

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

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO OCA INTERROGATORIES REDIRECTED FROM WITNESS FRONK
AND MOTION FOR LATE ACCEPTANCE
(OCA/USPS-T32-57a&c, 59 - 61, 63c, 64a-d&f, 69a, 70, 74a&b, 75, 78, 80, 81, 83, 84,
85a,c&d, 87, 88, 89b&c, 97a, 98a&c, 101, 102b-e, 103)**

The United States Postal Service hereby files its responses to the following interrogatories of the Office of the Consumer Advocate, dated August 15, 1997:

OCA/USPS-T32-57a&c, 59 - 61, 63c, 64a-d&f, 69a, 70, 74a&b, 75, 78, 80, 81, 83, 84, 85a,c&d, 87, 88, 89b&c, 97a, 98a&c, 101, 102b-e, 103.

The interrogatories have been redirected from witness Fronk to the Postal Service for response. Each interrogatory is stated verbatim and followed by the response.

These responses are being filed one day late. They were completed yesterday, but the Postal Service was unable to coordinate the collection of responses and submit them to the printer in time for printing and filing yesterday.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
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September 17, 1997

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OCA/USPS-T32-57. Please refer to LR H-226, "Qualitative Market Research-Prepaid Reply Mail Product Concept In-Depth Interviews with Businesses - Final Report," ("report") dated May 2, 1997.

- a. Confirm that Price Waterhouse authored the report. If not confirmed, please explain.
- b. Does the Postal Service plan to introduce the report as part of its testimony in this docket? If not, why not? If so, who will sponsor it?
- c. Please supply all documents not already provided as part of LR H-226 relating to giving instructions or guidance for preparation of the report, including, but not limited to, instructions or guidance to the author for preparing the study methodology, for conducting the study, and for writing the report's conclusions.

RESPONSE:

Part a: Price Waterhouse LLP authored the entire report.

Part b: Objection filed.

Part c: Price Waterhouse has prepared many market research reports for the USPS during the last few years; hence, there was no need for extremely detailed written instructions for the preparation of LR H-226. Some limited instructions were provided in Section C of the Statement of Work (USPS-LR-H-263). There are no written documents other than the Statement of Work that provide specific *instructions or guidance for preparing the study methodology*. Rather, specific directions to the contractor were given verbally in meetings over the telephone as needed. For example, at the project kickoff meeting Price Waterhouse was verbally directed by the Postal Service to follow a report format which is reflected in a previous study. With respect to the report's conclusions, no written instructions were provided to the contractor. The USPS simply asked the contractor to reach its own conclusions based on information collected during the qualitative market research.

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OCAIUSPS-T32-59. At page 10 of the report it is stated that telephone interviews were conducted with interviewees; these interviews were audio recorded to facilitate analysis.

- a. Please clarify whether the audio tapes still exist.
- b. Were the audio tapes transcribed or summarized in any form? If transcriptions were made, were the transcriptions verbatim? Please explain.
- c. Did the interviewer(s) take separate notes? Please explain.
- d. Were the notes in (c) later transcribed or edited? Please explain.

RESPONSE:

Part a: Yes, the audio tapes exist for nine of the ten interviews - one interviewee refused to be audio taped.

Part b: Yes, the audio tapes were transcribed in a verbatim format.

Part c: No, the interviewers did not take separate notes because the interviews were being audio taped.

Part d: There were no additional notes taken during the interview, therefore, transcription or editing was not required. Notes were taken for the one interview that was not audio taped.

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OCA/USPS-T32-60. Please refer to Appendix D, page 1 of the report, entitled "Pre-Interview materials." Is this the "two page summary about the product concept" sent to interviewees, as referred to in Appendix C, page 3? If not, please explain.

RESPONSE: Yes.

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OCA/USPS-T32-61. The pre-interview materials contain the following paragraphs:

At present, households need to obtain and affix a stamp to courtesy reply envelopes or plain "white" envelopes. *Thus, the advantages for households include convenience and savings in mailing costs, depending on how the product is priced.* Consumer interest may also depend on whether the household pays the postage explicitly or implicitly, as discussed below.

For businesses, the advantages include faster return of remittances because households won't have to delay mailing in their payment due to the lack of a stamp, and potential "good will" among customers who believe that returning the envelope is "free" or who understand that their remittances are traveling at a reduced postage rate. [emphases supplied.]

