

Before the
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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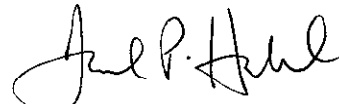
Postal Rate and Fee Changes, 2000

Docket No. R2000-1

**STAMPS.COM'S ANSWERS TO THE USPS INTERROGATORIES
DIRECTED TO FRANK HESELTON (USPS/STAMPS.COM-T1-1- 12)**

Stamps.com hereby submits the answers of Frank R. Heselton to the interrogatories submitted by the U.S. Postal Service, USPS/Stamps.com - T1 - 1 - 12, dated June 8, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



David P. Hendel
Wickwire Gavin, PC
8100 Boone Blvd., Suite 700
Vienna, VA 22182-2642
Tel.: (703) 790-8750

Dated: June 22, 2000

USPS/STAMPS.COM-T1-1

On page 9 lines 10-12 you state "the appropriate benchmark to measure cost avoided by IBIP-prepared letters is handwritten single-piece letters." On page 10 lines 11-13 you state "[o]ver a third of customer letters would have been prepared with handwritten addresses had IBIP not been available."

- (a) Please state the data source and provide copies of all supporting data and/or documentation related to the statement that "over a third" of customer letters would have been prepared with handwritten addresses.
- (b) Given that only "over a third" of customers' letters would have been prepared with handwritten addresses, please explain why a handwritten mail piece is the appropriate benchmark for the measured cost avoidance.

RESPONSE

(a) Please see my response to Interrogatory of Douglas F. Carlson, DFC/STAMPS.COM-T1-2 (a).

(b) As indicated in the testimony of Stamps.com's witness Kuhr, Stamps.com has implemented IBIP under the parameters specified in the *Performance Criteria for Information-Based Indicia and Security Architecture for Open IBI Evidencing Systems*, or PCIBI-O. (See Stamps.com-T-2 at 5 and 6). The PCIBI-O requires a mail piece formatted for automation compatibility. This includes an indicium, FIM placement for automation or a FIM substitute for labels, appropriate address area, and delivery point POSTNET barcode (Ibid. at 14 to 19).

Also required is an address verified and corrected against a CASS certified address base (Ibid. at 21 and 22). These requirements are bundled together; each one must be met to produce a piece of mail prepared and addressed to IBIP requirements. The appropriate benchmark mail piece for

measuring the cost avoided by an IBIP mail piece is one that does not contain any of the required IBIP features. A handwritten envelope does not contain any of the requirements specified for IBIP. It is, therefore, the benchmark against which to measure the cost avoided by an IBIP prepared and addressed piece.

The selection of the benchmark is not defined by how mail is being prepared currently. It is defined, rather, by how the mailpiece would be prepared in the absence of all the preparation requirements, taken together, that must be met to obtain the proposed discount.

A handwritten piece not only is the appropriate benchmark for determining the cost avoided by an IBIP prepared and addressed piece, but also is the benchmark USPS has determined is appropriate for the cost avoidance for a QBRM piece. A QBRM piece must meet the same preparation requirements as an IBIP prepared and addressed piece. The example is consistent with the Commission's acceptance of a handwritten benchmark for QBRM in Docket No. R97-1 with the position of Postal Service witness Campbell in this Docket. Thus, USPS applies the handwritten mail benchmark for QBRM even though it is highly unlikely that any of this mail would have had handwritten addresses if there were no QBRM discount. If there were no QBRM discount, such mailer-provided courtesy reply envelopes would still contain printed addresses, and very likely would contain 9-digit ZIP Codes and POSTNET barcodes. Nonetheless, USPS correctly continues to apply handwritten mail as the appropriate benchmark for determining cost savings for QBRM.

USPS/STAMPS.COM-T1-2

On page 10 lines 10 and 11 you state "individuals, small offices, and home offices (SOHOs) are customers for IBIP mail preparation, and addressing".

- (a) What is the basis for this statement?
- (b) Are there customers for IBIP mail preparation and addressing other than individuals, small offices and home offices? If so, please list and describe them.
- (c) Please provide any demographic data (e.g., geographic region of the country, revenue/income level, types of business/occupation, etc.) of actual customers for IBIP mail preparation and addressing based on these categories.

RESPONSE:

- (a) See the testimony of Raymond Boggs, E-Stamp

Corporation/Stamps.com-T-1.

