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

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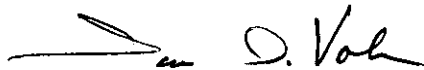
POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF PITNEY BOWES WITNESS HEISLER
TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE
(USPS/PB-T3-1- 17) AND USPS/PB-T2-16(b) (REFERRED)

Pitney Bowes hereby provides responses to the above listed interrogatories of

the United States Postal Service to witness Heisler filed June 15 and 16, 2000. Each

question is stated verbatim and is followed by the response.

Respectfully submitted,

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Counsel for Pitney Bowes Inc.

Dated: June 30, 2000

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-1.

(a)   Please confirm that your market research results can be applied to postage that is purchased using a "personal computer via the Internet (referred to hereafter as PC postage)" as stated on page 2 line 6 of your testimony. If not confirmed, please explain.

(b)   Please confirm that this market research would therefore pertain to firms such as E-Stamp and Stamps.com. If not confirmed, please explain.

(c)   Please confirm that E-Stamp charges a monthly "convenience fee" that is 10% of the postage amount. If not confirmed, please explain.

(d)   Please confirm that Stamps.com charges a monthly "service fee" that is 10% of the postage amount. If not confirmed, please explain.

(e)   Given the rate structure that both E-Stamp and Stamps.com are currently using to sell PC postage over the Internet, please explain why your study uses a rate structure that includes a "monthly access fee" of $5.00 for households (page 7 line 14) and a "lease cost" of less than $20/"access fee" of $5.00 for non-households (page 11 line 19).

(f)   Given that the rate structure in your survey does not match the rate structure currently used by E-Stamp and Stamps.com, doesn't this lead you to question the results as they pertain to PC postage for those firms? Please explain any negative response.

RESPONSE:

(a)   Confirmed.

(b)   The research on which I have provided testimony uses a generic product

description.

(c)   I have no familiarity with this.

(d)   I have no familiarity with this.

(e)   See response to question (b) above.

(f)   The Pitney Bowes study is applying its results to a generic situation only.

PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/PB-T3-2. Assume that a PC postage/meter mail customer wants to save money on their net postage costs. If these customers were to be charged a minimum fee of $5 per month (page 7 line 14), please confirm in parts (a) through (c) that they would have to mail the following average monthly breakeven mail volumes for each pricing level before they would begin achieving any net savings. If not confirmed for a given pricing level, please explain.

(a)   No Discount: There would never be any net postage savings since no discount would be offered.

(b)   1-Cent Discount: $5.00/$0.01-Discount per Mail Piece = 500 Mail Pieces

(c)   2-Cent Discount: $5.00/$0.02-Discount Per Mail Piece = 250 Mail Pieces

(d)   Please confirm that a household mailer that mails either 500 mail pieces per month or 250 mail pieces per month sends more mail than the average household mailer that mails 14 pieces per month (168 pcs per year/12 months per year) as shown on page 15 of your testimony. If not confirmed, please explain.

(e)   Please confirm that a household mailer that mails either 500 mail pieces per month or 250 pieces per month sends more mail than the average household mailer that mails 23 pieces per month (271 pieces per year/12 months per year) as shown on page 16 of your testimony. If not confirmed, please explain.

(f)   Please reference the figures below and confirm that a household mailer that mails 271 pieces per year is never going to achieve any net savings as a result of using the product described in your questionnaire, regardless of the price level (i.e., the access fee charges per year will always exceed the postage savings per year). If not confirmed, please explain.

Access Fee: $5 per month * 12 months per year = $60 per year

Postage Savings:

(0 Cents) 271 pieces per year * 0 cents per piece = $0.00
(1 Cents) 271 pieces per year * 1 cents per piece = $2.71
(2 Cents) 271 pieces per year * 2 cents per piece = $5.42

<u>RESPONSE:</u>

The **Pitney Bowes'** study considers only the issue of a fee. We did not consider the issue of net savings. Hence, I have no information responsive to questions (a) to (f).

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-3.

(a)   Do you agree that a market research questionnaire should ask questions in an objective manner so as not to affect the responses given by participating households? Please explain any negative responses.

(b)   Please explain how the term "just $5.00" (page 7 line 14) is objective and would not affect the responses given by household mailers.

RESPONSE:

(a)   I agree.

(b)   I agree that it would have been better if the word "just" had not been used.

PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/PB-T3-4. On page 2 line 15 of your testimony, you state that there is "substantial market interest in PC postage." Please explain why you consider the following results to reflect "substantial market interest." Include a discussion of the specific percentage results that would be required before you considered the results to be less than substantial.

