

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF PITNEY BOWES WITNESS MARTIN TO
INTERROGATORIES
OF UNITED STATES POSTAL SERVICE
(USPS/PB-T1-1- 5 AND USPS/PB-T2-4, 5, 16(a)
USPS-PB-T3-11 (REFERRED)

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

The responses include USPS/PB-T2-4, 5 and 16(a) addressed to Pitney Bowes witness Haldi and USPS/PB-T3-11 addressed to Pitney Bowes witness Heisler, referred to Witness Martin for response.

Respectfully submitted, _____


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Dated: July 3, 2000

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

USPS/PB-T1-1

On page 2 line 9 of your testimony you state that single-piece First-Class Mail is "the product to which the least attention has been given..."

(a) Please confirm that the Postal Service has added the following equipment components to its processing facilities during the past decade and that this equipment has directly affected the costs for single-piece mail, thus minimizing the need to increase First-Class single-piece over time. If not confirmed, please explain.

- (i) Advanced Facer Canceler System Input Sub System (AFCS-ISS)
- (ii) Multi Line Optical Character Reader Input Sub System (MLOCR-ISS)
- (iii) Remote Bar Code System (RBCS)
- (iv) Remote Computer Read (RCR)
- (v) Letter Mail Labeling Machine (LMLM)
- (vi) Mail Processing Bar Code Sorter Output Sub System (MPBCS-OSS)
- (vii) Delivery Bar Code Sorter/Delivery Bar Code Sorter Output Sub System (DBCS/DBCS-OSS)

(b) Please confirm that each of the following equipment components would have a bigger impact on constraining the costs associated with processing First-Class single-piece mail than it would on constraining the costs associated with processing workshared mail (presorted and/or prebarcoded mail). If not confirmed, please explain.

- (i) Advanced Facer Canceler System Input Sub System (AFCS-ISS)
- (ii) Multi Line Optical Character Reader Input Sub System (MLOCR-ISS)
- (iii) Remote Bar Code System (RBCS)
- (iv) Remote Computer Read (RCR)
- (v) Letter Mail Labeling Machine (LMLM)
- (vi) Mail Processing Bar Code Sorter Output Sub System (MPBCS-OSS)
- (vii) Delivery Bar Code Sorter/Delivery Bar Code Sorter Output Sub System (DBCS/DBCS-OSS)

(c) Please reference the chart in Docket No. 97-1, USPS RT-17, page 30 (Tr. 33/17479). Please confirm that the equipment changes described above in parts (a) and (b) have reduced the mail processing cost differences between the heterogeneous single-piece mail types over time as shown in the chart. If not confirmed, please explain.

(d) Please confirm that the equipment changes described in parts (a) and (b) above have also contributed to improving the service associated with First-Class single-piece mail. If not confirmed, please explain.

Response:

The question suggests a misunderstanding of the quotation from my testimony on which it is based. The point of my statement is that the rate design for First-Class single-piece mail does not provide mailers with any incentive to avoid transaction costs that the Postal Service incurs when single-piece mailers evidence the payment of postage through the use of stamps. Without waiving any relevance objections, the answers are:

(a) I am not familiar with the specifics of the "equipment components" that the Postal Service has added to its "processing facilities" in recent years. I am aware that various automated or semi-automated pieces of equipment have been installed and/or designed to expedite the processing of letter mail (which includes, although is not necessarily limited to, First-Class single-piece letter mail) and that the Postal Service's objective in making this investment is to expedite processing and, therefore, presumably, reduce the cost of processing this mail.

(b) See response to subpart (a).

(c) I have no knowledge of the matters purported to be depicted in the chart referenced in this interrogatory or of any other evidence that may have been presented by the Postal Service or by intervenors in Docket R97-1. I am unable, therefore, to confirm or deny the accuracy of the information contained in such chart.

(d) I have no information, nor have I seen any studies produced by the Postal Service establishing that the equipment changes described in subparts (a) and (b) of this interrogatory have "contributed" to "improving the service" associated specifically with First-Class single-piece mail. However, as explained in my testimony and that of Dr. Haldi, the discount we have proposed is unrelated either to the quality of service or the cost associated with the processing of First-Class single-piece mail but, rather, to the costs the Postal Service avoids in the manufacture, distribution and sale of stamps when metering technology is employed.

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

USPS/PB-T1-2. On page 6 lines 21-24 you state that "the proposed discount will enable the Postal Service to offset the loss of single-piece First-Class mail volume that would otherwise result from the rate increases proposed in this case. It will also empower the Postal Service to capture and retain mail that is highly profitable but increasingly susceptible to electronic diversion." Did you conduct any market research or other studies that sought to determine how the Pitney Bowes and/or PC Postage discount proposals would affect the extent to which First-Class single-piece mail would be prevented from diverting to other (e.g., electronic) alternatives? If so, please provide copies of all documentation associated with those studies and discuss the conclusions you reached. If not, upon what evidence do you base your claim?