(b) Yes. Any mailer of single-piece letters and cards, Express Mail, Priority Mail or parcel post is a potential customer for IBIP mail preparation and addressing. I anticipate, however, that individual and small office and home office customers will be particularly interested in IBIP mail preparation because their smaller mail volumes preclude meeting minimum piece requirements needed to use pre-sorted rate categories and make obtaining specialized mail-preparation equipment uneconomical.

(c) Re-directed to witness Lawton. (Objection pending on similar question.)

USPS/STAMPS.COM-T1-3

On page 10 line 17 you state “many of these pieces [customer letters] are likely to be addressed by hand.”

(a) Please provide any research to support this statement.

(b) If no research is available, what is the basis for this determination?

RESPONSE:

(a) and (b) See my response to Interrogatory of Douglas F. Carlson

DFC/STAMPS.COM-T-1-2 (a).

USPS/STAMPS.COM-T1-4

On page 10 lines 18-23 you state, "Many of the best-prepared letters mailed by individuals are courtesy reply pieces. I anticipate that these will not convert to IBIP letters. Under IBIP preparation and addressing procedures, one cannot print an indicium without also printing an address matched to the AMS database. A courtesy reply envelope, however, is already addressed. Additionally, it is much simpler to place a stamp on a courtesy envelope than to prepare an envelope through IBIP."

- (a) Did you conduct a study that sought to determine the extent to which CRM mail volumes could migrate to IBI mail volumes? If so, please provide all supporting data and/or documentation related to that study.
- (b) Do you consider simplicity of use to be a key element of your proposal? Please explain.
- (c) In terms of the application of the postage itself, assuming a customer has equal access to postage stamps and PC postage, wouldn't it always be "simpler" to use stamps for postage rather than IBI software/hardware, regardless of the mail piece type? Please explain any negative response.

RESPONSE:

(a) I did not consider such a study necessary, for the reasons presented in my testimony and quoted above in the question. Furthermore, even if it were possible to print an indicium without printing an address, I doubt that the holder of a CRM envelope would utilize IBIP preparation and addressing procedures. To complete preparation of a CRM envelope, a mailer needs only to stick on a stamp. To complete preparation of an envelope through IBIP under PCIBI-O, the mailer needs to access a computer, access the IBIP provider program, enter information required by the program, insert the envelope in a printer, and print it out. I doubt very much that most single-piece mailers would go through those steps, or even some portion of them, to save 4 cents on postage.

(b) No. I consider simplicity of rate administration to be a key element of Stamps.com's proposal, but not simplicity of use compared to hand addressing and placing a stamp on an envelope. That said, preparation and addressing mail through use of IBIP providers is simple enough to be used by anyone who can send e-mail and surf the Internet. While simple to use, the address checking and cleansing requirement for IBI mail can be a strong disincentive toward such use.

(c) No. For courtesy reply mail, a self-addressed envelope has already been provided to the mailer. The only remaining step for the mailer to take is to apply postage. In this circumstance, it is more convenient to simply apply a postage stamp rather than produce a new envelope and postage using the IBIP. For all other outgoing mail, the mailer must obtain an envelope, obtain the correct address, print the address on the envelope, and then apply postage. In this circumstance, when mailers must supply and address their own envelope, it becomes practical and convenient to use PC Postage for addressing and application of postage. Also, customers may have an inventory of First Class stamps on-hand for day-to-day mailing needs, but likely do not have an inventory of postage needed for other mail, such as packages, Priority Mail, and Express Mail. The use of PC Postage in these circumstances is thus very convenient as it saves on a special trip to the post office to obtain postage for such items.

USPS/STAMPS.COM-T1-5

Witness Kuhr (STAMPS.COM-T-2) describes the extensive Beta testing process that Stamps.com had to undergo in order to qualify as a PC postage provider. Did you offset your measured cost avoidance by the Postal Service costs related to this beta testing procedure? If not, why not.

RESPONSE:

My measured cost avoidance is based on attributable cost, which varies with volume. The cost of Beta testing is an institutional cost. See, for example, the Postal Service's response to an interrogatory from Douglas F. Carlson, DFC/USPS-16, at Tr. 6/2636-2637.

USPS/STAMPS.COM-T1-6

On pages 13 and 14 of your testimony you describe various address deficiencies that can occur when a mailer does not apply the appropriate address to a given mail piece.

