

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, 1997)

Docket No. R97-1

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS DAVID R. FRONK
(OCA/USPS-T32-116-136)
September 10, 1997

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories 1-7 to the United States Postal Service dated July 16, 1997, are hereby incorporated by reference. Further, any reference to "CEM" in this set of interrogatories means the Courtesy Envelope Mail proposal set forth in Docket No. MC95-1.

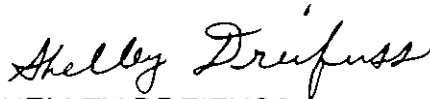
Respectfully submitted,



GAIL WILLETTE

Director

Office of the Consumer Advocate



SHELLEY DREIFUSS

Attorney

OCA/USPS-T32-116. What is the primary purpose of the Postal Service's reply mail discounted rate of 30 cents, as reflected in its Prepaid Reply Mail ("PRM") and Qualified Business Reply Mail ("QBRM") proposals? Please discuss fully.

- a. Is the primary purpose of the discount to offer the public more prepaid envelopes? Please explain.
- b. Is the primary purpose of the discount to increase the volume of prepaid envelopes in the mailstream? Please explain.
- c. Is the primary purpose of the discount to increase the volume of automation compatible envelopes? Please explain.

OCA/USPS-T32-117. Your testimony at 5 indicates that the postage for prepaid envelopes will be "based upon the number of courtesy envelopes returned, not on the full number of envelopes distributed with the bills."

- a. When does the envelope provider pay for the actual number of envelopes returned?
- b. If a recipient of a PRM or QBRM does not use the prepaid envelope, who ultimately will be billed for the postage on that unused mail piece?
- c. If a recipient of a PRM or QBRM applies a label over the reply address and barcode, thereby totally covering-up the envelope provider's address, and the altered envelope is entered into the mailstream without additional postage, who ultimately pays for the postage on the mail piece?

OCA/USPS-T32-118. Please refer to pages 34-35 of your testimony where you state as to PRM that: "This prepayment of postage would be based on the average percentage of envelopes returned, not on the full number of envelopes distributed with the bills."

- a. Please describe in full how the Postal Service will audit mailers to determine the average percentage of envelopes returned, and the full number of envelopes distributed.
- b. Provide any proposed or finalized DMM language or other implementing language pertaining to (a).

OCA/USPS-T32-119. What is the cost of producing a single new stamp?

- a. Does the cost differ depending on whether or not it is expected that the stamp will be widely used (e.g., producing additional printing plates) or whether the stamp has an unusual shape (such as a triangular shape)? Please explain.
- b. How much did it cost to produce the recently issued Bugs Bunny stamp?
- c. Would the costs of (b) be different than producing a stamp intended for use as a CEM stamp (as CEM is defined in Docket No. MC95-1)?

OCA/USPS-T32-120. To what extent do foreign mail systems take steps (such as encoding stamps) to ensure that canceling machines detect underpayment of postage? Please discuss.

OCA/USPS-T32-121. Please describe the technology, including state of the art technology, that exists to ensure that canceling machines detect underpayment of postage.

OCA/USPS-T32-122. Does the Postal Service use state of the art technology to ensure that canceling machines detect underpayment of postage? Please explain.

OCA/USPS-T32-123. Would standardizing the size of stamps help ensure that canceling machines detect underpayment of postage? Please explain.

OCA/USPS-T32-124. Please refer to the response of Postal Service witness Moden to OCA/USPS-T32-38(a) and (c). Apparently, the Automated Facer Canceler System is "unable to identify if the precise level of postage is applied. The AFCS is able to identify that the mail has little or no postage applied because low denomination stamps do not have the phosphorescence coating."

- a. What denominations of stamps do not have phosphorescent coating?
- b. Why has the Postal Service not employed technology in its facer canceler equipment to ensure that postage is never short-paid?

