benchmark
5 was precedent, that it was ^{the}~~from~~ benchmark used in R97 as well
6 based in part upon Commission's suggestions and analysis
7 from the reclass decision, and so we had used that benchmark
8 in R97 and the Commission had accepted its use and indeed
9 had commended the Postal Service for its choice of the Bulk
10 Metered benchmark, and commendation is rare in the
11 ratemaking business and we paid attention.

12 Q So would it be fair to say then that anything that
13 the Commission says is the way things should be is the way
14 things should be as far as you are concerned and the Postal
15 Service is concerned?

16 Perhaps we could simply fold up our tents and go
17 away and I could declare a victory on several fronts, but is
18 that what you are trying to tell me --

19 A No --

20 Q -- at least in this instance you thought that it
21 was safer to go with what the Commission wanted?

22 A I wouldn't put it exactly that way. Precedent
23 matters ~~is~~ clearly what the Commission think matters but it
24 is a factor.

25 Q Would another factor be that you consider BMM to

1 be the type of mail that is most likely to convert to
2 presorted mail status as the result of the availability of a
3 particular discount level?

4 A I do characterize BMM mail that way in my
5 testimony, yes.

6 Q Well, you first characterize it in your testimony
7 in R97-1, I believe -- that's your testimony USPS-T32, page
8 26. You recall that, don't you?

9 A Not off the top of my head.

10 Q But it sounds familiar?

11 A Are you referring back to my R97 testimony?

12 Q Yes.

13 A Yes.

14 Q Now did you do any study to determine that any
15 substantial amount of what you are calling BMM has already
16 shifted to presorted mail status?

17 A I have not studied specific volume migration from
18 the BMM mail to workshare, no.

19 Q Okay. Did you do any study to determine that
20 there is any substantial amount of BMM left out there that
21 will shift to presorted mail status in the future?

22 A As I stated in one of my MMA interrogatory
23 responses, I am unable to quantify the volume of Bulk
24 Metered Mail.

25 I know how much metered mail there is generally,

1 18 to 19 billion single piece letters. I am unable to
2 separate that which is presented in bulk from that which is
3 not presented in bulk.

4 I don't know that the volume issue per se is the
5 key one in terms of how I am using BMM in my testimony. I
6 am using it as a pricing reference point as the mail that
7 most resembles the workshare mail and requires a small
8 amount of change to qualify for workshare mail, and as a
9 benchmark thing --

10 Q Well, let me see. You are an economist, right?
11 That is your training?

12 A In part, yes.

13 Q Well, you are not shying away from the fact, are
14 you?

15 A No.

16 Q You are not saying I am not much of an economist,
17 are you?

18 A I am not saying that. I am saying I have an MBA
19 too.

20 Q Oh, okay -- well, that I guess means that you have
21 some practical application of economics.

22 A You don't want to get me started on the difference
23 but --

24 [Laughter.]

25 BY MR. HALL:

1 Q Well, I only ask because I am an economist and I
2 would be the first probably to say, well, I am not much of
3 an economist, but in any event I was taken with the language
4 that you used, that this is a pricing reference point, that
5 BMM is a pricing reference point.

6 It sounded very much like economist-speak to me in
7 the sense that do you agree that a lot of economics is
8 involved in making assumptions that are simplifying
9 assumptions such as for example there are no barriers to
10 entry in a particular industry or the marketplace is
11 perfectly competitive, and you make such assumptions because
12 that enables you then to discuss issues that are considered
13 to be important, is that right?

14 A I accept that economists do that in the
15 profession, yes.

16 Q And do you consider that use of the BMM benchmark
17 to be a simplifying assumption in this case?

18 A No, I wouldn't characterize it that way at all.

19 To me, if we are going to offer a workshare
20 discount we need to measure the cost savings vis-a-vis
21 something, so we have chosen for the reasons we have been
22 talking about Bulk Metered Mail as that benchmark to measure
23 the workshare cost savings.

24 It is not a simplifying assumption. It is a
25 necessary component of the ability to offer workshare

1 discounts.

2 Q Okay, well then, the first thing that you should
3 be out there looking for is some working knowledge of what
4 Bulk Metered Mail is and how much there is of it and how
5 much is likely to convert, isn't that correct?

6 A I don't accept that. You ^{don't} need to have a notion of
7 how much volume there is to establish it as a pricing
8 reference point for the purposes of setting workshare
9 discounts.

10 I've described the characteristics of it in the
11 testimony, what it is, but --

12 Q Well, you've said that this is the mail most
13 likely to convert from single-piece mail to workshared mail;
14 haven't you?

15 A Yes.

16 Q So, wouldn't it be useful to have an idea of how
17 much there is there? I mean, if we're only talking about
18 two letters, then maybe that's a different kettle of fish
19 than 18 and 19 billion pieces; isn't it?

20 A I don't think that a precise quantification of the
21 volume of how much mail there is in this category is central
22 to the pricing analysis I present in my testimony.

23 I can't argue that to know it might be useful in
24 some sense, but I don't accept that it's central to what I'm
25 doing.

1 Q Okay, well, we're currently spending probably
2 billions of dollars conducting a decennial Census; aren't
3 we?

4 And I have not seen in my exhaustive study of past
5 Census statistics, any actual, concrete discussion of the
6 number of Bigfoot out there. In other words, they're not
7 particularly counted; are they, in the Census?

8 Do you prefer the term, Yeti?

9 A I guess if I understand the question, in another
10 sense, this isn't tabulating that.

11 Q So, like the Postal Service that doesn't have any
12 information about bulk metered mail, I guess the Census
13 doesn't have any good hard numbers or concrete information
14 about Bigfoot; is that right?

15 A I accept that the Census Bureau doesn't have any
16 count of Bigfoot, but I'm having trouble drawing the analogy
17 in what I was trying to do with the bulk metered benchmark
18 in my testimony.

19 Q Well, let me try to get a little more concrete
20 with you then, and not quite so cute.

21 We've had a fair amount of difficulty in getting
22 any meaningful information on bulk metered mail.

23 You've reviewed the interrogatory responses that
24 were institutional ones, and you've even given us some
25 yourself.

1 And you've discussed them here today, that you
2 can't tell us how much of metered mail is bulk metered mail,
3 right?

4 A Yes, that's correct.

5 Q For example, what do you mean by the term, bulk?

6 A It's not a hard and fast quantity. To qualify for
7 workshare rates, you need approximately -- you need 500
8 pieces.

9 More or less than 500 or so is -- you distinguish
10 it between a small quantity of pieces. There is not a
11 magical threshold that I had in mind.

12 Q Well, could five pieces be bulk metered mail?

13 A No.

14 Q Fifty?

15 A I would say no.

16 Q A hundred?

17 A It's being presented in more quantity at that
18 point, and could be consolidated with the mail pieces of
19 other mailers to reach the 500-piece minimum.

20 Q Well, maybe we're confusing things here. I'm just
21 talking about bulk metered mail.

22 That's simply, as I understand, the way you've
23 defined bulk metered mail, it's going to be brought by an
24 individual mailer to the Post Office.

25 A Yes.

1 Q It's not going to be combined with other mail; is
2 it?

3 A Well, a presort mailer potentially could do it,
4 but I understand the distinction you're making.

5 I don't have a hard and fast notion of what bulk
6 is, but it's several hundred pieces.

7 Q Okay. Now, do we know when it's brought to the
8 Post Office, where it goes?

9 A It could be brought, I suppose, to a window. It
10 could be brought to the back dock. It would depend on local
11 procedures.

12 Q So, there is no requirement that it be brought to
13 the same place, which I think you've called the bulk mail
14 entry point, as the -- as presort mailers are required to
15 bring their mail?

16 A It could potentially be brought to that unit. I
17 wouldn't think that it would routinely be brought there.

18 There would be no requirement to do that. There's
19 no mailing statement or anything associated with that, no
20 formal acceptance procedure as there is for bulk presort,
21 pre-bar-coded mail.

22 Q Okay, so a BMM mailer who shows up at a Post
23 Office with a fully or partial tray, I guess -- does it have
24 to be trayed?

25 A Yes.

1 Q Okay, of nice clean bulk metered mail, might just
2 take it to the window like she would any other mail; isn't
3 that right??

4 A Potentially it could be accepted there, yes.

5 Q Well, they certainly aren't going to turn it away
6 there; are they?

7 A No.

8 Q Okay. By the way, do you know if Mr. Miller
9 included any costs associated with window service clerks
10 accepting BMM when he calculated the worksharing-related
11 savings of 4.9 cents, which I believe was later corrected to
12 5.2 cents for automation basic letters?

13 A I don't know whether it's included or not.

14 Q Well, based on our discussion, if he didn't
15 include them, should he have?

16 A I'm not the cost expert. I don't know.

17 Q Well, wouldn't it be logical to say that if
18 they're incurring window service costs, that those should be
19 factored in?

20 A If they can be measured, if it can be isolated,
21 perhaps.

22 Q Well, now, wait a minute. You're going to tell me
23 that now you're going to require that it be isolated, based
24 on bulk metered mail, but we've said you don't know what
25 bulk metered mail is, and I don't know what bulk metered

1 mail is, and the Postal Service doesn't know what bulk
2 metered mail is?

3 A That's not what I said. I've defined what bulk
4 metered mail is. I told you that I can't quantify the
5 volume of it. That's quite different.

6 Q Well, let's see, I'd like you to confirm something
7 for me, just to tie down this point. I want to make sure
8 I'm not misunderstanding something here.

9 Turn to your response to MMA-T-33-1(c).

10 [Pause.]

11 I want you to focus on your statements there.
12 First, you say that there are no data available which
13 separate bulk metered letters that paid the single-piece
14 rate from non-bulk metered letters that paid the
15 single-piece rate.

16 Do you see that statement?

17 A Yes.

18 Q But then you do say that there is available data
19 which include both bulk and non-bulk metered letters, and
20 you present them below; is that right?

21 A That's correct.

22 Q Okay, now, what I see in the right-hand column of
23 the information you presented there, is a number of
24 non-presort metered letters; is that correct?

25 A Yes.

1 Q And you're telling me that somewhere in that
2 number is bulk metered letters?

3 A Yes.

4 Q You want me to believe that?

5 A It would be included in that number, yes.

6 Q But you can't tell me how much of that 18 or 19
7 billion is bulk metered mail?

8 A No, I can't, as I stated in my testimony in here.

9 Q You can't tell me if it's a million pieces?

10 A No, I can't.

11 Q Half a million pieces?

12 A No.

13 Q So, for all we know, it could be even less than
14 that, right?

15 A I don't know how much volume there is.

16 Q And I guess that, conceivably, it could be zero?

17 A I can't quantify the volume.

18 Q So then we just have to take it on faith that
19 there's some out there?

20 A Was that a question?

21 Q That was a question, yes.

22 A I can't quantify the volume of it. I've explained
23 how I use it in my testimony as a pricing reference point.

24 Q So, right, so your answer to my question, I guess,
25 is, yes?

1 A And the question, again, was?

2 Q That we'll simply have to take it on faith that
3 there is some of this mail out there?

4 To use another analogy I'm sure you won't find
5 comfortable, is that I guess we know that there are naugas
6 out there somewhere because we have so much evidence that
7 there's naugahyde?

8 Is that right?

9 A [No audible response.]

10 Q Maybe in this case, we have less evidence that
11 there's bulk metered mail, just from the fact that there's
12 metered mail?

13 A I'm having trouble following what the question is
14 there.

15 Because I can't quantify it, you're right. I
16 mean, I can't tell you how much there is.

17 Q Okay. Now, let's focus on a slightly different
18 aspect here. Let's take our mailer that we said was -- our
19 mailer of Bulk Metered Mail who could go to the window or
20 could, if she were aware of it, take her clean BMM mail to
21 the bulk mail acceptance center, right? Do you recall, we
22 were discussing that?

23 A Yes. I am not sure if the bulk mail acceptance
24 unit would typically want to be handling that mail or not.
25 I am not enough of an expert in the mail acceptance

1 procedures to know that. They are primarily set up, of
2 course, to handle the work shared discounted mail coming in
3 on mailing statements.

4 Q So then you think it is more likely she would end
5 up at the window service?

6 A Or at the back dock or something like that. I
7 think -- I have limited understanding of exactly how that
8 would work with the bulk mail acceptance unit, but that
9 would be my understanding.

10 Q Right. Well, let's assume she did go there. And,
11 obviously, you know, if there is a whole bunch of people
12 with huge quantities of mail, and she is in a hurry and she
13 has only got a hundred pieces, she is probably going to be
14 most likely to just take it over to the window, especially
15 if she has something else to do at the window, right?

16 A It could be, I don't know.

17 Q But, in any event, let's say that she is very
18 patient, she wants to do the right thing. She wants to
19 voluntarily present you with the most clean mail that she
20 possibly can, and she has been very careful about making
21 sure that it is all properly faced and it is put in a tray,
22 and it looks nice, and she goes in there and she has got to
23 wait with all these other people. And they get to chatting
24 about this, that and the other thing, and, you know, so for
25 a while they are talking about sports, but, you know, there

1 is only so much sports you can talk, unless you are really
2 tuned in to ESPN, and, so, after a little time, the
3 conversation turns around to the mail that each person is
4 presenting.

5 And the other people say, well, you know, why are
6 you here, you only have a couple of hundred pieces? And she
7 runs through, you know, I want to do the right thing and it
8 is, you know, I want to volunteer to do what the Postal
9 Service likes. And would you expect that perhaps the other
10 mailers, say, from presort bureaus, might say, well, why are
11 you doing that? They are not paying you anything to do
12 that. Can you imagine that sort of conversation occurring?

13 A I really have no idea.

14 Q Okay. Well, do you think it is possible that the
15 guy, the rep from the presort bureau who is very attuned to
16 things of -- all issues involving automation mail, would be
17 on the lookout for clean mail wherever possible?

18 A I would think that presort houses are on the
19 lookout for new mail to work share and new customers, sure.

20 Q Right. So, this mailer, you know, even if she
21 decided to be presenting her mail directly to the Post
22 Office, it might be suggested to her by a presort bureau
23 that, hey, give us your mail, we will give you a little
24 something here and we will take it and we will combine it
25 with our mail, and you will be better off. We will be

1 better off. The Postal Service will be better off. Can you
2 see that as a possibility?

3 A You are asking me hypothetically if such a thing
4 could happen in a Postal facility?

5 Q Well, we could call it hypothetical.

6 A Sure, such a thing could happen.

7 Q Do you expect that something like that has
8 happened, whether or not it occurred through a conversation
9 in a Postal facility while this mailer was -- we won't call
10 her Aunt Minnie, but while this mailer is waiting to enter
11 her Bulk Metered Mail, but that the substance of the
12 conversation, or the notions, the ideas have passed between
13 presort bureaus and mailers?

14 If you are having difficulty with the question,
15 let me just try it this way.

16 A I was going to say one thing, I am having
17 difficulty, too, because I don't know enough about the
18 presort industry to know how they typically obtain new
19 business and everything. This notion of posting people in
20 the Post Office, -- go ahead, yeah.

