

UNITED STATES OF AMERICA
Before the
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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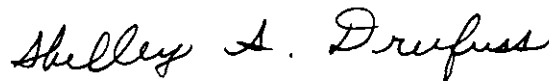
Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
WITNESS: TED P. GERARDEN (USPS/OCA-T7-21(e) and 22(b)),
REDIRECTED FROM WITNESS WILLETTE
(June 26, 2000)

The Office of the Consumer Advocate hereby submits the answers of Ted P. Gerarden to interrogatories USPS/OCA-T7-21(e) and -22(b), dated June 12, 2000, and redirected from witness Willette. The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,



TED P. GERARDEN
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ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T7-21(e) and -22(b)

USPS/OCA-T7-21(e)

(e) Did anyone within the OCA consider conducting any market research in conjunction with its Docket No. R2000-1 CEM proposal? If not, please explain why market research was not conducted. Please also provide all documents generated in connection with any such discussions or deliberations concerning such market research.

RESPONSE TO USPS/OCA-T7-21(e)

Yes. In considering issues to include in the OCA's testimony in Docket No. R2000-1, the OCA considered the desirability of conducting market research on CEM as well as on other initiatives. The OCA explored informally the parameters, including cost, of performing market research that could be expected to produce statistically valid results, as well as OMB restrictions on data collection governing the Commission. Given the modest budget on which the Commission operates, including the very modest budget for the Office of the Consumer Advocate, and given the need to commit available funds to other aspects of the rate case, it was not feasible to conduct market research on CEM.

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USPS/OCA-T7-22(b)

(b) For each intervenor listed below, confirm that the OCA has had discussions with representatives from each party regarding the CEM proposal and/or the intervenor proposal indicated. If not confirmed, please explain. In addition, state the date(s) of those discussions, the person(s) involved in those discussions, the topic(s) discussed, and the conclusion(s) you may have reached. Please provide copies of all notes, records, or other documentation that you may have maintained in connection with these discussions.

- (1) E-Stamp: PC Postage Discount Proposal
- (2) Stamps.com: PC Postage Discount Proposal
- (3) MMA: "P" Rate Proposal
- (4) Pitney Bowes: Meter Mail Discount Proposal

RESPONSE TO USPS/OCA-T7-22(b)

(b) Confirmed. In each case the meeting was held at the request of the party.

(1) and (2) On March 30, 2000, Ted Gerarden, Gail Willette, and Rand Costich of the OCA met with Timothy May for E-Stamp Corporation and David Hendel for Stamps.com. The principal purpose of the meeting was for the OCA to learn about E-Stamp Corporation's and Stamps.com's plans to request a discount for IBI postage. The OCA did not reach any conclusion as a result of this meeting. Copies of notes of the meeting are attached.

(3) It is my understand that the "P" rate proposal refers to the proposal made by witness James Clifton on behalf of the American Bankers Association ("ABA") and the National Association of Presort Mailers ("NAPM"), not the Major Mailers Association ("MMA"). On April 3, 2000, Ted Gerarden met with Joel Thomas and James Clifton for NAPM. The principal purpose of the meeting was for the OCA to learn about the "P"

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rate stamp proposal being considered by NAPM. The OCA did not reach any conclusion as a result of this meeting, but later determined that there was merit in the idea. No notes were taken of the meeting. Mr. Clifton did later share a copy of draft testimony with the OCA. That draft was returned to Mr. Clifton. Attached hereto is a copy of a letter, dated May 5, 2000, sent by me to Mr. Clifton concerning the draft.

(4) On December 10, 1999, Ted Gerarden met with John Schmidt and John Campo of Pitney Bowes. The principle purpose of the meeting was for the OCA to learn about Pitney Bowes' plans to propose a discount for metered mail. The OCA did not reach any conclusion as a result of this meeting. No notes were taken of the meeting.

