

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 UNITED STATES POSTAL SERVICE WITNESS FRONK
TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T32-58, 62, 64e&g, 66, 67, 69b, 71- 73, 74c&d, 79, 82, 85b, 89a, 90-
98b, 99, 100, 102a, 104 - 106b)**

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-T32-58, 62, 64e&g, 66, 67, 69b, 71- 73, 74c&d, 79, 82, 85b, 89a, 90-98b, 99, 100, 102a, 104 - 106b.

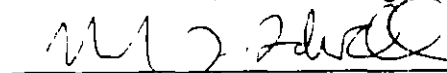
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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OCA/USPS-T32-58. The report discusses two PRM variations, implicit and explicit. See Appendix B, page 3. Implicit PRM "would be treated in a similar fashion as the current approach to BRM." Explicit PRM is said to involve the direct billing of clients for the use of the prepaid reply mail envelope. Appendix B at page 4. See also Appendix D, page 2.

- a. Confirm that explicit PRM is not part of the current Postal Service proposal in this docket. If not confirmed, please explain.
- b. Confirm that implicit PRM as defined in the report encompasses the Prepaid Reply Mail ("PRM") and Qualified Business Reply Mail ("QBRM") proposals in this docket. If not confirmed, please explain.
- c. If (a) is confirmed, why did the Postal Service not offer such a proposal in this docket?

RESPONSE:

(a) Not confirmed. As described in my response to OCA/USPS-T32-23, under the Postal Service's PRM proposal, organizations could choose to explicitly bill customers for the cost of the PRM postage. How to fund PRM would be the participating organization's decision.

(b) Not confirmed. See part (a) above. Also, the report does not address QBRM at all. Please recognize that while my testimony proposes the same 30-cent postage rate for both products, QBRM is still Business Reply Mail with a per-piece fee and the involvement of Postal Service postage due units (see page 7 of my testimony).

(c) Not applicable.

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OCA/USPS-T32-62. Page 9 of the report states: "Potential interviewees were identified by calling a variety of businesses thought to include prepaid envelopes, such as a BRM envelope, a Prepaid Meter Reply envelope, or any form of reply mail that has a preapplied stamp indicia, with the bill statements sent to consumers."

- a. Please set forth all forms of reply mail that have "pre-applied stamp indicia."
- b. Please set forth all regulations relating to the content, existence, and placement of any such "pre-applied stamp indicia."

RESPONSE:

- (a) BRM, Meter Reply Mail, and envelopes with a stamp already affixed.
- (b) Please see sections P030.1.5 and S922 4.0 of the DMM.

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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:

All parts except (e) and (g) redirected to the Postal Service for response.

(e) No. Please see Postal Service responses to parts (a) and (f).

(g) During the spring, there was some thought given to conducting follow-on quantitative research. However, the qualitative Price Waterhouse report which appears as Postal Service LR H-226 was completed in early May, precluding any additional market research prior to the anticipated filing date. The Postal Service wanted to include something in this filing that would offer an opportunity for the general public to benefit in a more direct manner from automation. The Postal Service also wanted to address the threat of electronic diversion to the largest

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

component of the First-Class Mail stream – invoices and bill payments. The Postal Service views alternatives using differently-rated postage stamps as infeasible. Consequently, it decided upon PRM as a means of addressing these purposes. It is important to recognize that mailers are under no obligation to offer PRM. Mailers may participate in PRM if they feel it meets their needs and if they meet Postal Service requirements for participation.

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OCA/USPS-T32-66. Please set forth all reasons why mailers who currently use BRM and CRM will be attracted to PRM and QBRM that are not set forth in your testimony.

RESPONSE: In my testimony, I state that advantages of PRM to business include potentially faster return of remittances and goodwill from their customers. I would add the chance to gain a competitive edge to these reasons. For example, as I noted in my response to OCA/USPS-T32-26, 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. Also, *the discounted postage rate may attract mailers.*

In terms of QBRM, in my testimony I state that QBRM in the Test Year will come from current BRM that is prebarcoded, automation-compatible, and presently paying the 2-cent per-piece BRM fee (see page 46, lines 13-22). In developing my testimony, I did not analyze why mailers currently are choosing to meet the requirements for the current 2-cent per-piece BRM fee.

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OCA/USPS-T32-67. On page 10 of the report, it is stated: "The identification of potential interviewees was extremely challenging. The number of organizations currently including a prepaid postage envelope in their bill statements is quite low."