- a. Do the italicized portions of the pre-interview materials sent to interviewees infect the results with bias, perhaps leading the interviewees to be predisposed in favor of the proposals discussed with the interviewer? Please explain.
- b. Please explain if you do not agree there is a bias problem, with reference to survey literature indicating that statements such as those italicized are appropriate in surveys.

RESPONSE:

Part a and b: The purpose of the potential Prepaid Reply Mail product was to provide advantages to consumers and businesses. This, therefore, is an integral part of the description of the product. The market research that was conducted within the Price Waterhouse study for the Prepaid Reply Mail was intended to also gauge the perceived disadvantages that businesses and consumers may view in this product. This is depicted in the interview guides in Appendices A and B of the Final Report document.

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OCA/USPS-T32-63. The report at pages 9-10 indicates that within each of the organizations interviewed, a manager responsible for the overall management or supervision of bill payment options, particularly mail payment options, was identified.

- a. Please supply the names, positions, phone numbers, and organization names for all persons interviewed for this report, OCA will agree to appropriate confidentiality provisions regarding such information.
- b. Please refer to Docket No. MC95-1 and OCA's Courtesy Envelope Mail ("CEM") proposal. Please indicate whether the Postal Service would be amenable to furnishing the persons described in (a) with a questionnaire concerning CEM prepared by OCA. If not, why not?
- c. Pages 10-11 of the report describe the challenges associated with finding and then contacting the right person responsible for managing mail payment options. How many hours did the persons conducting the report require to identify and then successfully contact such persons?

RESPONSE:

Part a: Objection filed.

Part b: Objection filed.

Part c: The number of hours to identify organizations and successfully contact the appropriate person to interview was not tracked. We can estimate that it took approximately 20 hours to develop the potential interview list and we can estimate that it took on average 6 telephone calls to contact the appropriate person within the companies identified.

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OCA/USPS-T32-64. At page 11 the report states that the "difficulties encountered in identifying and contacting potential interviewees required the expansion of the interviewee criteria to include organizations that do not currently include a postage prepaid envelope with their bill statements, but rather include a courtesy reply mail (CRM) envelope. The methodological change was approved by the USPS."

- a. Did the Postal Service want to limit the original Interview process only to, essentially, BRM mailers? If so, why? If not, please explain.
- b. According to page 11 of the report, there were three interviews with current BRM users. Does this mean that the Postal Service was able to find only three BRM users in the entire United States? Please explain.
- c. Were any current BRM users not considered or rejected for interviewing? If so, please explain.
- d. Were current CRM mailers originally not considered suitable for being interviewed? Please explain.
- e. Did the Postal Service believe prior to the interview process that current CRM mailers would not be attracted to the two proposals under discussion in the report? Please explain.
- f. As noted, on page 11 the report states that the methodological change was approved by the Postal Service. Please submit all documents relating to such approval, including, but not limited to, all documents relating to the need for such a change.
- g. The report at page 11 states that the findings in the report are not intended to be statistically representative, reflecting the data gathered from the interviews. Did the Postal Service ever consider, or even plan, a survey that it believed would obtain statistically representative results? If so, explain. If not, why not?

RESPONSE:

Part a: **The Postal Service** wanted the contractor to interview businesses that currently provide BRM envelopes to their customers for bill payment purposes. The USPS targeted these BRM firms because their current practices are somewhat similar to the Prepaid Reply Mail concept. The USPS also wanted to learn why these firms currently provide their customers with a BRM bill payment service. Lastly, the Postal Service felt that the BRM

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RESPONSE to OCA/USPS-T32-64 (continued)

interviews would be useful for directional purposes relating to Prepaid Reply Mail.

Part b: It was difficult to identify organizations that used BRM for bill payment purposes.

Part c: Only current BRM users that use BRM for customer bill payments were considered for interviewing, other BRM users were not.

Part d: The initial scope of the study was to target a subset of BRM users; however, the scope of the study was expanded to include CRM users when it was determined that the use of BRM for bill payment purposes was limited.

Part e: Answered by witness Fronk.