OCA/USPS-T32-125. An article in the August 15, 1997, edition of the San Francisco Chronicle entitled "All Stamps Equal at Post Office" contained the following statement in reference to an alleged problem concerning the potential for short-paying of postage:

"This is not a big problem in America," said Dan De Miglio, a Postal Service spokesman in San Francisco. "No American sits home and, on purpose, puts 'short pay' on an envelope. Why would you take a chance on your mortgage payment not getting there on time? Overwhelmingly, Americans are honest people, and they're just not going to do that."

- a. Do the views of Mr. De Miglio represent the views of the Postal Service on the quoted material? Please discuss fully.
- b. Do you agree or disagree with Mr. De Miglio's statement? Discuss fully.

OCA/USPS-T32-126. When the Postal Service adopts higher postage fees for First-Class mail, what does it do to ensure that mailers are affixing the correct postage after the new rate goes into effect, other than make educational efforts? Please discuss.

OCA/USPS-T32-127. Assume that the outcome of this proceeding was approval and adoption of a 33-cent First-Class Mail rate and a 30-cent CEM rate. In your opinion, what is more likely to occur – that households mailing a CEM envelope will overpay postage by using a 33-cent First-Class Mail stamp in lieu of a 30-cent CEM stamp, or that households will affix CEM stamps to non-CEM First-Class Mail? Please set forth all empirical evidence on which you base your opinion.

OCA/USPS-T32-128. Please refer to LR H-242, "Final Report - Prepaid Reply Mail Market Research; Consumer Research Report" ("research report"), dated May 2, 1997.

- a. Confirm that at page 42 the research report writers concluded that:

Focus group respondents disliked PRM implicit billing. This product option was viewed negatively by most focus group

participants. They feared companies would charge them for more than the cost of the postage, and they believed that they would be paying for the postage and envelope whether they used it or not. Companies that provided this product would generally be viewed negatively according to focus group respondents.

If not confirmed, please explain.

- b. Confirm that PRM implicit billing as discussed in the research report is substantially similar or identical to the PRM and QBRM proposals. If not confirmed, please explain.
- c. Reconcile the findings set forth in (a) herein with the statement on page 35 in your direct testimony that an advantage to businesses from PRM includes “goodwill from their customers.”

OCA/USPS-T32-129. Confirm that at page 26 of the research report it is stated: “The majority of the participants were concerned that the company would be ‘pushing it [implicit PRM] on you’. Because participants preferred to have the choice on [sic] using the service or not, they were negative about a company incorporating this without giving their customers the choice.”

- a. If not confirmed, please explain.
- b. How do the PRM and QBRM proposals address the “choice” issue discussed at page 26 of the research report?

OCA/USPS-T32-130. This question seeks to elicit the current views of the Postal Service as to the Courtesy Envelope Mail (“CEM”) proposal from Docket No. MC95-1.

Please refer not only to that docket but to the Decision of the Governors of the United States Postal Service on the Recommended Decisions of the Postal Rate Commission on Courtesy Envelope Mail and Bulk Parcel Post, Docket No. MC95-1 (March 4, 1996) ("CEM Decision").

- a. Please refer to the Governors' CEM objections that begin on page 3 of the CEM decision beginning with: "Nevertheless, we decline to accept the recommended establishment of a CEM rate category" and end with the final sentence preceding their discussion of Bulk Parcel Post. As to each of those objections, please discuss fully whether the Postal Service (speaking for itself, and not for the Governors) agrees with or disagrees with each of those objections.
- b. For each objection in (a) that the Postal Service agrees with, please supply all *empirical information supporting the Postal Service position*.
- c. If a party to this proceeding were to advance the CEM proposal again in its entirety (except as to the CEM rates that were proposed in Docket No. MC95-1), list all other objections the Postal Service would have to such a proposal that are not already contained in the direct testimony in this docket. For ease of response, you may refer to previous testimony offered by the Postal Service in other proceedings, such as Docket No. MC95-1. If previous testimony is referred to, please indicate with specificity the portions of the testimony that are being relied upon.
- d. As to each objection set forth in response to (c), please supply all empirical information supporting such objection.

