

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

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OFFICE OF THE SECRETARY

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T32-19, 22 - 26, 31, 33 - 36a-c, 37, 41, 42, 44, 48, 49)**

The United States Postal Service hereby files the responses of witness Fronk to the following interrogatories of the Office of the Consumer Advocate, dated August 15, 1997: OCA/USPS-T32-19, 22 through 26, 31, 33 through 36a-c, 37, 41, 42, 44, 48 and 49.

Each interrogatory is stated verbatim and is followed by the response.

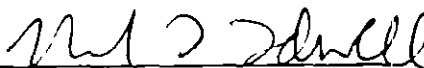
The following interrogatories have been redirected to the Postal Service for response: OCA/USPS-T32-2 through 18, 20, 21, 27 through 30, 32, 36(d)-(f), 38 through 40, 43, 45 through 47. Responses to most of these redirected interrogatories are being filed today.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
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August 29, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-19. Please consider a hypothetical proposal that would expand upon the Postal Service's Prepaid Reply Mail ("PRM") and Qualified Business Reply Mail ("QBRM") proposals. Under this hypothetical proposal a consumer could affix a 30 cent stamp on a "courtesy reply envelope" which the sender (e.g., a utility company) had properly prepared for automation capability purposes (i.e., it met the proposed envelope preparation qualifications for Prepaid Reply Mail). For purposes of brevity we shall refer to this as the MPRM proposal – i.e., the Modified Prepaid Reply Mail proposal.

- a. As to MPRM, please explain how each of the Board of Governors' objections to the CEM recommendation in Docket No. MC95-1, as expressed in their CEM Decision, is relevant.
- b. For each objection in (a), please supply all empirical information supporting such objection.
- c. For each objection in (a), submit all documents that contradict the objection.
- d. As to MPRM, list all other objections the Postal Service has that are not contained in the CEM Decision or in your direct testimony in this docket.
- e. As to each objection set forth in response to (d), please supply all empirical information supporting such objection.
- f. As to each objection set forth in response to (d), submit all documents that contradict the objection.

RESPONSE: I note that your characterization of the hypothetical "proposal" in this question as modified Prepaid Reply Mail (MPRM) is misleading. What is described in your question as a modification is in reality a completely different alternative that seems to be a lot like the OCA's historical CEM proposals. I use the term "seems to be like" because I also think it is misleading to characterize a one or two sentence description of a hypothetical in an interrogatory as a "proposal" per se. Moreover, PRM does not require the application of postage. A "modification" which required the application of postage is in conflict with the objectives of PRM.

(a)-(c) I would not want to presume to answer this question on behalf of the Governors. They would need to see a fully developed MPRM proposal and offer a response to it in order for the Postal Service to state the extent to which their objections to CEM applied to MPRM.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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RESPONSE to OCA/USPS-T32-19 (Continued)

(d)-(f) I know virtually nothing about MPRM, except for the scanty sentence or two offered in this interrogatory. I have no basis for responding to this question. I would need a complete MPRM proposal to be able to respond to this question.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-22. You state on page 43 of your direct testimony your estimates that "up to ten percent" of courtesy reply mail would switch to PRM, using as a base the 41 percent of all courtesy reply mail associated with credit card companies and utilities. You also "further estimate that a smaller fraction, 2 percent, of the remaining 4,000 million pieces of courtesy reply envelope mail could switch to PRM. On page 45 you state that the "Postal Service estimates that a number of organizations currently using Business Reply Mail may be interested in and qualify for either this classification [QBRM] or the PRM classification discussed above."

- a. Please provide an empirical basis for your "up to ten percent" estimate. If the basis for the estimate is not empirical, please explain fully the basis for the estimate. Include citations to source documents and provide them if they are not on file with the Commission.
- b. Did you survey utility and credit card companies as to their potential participation in PRM and QBRM? If not, why not?
- c. Isn't it plausible that the actual participation in PRM and QBRM by credit card companies and utility companies who now provide courtesy reply envelopes will approach zero, since currently they pay zero postage costs on the courtesy reply envelope? Consider that one may observe massive shifts in non-household originating mail volume when rates change by just a few cents. Please comment.