Part f: No such documents exist because the change was verbally given to the contractor. The possibility of a methodological change was anticipated in the original Prepaid Reply Mail contract, and it had no impact on the contractor's scope of work, price, or schedule. Hence, an additional document relating to such a change was not necessary. When it was determined that in the time allotted the contractor could only find three firms that give their customers BRM envelopes for bill payment purposes, it was mutually decided by the USPS and Price Waterhouse that they should supplement the interviews with business mailers (across a variety of industries) which receive large volumes of CRM.

Part g: Answered by witness Fronk.

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OCA/USPS-T32-69. At any point in the interview process used to compile the report did the interviewers raise the possibility of an option identical or similar to the CEM proposal advanced by OCA in Docket No. MC95-1?

- a. If not, why not?
- b. Did you or the Postal Service believe prior to the interview process that interviewees might favor a CEM-type proposal? Please explain.

RESPONSE:

Part a: No. This information was not related to the study which is testing a particular concept - the PRM concept. Please refer to the interview guide in Appendices A and B of the Final Report document.

Part b: Answered by witness Fronk.

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OCA/USPS-T32-70. Please refer to page 20 of the report, and the following quotations: (1) "The utility company and the publishing company both using BRM felt very strongly that they received their payments faster [using BRM], thereby enhancing their cash flow." (2) "The publishing company and executive business journal both indicated that they send multiple reminders, invoices, and BRM envelopes to a single customer for renewal and payment of subscriptions." (3) "These interviewees felt that their customers did not perceive any urgency to submit their payments, and the receipt of a single BRM is not necessarily sufficient to entice customers to pay their bills immediately." (4) "This interviewee [referring apparently to the "publisher" in the preceding sentence] felt that customers simply did not pay their bills until they were due."

- a. Which interviewee is being referred to in (4)?
- b. Is there a contradiction between the statement in (1) and the other statements? Please explain.

RESPONSE:

Part a: The publisher is being referred to in (4).

Part b: No this is not a contradiction. The statement in (1) is referring to a general feeling that the interviewees received their payments faster using BRM than if they were not to use BRM. The statements in (2) and (3) are referring specifically to the publishing and executive business journal who send numerous reminders to their customers, well in advance, to inform them that their subscriptions are coming up for renewal. These organizations indicated that many of their customers do not renew their subscriptions on the first notice and prefer to **wait** until closer to the expiration of their current subscription. The statement in (4) supports the statement in (3) because there are a number of notices **sent** for subscription renewal, well in advance of the due date, but many customers choose to wait for a later notice of renewal before renewing their subscription.

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OCA/USPS-T32-74. At page 21 of the report it is stated that "Bank 2 (current CRM user) considered introducing BRM, however it was deemed far too costly to use."

- a. Please supply the interviewers notes relating to this statement.
- b. What was meant by "far too costly?"
- c. Do you believe that the opinion of Bank 2 would apply to some, all, or most banks?
- d. Why would a bank ever want to use BRM? The proposed PRM? The proposed QBRM?

RESPONSE:

Part a: Please refer to USPS-LR-H-264, Transcript #9.

Part b: Please refer to USPS-LR-H-264, Transcript #9.

Part c and d: Answered by witness Fronk.

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OCA/USPS-T32-75. Refer to page 21 of the report. Did the representative of the insurance company currently using CRM explain in any more detail why there had never been a concerted attempt within the organization to investigate the potential of using BRM?

RESPONSE:

Please refer to USPS-LR-H-264, Transcript #6.

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OCA/USPS-T32-78. Please refer to page 23 of the report. It is stated: "While there was some discussion regarding the current price of BRM, as well as the potential impact that BRM has on the speed with which they are able to receive and process payments, the general view is that BRM seems to work for their organizations."

- a. Please provide the Interview notes which form the basis for this sentence.
- b. What was "the discussion" regarding the current price of BRM? Please describe.
- c. What was the "potential Impact that BRM has on the speed with which they are able to receive and process payments?" Please describe.

RESPONSE:

Parts a-c: Please refer to USPS-LR-H-264, Transcripts #1, #2, and #3.

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OCA/USPS-T32-80. Please refer to page 25 of the report where it is stated:
"The other interviewees did not perceive PRM as an incentive to keep customers
from using alternative forms of payment."

- a. Why not? Please set forth the full reasoning of the interviewees on this topic.
- b. Please provide the interviewer notes on this topic.

