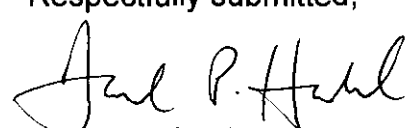
Before the
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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-T1-13- 17)

Stamps.com hereby submits the answers of Frank R. Heselton to the interrogatories submitted by the U.S. Postal Service, USPS/Stamps.com - T1 - 13 - 17, dated June 13, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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Dated: June 26, 2000

USPS/STAMPS.COM-T1-13

On page 9, lines 13-15, you state that with respect to a handwritten benchmark, "the key aspect is not so much whether the address is handwritten or printed, but whether it contains a correct POSTNET barcode and FIM code."

(a) Please explain why the "key aspect" is not whether the address is handwritten or printed.

(b) Please provide your understanding of how a mail piece without a barcode actually receives a barcode.

(c) Please confirm that a handwritten address may be more difficult to decipher than a machine printed address.

(d) Please confirm that barcoding a mail piece with a sloppy handwritten address may be more costly than barcoding a mail piece with a clean machine printed address.

(e) Please confirm that the mail processing cost difference between a prebarcoded mail piece and a handwritten mail piece, on average, would be greater than the cost difference between a prebarcoded mail piece and a machine printed mail piece.

RESPONSE:

(a) For ease of processing, an important feature of IBIP prepared and addressed letters and cards is that they contain a FIM and an eleven-digit POSTNET barcode. This permits their identification at the AFC as mail that already has an eleven-digit bar code that can be processed on bar-code readers without further processing, avoiding RBCS cost. Even if a mailpiece is typed and contains a perfect address and ZIP Code, it will not avoid RBCS processing or proceed directly to barcode sorters unless it has a FIM. Handwritten mail and perfectly printed mail are in this way treated the same.

(b) In general, the address information is read by OCR equipment. If the OCR equipment is able to read the address, a barcode is printed out. If the OCR

cannot read the address, the piece is rejected and sent to RBCS processing. If required, the image is sent to a remote encoding center, where a person provides the missing information, and the barcode is printed out. Note that an ID tag is printed on the backside of the envelope to identify the mailpiece so a barcode can be printed on it after the RCR or remote encoding equipment returns the necessary information.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

USPS/STAMPS.COM-T1-14

On page 9, lines 10-12, you state "the appropriate benchmark to measure cost avoided by IBIP-prepared letters is handwritten single-piece letters," the same benchmark used by witness Campbell for measuring the worksharing related costs avoided by QBRM letters.

For purposes of the following questions, assume that the Commission determines that the appropriate benchmark for a letter prepared using IBIP technology would be a First-Class metered letter instead of a handwritten letter.

(a) Please confirm that the modeled mail processing cost of a metered mail piece is 6.307 cents using the Commission-accepted cost methodology (see USPS LR-I-147, pages I-16).

(b) Confirm that the modeled mail processing cost of a QBRM piece is 4.587 using the Commission-accepted cost methodology (see USPS LR-I-146, page 2).

(c) Confirm that the modeled mail processing cost difference between a First-Class metered letter and a QBRM piece is 1.72 cents.

(d) Confirm that the CRA-adjusted worksharing related cost difference between a First-Class metered letter and a QBRM piece is 1.712 cents based on witness Campbell's model methodology (see USPS LR-I-146, page 2).

RESPONSE:

For purposes of my response, I accept as valid your assumption that the Commission determines the appropriate benchmark for a letter prepared by IBIP preparation and addressing procedures would be a First-Class metered letter instead of a hand-addressed letter. This assumption, coupled with my responses below, would not affect my support for a 4-cent discount for IBIP prepared and addressed letters, or my determination that such discount would be revenue neutral. Regardless of the benchmark used to determine the appropriate discount, some IBI mail would have been handwritten and some would have

been printed or typed. In my testimony and my answer to USPS/STAMPS.COM-T1-7, I assumed that only 1/3 of IBI mail would have been handwritten prior to conversion to IBI and that fully 2/3 of IBI mail would have been printed or typed. In my answer to CARLSON/STAMPS.COM-T1-2, I explained the basis of that assumption. Based on these assumptions, I determined that my discount proposals would still be revenue neutral to the Postal Service. See USPS/STAMPS.COM-T1-7.