RESPONSE:

(a) In my testimony, I indicate that I based the 2 percent figure you cite on the experience of the Postal Service in introducing a barcode discount in the late 1980s. In the first full year following the introduction of barcodes (1989), 2.0 percent of presorted mail was barcoded. I also used the Postal Service's experience in introducing the barcode discount to arrive at my estimate that up to 10 percent of the courtesy reply envelopes associated with credit card companies and utilities would switch to PRM in the Test Year.

In the second full year following the introduction of the barcode discount (1990), 6.5 percent of presorted mail was barcoded. This percentage increased to 16.5 percent in 1991. (Percentage data from the Billing Determinants for FY 1989, 1990, and 1991.) This trend in the percentage of presorted mail that was barcoded represented an average trend across all customers and industries. Some industries and customers were adopting barcodes faster than others and had higher percentages of barcoded mailpieces.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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RESPONSE to OCA/USPS-T32-22 (Continued)

Since credit card companies and utilities are two industries likely to be attracted to this rate, I anticipated that the portion of their courtesy reply envelopes switching to PRM would be greater than the 2 percent average. In light of this, an "up to 10 percent" estimate seemed reasonable given the trend in the overall percentage of presorted mail that was barcoded, from 2.0 percent in 1989 to 6.5 percent in 1990 to 16.5 percent in 1991.

As I noted in my testimony, the Postal Service's actual experience with barcodes is not a perfect parallel to PRM by any means, but it does provide insight into the potential for PRM and how initial business resistance can be overcome.

(b) Please see USPS Library Reference H-226, which is a report on interviews with businesses. Note that the information in this report is not statistically projectible to all businesses.

(c) Participation is currently zero. Participation is expected to move away from zero. I am confused by the sentence beginning with the word "consider" and how this sentence relates to the preceding portion of the question. As a result, I am unable to comment.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-23. Please explain the Postal Service's understanding of how the increased mailing costs incurred by participating businesses and other organizations in PRM and QBRM are likely to be funded.

RESPONSE: It is the Postal Service's understanding that participating businesses and other organizations could fund PRM in one of three ways. First, the organization could explicitly bill the customer for the cost of the postage. The charge would likely appear as a line item on a bill. Second, the organization could build the cost of the PRM postage into its product or service prices in much the same way as it covers the costs of business expenses such as toll-free phone calls for customer ordering or customer service. Third, the organization could simply choose to provide the service out of existing revenues.

In terms of QBRM, in the Test Year the Postal Service expects QBRM to come from existing Business Reply Mail. Thus, participating organizations will presumably fund QBRM in the same manner as they presently fund BRM. QBRM customers that are not existing BRM customers would face the same funding options as discussed for PRM above.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-24. Assume that a public utility wishes to take advantage of PRM or QBRM, and thereby increase its postage expenses.

- a. What approvals would it have to obtain from public utility commissions?
- b. How long would such approvals be expected to take?
- c. Would it have the option of seeking a rate increase to cover the increased postage costs?

RESPONSE:

(a)-(b) While I am not an expert in the public utility approval process, it is my understanding that what approvals are needed and how long they would take to obtain would vary considerably from jurisdiction to jurisdiction. Also, some jurisdictions have put in place price cap regulatory frameworks to govern public utilities. Under such frameworks, firms have considerable flexibility in setting prices to recover costs, as long as they remain under some agreed upon cap. I would note that in my testimony I estimate that 500 million pieces of courtesy reply mail could switch to PRM in the Test Year, a relatively small portion of bill payments. As such, the estimate reflects potential delays in the approval process.

(c) Again, I would expect this to vary from jurisdiction to jurisdiction. In some instances, I would expect that a utility subject to cost-of-service regulation would be able to include these costs in its rate base.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-25. Your testimony at 35 states, "The new rates offer consumers the advantages of convenience and potential savings in mailing costs. Advantages to businesses include potentially faster return of remittances . . . ."