- (a) Please confirm that mail pieces with address deficiencies can incur additional processing costs. If not confirmed, please explain.
- (b) Please confirm that individual mailers should take responsibility to ensure that their mailing lists and addresses are current and up-to-date. If not confirmed, please explain who the responsible party should be.
- (c) If a mailer were responsible for ensuring that a mail piece address is correct and up-to-date, please explain why a discount, or portion of a discount, should be based on the costs associated with a mailer simply performing a task that is obviously its responsibility.
- (d) Please confirm that some of the "address deficiencies" you describe (e.g., missing street directionals) can be corrected by postal automation equipment, such as the Remote Bar Code System (RBCS). If not confirmed, please explain.
- (e) Please confirm that any costs related to address deficiencies that have been corrected by postal automation equipment would already be included in the measured cost avoidance of 2.99 cents as described on page 8 of your testimony. If not confirmed, please explain.
- (f) Please confirm that you did not perform an "exact piece comparison" for address deficiency related costs (i.e., you did not compare the address deficiency related costs for a mail piece before it converted to PC postage to those same costs for the same mail piece after it converted to PC postage). If not confirmed, please explain.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. But as a practical matter, many individual mailers do not do this, and the Postal Service does not require it of them.
- (c) First, as a practical matter, many individual mailers do not take responsibility for ensuring that their mailing lists and addresses are current and

up to date. Thus, a discount is appropriate to provide an incentive for these mailers to take such action, which also reduces USPS processing and delivery costs. Second, many single-piece mailers do not have the tools needed to ensure that their mailing lists and addresses are current and up to date, or it would be uneconomical for such users to acquire and use such tools. Under these circumstances, a discount that encourages them to use IBIP technology in preparing correct addresses is justified. A discount would help offset the greater effort that is required to produce current and accurate addresses. It also is advantageous to the Postal Service, because it results in lower USPS processing and delivery costs. The Postal Service's own Address Deficiency Study (ADS) indicates that incorrect addressing by users is a substantial problem that USPS faces. The ADS states that, "many people simply do not know their correct, full, standardized address." ADS at 11 (USPS-LR-I-192/R2000-1 at 11). If people do not know their own correct address, they cannot provide it to those sending them mail, which contributes to difficulty in preparing correct addresses.

(d) Confirmed. The RBCS, however, cannot correct an address deficiency when there are multiple possible choices for address correction.

(e) Confirmed. I have not included such cost avoidance in my calculation of the cost avoided by use of IBIP to address letters and cards.

(f) It was not necessary. Additionally, performing the kind of study the question suggests may not be practical.

USPS/STAMPS.COM-T1-7

Please confirm that your proposal would result in a revenue loss that would have to be recovered in order for the Postal Service to meet its revenue requirement target. If not confirmed, please explain.

- (a) Please quantify the revenue loss associated with the Stamps.com proposal.
- (b) Please explain how this revenue loss should be recovered.

RESPONSE:

Not confirmed. I anticipate that lower revenue received by the Postal Service as a result of a 4 cent discount for IBIP prepared and addressed mail will be more than offset by IBIP's lower processing and delivery cost, leaving a net revenue gain.

Letters that otherwise would have been handwritten will avoid at least 4.13 cents in cost per piece from IBIP preparation and addressing, 2.99 cents per piece from preparation, and 1.14 cents per piece from addressing. Since over one-third of IBIP prepared and addressed letters otherwise would have been handwritten, at least one-third of IBIP letters will avoid cost that will more than offset the reduced revenue associated with such pieces.

The remaining letters, those with machine-prepared addresses, already would avoid some preparation cost relative to that for handwritten letters. Machine-addressed letters can be read and barcoded with an eleven digit barcode more easily than handwritten-addressed letters. The cost avoided through this easier processing already is reflected in the Postal Service's mail processing cost. To the extent that these letters otherwise would have received a discount that reflected their easier processing, the effect of this avoided cost

already is reflected in revenue, and no further cost avoidance is necessary to offset it. See the example in my response to USPS/STAMPS.COM-T-1-1.

Conservatively, I assume that no IBIP prepared and addressed letters that otherwise would have been machine addressed would have received a discount. Any processing cost that would have been avoided by these letters because of their machine addressing, therefore, already is reflected in the Service's processing cost. Additional cost avoidance is required to offset this amount.