(a) I have not reviewed USPS LR-I-147, pages 1-16, but I accept for purposes of my response the representation that the modeled mail processing cost of a metered mail piece is 6.307 cents.

(b) Confirmed.

(c) I have not reviewed USPS LR-I-147, pages 1-16, but I accept for purposes of my response that the modeled mail processing cost difference between a First-Class metered letter and a QBRM piece is 1.72 cents.

(d) I accept for purposes of my response that 1.72 cents, when multiplied by the "CRA Proportional Adjustment" factor of 0.995 in USPS LR-I-146, page 2, equals 1.712 cents.

USPS/STAMPS.COM-T1-15

(a) Please confirm that IBIP letters prepared using labels for indicia and addresses are processed along with metered mail (i.e., the same operations).

(b) Please confirm that the cost difference between a metered mail piece and a handwritten mail piece is 1.282 cents, based on the modeled mail processing cost of a First-Class metered mail piece (see USPS/STAMPS.COM-T1-X) and a handwritten mail piece.

(c) Based on part (b), please explain how you can justify a worksharing discount of 3 cents per piece for IBIP letters prepared using labels when a handwritten mail piece is the benchmark.

(d) Please confirm that when a metered mail piece is the benchmark, the modeled mail processing cost difference is zero cents between a metered letter and an IBIP letter prepared with labels. If you cannot confirm, please explain.

RESPONSE:

General response: Currently, IBIP prepared and addressed letters often, but not always, are processed along with metered mail. This processing may be appropriate during the introduction of IBIP prepared and addressed letters, when such letters are not familiar to postal personnel and are processed infrequently. The relevant consideration, however, is not how IBIP prepared and addressed letters are processed currently, but how they will be processed in the test year and beyond. The Postal Service requires that users of IBIP mail incur the expense of preparing letters to essentially the same automation-compatible standards as QBRM letters. This degree of preparation permits the Service to process these letters in exactly the same way that QBRM letters are processed, and to avoid the same cost avoided by QBRM letters.

I do not believe the Service would require IBIP users to expend the effort and expense of meeting IBIP preparation and addressing requirements if they did not intend to use the results of that preparation in mail processing. Furthermore, I believe the Service pursues opportunities to decrease mail processing cost. It will take advantage of the presence of IBIP prepared and addressed letters in the mailstream, and process them to avoid the same cost as currently avoided by QBRM letters. I believe some offices already are doing such processing. If the Postal Service did not intend to process IBI mail to take advantage of the cost savings that can be achieved from automation-compatible mail, then it would not have required IBI letter mail to be automation-compatible.

(a) See my general response, above. Labels for IBIP prepared and addressed letters can be designed to permit orientation of the piece and to substitute for a FIM, so these letters will be processed like IBIP pieces prepared without labels.

(b) I assume that your reference to USPS/STAMPS.COM-T1-X is intended to be USPS/STAMPS.COM-T1-14 and the materials referenced therein. I accept for purposes of my response that the modeled cost difference between a metered piece and a handwritten mail piece is 1.282 cents.

(c) See my general response, and my response to (a), above. I anticipate that IBIP prepared and addressed letters with labels will be processed in the test year and beyond just as QBRM letters are processed, and will thus avoid the same cost.

(d) Not confirmed. See my general response, and my responses to (a) and (c), above. Furthermore, an additional per piece cost of 1.14 cents will be avoided through addressing letters to IBIP standards.

USPS/STAMPS.COM-T1-16

On page 18, lines 17-19, you state that you "believe AMS managers would know enough about the kinds of address deficiencies resolvable through carrier knowledge." What is the basis for this statement? Did you discuss this matter with any AMS managers? Please explain.