- a. Do you agree with the "quite low" characterization?
- b. If so, set forth all reasons why the number is "quite low?"
- c. If not, please explain.

RESPONSE:

(a) I would agree that the practice of including prepaid postage envelopes along with billing statements is not widespread.

(b) At present, mailers who wish to prepay postage can only choose between two overall alternatives. The first is Business Reply Mail, which involves undiscounted First-Class postage plus a per-piece fee. Business Reply Mail is also routed through the postage due unit, which can slow down the receipt of time-sensitive remittances. The second alternative is to affix return postage through the use of an undiscounted stamp or meter strip.

PRM does not exist at present. It offers discounted postage, expeditious transfer of processed mail from the delivery unit to the PRM recipient, and the convenience of a permit imprint.

(c) Not applicable.

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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:

- (a) Redirected to the Postal Service.
- (b) No. My focus was on the development of PRM.

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OCA/USPS-T32-71. Please refer to page 21 of the report.

- a. The report states: "The current users of CRM for bill payment indicated that they do not offer BRM primarily because of the cost." Why will current users of CRM use the proposed PRM and QBRM systems? Provide any explanation not currently provided in your direct testimony.
- b. Assume a utility sends out 100,000 bills a month to its 100,000 customers. Compare the postage costs the utility would incur using: (1) current CRM, (2) current BRM, (3) proposed PRM, (4) proposed QBRM, and (5) CEM.

RESPONSE:

(a) In addition to my direct testimony, see my response to OCA/USPS-T32-66. Note that in my testimony, I assume that there are no current users of CRM that will use QBRM in the Test Year (page 46, lines 13-22). Also, note that the report interviewed only 7 of the many CRM users.

(b)(1) Indeterminate. It depends on whether the CRM is prepaid or not. The amount could be \$0 if no postage is affixed, or \$32,000 if the postage is affixed.

(b)(2) Indeterminate. It depends on whether the mailer is maintaining an advance account and whether the mailer qualifies for the 2-cent per-piece prebarcoded rate.

(b)(3) \$30,000 in postage plus a \$1,000 monthly fee.

(b)(4) \$30,000 in postage plus \$6,000 in per-piece fees.

(b)(5) Unknown. I do not know what the CEM rate contemplated by the question is.

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OCA/USPS-T32-72. At page 21, the report states: "As described by one utility company currently using CRM, utility companies must be concerned about serving their customers; however, the nature of their business is such that their customers must pay their bills one way or another, or their utility service will be discontinued. There was little incentive for this utility company to offer BRM."

- a. Why would there be any incentive for any utility to offer BRM? The proposed PRM? The proposed QBRM?
- b. Why would there be any incentive for a credit card company (which typically requires at least a monthly minimum payment) to offer BRM? The proposed PRM? The proposed QBRM?

RESPONSE:

(a)-(b) Please see responses to OCA/USPS-T32-66, 67, and 71.

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OCA/USPS-T32-73. The report at page 21 states, with reference to the utility: "The issues related to regulation of rate structures among utility companies was also identified as a barrier to using BRM, as any changes to the rate required to cover the costs of offering BRM would require justification to the commissioner."

- a. Please comment as to whether this assessment is correct, and whether it would apply to most or all utilities generally.
- b. Please comment whether this assessment would apply to most or all utilities generally for CRM, the proposed PRM, the proposed QBRM, and CEM.

RESPONSE:

(a)-(b) In terms of the two utilities using CRM that are included in the study, I assume this is an accurate assessment of their respective situations. However, I would also point out that the other utility included in the study is currently using BRM and has overcome whatever regulatory hurdles may exist in its jurisdiction. In terms of overall applicability of these findings, please see my response to OCA/USPS-T32-24. Note that I have no opinion as to CEM since it was not studied in developing the PRM and QBRM proposals.

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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:

- (a)-(b) Redirected to the Postal Service.
- (c) The opinion of Bank 2 applies to Bank 2. I am uncertain as to how many other banks its opinion would apply to.
- (d) Please see my responses to OCA/USPS-T32-66, 67, and 71.

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OCA/USPS-T32-79. Please refer to page 23 of the report. It is stated: "Many indicated that the inclusion of a CRM envelope ensured that the bill payment was sent to the correct address, and simplified processing due to uniform envelope size."