These letters will avoid a per piece cost of 1.14 cents from IBIP addressing. I conclude they also avoid about one-third of the cost avoided by handwritten letters in RBCS and outgoing processing. That leaves about another 2 cents per piece of cost avoidance needed to offset the proposed 4 cents per piece IBIP discount for letters that otherwise would have been addressed by machine. The 2 cents per piece will come from the following sources.

In my testimony, I estimate that, at the very least, several tenths of a cent per piece in delivery cost will be avoided by IBIP addressed pieces. I did not include this amount in calculating the proposed discount. It is available, therefore, to provide part of the needed 2 cents cost avoidance. Since the portion of the cost avoidance related to hand-addressed letters is not needed as a reserve for that category, it can be applied toward the avoidance needed for machine-addressed letters. This provides about 0.5 cents per piece of the needed 2.0 cents per piece.

Dr. Haldi indicates that metered and PC postage (IBIP) mail avoid at least 1 cent per piece in transaction cost (see testimony of Dr. John Haldi, PB-T-2).

This avoidance, like that for delivery cost, can be applied toward that needed for machine-addressed letters. This provides 1.5 cents per piece, which adds to the 0.5 cent per piece delivery cost avoidance to achieve the 2.0 cents per piece cost avoidance needed to make the proposed discount for IBIP prepared and addressed letters revenue neutral.

Additionally, in developing the cost avoided by IBIP addressed letters, I judgmentally reduced the estimated mail processing cost by one-third to produce a very conservative estimate of 1.14 cents per piece. This cost avoidance probably is greater than the amount underlying the proposed discount for IBIP addressing, providing cost avoidance in excess of the needed 2.0 cents per piece. Furthermore, in developing the proposed discount for IBIP preparation and addressing when labels are used, I conservatively pass through only 70 percent of their avoided cost to the discount. This is more allowance than needed for possible errors in applying labels to envelopes. I would have passed through more avoided cost to the discount, but that would have resulted in a fractional rate, which I think is undesirable in rates used by the general public. This provides further cost avoidance in excess of the needed 2.0 cents per piece for machine-printed mail.

(a) – (b) Any revenue loss will be more than offset by costs avoided. See my answer above.

USPS/STAMPS.COM-T1-8

On page 23 lines 11 through 15 you state “no novel or untested processing equipment or operations are required to capture the savings. This contrasts with many workshare opportunities in the past, which had to be accomplished through substantial adjustments in postal processing and transportation operations.”

- (a) What is your basis for determining that the savings could be achieved by the Postal Service without substantial adjustments in postal processing and transportation operations?
- (b) Please explain in detail the basis for your belief that these savings will be achieved, given the current Postal Service letter mail processing environment?

RESPONSE:

(a) See my testimony at page 9, lines 6 through 23, and page 10, lines 1 through 7. IBIP prepared and addressed letters meet exactly the same automation compatibility and other standards met by QBRM. Both IBIP and QBRM letters enter the mailstream as individual pieces. Since the Postal Service has been processing QBRM and its predecessor category for years, I conclude that it can process IBIP letters without substantial changes in its processing and transportation operations.

(b) In this proceeding, the Postal Service supports continuation of the QBRM discount established in Docket No. R97-1, based on costs avoided in mail processing by QBRM preparation to automation standards. See testimony of witness Fronk, USPS-T-33, page 41, lines 17 through 22, and page 42, lines 1 through 16. I do not believe the Postal Service would propose to continue a discount based on estimated avoided cost if it could not, in fact, actually avoid that cost. Since IBIP prepared letters avoid the same processing cost avoided by

QBRM, the Postal Service should be able to achieve the same cost avoidance for this category that it does for QBRM.

USPS/STAMPS.COM-T1-9

On page 26 lines 9-12 you state, "As witnesses Fronk and Campbell speculate, a mailer could place material in an IBIP prepared and addressed envelope that is too heavy for the postage printed. But any mailer - whether using stamps or meter strips - could theoretically make this same error." On page 27 lines 3-7 you also state "Witnesses Fronk and Campbell also speculate that mailers may 'push their printer cartridges a bit too far,' producing envelopes too difficult for postal automated equipment to handle. Once again, to the extent such problems could possibly occur, there is no showing it occurs more frequently with IBIP users than other mailers."

- (a) Please confirm that if either of these situations were to occur, an IBIP user would be receiving a discount (were the Stamps.com proposal approved), while a mailer that used stamps or meter strips would not be receiving a discount. If not confirmed, please explain.
- (b) Do you feel that mailers receiving discounts should be held to a higher mail preparation standard than mailers not receiving discounts? Please explain any negative response.