21 Q Well, I mean they are not posting people. They
22 have to be there simply delivering their own business.

23 A Delivering mail. Okay. It is a possibility.

24 Q Okay. So, in other words, you would expect that
25 the cleanest and bulkiest of what you are calling Bulk

1 Metered Mail would quickly migrate over to automation
2 presort status, wouldn't you?

3 A I think that that conversion is taking place, that
4 the migration is taking place, yes.

5 Q So, and you would expect then that, as the
6 cleanest and best, and the fittest Bulk Metered Mail is
7 converted, that what remains would be not quite as bulky --
8 I mean not quite as in the same high volumes. It might not
9 be as clean as what went before it, would that be reasonable
10 to say?

11 A I don't know if that is reasonable. It is
12 possible. To answer that question requires a lot of
13 information about the volume, again, and what is happening
14 to the volume and how much new volume is being created and
15 how quickly it is converting, and I just don't know the
16 answer to that.

17 Q All right. But, in any event, you have made no
18 study along those lines, have you?

19 A No, I haven't studied how much Bulk Metered Mail
20 there is.

21 Q Or how much has already converted or how much is
22 left?

23 A No, I don't know that.

24 Q Do you know by any chance what the cost saving
25 impact is of Mr. Miller's assumption that Bulk Metered Mail

1 is brought in trays that can bypass the mail preparation
2 operations?

3 A If you are referring to, I believe there is one
4 cost pool that is relevant for that on cancellation and
5 meter mail prep, but I don't recall what the costs
6 associated with that are.

7 Q Okay. Would you accept that it is .3 cents? And
8 I will give you a reference.

9 A Yes. Subject to check, sure.

10 Q Sure. At transcript page -- Volume 7, page number
11 3213.

12 A Okay.

13 Q Are you at all concerned that, because there may
14 be some small but unknown portion of metered letters that
15 may be entered by mailers who voluntarily meet the presorted
16 mail requirements, without receiving any monetary incentive
17 to do so, that you might be penalizing presort mailers who
18 account for some 44 billion pieces annually by assuming that
19 BMM is a real world norm against which -- that should be
20 used for calculating work share savings?

21 A I didn't follow the entire question. There was a
22 portion there at the beginning where you said small but
23 unknown. Because I don't know, I don't know if it is small
24 or not. But what was the remainder of that, please?

25 Q Well, I guess, let me try, rather than having it

1 reread, let me just try to restate it. Are you at all
2 concerned that, because there may be some small but unknown
3 portion of metered letters that mailers may enter
4 voluntarily in a manner that meets presorted mail
5 requirements, without receiving any monetary incentive to do
6 so, that you might be penalizing presort mailers who account
7 for 44 billion pieces annually by assuming that Bulk Metered
8 Mail is some sort of real world norm or benchmark?

9 A Again, I have trouble with the use of the word
10 "small," because I don't know what the quantity is. I am
11 having trouble following that and --

12 Q Can we get around that by just saying unknown?

13 A Unknown is fine. Am I concerned? In this
14 instance, in my testimony, we have tried to measure the
15 costs avoided by the work sharing using the Bulk Metered
16 benchmark and measuring levels of costs, and I am not sure
17 what level, what concern I am -- what is being talked about.

18 Q Well, do you appreciate the fact that if is, in
19 fact, small -- I think we have agreed that you really don't
20 know if there is any out there, isn't that right?

21 A We agreed that I don't know how much there is,
22 yes.

23 Q Okay. So if it is a small amount, which I believe
24 you have conceded is a possibility, then this is a case of
25 the tail wagging the dog, isn't it? In terms of having a

1 disproportionate impact, you have a tiny bit of mail, a
2 small bit of mail, an unknown portion of metered letters
3 that you are setting up as the benchmark and you are going
4 to allow that to govern the discounts that are offered to 44
5 billion pieces of presorted mail?

6 But if that doesn't concern you, it is a simple
7 question, if it's not something that bothers you, just
8 please say that is the case.

9 A I have trouble with the way you are characterizing
10 my choice of the benchmark. We picked that benchmark for
11 the reasons we talked about at the beginning, precedent, and
12 also because we felt that it resembles worksharing mail. It
13 is close to that in terms of the change that would need to
14 be made to qualify for presorting and prebarcoding.

15 The volume of it is a separate kind of an issue.
16 Its appropriateness as a pricing reference point to be
17 measuring the avoided costs associated with the worksharing
18 activities that we are giving discounts to I don't have any
19 concern about using Bulk Metered Mail for that purpose.

20 Q So if there were no Bulk Metered Mail volume it
21 wouldn't concern you that you are using that as the
22 benchmark?

23 A I don't know that I would put it that way. I
24 don't know how much there is. To me it is a valid
25 benchmark. It is valid pricing reference point.

1 Q So you are not concerned that there be any
2 particular volume of that benchmark mail that you are saying
3 you are using?

4 A I don't have a specific level of volume of that
5 mail that I would need to have exist to apply the benchmark,
6 no.

7 I assume that there is at least some, but I can't
8 quantify it.

9 Q And what is the basis for that assumption, that
10 there is some BMM out there?

11 A That there is some small mailers that are
12 presenting mail to us in trays in some postal facilities,
13 but I have not personally made a study so I can't quantify
14 the volume of how often that is happening.

15 Q But you have observed these mailers doing that?

16 A No, I have not personally observed that.

17 Q Now would you turn to your response to MMA-T24-3,
18 specifically (k), which I believe may be the only part that
19 you answered.

20 A Yes, I have it.

21 Q Well, then you are ahead of me, because I can't
22 find it. Here we are.

23 Is it a fair reading of what you are saying in
24 that response that I have referred you to that the mail that
25 migrates to presort automation status may not be Bulk

1 Metered Mail before it makes the migration?

2 A What I was trying to say there was there is new
3 workshared mail that is simply created if you -- for
4 example, if somebody gets a new credit card and starts
5 receiving a bill for that credit card that is a potentially
6 new workshared piece of mail that doesn't physically come
7 from a pool of Bulk Metered Mail originally. That is what I
8 was trying to get at.

9 Q Okay, so could it come from the general and larger
10 and observable and measurable pool called metered mail?

11 A Not in the example that I gave. It wouldn't be
12 coming from anyplace. It would just be brand new mail.

13 Q Well, what about stuff that was out there? We are
14 getting back to the notion here again that you say that
15 certain mail is likely to be mail that is going to convert,
16 and is what you are saying in this response that it may not
17 have been Bulk Metered Mail before it converts, it could be
18 some other kind of mail -- it could be stamped mail, it
19 could be metered mail?

20 A I didn't say that. I said that what I had in mind
21 was it could be new mail.

22 Q And if it were not new mail, could it have been
23 metered mail or stamped mail?

24 A I don't know.

25 Q Well, is it more likely that it could come from

1 plain, non-Bulk Metered Mail or stamped mail?

2 A More likely than what?

3 Q Than coming from BMM?

4 A I think it would be more likely that it would come
5 from the mail closest to conversion and most likely to
6 convert, which would be Bulk Metered Mail.

7 You asked me to clarify the response, what I meant
8 when I talked about it doesn't necessarily come from a pool
9 of Bulk Metered Mail and I have tried to do that.

10 Q Okay. I would like to switch topics with you now
11 if I could.

12 You recommend maintaining the current six-cent
13 basic automation workshare discount despite Mr. Miller's
14 finding that workshare savings declined to 5.2 cents from
15 the 7.2 cents that the Commission used to support that
16 discount level in R97-1, is that right?

17 A That is correct.

18 Q And as a matter of fact, you based your
19 recommendation on Mr. Miller's finding that the cost savings
20 was even less than that, isn't that right, only 4.9 cents?

21 A At the time I filed my testimony ^{there} ~~the PSI~~ -- if I
22 remember correctly -- was a 4.9 cent cost avoidance.

23 Q Okay. Well, frankly, when I read Mr. Miller's
24 testimony and then your testimony I was a little perplexed
25 about why you would do something like that if you saw that

1 the cost savings were going down to 4.9 cents, why you would
2 be maintaining a discount level of 6 cents, but upon a
3 little more reflection I thought that maybe there is a way
4 to put it in perspective.

5 Would you agree that Mr. Miller's 5.2 cents or 4.9
6 cents really isn't comparable to the Commission's 7.2 cents
7 in R97-1?

8 A I don't know that I would accept that
9 characterization. It is calculated using the same,
10 conceptually the same benchmark, focusing on mail processing
11 and delivery costs as was the case with R97, the same
12 conceptual approach to measuring the cost avoidance.

13 Q Well, Mr. Miller used a different costing
14 methodology, didn't he?

15 A You mean in this docket versus R97?

16 Q Yes. It is different than what the Commission
17 used in R97, isn't it?

18 A My understanding is -- I am not a cost expert, but
19 my understanding is that what Witness Miller was doing was
20 taking a good close look at the cost pools in trying to
21 determine very methodically and conscientiously what was
22 worksharing related cost and what wasn't.

23 I think that that closer look, that enhancement if
24 you will, was perhaps new for this docket.

25 Q You are not suggesting, are you, that the

1 Commission wasn't being methodical when it adopted the
2 costing methodology that it did in R97-1, are you?

3 A I wasn't suggesting anything of the kind.

4 I was talking about what Witness Miller was doing
5 in this instance.

6 Q Right, but I guess you are suggesting that what
7 Mr. Miller was doing was better than what the Commission
8 did?

9 A I am not making a value judgment about that.

10 I am just looking at what Witness Miller did in
11 this instance and you asked me how it differed from what had
12 been done previously.

13 Q You might expect that there would be a difference
14 if you used a different costing methodology, right?

15 A Of course.

16 Q Okay. Now do you have the compelled response to
17 ABA-T24-1?

18 A Was that mine?

19 Q No, that is just to the Postal Service, I believe.

20 A I don't have that.

21 Q Let us provide you with a copy. Let me tell you
22 when I do that there is some highlighting on here and I have
23 applied the highlighting. I don't think it was the Postal
24 Service that did so.

25 [Pause.]

1 Have you have a chance to review that?

2 A Very quickly, sure.

3 Q And it shows, doesn't it -- well, first, do you
4 understand that it's -- that the numbers shown here were --
5 and particularly the worksharing-related savings that are
6 shown here, and, more specifically, the worksharing-related
7 savings that were shown for automation basic letters, were
8 developed or were supposed to be developed using the
9 Commission's costing methodology in the last case?

10 A I'm not that familiar with this response, but I
11 can see that that's what the cover sheet represents it as or
12 the question represents it as.

13 Q Okay, and you see the figure there for automation
14 basic letters of 6.88 cents?

15 A I see that.

16 Q So, that, you would say, is probably more
17 comparable to the Commission's 7.2 cents in the last case,
18 than Mr. Miller's -- the results of Mr. Miller's
19 methodology; wouldn't you?

20 A I'm having trouble giving a definite response to
21 that. I'm not the cost expert, and I'm not that familiar
22 with how these calculations were done or what's closer or
23 not closer.

24 It's represented to be the same methods used by
25 the Commission, so on the face of it, it would appear to be

1 more comparable, but I'm having -- I'm not familiar with
2 this.

3 Q Okay, well, let's turn it around. When Mr. Miller
4 came to you, he came running into you and said, oh, my
5 goodness, here are the results of my study and it's only 4.9
6 cents. What are we going to do; what are we going to do?

7 A He could have come out running and screaming, what
8 are we going to do?

9 Q I didn't want to allow my language to color the
10 question or your response.

11 But when he advised you that that was the result,
12 did you say, well, you know, maybe we don't have to panic
13 like Chicken Little here, because maybe these results aren't
14 comparable to what the Commission was looking at in the last
15 case.

16 A Are you asking me if that's what he said when got
17 these results?

18 Q If that's what went through your mind when you got
19 those results?

20 A No, that didn't go through my mind.

21 Q Well --

22 A What went through my mind is that I could see that
23 the cost differences were smaller than what the discounts
24 had been based on in R97, and so I wanted to know,
25 generally, why that was happening.

1 Q Okay.

2 A So that I could understand that.

3 Q Well, certainly the results that you did get were
4 the reason why you issued to presort mailers, what I will
5 characterize as a warning that they could be looking at
6 lower discounts in the future; isn't that right?

7 A The smaller cost differences that were measured in
8 this docket is the reason why I included that statement in
9 my testimony. I don't know that I would call it a warning,
10 per se.

11 I just felt I would be remiss in not pointing out
12 to the mailing community that here's where we're at now, if
13 -- and I emphasize the word, if -- if this is the beginning
14 of some different kind of a trend, then please recognize
15 that there may -- and I emphasize, may, again -- be smaller
16 discount proposals in the future.

17 Warning is a bit strong. It's a recognition of
18 the reality of that and my trying to be up front with the
19 mailing community about what it could potentially mean.

20 Q Okay, I mean, you certainly thought of it enough
21 to mention it twice in your testimony, right?

22 A I think it's actually three times.

23 Q Did you? Did I miss one? I'm notoriously bad
24 about reading and absorbing facts.

25 A Yes. I think it's in there three, times, yes.

1 Q So you thought it was something that was very
2 important to communicate; is that correct?

3 A I think I put it in there several times, not
4 because of that reason, but because there are different
5 mailing constituencies that focus on different rates, and I
6 wanted different types of mailers who may be reading
7 portions of my testimony to see the same statement. It's as
8 simple as that.

9 Q Okay, but I'm a little confused because when we
10 and others asked you about these statements, you seemed to
11 be backing off or softening what I characterize as warnings,
12 to some extent.

13 And I believe you've just discussed it in your
14 references to the use of the word, if, and you emphasized,
15 if, and the word, may, and you emphasized, may, constitute a
16 trend; is that right?

17 A Yes, that's what I said. It's what I was trying
18 to communicate in the written sentences in my testimony.

19 Q Okay, and this isn't the first time that the
20 Postal Service has considered the possibility that the value
21 of mailer presortation of the Postal Service might decline;
22 is it?

23 A Are you referring to, for example, my proposal in
24 R97-1?

25 Q No. What I actually had in mind was a similar --

1 I'll use my term -- warning that was issued by Witness
2 Lyons, in, I believe, it was R90-1, so that's about a decade
3 ago.

4 A I'm not familiar with that.

5 Q Okay, but there, I guess my perception, anyway, is
6 that the Postal Service was a little more forceful about
7 saying that the valuation -- that the value to the Service
8 of presort activity was likely to decline?

9 A I'm not familiar with that testimony. Was that in
10 the context of presortation alone, or presorting and
11 bar-coding? I'm just not familiar with that.

12 Q I believe so, but in any case, we can explore
13 that. I won't waste your time or the Commission's over
14 that.

15 But the truth of the matter really is that the
16 Postal Service can't afford to reduce presort discounts now,
17 because it couldn't possibly process all the mail that would
18 revert from clean presorted automation mail to regular old,
19 dirty, single-piece mail; could it?