3/3/00 Meeting w/ Tim May + Dave Hendel - TP6,
Rand, Gail re EStamp + Stamps.com

Will propose discount for 1B1 postage
based on QBCM - like automation compatible
except for presort.

Primary market 50/50 + homeowner. One
problem is estimating market - has done survey
work w/ both, Neopost + DB - cost \$5000 - EStamp
has it + has approached them about appearing
in case. Not sure if they will.

Neither wants a shell classification - they
want a rate, so they need a reasonable
estimate of cost and consequences.

Stamps.com only allows \$500 postage at one
time - don't look at more than 100 employees -
the \$500 is currently a USPS limitation.

Stamps.com requires one by one address
checking - won't print envelope without correction
EStamp does it off line with CD rom that
is updated.

Different payment plans - minimum \$2/month,
10% of postage - EStamp charges 10% when the
postage is ordered, Stamps.com when the

postage is used.

May makes pitch that person creating cost saving mail piece (consumer) is rewarded, when ~~cost~~ savings are credited by the company sending the prepared envelope.

Hendel says they can handle all problems raised by USPS in response. On country envelopes, postage could be printed on label & label could be put on CRE instead of a stamp.

Plan to ask for a 3 cent discount match to QBRM. Calculating differences - not presented, but thinks that there is a $\$$ difference to handwritten mail.

USPS doesn't have any in, which helps them in providing savings & getting discounts.

May wants PRC not to increase PC rate for this mail - that would give at least a 1¢ discount - trying to come up with a strategy to avoid classification change problem, way for USPS to reject a recommendation. Would not tie to QBRM.

May sees best strategy to measure some discounts for this kind of mail - sort of a

worksharing method - savings are being measured by handwritten as benchmark rather than meters. Plans to put in some record info that it is comparable to automation mail

Both companies have engaged cost consultants - but clients don't want to spend heavily in the case.

Gail notes that @BRM + CEM are holdout mail - 181 will likely be delivered. Gail thinks cost related to that

Stamps.com has quality control check - requires customer to mail an envelope to Stamps.com every 6 months or so - so they can check quality. May says laser printers are good, quality can be spotty with inkjets -

I ask if survey results can be shared with OCA - May will check - we would like to know more about how the service works + who is signing up for it.

May 5, 2000

Mr. James A. Clifton
President, Washington Economics Consulting Group
P.O. Box 60654
Potomac, MD 20854

Re: "P" stamp proposal

Dear Jim:

Sorry to be so long in getting back to you. I have reviewed your draft "P" stamp proposal, and asked a couple of others in OCA to do so also. We think it's a good idea, worth asking the Commission and the Postal Service to consider.

I've enclosed a copy of the draft with some notes and questions I made as I went through it. Here are some overall reactions, more or less in the order they occurred to me as I went through the paper:

- ◆ I'd prefer that you didn't call the prior CEM proposal "extreme." Note the very high cost contribution calculated for this mail in OCA/USPS-121 and LR-I-191. The Postal Service doesn't embrace the 29¢ savings, but it is an impressive number.
- ◆ The "P" designation sounds okay, but references to "public automation rate" or "PAR" may dredge up bad memories. This is an area where some skillful spin doctor might suggest an acronym and/or stamp design that sugarcoats the pill.
- ◆ Placing collection boxes on private property might be an issue for the Postal Service. I don't have a problem with it, but it does raise questions about how the Postal Service will feel about Postal Service-like boxes performing a Postal Service-like function for the public but not on the same turf (literally) that the Postal Service has used historically.
- ◆ Your paper doesn't explicitly address how the Postal Service handles a change in the "P" stamp rate—I assume that older "P" stamps would bear their postage rate (to a decimal) and make-up postage would be needed. Since the "P" rate would

change in each case according to avoided costs, I assume it would not move in lockstep with the FC rate. Would the USPS have to print "P" makeup stamps? Or could the FC make-up stamp be used even if the change in postage is different?