RESPONSE:

The term "substantially" was used in a descriptive, rather than in a quantitative, fashion.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-5. On page 5 lines 13-15 of your testimony you state, "Respondents were then asked how likely they would be to use the concept described at three price levels: no discount on First-Class postage, a one-cent discount, and a two-cent discount." Please provide the results of the survey which reflect the respondents' reactions to the two-cent discount and provide citations to where those results are.

RESPONSE:

These results are being submitted as a library reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-6.

(a)   Please confirm that Opinion Research Corporation International
conducted a market research study for the Postal Service in Docket No. R97-1. See
the testimony of witnesses Ellard (USPS-RT-14; Tr. 35/19058 *et. Seq.*) and Miller
(USPS-RT-17, at 12-16; Tr. 33/17457-62). If not confirmed, please explain.

(b)   Please confirm that the results from this study involved a 3-cent discount
as opposed to the 1-cent discount proposed by Pitney Bowes in Docket No. R2000-1.
If not confirmed, please explain.

(c)   Please confirm that the Ellard study contained evidence that a majority of
households preferred that First-Class single-piece rates not be de-averaged. (Question
P9; Tr. 35/19083; Tr. 33/17457-60). If not confirmed, please explain.

(d)   Please confirm that the Ellard study contained evidence that a substantial
majority of households preferred that First-Class single-piece rates not be de-averaged,
especially when they were informed that such de-averaging could result in an increase
in the rate for regular First-Class Mail letters (the results from Questions P9 and P10
were combined; see Tr. 35/19083-84; Tr. 33/17462). If not confirmed, please explain.

RESPONSE:

(a)   Opinion Research Corporation International did conduct the study

referenced.

(b)   The referenced study did use a 3-cent discount, but it had nothing to do

with metering or PC postage. Hence, it has no relevance to the Pitney Bowes study.

(c)   The referenced study did provide evidence as stated, but the study had

nothing to do with metering or PC postage. Hence, it has no relevance to the Pitney

Bowes study.

(d)   The referenced study did provide evidence as stated, but the study had nothing to do with metering or PC postage. Hence, it has no relevance to the Pitney Bowes study.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-7. On page 2 of your testimony, you state that data from the household portion of your study indicate that PC postage, with a discount of one cent, will attract up to 1.4 billion pieces of First-Class Mail currently using stamps.

(a)   Please confirm that this 1.4 billion pieces includes 336 million pieces of household mail that would be attracted to PC postage at no discount (per pages 15 and 16 of your testimony).

(b)   Since these 336 million pieces would shift without offering a discount, please explain why you include these 336 million pieces in your estimate of the impact of a discount.

(c)   How long will it take for the estimated volume shift of 336 million pieces to occur?

(d)   How long will it take for the volume shift of the entire 1.4 billion pieces to occur?

(e)   PC postage products were formally introduced nearly a year ago in August 1999. How much household stamped volume have these products attracted to date?

(f)   Please quantify how much the average household will save in net postage on a monthly basis when using a PC postage product. Please include any monthly and per piece fees in developing your estimate.

(g)   According to your study, a discount of 1-cent attracts approximately 1 billion new household pieces from stamps to PC postage (1.4 billion less 336 million). In your opinion, is the magnitude of this increase reasonable in light of the net savings you calculated in part (f) above.

(h)   According to your study, how much additional household volume is attracted from stamps to PC postage with a discount of 2 cents?

RESPONSE:

      (a)   Confirmed.

      (b)   The Pitney Bowes' case postulates that the USPS will save money in a cumulative fashion from the proposed metering and PC Postage offerings. The 336 million pieces are inherent to the USPS' potential savings.

      (c)   The study did not produce information responsive to this question.

      (d)   The study did not produce information responsive to this question.

      (e)   The study did not produce information responsive to this question.

      (f)   The study did not produce information responsive to this question. See also my response to USPS/PB-T3-2.

      (g)   In light of my answer to item (f) above, I have no opinion on this matter.

      (h)   The information is being submitted as a Library Reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-8. On page 2 of your testimony, you state that data from the non-household portion of your study indicate that PC postage, with a discount of one cent, will attract up to 2.6 billion pieces of First-Class Mail currently using stamps.

(a)   Please confirm that this 2.6 billion pieces includes approximately 245 million pieces of non-household mail that would be attracted to PC postage at no discount (per page 14 of your testimony, the sum of 216 million plus 29 million).

(b)   Since these 245 million pieces would shift without offering a discount, please explain why you include these 245 million pieces in your estimate of the impact of a discount.