20 A I wouldn't characterize the situation that way.
21 The reasons why I propose some pass-throughs of more than
22 100 percent in my rate proposal were outlined in my
23 testimony.

24 And they did include impact on mailers, for
25 example, ^{if} ~~of~~ discounts, would change sharply. And I did

1 include as a factor in maintaining the discounts where they
2 were, the fact that pre-bar-coded mail is important to us
3 operationally.

4 Well, I was just going to say, you know, what
5 happens to the volume of work-shared mail, for example, if
6 one were to propose a slightly smaller discount,
7 hypothetically 1/10th of a cent, and how much volume that
8 would create, I don't know.

9 Q Okay, well, when you make those statements, do you
10 have in mind, USPS Witness Kingsley's indication that the
11 Service's bar coding equipment is operating at capacity
12 already?

13 A I didn't have that specific response in mind, no.

14 Q Do you have in mind the fact that the Postal
15 Service only bar-codes approximately 25 percent of First
16 Class automation mail, while presort mailers bar-code the
17 other 75 percent?

18 A I'm not familiar with that exact split. I
19 acknowledge the fact that workshare mailers are processing
20 and bar-coding and sorting close to 45 billion pieces.

21 And I believe that in one interrogatory response,
22 I said clearly that if all that mail were to suddenly revert
23 to us, it would be an operational nightmare. I mean, that's
24 a huge quantity of mail.

25 How much additional mail we could process, I don't

1 know the answer to that, but to me, it would probably depend
2 on where it is and what the capacity of varying processing
3 plants is, and that kind of thing. I'm not qualified to
4 answer that.

5 Q Well, did you review the institutional responses
6 to ABA-T-33-12, and ABA-T-24-9, which sort of went to that
7 issue?

8 A I don't recall the specific content of those.

9 Q So these were not things that really entered into
10 your thinking when you issued what I have mischaracterized,
11 I'm sure, as a warning to presort mailers?

12 A I'm not sure what you mean when you say, these
13 things here, but when I went ahead and included the
14 statement in my testimony about the possibility of a new
15 cost trend, and then possible implications of that, and when
16 I went ahead and passed through more than 100 percent of
17 some of those measured cost avoidances, I did have in mind
18 the importance of mailer bar-coding, generally, to Postal
19 operations.

20 Q Okay, thank you for that response. Have you read
21 Order Number 1289, issued March 28?

22 A Is that the one about institutional responses? I
23 probably have. I don't recognize it by number.

24 Q Let me show it to you and ask you to focus, in
25 particular, on a graph at the bottom of page 2. Have you

1 seen that graph?

2 A Very quickly. I'm trying to absorb the content of
3 the context, but go ahead.

4 Q Okay, well, I don't think we have to get into it
5 all that deeply, especially because I would be lost if we
6 did.

7 But does this appear to you to show that presort
8 and non-presort letter costs have declined approximately the
9 same amount over the past ten years? I believe this is in
10 constant 1989 dollars.

11 A This appears to be adjusted for inflation, you
12 mean? Yes.

13 Q Okay. Now, for the past ten years, the value of
14 presorting and bar-coding has not -- to the Postal Service,
15 hasn't declined at all, has it?

16 A Do you mean in terms of the cost avoidance that
17 we've measured for those workshare activities?

18 Q In part, yes.

19 A I don't have the entire 10 year history in my
20 mind, but I think that those measured cost avoidances over
21 much of the period were increasing. I just don't have all
22 that at my -- in my memory.

23 Q Okay. Well, just your general understanding is
24 fine for this purpose. Now, could we turn to the question
25 of the charge for extra ounces. Ms. Daniel, USPS Witness

1 Daniel, presented a study of the costs associated with
2 additional ounces. Do you recall that?

3 A Yes.

4 Q Is it correct that you only used the Daniel study
5 to get an average cost per ounce for letters from 2 ounces
6 to 11 ounces?

7 A I used the data in the Daniel study in the
8 aggregate, that's correct.

9 MR. HALL: Thank you. Those are all the questions
10 I have.

11 CHAIRMAN GLEIMAN: Next up is the Newspaper
12 Association of America. Mr. Baker, can you give me a sense
13 of how much questioning you have?

14 MR. BAKER: Upon reflection, I have none at all.

15 CHAIRMAN GLEIMAN: I guess it didn't matter that I
16 was going to move you to the end then, at your request.

17 Mr. Costich, give me a sense of what you have got
18 in the way of cross, and how hungry you are.

19 MR. COSTICH: Well (a) I am hungry, and (b) it is
20 more than 25 minutes, that's for sure.

21 CHAIRMAN GLEIMAN: In that case, let's take our
22 lunch break now and we will come back at five after the
23 hour. We will give ourselves a whole hour today for lunch.
24 Eat hearty, Mr. Costich, not too much sugar, though.

25 [Whereupon, at 12:05 p.m., the hearing was

1 recessed, to reconvene at 1:05 p.m., this same day.]

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1 AFTERNOON SESSION

2 [1:01 p.m.]

3 CHAIRMAN GLEIMAN: Mr. Costich, if counsel for
4 Postal Service and the witness are ready, I think we can
5 proceed.

6 MR. COSTICH: Thank you, Mr. Chairman.
7 Whereupon,

8 DAVID R. FRONK,
9 the witness on the stand at the time of the recess, having
10 been previously duly sworn, was further examined and
11 testified as follows:

12 CROSS EXAMINATION

13 BY MR. COSTICH:

14 Q Good afternoon, Mr. Fronk.

15 A Good afternoon.

16 Q This morning you had conversation with counsellor
17 May in which you made reference to postal literature
18 reflecting intent to bring the post office to the people.
19 Do you recall that?

20 A Yes, I do.

21 Q Can you tell me what postal literature you were
22 thinking of there?

23 A Where I have seen that is on the website, the
24 portion of the postal website for IBIP is what I was
25 referring to, and I printed that off. That is what I had in

1 mind.

2 Q And that's it?

3 A Yes.

4 Q I would like to ask you some questions about the
5 nonstandard surcharge. Could you look at your response to
6 OCA Interrogatory 7 to you?

7 A I have it.

8 Q You are doing better than I am. Okay, I have it
9 as well.

10 There seems to be a little bit of misunderstanding
11 in this question. In part (a) we intended to focus on the
12 processing of nonstandard pieces that are square or almost
13 square -- that is, they have an aspect ratio between 1.0 and
14 1.3.

15 You seem to be responding, at least you refer to
16 aspect ratios beyond 1.3 in your response to part (a). Do
17 you see that?

18 A Yes.

19 Q Can I ask you to focus just on the square
20 letter-shaped pieces or the almost square?

21 A All right.

22 Q Are you aware that both Witness Kingsley and
23 Witness Miller have acknowledge that square pieces are
24 successfully processed on automated equipment?

25 A I am not aware of exactly what they have said.

1 It wouldn't surprise me if at times some square
2 pieces were processed successfully in automated equipment.
3 I am not sure about the context to their statements.

4 Q Well, do you have an understanding of why square
5 pieces are a problem on automated equipment?

6 A I am not really an operational expert. My
7 understanding of the aspect ratio requirement is that beyond
8 the specified aspect ratio range that those pieces can pose
9 mail processing difficulties. I don't know if they tumble
10 or if they jam on the mail processing equipment. I am not
11 sure exactly what the nature of the difficulty is.

12 Q I think you said a moment ago that you wouldn't be
13 surprised if some square pieces were successfully processed
14 on automation, is that right?

15 A I did say that.

16 Q So to the extent that the OCA is concerned about
17 square pieces it becomes an empirical question as to how
18 often square pieces are successfully processed on
19 automation?

20 A I don't know that it is purely an empirical
21 question. As I discuss in my testimony there are a number
22 of reasons why the Postal Service feels the maintenance of
23 the nonstandard surcharge is important and its role in
24 trying to standardize mail pieces and, you know, whether or
25 not you get one piece that goes ^{through}~~through~~ periodically or two

1 pieces or something like that is I thought what you were
2 asking me. It is not necessarily the empirical.

3 Q Could you look at part (c), subpart (3) of that
4 same interrogatory? You have got the base year volume of
5 nonstandard pieces broken out here, is that correct?

6 A Yes.

7 Q And what is the total volume?

8 A On the page here it is all pieces, single piece
9 and presort combined is 444.8 million in 1998.

10 Q Is that a big number in the overall scheme of the
11 Postal Service?

12 A Not quite sure how to answer that. If you compare
13 it to 100 billion pieces of First Class mail, that looks
14 relatively modest, but it is not necessarily the absolute
15 magnitude of this number that matters. It is what these
16 pieces can do operationally that is to me of importance.

17 Q When you say what these pieces can do
18 operationally, are you suggesting that the purpose of the
19 surcharge is to prevent these kind of pieces from entering
20 the mail stream at all?

21 A No, I wouldn't say that. As I was trying to
22 explain in my testimony, some mailers have to use
23 nonstandard pieces. It is the nature of their business, and
24 not trying to penalize mailers who do need to do that, but
25 try to set the surcharge at a level that we would recover a

1 reasonable portion of the costs that we have in processing
2 nonstandard pieces and also to recognize the fact that
3 because our understanding is the mail processing equipment
4 has been designed with these nonstandard specifications in
5 mind to recognize that without some kind of a signal to
6 mailers in terms of a price ^{about} ~~about~~ the importance of the
7 surcharge what it could do to us and if there were no such
8 surcharge.

9 Q When you say "what it could do to us" if there
10 were no such surcharge, you are fearing the flood gates will
11 open and you will be inundated with nonstandard pieces?

12 A It is possible. I mean without an incentive for
13 mailers to standardize their mail pieces, without our
14 ability to recover some of the costs that we have in
15 processing these nonstandard pieces I am not sure what would
16 happen to the volume of nonstandard pieces.

17 Q Are you aware of any research or study by ^{the} ~~ten~~
18 Postal Service as to the effects of a zero nonstandard
19 surcharge?

20 A I am not aware of a study like that.

21 Q If your concern about a large volume of such
22 pieces showing up, if there were no surcharge, is real,
23 wouldn't there be some basis for that concern in terms of
24 some idea of how much volume might show up if there were a
25 zero surcharge?

1 A And how many of those pieces are Bulk Metered Mail
2 perhaps, too? No, I am not aware that we have considered
3 the elimination of the surcharge of what kind of a volume
4 effect we might have if there were no such surcharge.

5 Q Well, when you come to the Commission requesting
6 an 11 cent surcharge, you are implicitly, at least,
7 rejecting the idea of eliminating the surcharge, correct?

8 A Yes.

9 Q And you make that implicit decision without
10 information, correct?

11 A No, I wouldn't put it that way. We know what the
12 costs of processing nonstandard pieces are, we know that our
13 mail processing equipment is designed with those
14 specifications in mind, and that nonstandard pieces can give
15 us trouble operationally. That is not what I would call no
16 information.

17 Q In terms of square letters, what is the maximum
18 possible volume that we are talking about there?

19 A In what sense, with the existing surcharge, or
20 with no surcharge?

21 Q I'm sorry. With the current surcharge.

22 A Well, I am not sure how to answer that without
23 actually looking at the data to see how many nonstandard
24 letters there would be, and nonstandard letters are
25 nonstandard because of aspect ratio issues. So, however

1 many pieces of that there would be would be your upper limit
2 on how many there could be with an aspect ratio of 1, if I
3 understand the question correctly.

4 Q Well, square or almost square, aspect ratio
5 between 1 and 1.3. Now, in your response to Interrogatory
6 7, part (c), subpart 3, you have a number there for letters,
7 correct?

8 A That's correct.

9 Q That is 75.2 million?

10 A That's right.

11 Q And those pieces I think you just said are
12 nonstandard because of aspect ratio, is that correct?

13 A Yes, that is what I said, that is how they would
14 be nonstandard.

15 Q And they could be nonstandard because the aspect
16 ratio is less than 1.3 or because it is greater than 2.5, is
17 that correct?

18 A That's right.

19 Q So some of these 75.2 million pieces probably
20 aren't on the low side, correct?

21 A I have no information, but it is certainly
22 possible that there are some with aspect ratios more than
23 2.5.

24 Q But even if we assume there aren't any of those,
25 that every one of those 75.2 million pieces is square or

1 almost square, how much revenue is the Postal Service
2 getting from those pieces?

3 A I can't do the exact arithmetic in my head, but if
4 you have got 75 million letters in a surcharge of about 11
5 cents a piece, I would guess about \$8 million.

6 Q 7.5 million plus .75 million.

7 A Uh-huh.

8 THE REPORTER: That is a yes?

9 THE WITNESS: Yeah, it was. Yeah. Yes.

10 BY MR. COSTICH:

11 Q And what is the cost imposed on the Postal Service
12 by those letters?

13 A I don't have that figure off the top of my head,
14 but one could make an estimate using the cost work that was
15 done by Witness Miller.

16 Q Now, you relied on Witness Miller's cost work to
17 support the 11 cent proposed surcharge, is that correct?

18 A Yes, it was one of the inputs, yes.

19 Q Now, how closely did you look at his work?

20 A I am not sure what you mean by how closely, but I
21 looked at the results and the costs that he estimated for
22 both the single piece and presort mail, and used that as --
23 recorded that in my testimony and I used that as an input in
24 setting, or maintaining the surcharges at their present
25 levels in my proposal.

1 Q Witness Miller has an exhibit, or an Attachment B
2 at the very end of his testimony. Did you ever look at
3 that?

4 A I think I would have to see it again to know if I
5 looked at it. I don't know it by Exhibit B.

6 Q Well, it contains his calculations of the costs
7 caused by nonstandard pieces.

8 A If it is the page you are thinking of, yes, I have
9 seen that.

10 Q Did you track back all the calculations that
11 appear on that page?

12 A No, I can't say that I tracked back all the
13 calculations.

14 Q Were you aware that the cost for a nonstandard
15 letter was calculated by assuming that the piece went
16 through manual sorting at every stage of its processing?

17 A I am aware of the use of the cost of a manual
18 letter in the cost calculation.

19 Q And are you aware that the other cost used for
20 comparison purposes was the overall CRA cost of a letter?

21 A I don't recall the specifics of the methodology,
22 but I believe that is correct, and I was aware of that.

23 Q And that was the methodology for calculating the
24 cost for letter shaped nonstandard pieces, is that correct?

25 A We are actually getting into the cost study here

1 in greater detail than I am familiar with, but my
2 recollection is that for letters it involves a CRA cost and
3 some kind of a manual letter processing. But I don't know
4 if I am the right person for this.

5 Q Well, unfortunately, you are last and various
6 questions that have been posed earlier have sort of been
7 rolled down to you.

8 A Even on the cost methodology, okay.

9 Q Do you recall what the technique was for
10 calculating a cost difference for flats?

11 A Not specifically without looking at it again.

12 Q Would taking the cost between an average CRA cost
13 for a flat and an average CRA cost for a letter make sense?

14 A Cost methodology questions are not -- I am not
15 expert in those.

16 Q Well, if what you want is a cost difference
17 between nonstandard flats and Standard First Class mail,
18 does it make any sense to take a cost difference between all
19 First Class letters and all First Class flats?