- a. When identifying an advantage to businesses of the potential for the faster return of remittances, is it your contention that customers will alter their normal bill payment behavior because a business now includes a prepaid return envelope? If your response is affirmative, please cite the source of your information and provide copies of all source documents not previously provided (e.g., Library Reference H-200).
- b. When identifying an advantage to businesses of the potential for the faster return of remittances, are you referring to the Postal Service's ability to process "clean" mail (as you define it on page 19) more quickly? If not, please explain.
- c. What evidence does the Postal Service have showing that it is able to process "clean" mail more quickly than "dirty" mail? Please explain fully and cite the sources of information to which you are referring. If a document exists containing surveys or findings on this issue, please supply it.

RESPONSE:

(a) It is my testimony that under the PRM proposal the potential exists for customers to return their remittances faster than they would in the absence of prepaid return envelopes. Based on the quantitative market research cited in my testimony (page 38 at lines 12-15, which draws on Library Reference H-200), 14 percent of households indicated they would definitely mail the payment back sooner with PRM, and 29 percent of households indicated they would send the payment back maybe a little sooner.

*While not statistically projectible, some focus group participants also indicated that some payments may be mailed in faster with PRM. (See "Final Report – Prepaid Reply Mail Market Research Consumer Research Report," which is being filed today as Library Reference H-242. Note that, for completeness, Library Reference H-242 includes Library Reference H-200 as an appendix.)*

(b) No. I was referring to the potential for faster return of remittances as discussed in part (a) above.

(c) As indicated in parts (a) and (b) above, I did not investigate this issue as it was not a basis for my testimony.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-26. Your testimony at 36 states that "it appears clear that electronic diversion is a real threat to through-the-mail bill payment. The proposed PRM rate can help address the threat of electronic diversion . . . ."

- a. Confirm that under the proposed PRM and QBRM plans, use of such plans is dependent upon non-households' (i.e., private industry's) decisions to participate in such plans (assume that such firms meet the Postal Service's qualifications for the plans). If not confirmed, please explain.
- b. If confirmed, do you foresee any ability by households (i.e., individual consumers) to participate in PRM or QBRM other than as passive recipients of incoming mail sent as PRM or QBRM mail? Explain.
- c. In reference to part (b) of this interrogatory, would you agree that to the extent a household mailer cannot participate (other than as passive recipients) in a PRM or QBRM program, then the Postal Service's PRM and QBRM proposals will not reduce the threat of electronic mail diversion to the Postal Service? Explain.

RESPONSE:

(a) Confirmed.

(b) The ability of the general public to participate in PRM and QBRM does depend on organizations offering these services to their customers. I would not agree that the general public is necessarily "passive" under these circumstances, however.

Households can request that organizations they do business with participate and offer this service. Also, a household could switch its business to an organization offering these services. For example, in the intensely competitive bank card industry where card issuers compete on the basis of interest rate, annual fee, grace period, and the like, it is conceivable that one card issuer would offer PRM as a means of gaining a competitive edge.

(c) This question appears to be a tautology. I agree that if a particular household receives no PRM or QBRM envelopes, its tendency to use electronic payment has not been reduced by PRM or QBRM. I am troubled by the term "passive" and its negative connotation. Customers are normally the long-term beneficiaries of efficiencies or improvements in service of the businesses they use. Hopefully, these benefits result in customer retention.

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OCA/USPS-T32-31. Assume that the Postal Service's overall proposed rate structure in this case is adopted. Further assume that a household is sent First-Class mail where the First-Class courtesy reply envelope is fully automation compatible, but the mailer to the household is not a participant in PRM and QBRM. Also assume the correct return postage would be 33 cents. What would be the cost coverage on that individual piece of mail? Please show the derivation of your finding.

RESPONSE: The requested data are not available. Cost coverages are not computed at this level of detail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T32-33. Please refer to MPRM as described in OCA/USPS-T32-19.

- a. Describe any information the Postal Service has as to whether potential participants in PRM (e.g., companies that currently provide courtesy reply envelopes) would be willing to participate in a form of PRM (which we call MPRM) where instead of prepaying postage they merely printed on the (appropriately prepared) return envelope a notation that appropriate MPRM postage was required.
- b. If the Postal Service has no such information, what is your opinion as to:
  - (i) the likelihood of such participation in MPRM;
  - (ii) the financial incentives (and disincentives) to either participate or not participate in MPRM, including the benefit of receiving bill payments faster because of faster mail processing times;
  - (iii) how private businesses might assess the costs and benefits (including good will) of MPRM versus the costs and benefits of PRM and QBRM;
  - (iv) the effect of consumer pressure on businesses to participate in MPRM.