- ◆ I have the impression that the public generally has been negative on using non-integer stamps. Selling in sheets or multiples of 10 is a good idea; the public should be able to see a benefit in a decimal discount stamp. Still, if the discount can be set at an integer, so much the better. The OCA will pursue uncoupling from the effect of the integer rate in its SPFC proposal.
- ◆ Would implementing this proposal mean that USPS would set standards or certify participating presorters? Can the presort industry assure the postal Service that their members can offer enough geographic coverage of the U.S. to warrant the general public education that is needed? Would the industry participate in the education effort?
- ◆ The idea of setting the rate by the discount for prebarcoding and allowing the presort bureaus to capture the presortation discounts raises some questions. I assume that consumers would pay the USPS for the "P" stamp and presorters would get a credit for the value of postage applied by the public to the "P" stamp letters entered with their trayed mail. The Postal Service would not be involved in the "split" between presorters and those who provide a place for "P" boxes or otherwise gather mail. I'm unclear on the purposes of discussing the "split" here.
- ◆ Solving the "type one" problem will be the hardest to get past the Postal Service. They will argue that short-paid mail (even though it is outweighed by overpaid mail) is extremely expensive to deal with and would be a constant problem if the "P" stamp came into existence. It has been the thorniest problem for CEM so far.
- ◆ The "type three" problem appears to be disappearing if the data from R2000-1 is accurate. Automation compatibility is increasing significantly.
- ◆ Is there a fourth type of problem: the letter deposited in the "P" box with no stamp? How does the presorter return this to the sender? If it goes into the Postal Service system for return, it is expensive (I believe the unit cost of returning a letter for postage due is above 50¢). You should also address the how's of returning a non-qualifying piece to the mailer in your discussion of the "type three" problem. What about unstamped mail with no return address?
- ◆ You should discuss what happens to pieces that the presorter can't automate or can't automate efficiently. Would the presorter add postage to get up to the FC

rate and put the mail into USPS collection (*i.e.*, not enter it as discount prepared mail)?

- ◆ Would adoption of a “P” stamp program lead USPS to set envelope and related standards for single piece mailpieces to better assure that they qualify?
- ◆ We like the argument you make for a price competitive response even if migration from the hard copy mailstream is for non-price factors. This is an argument similar to that which OCA will make for CEM. We think that CEM is also a good short-term option to confront competition—particularly since it relies on envelopes over which USPS exercises control in setting standards for, including CRM envelopes.
- ◆ I understand you are considering whether to go further and recommend a rate. Even if you don’t, do you have some sense of the potential volume that could be used to indicate that the presort industry can handle it, and that the Postal Service comes out well even if its letter mail processing equipment loses some of the current intake volume?

Overall, your “P” stamp proposal fits in nicely with OCA’s continued push for a CEM discount. It requires express support from the presort industry, showing the PRC that the industry wants to the opportunity to work mail from the general public. We should give some thought to the likely rate. One concern I have is that if the “P” stamp rate is set at a level different from the CEM rate. The Postal Service has resisted CEM largely because it doesn’t want to create a two-tier public stamp rate; it will resist even more having three.

That suggests that a good starting point would be to price CEM and the “P” rate the same. I expect that we will suggest tying the CEM rate to the QBRM discount. In this respect, while I understand that your goal is to have “P” rate mail bypass more of the entry processing that CEM would, CEM is rarely delivered, whereas a significant portion of “P” stamp mail would require delivery.

Thanks again for the opportunity to comment on your proposal; I’ll look forward to seeing it refined in your evidence.

Sincerely,

Ted P. Gerarden
Director

DECLARATION

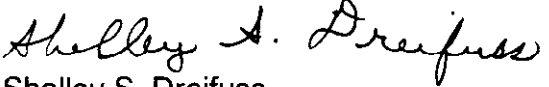
I, Ted P. Gerarden, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T7-21(e) and -22(b) of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed June 23, 2000

Ted P. Gerarden

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


Shelley S. Dreifuss

Washington, DC 20268-0001
June 26, 2000