20 A Assuming that that's -- it depends on the
21 available data, that is, the reliability of available data
22 and I can't answer definitively.

23 Q Well, I understand the problems with reliable data
24 or unavailable data, but does it make any sense to come up
25 with a cost difference between two numbers that have nothing

1 to do with the cost difference you are actually interested
2 in?

3 A It depends on the circumstances. It depends on
4 what is available to make the calculation and what kinds of
5 proxies you can use.

6 I am aware that in this instance that as part of
7 some of the additional ounce cost work that in response to
8 some of the criticism in the R97-1 record we tried to look
9 at the cost of one ounce pieces by shape, which I think is
10 getting at some of what you are saying and wouldn't that be
11 a more direct measurement of what nonstandard costs were
12 like, but my understanding was that we weren't convinced of
13 the precision of the shape data by ounce increment and so
14 under those circumstances -- again, I am not a cost expert
15 here and you are really in the area of what the underlying
16 methodology is used to produce this -- that in those
17 circumstances that you may find that a proxy has the right
18 methodological approach to use.

19 Q I can understand the difficulties with the ounce
20 increment data that were derived by Witness Daniel. Witness
21 did supply for the record the results that his study would
22 produce if he had used Witness Daniel's data. They don't
23 look plausible.

24 A You are ahead of me. That must be pretty recent.

25 Q Yes, and I can understand the use of proxies, but

1 when the items you are using as proxies just don't have
2 anything to do with what you are actually looking for, that
3 is not sensible, is it?

4 A I just can't accept that characterization of under
5 the circumstances that it is not sensible.

6 Q And you said that you had Witness Miller's exhibit
7 where he laid out his calculations, is that correct?

8 A You mean with me at this instant?

9 Q No. I mean you looked at it.

10 A Yes, I have looked at it.

11 Q And did you have any questions of Witness Miller
12 as you looked through it?

13 A I had the basic question that I was alluding to
14 earlier of could we directly use the ounce cost data from
15 the additional ounce cost study for First Class mail to
16 address a specific concern that had arisen in the R97
17 docket.

18 That is the thing that occurs to me, specifically
19 that I would have thought about.

20 Q You didn't have any questions as to the
21 appropriateness of the proxies he was using?

22 A Once it became clear that it wasn't the best
23 approach to use those more direct data, it seems to me that
24 that is an appropriate approach given the limitations of the
25 circumstances.

1 Q Now, earlier, you said that the Postal Service
2 hasn't, at least to your knowledge, conducted a study of
3 what might happen if the non-standard surcharge were zero;
4 do I recall that correctly?

5 A That is correct.

6 Q Is one of the reasons that there is no study, the
7 fact that the volume and revenue we're talking about here is
8 minimal?

9 A I have no knowledge, one way or the other.

10 Q So you -- well, let's see, would you disagree with
11 me if I were to assert that the revenue from the
12 non-standard surcharge is so small that it's not worth
13 developing accurate cost estimates for non-standard pieces?

14 A I wouldn't agree with the way that you put that.
15 Clearly, I'm -- you know, in some sense, the magnitude of
16 volume of revenue matters, but I wouldn't characterize it
17 that way.

18 Q Can you agree that if square pieces are
19 successfully sorted on automation, then Witness Miller's
20 cost difference estimate is overstated?

21 A If I understand, hypothetically, if aspect ratio
22 doesn't matter --

23 Q I'm sorry.

24 A Are you asking me, hypothetically, if aspect ratio
25 is not an operational or mail processing problem, then

1 presumably there aren't extra costs associated with it; is
2 that the hypothetical?

3 Q Well, I don't think so. I guess we're passing in
4 the night at this point.

5 Let me try the question again. Witness Miller
6 used a proxy of 100 percent manual sortation to get a cost
7 for a non-standard letter-shaped piece; is that right?

8 A He's using a manual letter, yes.

9 Q And to the extent some letters actually get
10 processed, at least part way on automation, the costs of
11 those letters would be less than a letter that is manually
12 sorted, 100 percent; correct?

13 A I would accept that.

14 Q So if one were to go out and measure how many
15 square pieces or almost square pieces make it through
16 automation at each stage of the way, in essence, develop
17 downflow densities and reject rates, the whole nine yards,
18 and found that the cost is less than 100 percent manual
19 sorting, and then one substituted that cost into Witness
20 Miller's 100 percent manual cost, one would come up with a
21 smaller cost difference, correct?

22 A In my opinion, if you could collect that data, and
23 if it would demonstrate that and you could plug it into the
24 equation, you would get a smaller cost for non-standard
25 letters.

1 Q Before lunch, I provided to your counsel, a copy
2 of the Postal Service's response to Interrogatory
3 OCA/USPS-69. Do you have a copy of that with you?

4 A Yes, I've got it.

5 Q Could you look at page 2 of the attachment to
6 that?

7 [Pause.]

8 It's entitled First Class Single-Piece
9 Non-Standard Letters, Flats, and IPPs.

10 A Um-hmm.

11 Q Do you see that?

12 A Yes.

13 Q Now, does this spreadsheet show that non-standard
14 letters overpaid postage to the amount of almost \$20
15 million?

16 A Yes, because this page shows overpaid revenue of
17 \$24.7 million, and short-paid revenue of \$4.8 million, so
18 the difference is about what you specified for the net.

19 Q Now, this spreadsheet is for Government Fiscal
20 Year 1999; is that correct?

21 A Yes.

22 Q In Interrogatory OCA/USPS-106, the OCA asked for
23 1998 data. Are you aware of that?

24 A Yes.

25 Q Do you have the response to Interrogatory 106?

1 A I don't think I have Parts (a) through (c), which
2 you're referring to. I have Part (d). Let me make sure.

3 Q I should have been more specific when I asked your
4 counsel if you had that interrogatory response.

5 A I'm afraid I didn't bring the first three
6 subparts.

7 MR. COSTICH: With the permission of the Chair, I
8 would like to show the witness one page of that response.

9 COMMISSIONER LeBLANC: Any objection, Mr. Tidwell?
10 [No response.]

11 COMMISSIONER LeBLANC: Fine. Mr. Costich, for the
12 record, so we are clear, will you recite again what you are
13 actually having the witness either attest to or look at.

14 MR. COSTICH: What I have handed the witness is
15 page 2 of an attachment to the response of the Postal
16 Service to Interrogatory OCA/USPS-106. And I believe this
17 page is laid out exactly as the page we were earlier
18 referring to, which was page 2 of an attachment to
19 OCA/USPS-69.

20 BY MR. COSTICH:

21 Q Have you had a chance to look over the two
22 attachments, Mr. Fronk?

23 A Yes. Yes, I have looked at them.

24 Q Do they look like they are laid out the same?

25 A Yes, these are two institutional responses. One

1 relates to 1998 and one relates to 1999, and they both
2 concern short payment and overpayment on nonstandard pieces,
3 single pieces.

4 Q Now, just for the sake of the record, the one that
5 contains the 1998 data seems to have a couple of columns
6 that didn't get their years changed, do you see that?

7 A Yes.

8 Q And they say GFY 1999, right?

9 A Yes.

10 Q But the numbers aren't the same as the other GFY
11 1999, are they?

12 A That is what it says, yes.

13 Q Can we go ahead and work on the assumption that
14 the one that starts out 1998 remains 1998?

15 A I will accept that.

16 Q The volumes and revenues of short paid and
17 overpaid mail in 1998 are a lot less than they are in '99,
18 is that correct?

19 A Yeah, that is what the data on these pages shows.
20 By a lot less you mean -- yeah, I mean it is less,
21 significantly. Yeah.

22 Q More than half?

23 A It doesn't appear to be that much different, but
24 there is -- it is less.

25 Q Now, for 1998, let's concentrate on that since

1 that is the base year, 30 million pieces were short paid, is
2 that correct?

3 A That is what the page shows, yes.

4 Q And about 90 percent were short paid by exactly 11
5 cents, is that what the page shows?

6 A Yes.

7 Q So the other 10 percent that are indicated as
8 "Varies," do you see that?

9 A Uh-huh. Yes.

10 Q That 10 percent should have paid less than 11
11 cents, right?

12 A Yeah, that is how I would interpret that, right.
13 Some amount 10, 9, something like that.

14 Q Okay. Will you accept my representation that the
15 average overpayment for the pieces that are identified as
16 "Varies" is 10.357 cents?

17 A It looks like that is about what the calculation
18 would yield arithmetically.

19 Q I am little puzzled by that. How is it that, if
20 you take out all the pieces that were short paid by 11
21 cents, you can get a number that is any greater than 10
22 cents for what is left?

23 A I can't shed any light on that.

24 Q Would you agree that it is a puzzle?

25 A In the sense that you would expect that number to

1 be like 10 cents or 9 cents or something like that, rather
2 than --

3 Q Well, there is a lot of presort pieces presumably
4 in there that were short paid by 5 cents, right?

5 A I don't know that that is -- the header on the
6 page says that it is single pieces only. So I don't --
7 presumably, there aren't presort in this one.

8 Q Okay. You're right. But if you can't short pay
9 by more than 11 cents, because that is what the surcharge
10 is, --

11 A Right,

12 Q -- and you remove all the pieces that are short
13 paid by 11 cents, you ought to end up with a number that is
14 10 or less, correct?

15 A Off the top of my head, I would think so, too. I
16 would want to think about this more, but, yeah, I don't
17 quite understand it either. I haven't really seen these
18 data in this detail till now. But I understand why you
19 would find that puzzling.

20 Q Do you know whether the numbers that appear in the
21 row labeled "Varies" can be broken down into the exact
22 denomination or amount of short payment?

23 A I don't know.

24 MR. COSTICH: Mr. Chairman, could I ask that the
25 Postal Service provide these short paid volumes and revenues

1 broken down by exact amount short paid?

2 CHAIRMAN GLEIMAN: You certainly may, and I would
3 expect the Postal Service to provide us that information
4 within the week -- within a week.

5 BY MR. COSTICH:

6 Q When a mailer has a nonstandard piece and knows
7 it, is there a stamp with the exact denomination of the
8 nonstandard surcharge?

9 A To my knowledge there is in the context of a
10 single piece there is not an 11 cent stamp, so that if you
11 wanted to pay the postage you would have to use other
12 denominated stamps that would add up to 11 cents or be at
13 the post office and get a meter strip or something like
14 that.

15 Q Well, the sum of 33 and 11 is 44?

16 A Correct.

17 Q Is there a 44 cent stamp?

18 A I don't recall. I don't recall. My inclination
19 is that I don't think so, but I am not sure.

20 Q Have you ever seen those sunfish stamps?

21 A Is that a 44 cent stamp?

22 Q No, it is 45.

23 A Oh.

24 [Laughter.]

25 BY MR. COSTICH:

1 Q But it gets pretty close.

2 A Yes. I think I have seen that, yes.

3 Q But you don't recall offhand seeing a 44 cent
4 stamp?

5 A To the best of my knowledge I don't think there is
6 one, but I am not 100 percent sure.

7 Q Would you say that the existence of the
8 nonstandard surcharge causes confusion among the mailers who
9 want to mail nonstandard pieces?

10 A I don't think so. I don't think so. I think we
11 could improve awareness of the surcharge, but I don't know
12 that I would say that it creates confusion.

13 Q Well, when we were looking at the shortpaid and
14 overpaid revenue, the shortpaid was basically pieces that
15 just didn't put anything extra on, right? Ninety percent of
16 those pieces, and in the overpaid revenue and pieces we
17 decided there was a lot more of that, right?

18 A If that's what the data show.

19 Q And in terms of the overpaid, there is a lot of
20 volume that overpaid by 11 cents, right?

21 A Let me make sure I understand. There's a lot of
22 volume that overpaid by 11 cents?

23 Q Yes. I mean that is broken out separately, right?

24 A Yeah.

25 Q Are you looking at 98?

1 A Yeah, 98 --

2 Q Yeah, 98 the number is kind of low but when you
3 look at 99.

4 A In 99 a significant number of the pieces overpaid
5 by 11 cents; not so for 1998 for some reason.

6 Q For some reason. Can you think of any reason why
7 that would happen?

8 A No.

9 Q You wouldn't suspect the accuracy or reliability
10 of the data though, would you?

11 A I don't know enough about the numbers to have any
12 opinion about that. I can clearly see a difference between
13 GFY '98 and GFY '99.

14 Q If the nonstandard surcharge is 11 cents, how
15 would a mailer overpay by an extra 11 cents?

16 A I am trying to think of -- conceivably they could
17 use a 22 cent additional ounce stamp instead of -- pay the
18 postage like that, overpay by 11 cents.

19 Q Gee, why would they want to pay twice as much for
20 a nonstandard piece than they had to?

21 A Because perhaps they didn't have denominated
22 stamps on hand that would allow them to pay the surcharge
23 more precisely and perhaps they couldn't get to a post
24 office.

25 Q Or perhaps they didn't even know that the

1 nonstandard surcharge was 11 cents but they did know that
2 they owed something extra so they used the extra ounce
3 stamp. Does that sound reasonable?

4 A I don't know if it is reasonable. It is possible.

5 Q Another amount that is set out separately is 12
6 cents overpayment.

7 Does that make sense or can you imagine how that
8 would happen?

9 A I am not sure. I am trying to go through all the
10 different denominated stamps in my mind, but I don't know.
11 Clearly -- clearly -- I don't know.

12 Q Well, in 1998 what was the first ounce rate?

13 A 33 -- 1998?

14 Q Yes.

15 A 32.

16 Q And what as the extra ounce rate?

17 A 23 cents.

18 Q If a person again was confused and knew that they
19 had to put an extra stamp on there but didn't know that
20 there was a difference between the nonstandard surcharge and
21 the extra ounce rate, such a person might have put the extra
22 ounce rate on there, is that correct?

23 A It is possible. It is possible there is
24 confusion. It is also possible that that is the stamp they
25 have on hand to use to pay the surcharge and they are doing

1 that for convenience. I really don't know.

2 Q Have you ever had occasion to look into market
3 research by the Postal Service as to how many households
4 maintain more than one denomination of stamp?

5 A I don't recall looking into that.

6 Q Another amount that is broken out is 21 cents, do
7 you see that?

8 A Yes.

9 Q And can you come up with a way that consumers
10 might have manipulated existing denominations of stamps so
11 as to overpay by 21 cents?

12 A That conceivably is using the first ounce stamp.
13 You know, a 33 cent stamp. You said 22, right?

14 Q Well, no, I am looking at 21. We will get to 22.

15 A Yeah, 21 maybe -- how about a 32 cent stamp then?
16 Conceivably.

17 Q And these would be consumers who are so confused
18 or ignorant that they don't even know that there is both a
19 nonstandard surcharge and a second ounce rate that differs
20 from the first ounce rate?

21 A I wouldn't characterize it that way. These data,
22 they don't tell us anything about why the consumer happened
23 to overpay the postage for the mail piece. It doesn't say
24 anything about whether it is ignorance or confusion, or
25 convenience, or because he couldn't get to a Post Office.