RESPONSE:

(a) The Postal Service has no information on possible participation in OCA's hypothetical proposal.

(b) As stated in my response to OCA/USPS-T32-19, I know virtually nothing about MPRM, except for a scanty sentence or two offered in OCA/USPS-T32-19. I have no basis for responding to this question. I would need a complete MPRM proposal to be able to respond to this question.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-34. Would adoption of MPRM be consistent with the Postal Service's goals of increasing automation (as referred to in your testimony at page 21)? If not, please explain.

RESPONSE: Based on my very limited knowledge of MPRM, I do not know. See response to OCA/USPS-T32-33.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-35. Please refer to page 4 of the CEM Decision, which states: "The Postal Service presented testimony in this case discussing a number of administrative and enforcement concerns that would arise if the mailing public routinely had to choose, on a piece-by-piece basis, between two letter stamp denominations. Potential problems include an increase in short-paid mail . . . ." Your testimony at page 37 echoes those concerns, referring at n. 11 to certain testimony from Docket No. MC95-1. For example, refer to the rebuttal testimony of witness Alexandrovich in Docket No. MC95-1, at 17, Tr.16310, where he states: "One does not have to resort to assumptions about the darker side of human nature to realize that some increase in short-paid mail is inevitable."

- a. Does the Postal Service think that the American *household* public is not intelligent enough to ascertain when, for example, using a 30 cent versus a 33 cent stamp is appropriate?
- b. If the answer to (a) is affirmative, to what proportion of the American household public would this apply?
- c. Cite empirical evidence for any affirmative response to (a) or (b).

RESPONSE:

(a)- (c) Intelligence is not the issue. As I indicate in my testimony (page 37, at lines 17-22), PRM has the advantage of not burdening and confusing the public with two different stamps for both letters and cards. If the public were expected to use differently-rated postage stamps for its First-Class Mail correspondence and transactions, it would make the mail less convenient, thereby making electronic alternatives relatively more convenient.

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OCA/USPS-T32-36. Please refer again to the above-cited portion of the CEM Decision.

- a. Does the Postal Service think that the American *household* public is not honest enough to be trusted with an active role in a modified PRM system such as MPRM (e.g., deliberately using 30 cent stamps on non-barcoded mail)?
- b. If the answer to (a) is affirmative, to what proportion of the American household public would this apply?
- c. Cite empirical evidence for any affirmative response to (a) or (b).
- d. Describe all the methods by which an unscrupulous person may alter the mail piece or perform other practices to underpay First-Class postage that would be relevant to the Postal Service's concerns here.
- e. Does the Postal Service have the legal authority to seek to prosecute persons who alter mail pieces in order to underpay postage? Please describe.
- f. If the answer to (e) is affirmative, does the Postal Service ever seek to prosecute such persons? Please explain.

RESPONSE:

(a) The thrust of the quoted portion of witness Alexandrovich's testimony in OCA/USPS-T32-35 (Docket No. MC95-1, at 17, T. 16310) is that it is inevitable that some unknown number of individuals would deliberately use a second, lower-denominated stamp on non-barcoded mail. In terms of the household public in general, I think the issue is one of inadvertent use of the wrong stamp resulting from confusion, as indicated in my response to OCA/USPS-T32-35. I note that I have not investigated the two-stamp issue as it is not the basis for the PRM proposal.

(b)-(c) Not applicable.

(d)-(f) Redirected to the Postal Service for response.

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OCA/USPS-T32-37. At page 34 (see especially n.7) you state that PRM envelopes would be pre-approved by the Postal Service, meeting specific automation standards.

- a. Please describe the pre-approval system in detail, focusing on how the Postal Service plans to examine the correctness of the address, barcodes, FIMS, and other indicia signifying a piece is eligible for the discount.
- b. What plans exist for the Postal Service to inspect and audit mailers to ensure continued compliance? Please discuss.