OCA/USPS-T32-131. Please refer to your response to OCA/USPS-T32-24, concerning questions about public utilities' potential use of PRM and QBRM, and regulatory obstacles they might have to overcome. You qualified your response by stating that you were "not an expert in the public utility approval process" Please also refer to your direct testimony on page 43 where you state: "Household Diary Study data indicate about 41 percent of courtesy reply envelopes are associated with two industries likely to be attracted to this rate -- credit card companies and utilities." Finally, please refer to your response to OCA/USPS-T32-24 where you state that your volume estimate "reflects potential delays in the approval process."

- a. Did you or the Postal Service consult with any person expert in the public utility approval process about PRM and QBRM prior to the filing of the Request in Docket No. R97-1? Please explain, and identify any such expert. If you did not, explain why not.
- b. What empirical evidence did you use to adjust your estimate based on possibilities of delays in the approval process?
- c. Did your estimate take into consideration the possibility that approvals for participation in PRM and QBRM might not be granted? Please explain.
- d. Does the Postal Service have in its employ or under contract an expert in the public utility approval process that could offer more specific answers to our original questions in OCA/USPS-T32-24? If so, please refer those questions to that expert.

OCA/USPS-T32-132. Please refer to the CEM proposal advanced in Docket No. MC95-1.

- a. Describe any information the Postal Service has as to whether potential participants in PRM and QBRM would be likely to participate in CEM if it were adopted.
- b. If the Postal Service has no such information, what is your opinion as to:
 - (i) the likelihood of such participation in CEM;
 - (ii) the financial incentives (and disincentives) to either participate or not participate in CEM;
 - (iii) how private businesses might assess the costs and benefits (including good will) of CEM versus the costs and benefits of PRM and QBRM;
 - (iv) the effect of consumer pressure on businesses to participate in CEM.

OCA/USPS-T32-133. Would adoption of CEM be consistent with the Postal Service's goals of increasing automation (as referred to in your testimony at page 21)? If not, please explain.

OCA/USPS-T32-134. Please refer to your response to OCA/USPS-T32-35 where you state: "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."

- a. What is the empirical basis for your statement that the public would find using a reduced postage CEM stamp inconvenient?
- b. What percentage of household mailers would find use of a reduced postage CEM stamp so inconvenient that they would switch to electronic bill payment?
- c. What percentage of household mailers would find use of a reduced postage CEM stamp so inconvenient that they would merely affix a First-Class stamp to a CEM envelope?
- d. If household mailers had an opportunity to pay a lower price for postage to pay their bills (via use of CEM mail) would this increase the attractiveness of mail as a means to pay bills over electronic bill payment? Please comment.

OCA/USPS-T32-135. Please comment on whether the CEM proposal advanced in Docket No. MC95-1, but using a 30 cent postage rate (equivalent to the proposed PRM and QBRM rates), would improve allocative efficiency generally by more closely aligning costs and rates.

OCA/USPS-T32-136. Please refer to Attachment A, page 75, of the Request filed in this proceeding, under the heading Prepaid Reply Mail.

- a. Confirm that under 934.2, Description of Service, the proposed DMCS language reads: "When paying postage on outgoing mail pieces which contain reply cards and letters to be returned by mail under the terms of this section, the distributor simultaneously pays postage on reply cards and letters anticipated in response to those outgoing pieces." If not confirmed, please explain.

- b. Confirm that under 934.4, Fees, the proposed DMCS language reads: "To qualify as an active prepaid reply mail account, the account must be used solely for prepaid reply mail and contain a sufficient balance to cover postage for returned prepaid reply mail." If not confirmed, please explain.
- c. Please explain the purpose of the "prepaid reply mail account" under 934.4, in view of the simultaneous requirement under 934.2 to pay postage on both outgoing and anticipated reply mail pieces.

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.


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