RESPONSE:

Parts a-b: Please refer to USPS-LR-H-264.

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OCA/USPS-T32-81. Please refer to pages 25-26 of the report. It is stated:
"They were somewhat less enthusiastic of a potential new product which would
require significant changes to their current BRM process; however, they were
uncertain as to the other potential benefits of PRM over BRM, aside from the
reduced rate."

- a. Why were they "somewhat less enthusiastic?" Please set forth the full reasoning of the interviewees on this topic.
- b. Please provide the interviewer notes on the topic discussed in (a).
- c. Why were they uncertain as to the other potential benefits of PRM over BRM (aside from the reduced rate)?
- d. Please set forth the full reasoning of the interviewees on this topic.
- e. Please provide the interviewer notes on the topic discussed in (c).

RESPONSE:

Parts a - e: Please refer to USPS-LR-H-264, Transcripts #1, #2 and #3.

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OCA/USPS-T32-83. Please refer to page 26 of the report. There it is stated:
"The regulations surrounding the rate structures of different utilities would
appear to inhibit the attractiveness of PRM."

- a. Please set forth the full reasoning of the interviewees on this topic.
- b. Please provide the interviewer notes on the topic discussed in (a).

RESPONSE:

Parts a-b: Please refer to USPS-LR-264, Transcripts #7 and #8.

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OCA/USPS-T32-84. Please refer again to page 26 of the report where it is stated: "Implicit PRM would require a rate change, which is not attractive..."

- a. Please set forth the full reasoning of the interviewees on this topic.
- b. Please provide the interviewer notes on the topic discussed in (a).

RESPONSE:

Parts a-b: Please refer to USPS-LR-H-264, Transcripts #7 and #8.

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OCA/USPS-T32-85. Please refer now to page 27 of the report where it is stated: "A representative from Bank 1 indicated that the bank was not interested in this type of product due to additional administrative burden for the bank to build in the cost of postage into the cost of their product..."

- a. Was Bank 1 in this context referring to implicit PRM? Please clarify.
- b. Would you characterize implicit PRM as defined in the report as substantially similar to both the PRM and QBRM proposals in this docket? If not, why not?
- c. Please set forth the full reasoning of Bank 1 on the quoted statement set forth above.
- d. Please provide the interviewer notes on the topic addressed in the above-quoted statement.

RESPONSE:

Part a: Bank 1 was referring to Implicit PRM [". . . to build in the cost of the postage into the cost of the product . . ."] and Explicit PRM [". . . or add a line item to their customers bills."].

Part b: Answered by witness Fronk.

Parts c-d: Please refer to USPS-LR-H-264, Transcript #4.

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OCA/USPS-T32-87. Please refer to page 28 of the report under the heading "Current CRM users." It is stated: "Current CRM users were most concerned with the cost of implicit PRM." "The utility companies discussed the need to justify all of their costs to a regulatory board or commissioner. The components of these costs usually apply to all of their customers and, because it is not anticipated that PRM would be used by all customers . . . interviewees anticipate significant challenges charging everyone for something that only a select group will likely use."

- a. Please set forth the full reasoning of the interviewees on this topic.
- b. Please provide the Interviewer notes on the topic discussed in (a).

RESPONSE:

Parts a-b: Please refer to USPS-LR-H-264, Transcripts #7 and #8.

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OCA/USPS-T32-88. Please refer to the report on page 28 where it is stated:
"The banks and the security and insurance companies indicated that they have
already eliminated their annual fee because of competitive pressure, and there
isn't really any room to add fees to the interest rate, which is also very
competitive."

- a. Please set forth the full reasoning of the interviewees on this topic.
- b. Please provide the interviewer notes on the topic discussed in (a).

RESPONSE:

Parts a-b: Please refer to USPS-LR-H-264, Transcripts #4, #5, #6 and #9.

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OCA/USPS-T32-89. Please refer to page 28 under the heading "Other concerns." There it is stated: "there was concern that the reduced rate may have an impact on the cost/quality of service for the mail that the businesses send to their customers or the quality of service currently received from USPS for incoming bill payments. The issue related to how USPS would introduce this product at a lower rate. Would USPS' costs be covered by better efficiencies or by increasing the cost of sending outbound mail or decreasing service to mailers? These interviewees were also concerned about the timing of the process, 'Will this slow the process down?' The publishing company viewed this as a current problem with BRM."