RESPONSE:

In the course of working with addressing problems, AMS managers are exposed to many sources of data and information concerning these problems. I conclude this exposure would provide them with experience to determine the kinds of address deficiencies resolvable through carrier knowledge. Additionally, the Address Deficiency Study (ADS) itself is based on the conclusion that AMS managers know enough to make these determinations. See USPS-LR-I-192/R2000-1 at pages 4 and 8. The AMS, which was performed for the Postal Service by PriceWaterhouseCoopers, relied on AMS managers and specialists to analyze the sample pieces for address deficiencies. The AMS indicates: "It is important to note that of the 23.5% of mail pieces having deficiencies, the portion assumed deliverable (16.6%) by AMS managers is deliverable only with additional handling and/or carrier knowledge." ADS at page 8. Both the Postal Service and PriceWaterhouseCoopers appear to have accepted that AMS managers can make the determinations called for in the study, including those that involve carrier knowledge.

USPS/STAMPS.COM-T1-17

On page 35, line 4, you state that, unlike prior courtesy envelope mail (CEM) proposals, the discounts proposed for IBIP-prepared and addressed letters "do not de-average rates." Please explain the different rationale for a postage discount for IBIP users as oppose to the rationale for a CEM discount. Please provide specific cost figures to support your answer. In doing so, please fully explain your use of the term "de-average."

RESPONSE:

The mailer of an IBIP prepared and addressed letter obtains the envelope, addresses it in accord with the AMS address database, and prints the address, FIM, eleven-digit barcode and indicium on the appropriate places on the envelope. The piece, when processed in accord with these attributes, avoids per piece processing and delivery cost of over four cents. This cost avoidance offsets a per piece reduction in revenue of four cents from the proposed discount for IBIP prepared and addressed letters. See my testimony and interrogatory responses, including my response to USPS/STAMPS.COM-T1-7, for a discussion of the cost avoidance and discount development. Since avoided cost matches the discount, no rates for other mailers need be adjusted because of this proposed discount. There is no rate de-averaging.

In contrast, a CEM letter is prepared largely by the distributor of the CEM envelope, not by its mailer. The envelope distributor obtains the envelope, addresses it with an address matched to an AMS address database, and prints the address, FIM, eleven-digit barcode, and box for a stamp on the envelope, and distributes the envelope to the mailer. The mailer affixes a First-Class basic letter-rate stamp on the letter and mails it. The preparation of the envelope by its distributor permits it to avoid the same processing and delivery cost avoided by

an IBIP prepared and addressed letter. Since this cost avoidance is not offset by a matching discount, it is reflected through lower First-Class letter rates for all mailers in this category. The distributor of the envelope benefits from these lower rates in its First-Class letter mailings. The mailer not only benefits from lower First-Class letter rates, but also avoids the expense of purchasing an envelope and the effort of preparing it, except for the simple act of affixing a stamp.

A CEM discount would obviously lower the rate paid by the mailer of the CEM letter. But a CEM discount would result in USPS incurring substantial additional costs relating to: the production and distribution of CEM-rated stamps, educating all mailers concerning the proper use of CEM, and possible misuse or mistaken use of CEM stamps on non-CEM envelopes. (None of these costs or confusion would arise from the proposed IBI discount.) Also, the discount would not be offset by the cost avoided through preparation by the envelope distributor, because the cost avoidance already is reflected in First-Class letter rates. Consequently, rates for First-Class letter mailers would have to be increased to offset the discount. The benefit of the avoided cost would no longer be averaged across First-Class letter rates, which would have to be de-averaged to offset the discount. A CEM discount inherently involves rate de-averaging. For an example of the costs involved, see the Commission Opinion in Docket No. R97-1, at pages 315 to 326.

DECLARATION

I, Frank R. Heselton, declare under penalty of perjury that the answers to interrogatories USPS/Stamps.com – T1 – 13 – 17 of the U.S. Postal Service are true and correct, to the best of my knowledge, information, and belief.

Frank R. Heselton

Dated: June 26, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this 26 day of June 2000, served the foregoing document in accordance with the Commission's Rules of Practice.

David P. Hendel