1 It is just tabulating volume and revenue by amount overpaid.

2 Q Well, let's end this by just agreeing that
3 consumers are more than honest when it comes to putting the
4 correct amount of postage on nonstandard pieces, would you
5 agree? In the sense that they overpay by a lot more than
6 they underpay?

7 A Based on the GFY '98 and '99 data you have shown
8 me here, consumers are overpaying the nonstandard surcharge
9 more often than they are short paying it, so on net, it is
10 overpaid. That is what the data show.

11 Q I believe you said you did have the response to
12 part (d) of Interrogatory 106, is that correct?

13 A Yes, I do.

14 Q Now, the question that I posed there I thought was
15 simple, straightforward, maybe get a yes or no answer or
16 maybe a citation to an exhibit. This asked about where the
17 net overpayment of First Class postage shows up in the
18 revenue calculations for the test year, is that correct?

19 A Yes.

20 Q And instead of getting a yes and a citation, I got
21 six pages of heavy text. Were you involved in the
22 preparation of this response?

23 A Yes, I am familiar with this. Most familiar.

24 Q I don't know if this is possible, but could you
25 perhaps try to give a shorter version of what you are saying

1 or what the Postal Service is saying in this response?

2 A In response to your original short question?

3 Q Yeah.

4 A I will try. It had some analytical detail in this
5 that I was trying to, that we were trying to capture in the
6 response. But the question about how net overpayment or
7 short paid and overpaid is captured in the data, what I was
8 trying to say is, historically, I would have been able to
9 give you a short answer, like in R97, in saying that it is
10 in the additional ounce portion of the billing determinants,
11 because what historically was done was that, whatever
12 revenue is unexplained by the first ounce rate, was
13 ~~un~~explained by the nonstandard surcharge, was attributed to
14 additional ounces. Essentially, whatever residual
15 unexplained revenue was left over was all considered to be
16 additional ounce revenue. So in R97, I would have given you
17 that short answer, that that is how it is captured in the
18 data in the billing determinants.

19 What I was trying to say here in this docket was
20 that I had been concerned about having additional ounces
21 that consisted of two things, both kind of physical, if you
22 will, weight related additional ounces, and additional
23 ounces that were related to short payment overpayment, in
24 other words, what I would call a revenue additional ounce
25 that would make billing determinants match RPW revenue. And

1 so we went ahead and got^t underlying weight distribution data
2 for single piece and for mailing statement data and created a
3 physical measure of additional ounces.

4 When we made that change, then the unexplained
5 revenue was no longer being attributed to additional ounces.
6 So the short answer I would have been able to give you in
7 R97 could have been a short answer in this instance, but I
8 committed an error by not essentially creating what we call
9 a revenue adjustment factor to bring the billing determinant
10 revenue up. In other words, the revenue associated with
11 first ounces ~~was in~~ the nonstandard surcharge, and with
12 physical weight related additional ounces would leave some
13 unexplained component. The way that that needs to be
14 handled is through what we call a revenue adjustment factor,
15 a multiplier on that explained revenue, to bring things up
16 to the level of RPW. That would have been the short answer,
17 too, but when I moved to the physical measure, I didn't
18 bring the revenue adjustment factors into my ^{calculation} correct. And
19 so that is what the first portion of this is trying to do
20 with the -- and I still am not too short, am I?

21 But that is the motivation for trying to make that
22 change. From now on, it is in the revenue adjustment
23 factor, and if you go prior to 1997, it is actually in the
24 additional ounces.

25 THE REPORTER: Pull that mike closer.

1 THE WITNESS: Oh, I am sorry.

2 BY MR. COSTICH:

3 Q Well, let's focus on 1998, the base year. Are you
4 saying that in 1998, the excess revenue was not attributed
5 to extra ounces?

6 A In my billing -- in the fiscal year 1998, First
7 Class mail billing determinants, that is correct. You will
8 see a revenue adjustment factor there. The additional ounce
9 measure that is included there is weight related.

10 Q And how does that work its way into the test year
11 after rates?

12 A We use the 1998 billing determinants as a basis
13 for -- as part of the basis for the test year revenue
14 estimation, so it works its way into the test year
15 calculation by taking that revenue adjustment factor from
16 the base year and applying it to the test year revenue, from
17 the components, from the rate element components.

18 Q The copy of Interrogatory OCA/USPS-69 that we were
19 looking at earlier says that it's revised. Do you see that?

20 A Yes, I do see that.

21 Q Do you know what required that revision?

22 A I don't. I didn't pull these data together. I'm
23 trying to remember from the cover sheet. I can't.

24 My recollection is that the changes were
25 relatively modest, but I can't remember.

1 Q Yes, we can agree that the changes were modest. I
2 wish I had my cover sheet as well, because it did say or
3 offer an explanation, but I couldn't understand the
4 explanation.

5 It seemed to be referring to another factor that
6 hadn't been applied, but you don't know what that might have
7 been?

8 A I don't recall. I know what you mean.

9 Q Now, let's go back to the consumer with the
10 non-standard piece. He knows it's a non-standard piece; he
11 knows he needs to put 11 cents on it.

12 He's got the 33, but he doesn't have the 11. So
13 he walks down to the Post Office to get the extra 11 cents.

14 Do you have any idea how much that costs the
15 Postal Service in terms of a window transaction?

16 A I don't.

17 Q If it were more than 11 cents, would it make much
18 sense for the Postal Service to encourage consumers to do
19 that?

20 A Hypothetically, if that was the sole reason why he
21 went to the window to do that one thing, and it cost more
22 than 11 cents, but I guess that's not very economic, but I
23 don't know how valid that is.

24 Q A consumer who did that might have a strange value
25 that he placed on his own time?

1 A Going to the window to buy one 11-cent stamp?

2 Q Yes.

3 A I don't know.

4 Q He'd have to have a real grudge against the Postal
5 Service to avoid putting another 33 cent stamp on his
6 letter; wouldn't he?

7 A I don't know; it's hard for me to comment.

8 Q Yesterday, I asked Witness Mayes some questions
9 about electronic bill presentment and payment. Did you
10 happen to be here yesterday?

11 A No, I was preparing for today.

12 Q Well, again, some questions got rolled downhill to
13 you.

14 Let me pose a hypothetical. Let's suppose there's
15 about eight billion pieces of First Class, single-piece mail
16 that for some reason can be so efficiently processed and
17 delivered that they only cost about four cents.

18 Are you with me so far?

19 A Sounds like the famous 29-cent contribution
20 document.

21 Q Gosh, how did you get to that so fast? Yes, there
22 is a Christensen Associates calculation that indicates that
23 reply mail only costs about four cents and generates about
24 29 cents of contribution.

25 A I've heard about that, yes.

1 Q You haven't seen it?

2 A I've seen the interrogatory response. I think
3 I've seen the Library Reference at some point, too. I
4 haven't studied it.

5 Q When you say you've seen the Library Reference, do
6 you mean since it became a Library Reference?

7 A Yes, as a Library Reference. I was not aware of
8 it prior to that.

9 Q You were unaware of the study or document when you
10 prepared your testimony?

11 A Yes.

12 Q If there are eight billion pieces of First Class,
13 single-piece mail that contribute 29 cents apiece, are they
14 pieces that the Postal Service would like to retain?

15 A Clearly, pieces that generate that much
16 contribution are valuable. I find that contribution figure
17 puzzling, though. It's very, very high.

18 Q Yes, Witness Mayes's word was remarkable.

19 A She's more descriptive than very, very high, I
20 guess.

21 I don't know anything about how that was
22 calculated, but like you said, it implies the costs are like
23 three or four cents apiece, which, if those are representing
24 total unit attributable costs, that's really low.

25 Q The interrogatory response that showed how that 29

1 cents was calculated didn't show how the attributable cost
2 figure was calculated.

3 I'd be interested in seeing that; would you?

4 A You mean, see if that's available? I have no idea
5 if it is or not.

6 MR. COSTICH: Commissioner LeBlanc, could I ask
7 that the Postal Service provide a breakdown or a further
8 demonstration of how that attributable cost number was
9 calculated in the Christensen Associates paper?

10 COMMISSIONER LeBLANC: Another seven-day
11 assignment here.

12 MR. TIDWELL: Mr. Presiding Officer, the Postal
13 Service is wondering why the OCA just doesn't follow up with
14 an interrogatory. There was an institutional interrogatory
15 propounded and an institutional interrogatory response
16 delivered.

17 And the Commission has procedures for followup on
18 written discovery, and it seems to me they're perfectly
19 useful for this situation.

20 COMMISSIONER LeBLANC: Mr. Costich, do you care to
21 comment?

22 MR. COSTICH: Yes. The OCA is in the process of
23 drafting testimony, along with a lot of other participants,
24 I suspect.

25 We would prefer to have this information sooner

1 rather than later, the difference being seven days as
2 opposed to 14.

3 COMMISSIONER LeBLANC: Mr. Tidwell, since one way
4 or another, it's going to get out on the record, if we have
5 to, we'll give you a little extra time, but is seven days
6 too tight?

7 MR. TIDWELL: We'll survive.

8 COMMISSIONER LeBLANC: Thank you very much. As
9 you called it the other day, it's a good deal. Moving right
10 along, Mr. Costich.

11 MR. COSTICH: Thank you, Commissioner LeBlanc.

12 BY MR. COSTICH:

13 Q Are you aware of the recent Postal Service product
14 called eBillPay?

15 A Yes. I have seen the announcements. I have heard
16 of it, sure.

17 Q Were you aware that that program was going to be
18 started up when you were drafting your testimony?

19 A No.

20 Q eBillPay essentially allows consumers to pay bills
21 electronically, correct?

22 A That is correct.

23 Q And if these consumers were previously paying
24 their bills by using courtesy reply envelopes, they will no
25 longer be contributing 29 cents to Postal Service

1 institutional costs, correct?

2 A Again I have trouble with the 29 cent figure, but
3 one of those pieces goes from hard copy mail to electronic
4 payment, if that is what you are postulating, contribution
5 would presumably change.

6 Q Well, the contribution for the piece that switched
7 would disappear, right?

8 A Oh, I see. It is leaving the mail stream. Yes.

9 Q But if the Postal Service can recapture that piece
10 with eBillPay, then perhaps it can make some contribution to
11 institutional costs, correct?

12 A Presumably yes.

13 Q 29 cents is a big number and remarkable or
14 puzzling it may seem, let's use it for the moment.

15 The Postal Service could also try to keep the
16 revenue or the contribution from that piece or some of the
17 contribution from that piece by offering a significant
18 discount to that kind of mail, could it not?

19 A You are asking me hypothetically if it could
20 retain that mail piece by offering a price discount?

21 Q Yes.

22 A I don't know actually why a consumer picks a
23 particular kind of bill payment method. My understanding is
24 it depends on a lot of factors. It depends on price. It
25 depends on convenience. It depends on security, trust,

1 comfort with the method of payment.

2 It depends on a lot of factors. There are a lot
3 of factors in the equation about why a consumer chooses to
4 pay a bill a certain way. It may even be that for example a
5 mortgage company incents or requires an electronic debit.

6 I don't know what impact price alone would have in
7 this consumer decision. I don't know.

8 Q If it costs a consumer 20 cents to mail back a
9 bill instead of 33, do you think some consumers might
10 continue to use the mail rather than switch to electronic
11 payment?

12 A You are postulating a huge price difference.

13 Q Well, we have to, don't we?

14 A I don't know. I mean I honestly don't know how
15 much of an impact that would have. I imagine there are some
16 consumers that would find that appealing but I can't
17 quantify it and it is a complicated decision process with a
18 lot of factors that are involved with the choice of how a
19 bill is paid.

20 Q The Postal Service's eBillPay involves CheckFree,
21 does it not?

22 A That's my understanding. Output Technologies,
23 yes.

24 Q Is it correct that consumers can pay bills
25 directly with CheckFree right now?

1 A I think so. I am not sure. I don't use
2 e-payment.

3 Q I was going to say, well, I would hope not but I
4 won't say that.

5 So you would not be aware of charges that
6 CheckFree or other electronic bill payment services would
7 charge consumers?

8 A I haven't studied that. I know what eBillPay
9 costs, you know, free for six months and then the pricing
10 structure, but I am not that familiar with the pricing
11 structures, n o.

12 Q For eBillPay, what will the pricing structure be
13 after the free period?

14 A All I know is what I have seen in the press
15 release in the literature, and my understanding and my
16 recollection is that it is six dollars a month for 20
17 payments and 40 cents above that -- I guess I have forgotten
18 some of the details but that is my recollection for one of
19 the options.

20 My understanding is there is another option too
21 for those who have fewer payments. I may need to correct
22 that.

23 Q Well, the exact numbers aren't crucial but the
24 pricing structure is of some interest, if one pays six
25 dollars a month and mails exactly 20 bills, which is mail,

1 good heavens, if one uses an electronic service to pay those
2 bills the average cost is 30 cents apiece, correct?

3 A That is what the arithmetic shows, yes.

4 Q The Postal Service could hypothetically offer a
5 price significantly lower than 30 cents in an attempt to
6 keep those bill payments in the mail, could it not?

7 A Hypothetically we could do a lot. We could
8 hypothetically offer a lower price. Whether or not that
9 would actually keep slow erosion or increase retention I
10 don't know the impact that would have.

11 Q Are you aware of anyone at the Postal Service
12 studying that possibility?

13 A A hard copy mail bill discount?

14 Q Right.

15 A I am not aware of that.

16 COMMISSIONER LeBLANC: Mr. Costich, sorry to
17 interrupt you. Can you give me an idea of about how much
18 longer you may be on your cross here?

19 MR. COSTICH: Ten, fifteen minutes.

20 COMMISSIONER LeBLANC: Okay, if that is all, we
21 will just keep going. Thank you.

22 BY MR. COSTICH:

23 Q If the Postal Service did want to attempt to
24 retain bill payments through the offering of a discount, the
25 Postal Service would have to segregate that mail from other

1 mail by means of a rate category or classification, correct?

2 A If we wanted to offer a different price, we would
3 need a different rate category, if that is what you are
4 asking me.

5 Q Well, you wouldn't want to try to go after 8
6 billion pieces of mail by offering a significant discount to
7 98 billion pieces of mail, would you?

8 A No. I am not sure I understood what you were
9 asking me. Are you asking me about a subclass, or are you
10 asking me about a rate category?

11 COMMISSIONER LeBLANC: Mr. Fronk, you are tailing
12 off. Could you --

13 THE WITNESS: Oh, I am sorry.

14 COMMISSIONER LeBLANC: Thank you.

15 THE WITNESS: I keep turning to face Mr. Costich.

16 MR. COSTICH: I didn't realize I was that good
17 looking.

18 COMMISSIONER LeBLANC: He didn't say anything
19 about that, Mr. Costich. Let's not stretch the point.

20 THE WITNESS: He does have my undivided attention,
21 though, that is for sure.

22 BY MR. COSTICH:

23 Q Yes. I am talking about a rate category or a
24 subclass. Some way of limiting the effect of the discount
25 to the type of mail you want to attract.