RESPONSE:

(a) The details have not been finalized. A pre-approval process is necessary to ensure mailpieces will meet published standards and qualify for the rate category. At a minimum, the potential PRM participant will complete a PRM permit application and submit artwork for the proposed mailpiece. The Mailpiece Design Analyst will review the artwork and pre-production mailpieces to ensure they have been properly printed and formatted for the PRM rate. Also, an initial review and qualification of the potential participant's "system" will be conducted to make sure that the system can be readily audited and meet Postal Service standards.

(b) The details have not been finalized. In general, once a PRM system is established, the Postal Service anticipates conducting periodic on-site reviews of the system to ensure accuracy and identify the need for any corrective action if the system does not meet prescribed standards. It is expected that these audits will involve professional postal personnel; professions experienced in acceptance activities are representative of the type of personnel involved in these activities. The Postal Service also anticipates that off-site review of the PRM recipient's account will occur on an ongoing basis to ensure payment of proper postage. In addition, the Postal Service will solicit feedback from operations personnel to adjust procedures as needed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-41. The Postal Service proposes a monthly fee of \$1,000 for mailers who choose to offer PRM envelopes or cards, as discussed at page 35 of your testimony. Please set forth the derivation of Postal Service costs used to develop the monthly fee.

RESPONSE: The derivation of the costs is set forth on pages 41 and 42 of my testimony.



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-42. At page 37 you refer to the "two stamp" problem, referring to the testimony of witnesses Alexandrovich (USPS-RT-7) and Potter (USPS-RT-6) in Docket No. MC95-1. To what extent, if any, does the Postal Service continue to rely on the rebuttal testimony (including testimony delivered during cross-examination) of those witnesses?

RESPONSE: At present, the Postal Service is not faced with a CEM proposal that revives the concerns expressed in the Docket No. MC95-1 rebuttal testimonies of witnesses Alexandrovich and Potter. However, if such a proposal were made before the Commission in this proceeding, it would likely generate a similar reaction from the Postal Service.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-44. Witness Potter also stated his concern that the CEM proposal in Docket No. MC95-1 would cause citizens "to lose trust" in the Postal Service. See page 20 of his rebuttal testimony, Tr. 16227.

- a. Does the Postal Service have any empirical evidence (including, but not limited to survey evidence) relating to how much the public "trusts" the Postal Service? If so, please supply it.
- b. Does the Postal Service have any empirical evidence (including, but not limited to survey evidence) relating to whether the public believes First-Class postage is too high (or that the postage rate is appropriate)? If so, please supply it.
- c. Would a rate reduction pursuant to the Postal Service's PRM and QBRM proposals inspire added trust in the Postal Service? Please comment specifically as to household and non-household mailers.
- d. Would a rate reduction pursuant to MPRM inspire added trust in the Postal Service, perhaps under the notion that rates were fairer for households? Explain.

RESPONSE:

- (a)-(b) I am not aware of any such evidence.
- (c) I have no information which addresses this issue.
- (d) I do not know enough about MPRM to form an opinion.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-48. As a professional economist, please comment on whether the Postal Service's QBRM and PRM proposals, and the MPRM proposal, would improve allocative efficiency generally by more closely aligning costs and rates.

RESPONSE: *As indicated in my response to OCA/USPS-T32-19, I have no opinion on the MPRM "proposal" due to lack of information. In terms of PRM and QBRM, since both propose rates that are more closely aligned with costs, both have the potential to improve allocative efficiency.*

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO INTERROGATORIES  
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OCA/USPS-T32-49. Please refer to your direct testimony at page 38 regarding market research. In planning the PRM and QBRM proposals, did the Postal Service consult with any consumer advocacy groups? If so, please describe. If not, why not?

RESPONSE: No. The Postal Service consulted directly with consumers, as indicated in Library Reference H-200 and Library Reference H-242 (which is being filed today).

DECLARATION

I, David R. Fronk, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.



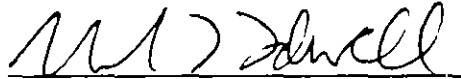
David R. Fronk

8-29-97

Date

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.

A handwritten signature in black ink, appearing to read "M T Tidwell", written over a horizontal line.

Michael T. Tidwell

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August 29, 1997