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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSES OF PITNEY BOWES WITNESS HALDI TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE (USPS/PB-T2-11-17)**

Pitney Bowes hereby provides responses to the above listed interrogatories of the United States Postal Service filed June 15 and 16, 2000. Each question is stated verbatim and is followed by the response.

Respectfully submitted,



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June 29, 2000

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-11. In footnote 9 on page 16, you mention Bulk Metered Mail (BMM) letters that are already faced and trayed.

- (a) Have you ever studied BMM letter mail processing? If so, please state the date, approximate time of day, and location of those studies and provide copies of any records crated in conjunction with such studies.
- (b) Please describe the methods that a large volume meter mail user would undertake from the point that they begin to prepare mail pieces to the point that those mail pieces are "entered" at the Postal Service.
- (c) Is it your understanding or opinion that BMM letters exist in today's mail processing environment?

Response:

Before responding to the subparts of this question, let me begin by saying that my use of the term "Bulk Metered Mail" is intended to be the same as used by witness Fronk, USPS-T-33, who gives the following description of bulk metered mail in footnote 2 of his testimony, at page 18:

Bulk metered mail refers to meter belt bypass mail. This is metered letter mail which is trayed by the mailer, so it does not require the preparation that bundled metered letters would. Similarly, bulk metered mail does not require facing and canceling.

- (a) No.
- (b) It is my understanding that mailers who "enter" BMM as defined above may prepare the mail in a number of different ways. Essentially, the contents of the envelopes are prepared, then inserted into the envelopes (which are either window envelopes or have had the address printed on them), after which the envelopes are sealed and then run through a postage meter.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

- (c) Yes. Otherwise, it would not make sense to use BMM as the First-Class benchmark in conjunction with mail processing and delivery costs to measure costs avoided, as the Postal Service is proposing in this case.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-12. On page 24 [23] line[s 14-]16 you state, "For existing metered mail, the revenue reduction from implementation of the proposed discount will amount to approximately \$245 million.[" Assuming this were the only revenue loss associated with your proposal (i.e., an increase in meter usage or meter mail volume would not materialize), how should this revenue loss be funded in order for the Postal Service to meet its revenue requirement?

Response:

I would like to preface my answer to this hypothetical by noting that the net revenue reduction from the proposed discount for metered mail is estimated at \$156.5 million at page 26 of my testimony. In general, as the Commission itself has noted, it faces a situation often described as a "zero sum game." That is, any downward adjustment in revenue from any one source needs to be offset through increases in some other rates and fees.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-13. On page 22 lines 20-23 of your testimony you state that “The proposed discount will help the Postal Service to promote and retain its core product, single piece First-Class Mail. Not only is this mail highly profitable, it also is increasingly subject to electronic diversion.” Have you conducted any market research or other studies that sought to determine the extent to which First-Class single-piece mail would divert to other alternatives (e.g., electronic) if your discount were not approved? If not, upon what evidence do you base your assertion that this discount will help retain this mail volume?

Response:

If the discount proposed in my testimony is approved, market research conducted by Opinion Research Corporation (see PB-T-3) indicates that a significant number of mailers will adopt and use metering technology. Once that technology is adopted, postage will be slightly less expensive. As an economist, I believe that (i) it is important to start somewhere to bring down the rate for such mail, and (ii) each little bit helps. My answer would be less than candid if I failed to add that I view the proposed discount as but an initial start. To preserve single-piece mail as an important medium in the next century, the Postal Service needs to move quickly and decisively to drive far more costs out of its system, and reduce the rate even further.

Other than the study conducted by ORC to support the discount proposed in my testimony, I have not conducted any market research or other studies that sought to determine the extent to which First-Class single-piece mail would divert to other alternatives (e.g., electronic) if my discount were approved.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-14.

(a) Please confirm that other single-piece mailers save the Postal Service costs as a result of the method that they use to pay postage. For example, if a mailer that used to buy postage stamps from a Postal Service window clerk decides to buy postage stamps at a local supermarket, he/she would save the Postal Service costs. If not confirmed, please explain.

(b) Assuming that other single-piece mailers also save the Postal Service costs based on the method they use to purchase stamps, please explain how your proposal would be fair and equitable, given that meter mail users would be singled out for such a discount.