1 A Just a couple of things. The subclass issue, that
2 is a tough hurdle, because the Commission typically requires
3 a demonstration of both demand and cost differences, and it
4 is not clear to me, with that portion of the mailstream,
5 that that could be shown. In terms of a rate category -- I
6 haven't really thought all of this through. There is
7 trickiness there perhaps potentially, too, because First
8 Class mail is sealed against inspection. And we may want to
9 say that it is limited to bill payments only. I am not
10 quite sure as a practical matter how one enforces that. But
11 these are kind of off the top of my head.

12 Q It might not be possible to perfectly isolate bill
13 payments through a classification of some sort. I think we
14 can agree on that. But might it not be possible to come
15 close?

16 A I haven't studied that enough to know.

17 Q Have you ever heard --

18 A Some of this sounds so much like CEM, I am getting
19 shivers on my spine, but --

20 Q I was just going to ask you if you had ever heard
21 of a suggestion that one give a discount to courtesy reply
22 envelopes?

23 A I have heard of such a suggestion, yes.

24 Q Most of the mail in those kind of envelopes is
25 bill payments, is it not?

1 A Yeah, I think most of it would be. It is FIM A
2 mail, yes.

3 Q Now, when we talk electronic bill presentment and
4 payment, there is also the presentment part.

5 A Yes.

6 Q And at least some consumers are choosing to have
7 their bills presented to them electronically rather than
8 through the mail, is that correct?

9 A That's correct.

10 Q Would the Postal Service prefer to keep that kind
11 of mail to itself?

12 A You mean would we rather have bills going out in
13 the mail than not going out of the mail? Yes.

14 Q But you couldn't capture that kind of mail with a
15 CEM discount, could you?

16 A I am not sure I understand, that mail is typically
17 being mailed in bulk, I would imagine now under -- with work
18 sharing discounts. So that is how that is traveling in the
19 mailstream.

20 Q So you are already offering that kind of mail some
21 discounts to a large extent, correct?

22 A That mail is included, I would imagine, in the
23 work shared mail that is receiving discounts, yes.

24 Q Do you have any notion of what the average
25 contribution per piece is for bills, as opposed to payments?

1 A I don't have a sense, I don't have the sense for
2 that by mail type like that, no.

3 Q Can we agree that at least for bills delivered to
4 households, the most contribution would be the contribution
5 from the most deeply discounted kind of mail right now?

6 A I don't know that I can agree with that either.
7 As the discounts goes up, the costs are going down, revenue
8 per piece is going down. How that nets out on a
9 contribution basis, comparing one discount tier to another,
10 carrier route, 3 digit, 5 digit, I don't know off the top of
11 my head.

12 Q Well, if all work sharing discounts in First Class
13 were based on a 100 percent passthrough, would there be any
14 difference in the contribution from different work sharing
15 levels?

16 A I think that if everything is purely a 100 percent
17 passthrough, that is the -- I think they would be
18 approximately the same in the contribution.

19 Q So, to the extent work sharing discounts aren't
20 based on 100 percent passthrough, we could go looking to the
21 category with the lowest percent passthrough and find the
22 highest contribution?

23 A I'm going to have to think about this a little
24 bit. It's a little bit confusing. I'm not so sure if what
25 I said a minute ago is 100 percent correct.

1 Because the workshare discount is based on the
2 mail processing and delivery costs, only; it's not the
3 transportation costs; it's not the other costs, unrelated to
4 the worksharing, which also could be varying by automation
5 tier.

6 So I'm not even sure that with 100 percent
7 pass-through, we'd always get the same contribution, because
8 that's not all of the costs associated with the mail piece.

9 Q You'd need some sort of destination entry discount
10 as well to --

11 A I think it's even more complicated than that.

12 Q Did you expect that a bill sent through the mail,
13 delivered to a household, would be contributing 29 cents to
14 institutional costs?

15 A Are you asking me, do I think the 29 cents is
16 correct?

17 Q Not -- I'm asking if you think it would be -- no,
18 no, no. I'm just asking you whether a bill that's delivered
19 to a household as opposed to a bill payment that's probably
20 delivered to firm hold out or may be held out at the
21 outgoing primary, even though it's going supposedly across
22 the country, a bill, could it conceivably be contributing 29
23 cents apiece?

24 A I would doubt that because the prices are *below*
25 ~~except different~~ for non-auto presort. All the prices are below 29

1 cents.

2 Q That takes care of that for those pieces; doesn't
3 it?

4 A Yes. It would be terrific if we could get a
5 29-cent contribution on a piece that was less, but, yes.

6 Q I'm getting away from the 29 cents. Is it likely
7 that a bill, as opposed to a bill payment, contributes less
8 per piece?

9 A I don't have any feeling for that; I can't answer.

10 Q Would you agree that most bills are delivered to
11 households?

12 A I'm not sure about that, either. A lot of bills
13 are delivered to businesses. Clearly, many bills are
14 delivered to households.

15 Q Would you agree that there are a lot more
16 households than there are businesses?

17 A I actually don't know how many businesses there
18 are. There are a hundred million or so households, but I
19 would say, yes, there are more households than businesses.

20 Q Well, if we assume that there's 100 million
21 households, and there is, what, how many addresses,
22 deliverable addresses?

23 A I don't recall.

24 Q It's less than 200 million, and then there would
25 be fewer other addresses than households?

1 A I'll accept that, yes.

2 Q Okay. Would it be possible for the Postal Service
3 to retain bills and bill payments by offering a
4 one-half-ounce First Class rate element?

5 A I haven't studied that, what impact that would
6 have on retention of either payments or bills.

7 Q Would you agree that most bill payments weigh less
8 than half an ounce?

9 A I don't know. My recollection is that the -- my
10 recollection is too rusty. I don't know.

11 Q I believe you said earlier that you still pay your
12 bills by mail?

13 A Yes.

14 Q You usually use a courtesy reply envelope?

15 A If it's supplied, yes.

16 Q How much would one of those envelopes weigh?

17 A I don't know. I mean, once it has the payment in
18 it, the check? I don't know.

19 Q I was going through it step-by-step if we have to.

20 A Yes.

21 Q You take one of those envelopes, one check, and
22 one chunk of the statement, and put them together. Are they
23 likely to weigh more than half an ounce?

24 A I really don't know. I don't have a good feel for
25 that.

1 Q You can't tell when you've gone over one ounce?

2 A No. I need a scale.

3 Q Do you have one?

4 A Only the one I use at the Postal Service.

5 Q Earlier, Mr. Fronk, I believe you indicated that
6 it is difficult to predict what a discount for bill payments
7 would in fact do in terms of retention or slowing eroding
8 because there are a lot of other factors that enter into a
9 consumer's decision. Did I get that right?

10 A Yes. It is not just a price decision.

11 Q The Postal Service has entered into the electronic
12 payment business with CheckFree, correct?

13 A That's right.

14 Q Did CheckFree provide the Postal Service with any
15 information on the sensitivity of customers to price in
16 terms of switching to electronic bill payment?

17 A I have no information on that. I don't know.

18 MR. COSTICH: Mr. Chairman, the three Postal
19 Service witnesses that we have had up here this week have
20 all indicated that it is very difficult to make predictions
21 about response to price in terms of switching to electronic
22 bill payment because there are so many other factors
23 involved.

24 I would like to ask that the Postal Service
25 provide any information it may have acquired from its

1 partners or associates in this electronic bill payment
2 enterprise so that the record could perhaps have something
3 more than a lot of "It's hard to say" and "I don't knows".

4 CHAIRMAN GLEIMAN: Mr. Costich, you indicated you
5 wanted any information that they may have obtained from
6 their partners or those with which they may have entered
7 into some business arrangement.

8 I understand your desire to have more specific
9 information on the record but I am reluctant to ask the
10 Postal Service to provide any information and I emphasize
11 the word "any" that they may have obtained or may have been
12 provided by their partners in this eBillPay activity.

13 "Any" makes it very, very broad and I am sure
14 would lead to even greater motion practice regarding the
15 relevance of the information and its business sensitivity.

16 MR. COSTICH: Well, I must have misspoken, Mr.
17 Chairman, because the only information I am interested in is
18 the price sensitivity that may exist between the mail and
19 electronic bill payments.

20 CHAIRMAN GLEIMAN: That was in the preamble to
21 your request but I wanted to make sure that we weren't
22 getting far afield from the specific area that you talked
23 about at the front-end of your statement before you actually
24 made the request.

25 We would like to have the Postal Service provide

1 us with any additional information that has not already been
2 provided on this record that they may have, that it may
3 have, whether it is something that has been developed within
4 the Postal Service or materials that they may have obtained
5 in connection with their eBillPaying activities from other
6 sources including their partners in this endeavor made
7 available to the Commission.

8 MR. TIDWELL: The Postal Service will consult with
9 its partners and determine the extent to which it can
10 respond to this request within seven days.

11 CHAIRMAN GLEIMAN: I understand your desire to
12 consult with, the Postal Service's desire to consult with
13 its partners in this endeavor. The first half of my request
14 went to information that the Postal Service may have itself
15 of its own initiative that may not be on the record.

16 I don't know whether such information exists and I
17 suspect that you don't know either, but to the extent that
18 it is Postal Service information I would anticipate that
19 this is something that the partners would not have to be a
20 party to in terms of whether it would be made available, but
21 we look forward to hearing back from you in a week.

22 Does that cover it, Mr. Costich?

23 MR. COSTICH: Yes, it does. Thank you, Mr.
24 Chairman.

25 BY MR. COSTICH:

1 Q Mr. Fronk, earlier you mentioned a name other than
2 CheckFree as being involved in eBillPay. What name was
3 that?

4 A It is a name that I have seen in the website or
5 someplace -- Output Technology Solutions or something.

6 Q Do you know what their function is with respect to
7 eBillPay?

8 A I have read it, but I am not going to get it
9 right. I can't recall.

10 Q Does eBillPay include as a feature bill
11 presentment?

12 A My understanding is that it does.

13 Q And does CheckFree provide that part of the
14 service as well?

15 A I am not sure. I would think they probably do. I
16 am not sure.

17 Q I am one of those who also pays his bills by mail
18 so I am a little unfamiliar with electronic bill presentment
19 and payment.

20 How does the presentment process work, do you
21 know?

22 A Only generally. As I've indicated, I am not a
23 subscriber either. I can't give you much detail. There is
24 a collection point for participating billers where a
25 subscriber then can go see the bills of the participating

1 providers, the bill providers, in one central location.

2 Q I believe Witness Tolley has testified that there
3 might be 75 million pieces of First Class mail susceptible
4 to diversion to electronic payment; are you familiar with
5 that?

6 A I am not sure exactly what Witness Tolley said.
7 Someplace, I've heard that 75 million, but I don't know.

8 Q Do you know whether that 75 million is
9 specifically payments or is both presentments and payments?

10 A No, I don't know.

11 MR. COSTICH: No further questions, Mr. Chairman.

12 CHAIRMAN GLEIMAN: As previously indicated by my
13 colleague, we'll take a break at this point and come back at
14 ten minutes of the hour.

15 [Recess.]

16 CHAIRMAN GLEIMAN: Pitney Bowes?

17 MR. VOLNER: Thank you, Mr. Chairman.

18 CROSS EXAMINATION

19 BY MR. VOLNER:

20 Q Mr. Fronk, my name is Ian Volner, and I will be
21 cross examining you very briefly on behalf of Pitney Bowes.

22 And I'd like you to turn, if you could, to your
23 response to Pitney Bowes Interrogatory -- your Response 6,
24 which is renumbered as 6.

25 A Okay.

1 Q Now, let's start with 6(a). In that question, I
2 asked you whether the costs incurred by the Postal Service
3 in the manufacture and distribution of postage stamps and
4 other accountable paper are not caused by users of metering
5 technology.

6 And I define metering technology to include both
7 traditional stand-alone meters and devices or systems
8 authorized by the Postal Service under the IBI program.

9 And if I understand you correctly, your answer
10 correctly, you said that is your understanding. That was
11 your response to 2(a).

12 Now I want to vary the question just slightly:
13 Can you agree that costs incurred by the Postal Service in
14 the manufacture and distribution of postage stamps and other
15 accountable paper are not caused by users of traditional
16 stand-alone meters?

17 A That would be my understanding as well.

18 Q And would it be your understanding as well,
19 separately, that costs incurred by the Postal Service in the
20 manufacture and distribution of postage stamps and other
21 accountable paper are not caused by users of, let's call
22 them IBIP devices?

23 A That's also my understanding.

24 Q Now, let's go to Subsection (b) for a moment, in
25 which we were talking about metering technology that is

1 reset without taking the meter or device to a Post Office.

2 And I asked you whether that causes the Postal
3 Service to incur any window service costs, and you confirmed
4 that it did not.

5 Is it correct to say that meters, traditional,
6 stand-alone meters, that are reset without taking the meter
7 to the Post Office, does not cause the Postal Service to
8 incur any window service costs?

9 A That's my understanding as well.

10 Q And, similarly, that is equally true, separately,
11 with respect to IBI devices?

12 A That's my understanding.

13 Q Okay. Then, finally, is it correct that none of
14 the -- and I quoted the phrase, deliberately, and let's
15 leave it in quotes -- none of the identifiable savings that
16 the Postal Service realizes today in the cost of
17 manufacturing and distribution of postage stamps and in
18 window service costs resulting from meters, traditional,
19 stand-alone meters, is explicitly recognized in the rate
20 design that you have proposed for the First Class,
21 single-piece category?

22 A That's confirmed.

23 Q And similarly and separately, your answer would be
24 the same if I had asked about IBIP?

25 A That is my understanding, yes.

1 MR. VOLNER: Mr. Chairman, I have no further
2 questions. Thank you.

3 CHAIRMAN GLEIMAN: Thank you, Mr. Volner.
4 That brings us to Stamps.com.

5 CROSS-EXAMINATION

6 BY MR. HENDEL:

7 Q Good afternoon, Mr. Fronk. My name is David
8 Hendel.

9 A Hello.

10 Q I am representing Stamps.com, which is a provider
11 of IBIP postage to consumers, home offices and businesses.
12 I am going to be asking you some questions mostly about QBRM
13 and to kind of shorten this up, I will give you a little
14 background so we will be able to go right to the questions.

15 A Okay.

16 Q Generally, the parallels that we see between QBRM
17 and IBIP. By way of background, when I talk about IBIP
18 postage, I am not talking about the Simply Postage indicia,
19 which was in one of your interrogatories. I am talking
20 about the IBIP produced by Stamps.com and E-Stamp. And for
21 purposes of my questions, you can assume that that type of
22 IBI postage is addressed, checked and verified by the Postal
23 address database, has a FIM code applied, is bar coded with
24 the DPS bar code, and bears an IBI indicia.

25 Do you understand the assumptions of my questions?

1 A I understand the assumptions. I think that the
2 organization would consider Simply Postage, that particular
3 product, as an IBI product as well, so you are kind of
4 defining it perhaps differently than the IBIP people
5 themselves might. I am not an IBIP expert.