- a. How does CRM ensure that bill payments are sent to the correct address?
- b. Would this be true of CEM also, assuming the courtesy reply envelope is certified by the Postal Service?

RESPONSE:

(a) CRM ensures that bill payments are sent to the correct address through the use of standardized preprinted addresses and through the use of accurate, readable barcodes.

(b) Yes, assuming these hypothetical envelopes met all applicable Postal Service requirements.

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OCA/USPS-T32-82. Please refer to page 26 of the report where it is stated:
"The general reaction of the utility companies was that while the [PRM] concept is appealing as a potential service to customers, they would probably never use it because they would have to be able to recoup the cost through the cost of their product or service."

- a. Please comment on whether CEM would be more appealing to utility companies having the views expressed above.
- b. Please explain why you did not discuss the quoted statement from page 26 of the report when you offered your volume estimates for PRM on pages 42-44 of your direct testimony.
- c. Please explain how the quoted statement on page 26 of the report is consistent with your estimation on page 43 of your direct testimony that an estimated "500 million pieces of courtesy reply envelope mail" might shift to PRM.
- d. Please explain how the statement on page 26 of the report is consistent with the statement on page 43 of your direct testimony that there are two industries likely to be attracted to the PRM rate, credit card companies and utilities.

RESPONSE:

- (a) The study did not gather any information as to the appeal or lack of appeal of CEM. I have no basis for commenting.
- (b) Please see my response to OCA/USPS-T32-90.
- (c)-(d) The quoted statement represents the view of 2 utilities currently using CRM. The Price Waterhouse study included a third utility currently using BRM who responded favorably to the PRM concept. The study also identified an organization (the organization's line of business is not identified) using prepaid metered reply envelopes for its 75,000 customers, though this organization declined to be interviewed. The Postal Service recognizes that PRM will not be right for all mailers; PRM is not intended to be a panacea. Mailers are under no obligation to offer PRM. Mailers may participate if they feel it meets their needs and if they meet Postal Service requirements for participation. PRM is one of several options for mailers to consider in encouraging responses. As such, it provides an additional tool for their potential use. Also, please see my response to OCA/USPS-T32-90.

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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.

(a), (c), (d) Redirected to the Postal Service.

(b) No. Please see my response to OCA/USPS-T32-58.

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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:

(a) As noted in my response to OCA/USPS-T32-90, the business interviews in the study involved a description of PRM fundamentally different than what was proposed in my testimony. As a result, concerns expressed by interviewees that PRM would slow down the receipt of remittances are no longer valid because PRM will not be processed through the postage due unit as is the case with BRM. Related to this, PRM as proposed will not result in a decline in the quality of service offered by the Postal Service for incoming bill payments. In terms of making up for the revenue loss associated with PRM, the mailers are correct in understanding that the Postal Service, as a breakeven organization, needs to recover revenues lost due to postal discounts from other postal products.

(b)-(c) Redirected to the Postal Service.

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OCA/USPS-T32-90. Do you consider the evidence and findings of the report probative on the issue of likelihood that existing CRM users will switch to PRM? Please explain.

RESPONSE: No. I did not rely on this report (LR H-226) in preparing my testimony. I did not rely on this report because it involved only a few interviews and was not statistically projectible. Also, I was concerned about the difficulty that Price Waterhouse had in identifying the most appropriate individual to interview and scheduling that interview. In other words: Did the interviewees fully reflect organizational thinking? As I read the report, Price Waterhouse tried to identify and interview the individual with overall management or supervision of bill payment options, particularly mail payment options (page 7). Whether or not an organization chooses to offer PRM may be a broader-based, higher-level decision than the typical interviewee, involving dimensions of customer service and competitive strategy beyond basic remittance processing.

In addition, the interviews involved a description of PRM fundamentally different than what was ultimately proposed. For instance, the concept described in the interviews included both "implicit" and "explicit" variations of the product concept (based on whether the business would bill the customer explicitly for the cost of the PRM postage) and assumed in some instances that the Postal Service would perform the postage accounting function rather than the PRM recipient. In the proposal submitted in my testimony, the business rather than the Postal Service decides how to pay for the costs of PRM postage. Also, the PRM recipient performs the postage accounting function with verification by the Postal Service.

Moreover, the report stated that several of the respondents (across industries) said they did not see their organizations on the leading edge in the area of customer bill payment (page 26). If other organizations tested PRM with positive results, these interviewees might be more interested in pursuing its potential benefits. A "wait-and-see" attitude on the part of mailers is not unusual

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RESPONSE to OCA/USPS-T32-90 (continued)

for new postal products. Frequently, new products do not gain immediate acceptance.