(c)   How long will it take for the estimated volume shift of 245 million pieces to occur?

(d)   How long will it take for the entire volume shift of 2.6 billion pieces to occur?

(e)   PC postage products were formally introduced nearly a year ago in August 1999. How much non-household stamped volume have these products attracted to date?

(f)   Please quantify how much the average household will save in net postage on a monthly basis when using a PC postage product. Please include any monthly and per piece fees in developing your estimate.

(g)   According to your study, a discount of 1-cent attracts approximately 2.4 billion new non-household pieces from stamps to PC postage (2.6 billion less 245 million). In your opinion, is the magnitude of this increase reasonable in light of the net savings you calculated in part (f) above.

(h)   According to your study, how much additional household volume is attracted from stamps to PC postage with a discount of 2 cents?

RESPONSE:

(a)   Confirmed.

(b)   The Pitney Bowes' case postulates that the USPS will save money in a cumulative fashion from the proposed metering and PC Postage offerings. The 245 million pieces are inherent to the USPS' potential savings.

(c)   The study does not produce information responsive to this question.

(d)   The study does not produce information responsive to this question.

(e)   The study does not produce information responsive to this question.

(f)   The study does not produce information responsive to this question. See also my response to USPS/PB-T3-2.

(g)   In light of my answer to item (f) above, I have no opinion on this matter.

(h)   The information is being submitted as a Library Reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-9.   On page 3 of your testimony, you state that data from the non-household portion of your study indicate that stand-alone meters, with a discount of one cent, will attract up to 3.5 billion pieces of First-Class Mail currently using stamps.

(a)   Please confirm that the references to "PC postage service" that appears in the bolded sections on pages 20-22 should refer to stand-alone meters.

(b)   How long will it take for the estimated volume shift of 3.5 billion pieces to occur?

(c)   Please quantify how much the average non-household will save in net postage on a monthly basis when using a stand-alone meter postage product. Please include the lease costs in developing your estimate.

(d)   According to your study, a discount of 1-cent attracts approximately 3.5 billion new non-household pieces from stamps to stand-alone meter postage (3.5 billion less 7 million attracted with no discount). In your opinion, is the magnitude of this increase above 7 million reasonable in light of the net savings you calculated in part © above?

(e)   According to your study, how much additional non-household volume is attracted from stamps to stand-alone meters with a discount of 2 cents?

RESPONSE:

(a)   Confirmed.

(b)   The study provides no information responsive to this question.

(c)   The study provides no information responsive to this question. See also

my response to USPS/PB-T3-2.

  .   (d)   The study provides no information responsive to this question. See also

my response to USPS/PB-T3-2.

(e)   The information is being submitted as a Library Reference.

PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/PB-T3-10. Please provide coefficients of variation for each of the volume estimates presented on page 14 of your testimony.

RESPONSE:

PC Postage				
	25 Employees or less—lower bound	25 employees or less—upper bound	26-50 employees -- lower bound	26-50 employees – upper bound
No discount	0	454 million	12 million	46 million
1 cent discount	1.4 billion	3.2 billion	49 million	86 million
2 cent discount	820 million	1.7 billion	98 million	147 million
Total	2.22 billion	5.534 billion	159 million	279 million
Postage Meter				
	25 Employees or less—lower bound	25 employees or less—upper bound	26-50 employees -- lower bound	26-50 employees – upper bound
No discount	0	0	2.8 million	10.7 million
1 cent discount	2.1 billion	4.7 billion	76 million	136 million
2 cent discount	745 million	1.5 billion	42 million	94 million
Total	2.845 billion	6.2 billion	120.8 million	240.7 million

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-11. At page 7 of his testimony, Pitney Bowes witness Martin states, "the
market research Dr. Heisler performed very conservatively estimates the extent to
which the metering technology discount will stimulate migration from stamps to
metering technology." Please describe all the ways in which your estimates are "very
conservative."

RESPONSE:

　　　Referred to Judith Martin.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-12.

On page 6, lines 11-12, you state that the household sample contacted for the study was balanced against population gender, age, income, and region proportions."

    (a)   Please confirm that the above-referenced "population" consists of all U.S. telephone households in the 48 contiguous states. If not confirmed, please explain.

    (b)   Please confirm that the above-referenced "household sample" consists of a random sample of all U.S. telephone households in the 48 contiguous states. If not confirmed, please explain.

    (c)   If available, please provide the average age and household income of the above-referenced study population. If not available, please explain.