Response:

- (a) I confirm that, based on the data in my Appendix A, Table A-4 (page 39),
- (i) the cost of the different marketing channels used by the Postal Service to sell stamps have varying costs, and (ii) consignment sales through supermarkets is the lowest cost Postal Service channel of distribution for stamps. It should be noted that (i) although consignment sales is the second-most efficient marketing channel in comparison to the metering alternative, it is still somewhat more costly, (ii) after many years of operation, the Postal Service sells only 7 percent of all stamps through the consignment channel, and (iii) to the best of my knowledge, the Postal Service does not devote any advertising or other effort to persuade the public to utilize this channel (despite what would appear to be an obvious advantage to the Postal Service).

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

- (b) If the discount for single-piece metered mail is approved, that will create separate rate categories for single-piece stamped mail and single-piece metered mail. As noted in preceding part a, the cost to the Postal Service of the different channels used to distribute stamps varies somewhat; *i.e.*, it is less than homogeneous. As is the case with all rate categories, there would be rate averaging within the stamped single-piece mail category.¹ It also happens that the cost to the Postal Service of collecting revenue for single-piece metered mail will be extremely homogeneous, in that this technology has almost no costs to the Postal Service.

¹ If the Postal Service felt that it were really taking unfair advantage of those customers who purchase stamps through consignment outlets, it could offer a slight discount from face value for books of stamps purchased at those outlets.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-15. On page 20 lines 12-14 of your testimony, you state that “an important purpose of the discount is to induce people to quit using stamps altogether, in favor of more cost-effective metering technology.” Has any market research been conducted by Pitney Bowes for the purpose of determining whether the general public prefers stamps to meters/PC postage? If so, please provide all documents generated in connection with such research.

Response:

Referred to Judith Martin.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-16. On page 25 lines 8-10 of your testimony you state that “the increased convenience associated with metering technology could draw in new customers, or lead existing customers to increase their usage of Postal Service [products].”

(a) Have you conducted any market research or other studies to determine whether this would, in fact, happen? If so, please provide copies of all supporting documentation.

(b) Please confirm that it is possible that the volume of meter mail could remain unchanged if your discount proposal were approved. If not confirmed, please explain.

Response:

- (a) Referred to Judith Martin.
- (b) Referred to James Heisler.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-17. On page 23, lines 18-22 you cite witness Heisler's testimony (PB-T-3) that an estimated 4.954 billion mailpieces annually C composed of 3.518 billion from small businesses and 1.436 billion from households C will switch from stamps to postage meters or PC Postage if a one-cent discount is adopted.

- a. Please confirm that you have not incorporated witness Heisler's estimate of 2.6 billion small business mailpieces switching from stamps to PC Postage because it is not mutually exclusive from the estimate of 3.158 billion small business mailpieces switching from stamps to postage meters and therefore could lead to double-counting. If you cannot confirm, please explain.
- b. Please confirm that 342.8 million of the 4.954 billion will convert from stamps to postage meters or PC Postage without the inducement of a one-cent discount, and that therefore the volume response to a one-cent discount should be measured as 4.611 billion mailpieces annually. If you cannot confirm, please explain.
- c. If the correct volume response is 4.611 billion mailpieces annually, please confirm that the net revenue effect in section V.C. of your testimony would be calculated as -\$161.6 million. If you cannot confirm, please explain.

Response:

- a. Confirmed. As stated in PB-T-3, pages 9-10, "The concept estimates are not additive, they are independent."
- b. Confirmed that this is the volume considered likely to convert without any discount. If such conversion does indeed take place, I would expect the savings from such conversion to materialize as projected and, to the best of my knowledge, those savings have not been factored into the roll-forward model.
- c. Confirmed.

ATTESTATION

I, John Haldi, declare under penalty of perjury that the foregoing answers to interrogatories were prepared by me or under my supervision and control and that such answers are true and correct, to the best of my knowledge, information and belief.



Dated: _____

CERTIFICATION

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding having requested service of discovery documents in accordance with Section 12 of the rules of practice.

Ian Volner *fw*
Ian D. Volner