6 Q When you prepared your testimony, were you aware
7 of the cost to use IBIP? If you wanted to use, say,
8 Stamps.com or E-Stamp, were you aware of what it would cost
9 a user to use that service?

10 A No.

11 Q Are you aware of it now?

12 A You mean as user, you mean how much it costs?

13 Q If you wanted to sign up to use Stamps.com, do you
14 know what it would cost you?

15 A I have looked that up over the past few months. I
16 can't remember right now what the pricing of that is
17 exactly.

18 Q Do you have any idea of what the pricing is to
19 sign up as a user?

20 A Not at this instant, no.

21 Q Would it surprise you to learn that it can be as
22 low as \$1.99 a month?

23 A If that is what it is, that is what it is.

24 Q Assuming it could be shown that it is as low as
25 \$1.99 per month, it wouldn't surprise you if a lot of

1 consumers used the service, would it?

2 A I don't know how many consumers would find \$1.99
3 attractive. I am not sure what you get for that.

4 Q Well, one reason the Postal Service introduced the
5 QBRM discount back in 1997 was to permit a broader base of
6 customers to more directly share in the benefits of
7 automation? I believe that is in your testimony as well.

8 A Yeah, that sounds like me. That's correct.

9 Q And that was one of the reasons it was introduced
10 in 1997, it is also one of the reasons it was introduced in
11 this case as well?

12 A They were continued, yes.

13 Q To allow customers to more directly share in the
14 benefits of automation?

15 A Yes.

16 Q And you would agree that most users, most of the
17 people who use QBRM, or generate QBRM are businesses or
18 associations?

19 A Yeah, I believe I answered an interrogatory that
20 was like that. I am not sure what the entity mix is, but
21 most would be businesses or nonprofits.

22 Q There would be very few, if any, consumers who
23 would go through the process to use QBRM?

24 A That's correct. I don't think that would be
25 practical. There would be no barrier, but it doesn't seem

1 practical.

2 Q Now, consumers may get an indirect benefit out of
3 QBRM because the company, the mailer that uses the QBRM, you
4 know, they are savings some money, so the consumer gets an
5 indirect benefit, is that correct?

6 A I would agree with that, yes.

7 Q But if there was a discount for IBIP mail, and the
8 consumer was using IBIP mail, the consumer would directly
9 get a benefit?

10 A If there was such a discount for IBI mail, then
11 the people that were producing those mail pieces would more
12 directly get a discount, I can agree with that, yes.

13 Q So that if there was a discount for IBIP mail, it
14 would also permit a broader base of customers to share in
15 the benefits of automation?

16 A I don't quarrel with the premise of what you are
17 saying, that this would permit more people perhaps to
18 participate in the benefits of automation. The question was
19 whether or not it was feasible, yet whether it was premature
20 to be offering such a discount, and whether the Postal
21 Service was in a position to have evaluated all the issues
22 and to know, make an informed decision about whether or not
23 to offer such a discount.

24 Q Right. But I am not really asking you that right
25 now. Assume it is feasible.

1 A Yeah.

2 Q If there was a discount, it would be in line with
3 allowing consumers to share in the benefits of automation in
4 a very direct way?

5 A If there were such a discount, it would permit
6 those people generating those bar coded mail pieces to more
7 -- to enjoy the discount. I have to accept that
8 hypothetically, yeah.

9 Q And in even a more direct way than as indirect
10 way, say, as getting QBRM mail?

11 A Yes, it is more direct.

12 Q Now, switching to another topic, in Stamps.com/UPS
13 -- USPS-T33-3, you confirm that the QBRM discount is based
14 on comparing the cost of processing QBRM mail with
15 handwritten mail. The benchmark uses handwritten mail.

16 A For QBRM, that is what the benchmark is, yes.

17 Q And you still believe this is an appropriate
18 benchmark to use in calculating the cost savings?

19 A For QBRM, I accept the use of that benchmark, yes.

20 Q Now, the Postal Service introduced QBRM in the
21 97-1 rate case.

22 A That's correct.

23 Q What studies were done by the Postal Service to
24 determine what benchmark to use for the determination of the
25 savings?

1 A That was not in my testimony. I don't recall.

2 Q So --

3 A I believe it was in the testimony of the cost
4 witness in that docket.

5 Q Do you know if any studies were done to determine
6 the appropriate benchmark?

7 A I don't recall one way or the other how that was
8 approached.

9 Q For this rate case which follows that one, do you
10 know of any studies that were used to determine what
11 benchmark to use?

12 A I think that question is best directed to the cost
13 witness.

14 Q Okay. But you are not aware of any, is that
15 correct?

16 A I don't know one way or the other exactly what was
17 done there.

18 Q Would you expect such studies to have been done?

19 A I don't know.

20 Q Let's assume no studies were done. If no studies
21 were done for using -- determining to use a handwritten
22 benchmark for QBRM, there would equally be no need to do
23 such a study for determining the benchmark for IBIP
24 discount?

25 A I have trouble accepting that. I don't what was

1 done in the area of the QBRM benchmark. I don't recall
2 either for R97 or in this instance. I know that for the IBI
3 think, that we would want to study what the appropriate
4 benchmark should be.

5 Q Let's suppose there is no such thing as QBRM, the
6 Postal Service didn't propose it. You are still going to
7 have a lot of mailers enclosing an envelope for the consumer
8 to send back, correct?

9 A Can you repeat that for me?

10 Q Yes. Assuming there was no QBRM.

11 A Okay.

12 Q Which wasn't introduced till 97-1.

13 A Right.

14 Q You are still going to have a lot of mailers who
15 find it in their interest to enclose an envelope in their
16 mail to the consumer to help the consumer send something
17 back to them, correct?

18 A Like a courtesy reply mail piece?

19 Q Yes.

20 A I would think that would still be common, yes.

21 Q So even if the Postal Service didn't propose a
22 QBRM discount, there is going to be a lot of mail that has
23 got an envelope inside it waiting to be returned by the
24 consumer?

25 A I would think so, yes.

1 Q And in most of those cases, that envelope is going
2 to be addressed, would you agree with that?

3 A Courtesy reply envelopes are typically
4 preaddressed, yes.

5 Q And they are going to be preaddressed -- they are
6 going to be typed, they are printed?

7 A Typically, yes.

8 Q You would think it very, very rare that a business
9 would submit -- would put an envelope that has no address,
10 no return address?

11 A I would think that would be very rare, yes.

12 Q And maybe even more rare that there would be a
13 handwritten return address, or just as rare?

14 A I would think that would be uncommon, yes.

15 Q So if there was no QBRM today, and mailers were
16 still putting in return envelopes as a courtesy for their
17 customers, you would still expect those to have a printed
18 address, return address?

19 A I would think so, yes.

20 Q And would you also expect many of them to have a
21 preprinted bar code?

22 A Yes.

23 Q When the Postal Service proposed a QBRM discount
24 back in 97-1 and also in this case, there's never been a
25 requirement that the return address be to a post office box,

1 is that correct?

2 A You're asking me for ^{QBRM}~~QBRP~~ is there a requirement
3 that it be sent to a post office box? I don't believe there
4 is.

5 It has to have a particular nine-digit ^{QBRM}~~QBRP~~ zip is
6 my understanding.

7 Q It can be sent to a street address if that is
8 where the business wants it to be sent.

9 A I'm not sure. I think so. I am not sure.

10 Q The Domestic Mail Manual would say.

11 A Okay.

12 Q And maybe you can accept my representation. It is
13 not in the Domestic Mail Manual.

14 If the Postal Service thought that was an
15 important requirement, the Postal Service could have
16 proposed it back in 97-1 and in this case, is that right?

17 A That QBRM always be delivered to a PO box?

18 Q Yes.

19 A You have told me that in the Domestic Mail Manual
20 which you have checked recently that is not a requirement?

21 Q That is my understanding. Yes.

22 A And if we wanted it to be a requirement we could
23 have proposed that?

24 Q Well, that is what I am asking you. If the Postal
25 Service thought it was an important feature, it could have

1 been part of the Postal Service's proposal?

2 A We could amend the DMM or make that change, yes.

3 Q And mailers who do decide to put a post office box
4 address on their QBRM, they do it for their own convenience?

5 A I really don't know what motivates them to put a
6 business address or a PO box.

7 Q I am going to skip this line of questions since
8 you don't seem to know about that.

9 For QBRM that requires the Postal Service to
10 pre-approve the envelope, the return envelope prior to the
11 envelope being printed, is that correct?

12 A Yes.

13 Q Now there is no requirement for the Postal Service
14 to inspect those envelopes when they come back from the
15 printer, is that correct?

16 A I honestly don't know exactly how that process
17 works. I know that the business is supposed to work with
18 the mail piece design analyst as they design their piece to
19 get it approved. Exactly the mechanics of when it is
20 checked and whether it is checked when it comes back from a
21 printer, I don't know the details of that.

22 Q Well, whether or not it is not checked or not, if
23 it is not checked after it is printed, assuming it is not
24 checked after it comes back from the printer, then the
25 Postal Service cannot detect any printing errors, smudges,

1 things like that, when the mail is entered into the mail
2 stream initially.

3 A Under your hypothetical you are saying that the
4 mail piece comes back from the printer. It has not been
5 checked so it may have some defect with it?

6 Q If it had a defect, it couldn't be detected prior
7 to entering into the mail stream.

8 A Under those circumstances if it has a defect, if
9 that is how it works, conceivably it could enter the mail
10 stream undetected but those pieces would presumably cause us
11 a processing problem as they move through the mail stream,
12 and ultimately reach the Postage Due unit.

13 I would think that any problem with the mail piece
14 would be addressed at that point.

15 Q If it had a defect that didn't require it to go to
16 the Postage Due unit, it could be figured out and sent to
17 the right place, it would get there.

18 A All of it will go through the Postage Due unit. I
19 mean that is, it's business reply mail. It will all go.
20 It's one of the features of QBRM that is different
21 fundamentally than IBIP and in fact the revenue ~~insurance~~ ^{assurance}
22 mechanism is guaranteed. It is coming back right through us
23 before it is released to the mailer.

24 Q I'll turn to a different area. QBRM is
25 essentially a single piece discount, would you agree with

1 that?

2 A Yes, I would.

3 Q Because it can be -- I may be a big mailer who
4 sends out 10,000 pieces but those 10,000 pieces are entered
5 into the mail stream individual by individual consumers or
6 users.

7 A That's right.

8 Q From anywhere in the country.

9 A Could be, yes.

10 Q And in that way it would be like the IBI mail as
11 well, which is single piece mail.

12 A Yeah, IBI is single piece as well. In that
13 respect it is like QBRM.

14 MR. HENDEL: I have no further questions.

15 CHAIRMAN GLEIMAN: Is there any follow-up? Mr.
16 Hall?

17 FURTHER CROSS EXAMINATION

18 BY MR. HALL:

19 Q I just have a few questions, Mr. Fronk, prompted
20 by I believe it was some questions that you were asked first
21 by Mr. Volner, and you indicated I believe in response to
22 his questions that for people with postage meters, they
23 didn't cause the Postal Service to incur stamp costs and
24 they didn't cause the Postal Service to incur window service
25 costs. Do you recall that?

1 A Yeah, I confirmed that that was my understanding
2 of the metering. Yes.

3 Q Okay, and the same would be true of QBRM, wouldn't
4 it?

5 A QBRM does not have a stamp on it. It is prepaid
6 and I don't see how that would have a window service
7 transaction with it, so yes. That is also true of that.

8 Q Okay, and when you said it is not -- when you said
9 it's prepaid, what you really meant was that the recipient
10 has agreed to pay for it when it is returned. Is that true?

11 A That is more precise. That's right. Yes.

12 Q In your colloquy with counsel for I believe it was
13 Stamps.Com there was some discussion of reply mail pieces
14 being prepared in a certain fashion.

15 It is true, isn't it, that if it is a CEM envelope
16 that there is a requirement that it be prepared in a certain
17 fashion including having a requirement for a pre-barcode if
18 the mailer that is going to enclose that piece in its
19 outgoing mail is to receive a presort discount?

20 A That is correct.

21 MR. HALL: Thank you very much.

22 CHAIRMAN GLEIMAN: Excuse me. Any additional
23 follow-up? Mr. Warden?

24 FURTHER CROSS EXAMINATION

25 BY MR. WARDEN:

1 Q Mr. Fronk, in your earlier oral cross examination
2 by the Major Mailers and discussion of Bulk Metered Mail I
3 want to just make something clear here.

4 When you were talking about Bulk Metered Mail as a
5 pricing reference point, you mentioned at one time that Bulk
6 might be several hundred pieces, but there is no such
7 requirement for something to be counted as Bulk Metered
8 Mail, right?

9 A No, it is not like a 500 piece minimum to qualify
10 for an automation discount.

11 Q And Bulk Metered Mail is also, am I not correct,
12 there's no such rate category or any other designation of
13 mail that is actually delivered to the Postal Service as
14 Bulk Metered Mail, right?

15 A There is no rate category for Bulk Metered Mail.

16 Q And as a matter of fact, you said that there is no
17 measurement of the amount of Bulk Metered Mail. There is no
18 reason in the processing of the mail for Bulk Metered Mail
19 to be separated or counted, right?

20 A Are you asking me because it doesn't have its --
21 like a separate rate for example that we're not tabulating
22 the volume of it in the same way --

23 Q Right.

24 A -- that we would tabulate the volume on
25 something --

1 Q That would be one of the reasons, but there is no
2 requirement to be tabulated or no reason to, really, is that
3 correct?

4 A That's right. I mean there's not a business
5 reason to count it specifically, yes.

6 Q So in any Postal Service facility that processes
7 mail there is no reason for -- there is no such physical
8 thing as Bulk Metered Mail as far as the process goes, is
9 that correct? If you went into --

10 A I wouldn't characterize it that way. I mean
11 it's -- there is no reason for them to be maintaining a
12 precise count of it because it is not a separate rate
13 category, but that doesn't mean that if I followed you
14 correctly that there physically isn't Bulk Metered Mail.

15 Q There is no reason for it to be segregated at any
16 time, is there?

17 A Well, to the extent that it is Bulk Metered Mail
18 and it is trayed, it can be processed more efficiently and
19 processed differently than stamped mail perhaps or metered
20 mail that came to us in bundles. There is not a reason to
21 segregate it to count it, if that is what you meant.

22 Q As far as the Bulk Metered Mail, the fact that it
23 may be trayed and faced, et cetera, any characteristics that
24 distinguish it from single piece mail, is there any reason
25 for a mailer to present it as Bulk Metered Mail?

1 A A mailer could present it that way for his own
2 convenience as a preparer of the mail.

3 It is perhaps easy to put it in a tray rather than
4 dropping it in a pile or a sack and to face it, just as part
5 of the mailer's business operation and to help the mail be
6 processed and move to its destination as quickly as
7 possible, I mean to seal it and that kind of thing.