Response:

This is a compound question which requires separate answers. As it relates to "the loss of single-piece First-Class mail volume that would otherwise result from the rate increase" proposed, the statement you quoted is based upon the testimony of Dr. Haldi at page 25. As Dr. Haldi's testimony and workpapers establish, his conclusion is based upon the analysis provided by the Postal Service's volumetric witness, Dr. Tolley. We did not, therefore, conduct any independent market research to determine the extent to which the proposed discount would enable the Postal Service to offset the loss of single-piece First-Class mail volume that would otherwise result from the rate increases proposed in this case.

As to that part of the statement that the discount will enable the Postal Service to capture and retain mail that is highly profitable but susceptible to electronic diversion, please see the article by Robert Reisner, USPS Vice

President for Strategic Planning quoted and cited at page 19 of Dr. Haldi's testimony. See also PB-LR-4. This response is confined to the Pitney Bowes metering technology discount proposal; I do not understand the apparent reference in the interrogatory to other proposals ("and/or PC Postage discount proposals").

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

USPS/PB-T1-3. Have you conducted any market research or other studies that sought to determine whether the general public actually wants de-averaged First-Class single-piece rates (compared to the one current 33-cent rate for a first-ounce mail piece)? If so, please provide copies of all documentation associated with those studies and discuss the conclusions you reached.

Response:

No. The only study that we performed in conjunction with this case is that presented by Dr. Heisler. Testimony of Dr. James Heisler, PB-T-3.

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

USPS/PB-T1-4. On page 7 lines 18-19 of your testimony you state that the increased use of metering technology will result in "an increase in what is widely recognized to be cleanest type of mail in the First-Class mailstream."

(a) Please explain what you mean by the term "cleanest type of mail."

(b) Please provide the basis for your assertion that this mail is "widely recognized to be the cleanest type of mail in the First-Class mailstream."

(c) Please provide or reference some quantitative data that you feel supports this statement. If no data is provided or referenced, please explain how your assertion is valid.

Response:

In context, my statement that the use of metering technology will produce an increase in the "cleanest type of mail in the First-Class mailstream" should be understood to refer to single-piece First-Class mail.

(a) Use of metering technology produces mail that is "clean" in the sense that the pieces generally feature typewritten, computer applied or pre-printed addresses and that, particularly when used in conjunction with products such as SmartMailer® (see page 5 of my testimony), display a high degree of address and zip code accuracy in the Postal Service's recommended format with delivery point barcode applied to the mail piece. The contrast, therefore, is to "dirty" mail featuring handwritten and more frequently incorrect or incomplete addresses.

(b) My conclusion that the use of metering technology produces the "cleanest type of First-Class mail" in the sense described in my response to

subpart (a) is, I believe, consist with the views expressed by the Postal Service witnesses in this case.

(c) I do not know of any studies that quantitatively measure the percentage of metered mail that is clean in the sense described in subpart (a). However, since my conclusion appears to be consistent with the views of the Postal Service and those of the Postal Rate Commission, I believe it to be both widely recognized and valid.

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

USPS/PB-T1-5. On page 7 of your testimony, you state that ..."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 provide the basis for your statement that Dr. Heisler's estimates are very conservative.

Response:

As Dr. Heisler explains (PB-T-3 at 8-9) he adjusted the results of his survey and applied the adjusted intent estimates in converting to volume estimates. In my opinion, using 80% of the "extremely likely" respondents as the estimate of the user population that would likely migrate to metering technology is very conservative.

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

USPS/PB-T2-4.

(a) Identify and describe all factors other than changes in postal rates which would motivate mailers to use meters to affix postage instead of stamps.

(b) Have any studies, surveys, or market research been conducted by or for Pitney Bowes on this subject? If so, please provide copies of all documents related to such studies, surveys, and research.

Response:

(a) It is impossible to "identify and describe all factors" other than changes in postal rates which would motivate mailers to use metering technology to affix postage instead of stamps. The studies provided in response to subpart (b) of this interrogatory, as well as other interrogatories propounded to Pitney Bowes witnesses provide some indication of the considerations, and the weight given by mailers to the considerations, that might prompt stamp users to migrate to metering technology. Dr. Heisler's testimony certainly establishes that a rate incentive is a significant factor to mailers in making this choice.

(b) See Library Reference 4, and 5-7 (Motion for Protective Conditions Pending).

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

USPS/PB-T2-5. What percentage of current users of postage meter technology use it, in part, to minimize their own costs associated with obtaining and maintaining a stamp inventory and affixing stamps to mail pieces?

Response:

I know of no studies that are directly responsive to the two issues addressed in this interrogatory. Certainly, one of the factors a mailer may very well take into account in electing to use metering technology is the problem of maintaining (and securing) stamp inventory and the inconvenience of individually affixing stamps to mail pieces. See my response to USPS/PB-T2-4 (a).

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

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:

See my response to USPS/PB-T1-5.

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

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.

Response:

(a) See my response to USPS/PB-T1-2. See also PB-LR-4.

ATTESTATION

I, Judith Martin, 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.

Judith Martin

Dated: 6-15-00

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.



N. Frank Wiggins