    (d)   If available, please provide the average age and household income of the above-referenced "household sample". If not available, please explain.

    (e)   If available, please provide the average age and household income of the 41 percent of households who qualified for the interview. If not available, please explain.

    (f)   If available, please provide the average age and household income of the 13 percent of sample households (as shown on page 16 of your testimony) who are "extremely likely" to subscribe to PC Postage at a one-cent discount. If not available, please explain.

RESPONSE:

    (a)   Confirmed.

    (b)   Confirmed.

    (c)   Average age: 44.8 years

            Average income: $59,002

(d)   We do not have average demographics, since we asked age and

household in terms of ranges. On that basis, the profile is as follows:

Age
- Under 35 years   23%
- 35-54 years   44%
- 55+ years   31%
- Refused   2%

Household Income
- Under $50,000   42%
- $50,000 to $74,999   17%
- $75,000 to $99,999   10%
- $100,000+   9%
- Refused   22%

(e)

Age
- Under 35 years   27%
- 35-54 years   56%
- 55+ years   16%
- Refused   1%

Household Income
- Under $50,000   26%
- $50,000 to $74,999   23%
- $75,000 to $99,999   17%
- $100,000+   16%
- Refused   18%

(f)   We do not have this information. The data were not cross-tabulated by

these variables.

PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/PB-T3-13. According to the data presented at pages 15 and 16 of your testimony, 5% of the population of "qualified" households will convert from stamps to PC Postage if the monthly access fee for PC Postage is $5.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 8% of the population will convert. The discount saves the average household 27 cents per month (1 cent x 324 mailpieces/year ÷ 12 months/year), lowering the net monthly cost from $5.00 to $4.73. In your opinion, is it reasonable for monthly savings of 27 cents to cause 8% of all qualified households to convert from stamps to PC Postage? Please explain.

RESPONSE:

   The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-14.   According to the data presented at pages 17 and 18 of your testimony, 4% of the population of "qualified" small businesses with 0 – 25 employees will convert from stamps to PC Postage if the monthly access fee for PC Postage is $5.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 19% of the population will convert.   The discount saves the average small business with 0 – 25 employees $1.88 per month (1 cent x 2,250 mailpieces/year ÷ 12 months/year), lowering the net monthly cost from $5.00 to $3.12. In your opinion, is it reasonable for monthly savings of $1.88 to cause 19% of all qualified small businesses with 0 – 25 employees to convert from stamps to PC Postage? Please explain.

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-15.   According to the data presented at pages 17 and 19 of your testimony, 5% of the population of "qualified" small businesses with 26 – 50 employees will convert from stamps to PC Postage if the monthly access fee for PC Postage is $5.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 23% of the population will convert.   The discount saves the average small business with 26 – 50 employees $2.08 per month (1 cent x 2,500 mailpieces/year ÷ 12 months/year), lowering the net monthly cost from $5.00 to $2.92. In your opinion, is it reasonable for monthly savings of $2.08 to cause 23% of all qualified small businesses with 26 – 50 employees to convert from stamps to PC Postage? Please explain.

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-16.   According to the data presented at pages 20 and 21 of your testimony, 0% of the population of "qualified" small businesses with 0 – 25 employees will convert from stamps to postage meters if the monthly lease cost for postage meters is $20.00 and no discount is offered. If a discount of 1 cent per piece is offered, 18% of the population will convert. The discount saves the average small business with 0 – 25 employees $2.92 per month (1 cent x 3,500 mailpieces/year + 12 months/year), lowering the net monthly cost from $20.00 to $17.08. In your opinion, is it reasonable for monthly savings of $2.92 to cause 18% of all qualified small businesses with 0 – 25 employees to convert from stamps to postage meters? Please explain.

RESPONSE:

    The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-17.   According to the data presented at pages 20 and 22 of your testimony, 2% of the population of "qualified" small businesses with 26 – 50 employees will convert from stamps to postage meters if the monthly lease cost for postage meters is $20.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 24% of the population will convert. The discount saves the average small business with 26 – 50 employees $3.13 per month (1 cent x 3,750 mailpieces/year ÷ 12 months/year), lowering the net monthly cost from $20.00 to $16.87. In your opinion, is it reasonable for monthly savings of $3.13 to cause 24% of all qualified small business with 26 – 50 employees

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE (REFERRED)**

USPS/PB-T2-16. On page 25 lines 8-10 of [Dr. Haldi's 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]."

(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:

(b)   The study speaks for itself. However, it is within the realm of the "possible" that the volume of meter mail could remain unchanged.

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 D. Volner