RESPONSE:

(a) Confirmed, but the IBI mailpiece would contain a cleansed address; a verified, current, and accurate POSTNET barcode; and a FIM code. I am also not aware of any study showing that either of these theoretical problems would occur frequently enough to impact the proposed discount.

(b) No. Mailers should prepare their mailings to comply with all the requirements associated with the rate category for which their mail is paid. This applies equally to all mailers, regardless of whether or not they receive discounts. A mailer not receiving a discount has the same responsibility to mail at rates correct for the weight being mailed as does a mailer receiving a discount.

USPS/STAMPS.COM-T1-10

On page 31 lines 8 through 13 you state “given the possibility of error in applying address labels, I make an additional allowance for uncertainties by proposing a per piece workshare discount of 3 cents for IBIP prepared and addressed letters when the indicium and address are printed on labels to be placed on the envelope.”

- (a) Please list and describe the types of possible errors in applying labels on envelopes that led you to make such an allowance?
- (b) What type of labels do you propose for use with IBIP postage placed on an envelope?
- (c) Is a FIM D required when the IBIP postage is applied to a label?
- (d) How will the Postal Service’s processing equipment recognize IBIP postage when it is applied to a label placed on an envelope?

RESPONSE:

(a) In making an allowance for the possibility of error in applying address labels, I have in mind errors in positioning labels in the correct location and alignment, and in applying them so that they properly adhere to and remain in place.

(b) I do not propose any particular type of label. Label specifications are determined by the Postal Service so their operating needs can be met. Currently, the Postal Service requires that IBI users print labels on special florescent-striped labels.

(c) No. The label contains fluorescent marks that permit it to be detected by USPS processing equipment.

(d) USPS’s processing equipment detects the florescent marking on the label..

USPS/STAMPS.COM-T1-11

On page 40 lines 11 and 12 you state "IBIP procedures guide the user through this process, requiring the user to indicate the size of envelope or to specify type of label."

- (a) What is meant by "IBIP procedures"?
- (b) Are these procedures part of the Postal Service requirements or particular PC Postage product attributes?

RESPONSE:

(a) I mean the IBIP implementing program, such as the Stamps.com's client interface described in the testimony of witness Kuhr, STAMPS.COM-T-2.

(b) See my answer to (a), above.

USPS/STAMPS.COM-T1-12

In this docket, a "CEM" discount for courtesy reply mail has been proposed by witness Willette (OCA-T-7), a "P" rate discount has been proposed by witness Clifton (ABA&NAPM-T-1), and a meter mail discount has been proposed by witness Haldi (PB-T-2).

- (a) In your opinion, is it possible for all four of these single-piece discount proposals to be implemented? Please explain any affirmative response.
- (b) If your response to (a) was negative in any way, please explain why the Stamps.com proposal should be given special consideration over the other single-piece proposals. Include a discussion of "fairness and equity."
- (c) If both the Stamps.com and the "P" rate discounts were approved and implemented, a mailer could take advantage of both discounts. How would you envision the proposed Stamps.com discount fitting in with the "P" rate discount were both to be approved?

RESPONSE:


(a) Yes, but only one discount could be applied to a single piece of mail.

(b) I do not contend that Stamps.com's proposal be given special consideration over other single-piece discount proposals. The proposal, and any others, should be evaluated on their merits in accord with the requirements of the Postal Reorganization Act. In requesting a discussion on "fairness and equity," I assume you mean with regard to "special consideration." Since I do not propose such consideration, I do not think an issue of its fairness and equity is raised.

(c) I do not see how a mailer could take advantage of both discounts on the same mailpiece as they are proposed. As currently proposed, an IBIP prepared and addressed letter could not also have a "P" stamp affixed.

DECLARATION

I, Frank R. Heselton, declare under penalty of perjury that the answers to interrogatories USPS/Stamps.com – T1 – 1 – 12 of the U.S. Postal Service are true and correct, to the best of my knowledge, information, and belief.

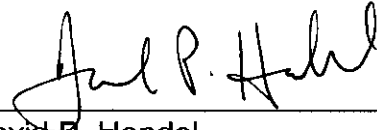


Frank R. Heselton

Dated: June 20, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this 22 day of June 2000, served the foregoing document in accordance with the Commission's Rules of Practice.



David P. Hendel