- a. Please comment on the validity of these concerns.
- b. Please set forth the full reasoning of the interviewees on these topics.
- c. Please provide the interviewer notes on these topics.

RESPONSE:

Part a: Answered by witness Fronk.

Parts b-c: Please refer to USPS-LR-H-264, Transcripts #1 and #6.

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OCA/USPS-T32-97. At page 30 of the report the following is stated: "Overall, the CRM users indicated that even if this type of product was offered to their customers, it would probably not affect mail volume."

- a. Clarify what version of PRM Is being talked about here.
- b. If it is a type of PRM being proposed in this docket, please comment vis a vis your volume estimates.

RESPONSE:

Part a: *The Implicit PRM is being talked about [See Section Heading: 5.2.2 Anticipated Customer Reaction to the Implicit Variation of PRM].*

Part b: Answered by witness Fronk.

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OCA/USPS-T32-98. Please refer to Section 6.0 of the report, beginning at page 34. Current BRM and PRM users were asked to express their level of interest in the implicit variation of PRM at different price levels. See Exhibit 3.

- a. The report uses the phrase "fully loaded postage." Confirm that this term was explained to the interviewees to mean "that all fees (if any) are already included in the price." See Appendix B, page 3. If not confirmed, please explain.
- b. The questionnaire asked the interviewees to comment on implicit PRM at three fully loaded price levels: 32, 29 and 27 cents. Please quantify the fees interviewees would have been considering as part of the fully loaded price.
- c. Confirm that interviewees were being asked to react to these price levels vis a vis the current level of postage fees. If not confirmed, please explain.

RESPONSE:

Part a: The term "fully loaded postage" was explained to the current BRM user interviewees in order to differentiate between BRM and PRM [Please refer to USPS-LR-H-264, Transcripts #1, #2 and #3]. The term "fully loaded postage" was not explained to all the CRM user interviewees because the cost structure of the BRM was not an issue for many of the CRM users, as they did not use or had not looked into using BRM.

Part b: Answered by witness Fronk.

Part c: Interviewees were asked to react to the product concept and the proposed three levels of pricing. Please refer to the interview guides in Appendices A and B and USPS-LR-H-264.

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OCA/USPS-T32-101. Please refer to page 23 of the report where there is a reference to "[t]he three businesses currently using BRM interviewed as part of this research" See also Exhibit 1, page 14, listing a utility company, a publishing company, and an executive business journal as the only three BRM users.

- a. Confirm that the report covered three BRM users. If not confirmed, please explain.
- b. Please now refer to Exhibit 3 at page 34, where apparently five interviewees are said to be current BRM users. Please reconcile these exhibits and statements.

RESPONSE:

Part a: It is confirmed that the report covered three (3) BRM users.

Part b: Revised tables for pages 34 and 36 of the report are being filed.

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OCA/USPS-T32-102. Please refer to page 35 of the report where it is stated:
"While **these** interviewees [current CRM users] indicated that reduced rates were positive if they could be passed along to their customers, the overall cost of introducing this product was viewed as prohibitive."

- a. Reconcile this statement with the projected volume estimates in your direct testimony.
- b. What costs would they have viewed as being prohibitive? Please quantify.
- c. Please comment on the validity of the interviewees' concerns.
- d. Please set forth the full reasoning of the interviewees on these topics.
- e. Please provide the interviewer notes on this topic.

RESPONSE:

Part a: Answered by witness Fronk.

Part b: All that is known about the respondent's reaction to costs is embodied in the interview transcripts. Please refer to USPS-LR-H-264.

Part c: The study did not evaluate the validity of the interviewees' concerns. Please refer to USPS-LR-H-264, Transcripts #4 - #9.

Parts d-e: Please refer to USPS-LR-H-264, Transcripts #4 - #9.

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OCA/USPS-T32-103. Please refer to Appendix A of the report, pages 3-4. The following questions were asked interviewees about implicit PRM. Question 8 asks, in part: "What barriers exist to your organization using this product?" Question 10 asks, in part: "What are you not interested in [sic] this version of the product?" Please provide the interviewer notes on the responses to these questions.

RESPONSE:

Please refer to USPS-LR-H-264.

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.



Michael T. Tidwell

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September 17, 1997