8 MR. WARDEN: Thank you.

9 THE WITNESS: Thank you.

10 CHAIRMAN GLEIMAN: Anybody else? Questions from
11 the bench?

12 Commissioner Omas?

13 COMMISSIONER OMAS: Mr. Fronk, this morning,
14 counsel for ABA/NAPM -- I'd like to follow up on a question.

15 On page 20, lines 12 and 18 of your testimony, you
16 stated that the cost differences between automation tiers
17 are now smaller than estimated in Docket R97-1.

18 You went on to say that the Postal Service in this
19 docket will generally maintain workshare discounts at the
20 present or, I assume, R97-1 levels.

21 My question: Is the Postal Service in this
22 proposal drifting away from establishing the premise that
23 workshare discounts reflect the cost differences or the cost
24 avoided by mailers' preparation efforts?

25 THE WITNESS: No, Commissioner. I'm not trying to

1 drift away from that ratemaking principle. I'm just trying
2 to balance that ratemaking principle or the pass-through
3 principle with other ratemaking goals in this instance.

4 As I tried to indicate in another part of my
5 testimony, other factors had entered into whether or not to
6 tie the proposed discounts strictly to the avoided costs,
7 where the impact that a discount change could have on
8 mailers, if that discount change were significant.

9 The importance of mailer worksharing and helping
10 the Postal Service maintain a bar-coded mail stream and
11 process that -- so it's not that I'm moving away from the
12 principle; it's just that I'm considering that principle
13 within a larger ratemaking context.

14 COMMISSIONER OMAS: Well, how do you rationalize a
15 proposal that, in effect, says, regardless of what our costs
16 are, we're going to maintain the existing discount
17 structure?

18 THE WITNESS: I don't know that what I'm doing is
19 saying regardless of what the costs are. I'm acknowledging
20 what the costs are. I'm recognizing that I'm passing more
21 than 100 percent through in some instances, basic
22 automation, ¹¹⁵~~110~~ percent; some of the others, somewhat more.

23 I'm saying these are what the costs are. I
24 recognize what they are. And it indicates to the mailing
25 community, what that means in terms of perhaps a future set

1 of discount proposals.

2 But at the same time, I'm not going to just all of
3 a sudden reduce a discount by six-tenths of a cent or
4 something to rigidly adhere to what that cost estimate is
5 telling me in this docket. I think that could have
6 unfortunate consequences.

7 So, the costs are very important. I don't want to
8 say that they aren't. And I'm not in doing this, pretending
9 that -- I don't want you to think that I'm ignoring them.

10 I'm just trying to factor that in along with other
11 considerations in coming up with a proposals that I think is
12 -- that best meets the needs of the Postal Service.

13 COMMISSIONER OMAS: All right, one final question:
14 If a discount were offered for metered mail, what would be
15 the effect on the First Class, non-metered, single-piece
16 rates?

17 THE WITNESS: You mean metered mail, generally,
18 then, or traditionally metered as well as something that
19 might have an IBI indicia?

20 COMMISSIONER OMAS: Yes.

21 THE WITNESS: Let's see if I can back into this a
22 little since earlier today I was talking with one of the
23 Intervenors about how much metered mail there was. It's
24 about 19 billion pieces in^a recent year.

25 Those were metered letters. There were some in

1 flats and parcels as well. But if we just stick to the
2 metered letters, and let's say there are 20 billion pieces
3 that would be eligible for a discount.

4 If that discount, hypothetically, were a penny,
5 that would amount to approximately \$200 million in revenue.

6 That's an instance -- that kind of a discount
7 would be a pure de-average, if you will. In other words,
8 the cost savings have already been realized by the Postal
9 Service. It's not like worksharing where you're taking
10 costs out of the system, at the same time as you're changing
11 revenue.

12 These would be costs that are already out of the
13 system. So, again, given that volume of pieces, 20 billion
14 or so, and a hypothetical discount of a penny, \$200 million,
15 two pennies, \$400 million of revenue that would need to be
16 made up someplace, if we put it on the stamp price, each
17 penny of the stamp price is worth several hundred million
18 dollars. That would be one possibility.

19 We could shift it potentially to another class of
20 mail. There are a lot of perhaps unpalatable alternatives,
21 but that's kind of the magnitude, it would seem, of what
22 that discount would mean.

23 COMMISSIONER OMAS: All right, thank you.

24 CHAIRMAN GLEIMAN: Commissioner Goldway?

25 COMMISSIONER GOLDWAY: Thank you. My questions

1 begin at the discussion of bulk metered mail.

2 In relationship to a question that was asked by
3 ABA/NAPM/USPS-T-33-16, where they asked, is there a value of
4 worksharing to the general public?

5 In fact, the focus of their concerns and the nub
6 of the issue which Commissioner Omas just got to in his
7 questions is, should there be additional discounts for bulk
8 metered mail when there isn't any additional work savings to
9 the Postal Service?

10 But I can think of any number of ways in which the
11 general public could offer worksharing discounts to the
12 Postal Service that would justify some sort of discount.

13 Certainly Stamps.com and E-Stamp are suggesting a
14 discount with regard to their indicia'd mail. They're
15 talking about systems that involve people who already are
16 hooked up to the computer and are fairly sophisticated about
17 it.

18 And in your discussions with them and your
19 discussions with OCA, it seems to me quite clear that there
20 has been very little effort on the part of the Postal
21 Service to measure what kind of savings are possible in your
22 system for individual mailers as opposed to bulk mailers.
23 That came up in your conversation with Mr. May when he
24 referred to your response to Stamps.com/USPS-T-33-4, when
25 you were dealing with bulk mailer discounts and only bulk

1 mailer discounts.

2 So, I have some questions. I'm not sure I'm going
3 to get answers from them, but I hope that they are taken
4 with some serious weight, because I think this is an issue,
5 if, in fact, you want to, as an organization, maintain
6 volume and interest, there ought to be some way to look at
7 worksharing from the general public.

8 In the reverse of OCA's concern about the
9 surcharge for oversized envelopes, I'm wondering if there
10 ought to be a discount for standard size envelopes, since
11 they are so much less expensive to handle in the mail
12 stream, clean envelopes of a certain size.

13 Couldn't the Postal Service say, if you use a No.
14 10 envelope, we'll give you X-postage, and anything more
15 than that is extra, or a discount for that?

16 You have measures, I'm told, that say that for
17 QBRM, the cost savings is 3.4 cents. Do you have any idea
18 what the cost savings would be for just a clean envelope,
19 versus the mix of all different kinds of envelopes that go
20 through the system for a single-piece letter?

21 THE WITNESS: I don't know that I'd -- I mean,
22 what a single-piece letter might cost, versus a flat or a
23 parcel?

24 COMMISSIONER GOLDWAY: No, single-piece letters
25 that are within the most easily handled dimension of the

1 automation system would cost, as opposed to all of the
2 odd-sized envelopes that go through the mail stream?

3 THE WITNESS: I'm not sure that I know that. We
4 have in the First Class rate structure, essentially a
5 consistent policy, and precedent, a single averaged rate
6 that's meant to be simple, in other words to accommodate a
7 lot of different kinds of one-ounce mail pieces, with the
8 exception of putting a non-standard surcharge on.

9 And that's kind of the way the -- I'm not aware of
10 anything that breaks out a particular size envelope and
11 costs that separately.

12 COMMISSIONER GOLDWAY: I think your conversations
13 with Mr. Costich about the confusions people have about
14 postage indicates that the system is not very simple at the
15 moment.

16 I don't think some opportunity for a discount
17 might be less confusing than the current system.

18 Another suggestion is with regard to mail that
19 diverts from the heavy Christmas season. I was looking at
20 some of Tayman's figures about overtime pay and casual
21 employees, and this adds up to an awful lot of money for the
22 Postal Service.

23 Do you have any idea of how much of that is
24 related to the Christmas season?

25 THE WITNESS: I have no idea.

1 COMMISSIONER GOLDWAY: And how much might be saved
2 if one could spread some of that peak usage into times that
3 are not necessarily peak?

4 THE WITNESS: I'm not knowledgeable about that.

5 COMMISSIONER GOLDWAY: Do a pricing system like
6 the airlines do, this stamp is good at a certain time of
7 year, but not at another time of year?

8 THE WITNESS: To my knowledge, we haven't studied
9 that.

10 Could I return to one thing that you said at the
11 beginning, with the notion of a single piece discount and
12 the colloquy with Stamps.com and E-Stamp?

13 COMMISSIONER GOLDWAY: Yes.

14 THE WITNESS: It's not -- what I was trying to
15 convey is that it's not that the Postal Service is
16 necessarily opposed to that; it's just that this is all very
17 new technology.

18 These products were introduced last Summer. We
19 haven't had a chance to fully explore what the cost
20 avoidances are and to establish the benchmark. It takes
21 some time. It's not that we're ^{averse}~~adverse~~ to that.

22 COMMISSIONER GOLDWAY: I think what I'm trying to
23 point out to you is that there are any number of ways in
24 which one could conceive of savings for a single-piece user,
25 and it doesn't appear to me that you have studied any of

1 these yet to encourage mailers to make mailing easier or
2 more fun or more convenient for people, other than what
3 you've got under the monopoly or working with bulk mailers.

4 And, I must admit, you've worked really
5 efficiently with them. You've certainly shown that
6 worksharing discounts increase volume with bulk mailers. We
7 can agree that over the last 15 years that that's really
8 been successful.

9 THE WITNESS: The worksharing program looks very
10 successful, yes.

11 COMMISSIONER GOLDWAY: And I am simply trying to
12 raise in this discussion, the fact that there is a dearth of
13 information about any kind of worksharing for single-piece
14 users that might result in volume growth as well.

15 If you have any information about single-piece
16 users, is it available? Have you seen any information that
17 would study -- that relates to possible changes in
18 single-piece usage as related to rates?

19 THE WITNESS: I can't recall any at this instant.
20 At this instant, no.

21 COMMISSIONER GOLDWAY: Mr. Chairman, may I ask the
22 witness to at least review his material, and if there is any
23 information about such usage, to provide it to us?

24 CHAIRMAN GLEIMAN: Well, I get hung up on that
25 "any" word.

1 COMMISSIONER GOLDWAY: Yes. I know.

2 CHAIRMAN GLEIMAN: I think it would be helpful if
3 -- I'm willing to direct the Postal Service to see if they
4 have any information on single-piece usage and its
5 sensitivity to price.

6 COMMISSIONER GOLDWAY: Yes.

7 CHAIRMAN GLEIMAN: Is that what you're interested
8 in?

9 COMMISSIONER GOLDWAY: Yes.

10 CHAIRMAN GLEIMAN: And if so, if you could provide
11 that information for the record.

12 MR. McKEEVER: Mr. Chairman, we shall.

13 CHAIRMAN GLEIMAN: Thank you. I appreciate that.

14 COMMISSIONER GOLDWAY: Thank you, Mr. Fronk.

15 CHAIRMAN GLEIMAN: I'm all in favor of off-peak
16 mailing of holiday cards. I mail my -- because of religious
17 beliefs, I mail my New Year's cards in September and
18 October, so I look forward to cheaper stamps. But I guess
19 maybe now, I've stepped into it and I won't be able to
20 benefit. I'll have to --

21 COMMISSIONER GOLDWAY: I don't know. It seems to
22 me a much too simple idea to be implemented.

23 CHAIRMAN GLEIMAN: Well, if I can quote the most
24 famous person that graduated from Baltimore Polytechnic High
25 School -- that was my high school, and I'm not the most

1 famous person -- H.L. Mencken, and I love his quote: For
2 every problem, there's a solution that's simple, neat,
3 plausible and wrong.

4 [Laughter.]

5 CHAIRMAN GLEIMAN: I don't know whether you're
6 hitting on any that are simple, neat, plausible and wrong,
7 or whether, perhaps, simple, neat, plausible, or not so neat
8 and right. But we'll see if we can get the information and
9 sort through it.

10 COMMISSIONER GOLDWAY: Thank you.

11 CHAIRMAN GLEIMAN: Any follow-up questions to
12 questions from the bench?

13 MR. VOLNER: Two very brief follow-up for --

14 CHAIRMAN GLEIMAN: Certainly.

15 MR. VOLNER: -- Mr. Fronk.

16 FURTHER CROSS EXAMINATION

17 BY MR. VOLNER:

18 Q Commissioner Omas asked you some questions about
19 the effects of a meter discount, and I have -- you used the
20 number of \$19 billion in Postal Service revenues that are
21 generated from meters. That's all classes of service, isn't
22 it?

23 A Perhaps I misspoke. I meant 19 billion pieces.

24 Q Nineteen-billion pieces?

25 A Pieces, yes.

1 Q But again, is that confined entirely to a
2 particular class?

3 A Well, that's single-piece first class.

4 Q That's single-piece first class.

5 A Yes. That was metered.

6 Q I'm sorry, I misunderstood you.

7 A Yes. Maybe I mischaracterized it.

8 Q Now, you then went on to estimate that at a penny,
9 it would be approximately \$200 million in savings, and in
10 doing that, you've assumed that all savings have been
11 realized by the Postal Service because of the established
12 base of meters out there.

13 A In that exercise, that's what I did, yes.

14 MR. VOLNER: Okay. I have no further questions.

15 CHAIRMAN GLEIMAN: Any further follow-up questions
16 from the bench?

17 [No response.]

18 CHAIRMAN GLEIMAN: That brings us to redirect.
19 Would you like five minutes?

20 MR. TIDWELL: Yes.

21 CHAIRMAN GLEIMAN: You've got it.

22 [Recess.]

23 CHAIRMAN GLEIMAN: One minute or one question of
24 redirect.

25 MR. TIDWELL: It could be both.

1 CHAIRMAN GLEIMAN: Let's find out.

2 REDIRECT EXAMINATION

3 BY MR. TIDWELL:

4 Q Mr. Fronk, you had a discussion with counsel for
5 Stamps.com in which you were talking about the relative
6 benefits of the use of IBIP products and QBRM. Compared to
7 IBIP, can you think of any benefit to the sender of a QBRM
8 piece who -- can you think of a benefit to the sender who
9 elects to use a QBRM piece as opposed to an IBIP piece?

10 A Yes. When he's supplied with a QBRM piece, the
11 postage is paid, so pays nothing.

12 MR. TIDWELL: That's all we have.

13 CHAIRMAN GLEIMAN: Is there any recross as a
14 consequence of that lengthy redirect?

15 [No response.]

16 CHAIRMAN GLEIMAN: No? That being the case, then,
17 Mr. Fronk, that completes your testimony here today. We
18 appreciate your appearance, probably more than you did, and
19 your contributions to our record. We thank you and you're
20 excused.

21 That concludes today's hearing. We'll reconvene
22 tomorrow morning at 9:30 when we'll receive testimony from
23 Postal Service Witnesses Plunkett, Eggleston and Kiefer.

24 Thank you and have a good evening.

25 [Whereupon, at 3:45 p.m., the hearing recessed, to

1 reconvene the following day, Thursday, April 27, 2000, at
2 9:30 a.m.]

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