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OCA/USPS-T32-91. Were you aware of the report (specify either its existence or its contents) when you prepared your testimony? Please explain.

RESPONSE: Yes. I was aware of the report and familiar with its general contents.

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OCA/USPS-T32-92. If you were aware of the report, why did you not mention it?

RESPONSE: I did not mention it because I did not rely on it in developing my testimony. Please see my response to USPS/OCA-T32-90.

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OCA/USPS-T32-93. Did any person from the Postal Service (excluding lawyers) recommend to you or tell you not to refer to the report? If so, who? If so, what reasoning did they give?

RESPONSE: No.

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OCA/USPS-T32-94. On page 43 of your direct testimony, you develop a partial estimate of mailers who would switch to PRM from CRM based on experience following the introduction of barcodes, qualifying your comparison by stating it was "not a perfect parallel by any means." You state, however, that "experience with this postal product [barcodes] provides some insight into the potential for PRM and how initial business resistance can be overcome."

- a. Why would businesses resist switching to PRM?
- b. Do you find any valid statements in the report suggesting there might be business resistance to PRM? If so, which ones? And, if so, why are the statements valid?

RESPONSE:

(a) My mention of "resistance" simply refers to the fact that both PRM and barcoding require mailers to modify certain aspects of their mailing operations and that these modifications take time and resources.

(b) In essence, the report consists of summaries of 10 business interviews. It appears that the interviewees were candid in stating their opinions, and I have no doubt that the various reservations are valid for the individual respondents. At the same time, I would note that mailer presorting, barcoding, and dropshipping has increased over time. This suggests that generally some initial resistance exists to any form of mailer preparation.

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OCA/USPS-T32-95. Please refer to page 44 of your direct testimony where you state: "Because of the uncertainty in this 360 million piece estimate of mail switching from courtesy reply envelope mail to PRM (280 + 80 million), and, therefore, the uncertainty in the range around a point estimate, I increased the estimate to 500 million pieces."

- a. What do you mean by the phrase "uncertainty in the range around a point estimate?"
- b. Why did you increase the estimate, given the negative opinions about PRM expressed in the report?
- c. Would it not have been better to *decrease* the estimate? Please explain.
- d. You further state on page 44 of your direct testimony that the estimate "is conservative as it is a hedge against the revenue loss associated with a higher than anticipated acceptance of PRM." Is it correct to state that if PRM usage is less than your estimate then the Postal Service will enjoy greater revenues than you anticipate? Please discuss.

RESPONSE:

- (a) I meant that I am uncertain both about the point estimate and the range around the point estimate where Test Year PRM volume may fall.
- (b) I increased the estimate for the reasons set forth in my testimony (page 44, lines 3-9). Also, please see my response to USPS/OCA-T32-90.
- (c) No. See response to part (b) above.
- (d) Clearly, because PRM is priced below the single-piece rate, less-than-anticipated volume will work to increase revenues above my estimate. Similarly, greater-than-anticipated usage will work to decrease my revenue estimate.

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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:

- (a) Redirected to the Postal Service for response.
 - (b) Implicit PRM, as described in the report, is not being proposed in this docket.
- Please see my responses to OCA/USPS-T32-58 and 90.

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OCA/USPS-T32-96. Please refer to page 36 of your direct testimony where it is stated: "The proposed PRM rate can help address the threat of electronic diversion and, at the same time, provide added convenience to the general public." Please now refer to page 29 of the report where it is stated: "BRM users, in general, did not think that their customers would change their bill payment habits as a result of the introduction the [sic] implicit variation of PRM."

- a. Please reconcile the statement on page 36 of your direct testimony with the statement on page 29 of the report.
- b. At page 30 of the report the following is stated: "The representative from the insurance company did not think that PRM would be enough to entice customers to switch from pre-authorized debit back to the mail, nor would it change the volume of in-person payments." Please comment on this statement.

RESPONSE:

(a) No reconciliation is necessary. The quote from page 29 of the report is lifted out of context. The next sentence from page 29 of the report states, "This group is already providing prepaid postage return envelopes to their customers, and does not think the customers would notice any difference, unless the reduced postage rate was passed along as an overall reduction in rates charged to the customers." The implication of this section of the report has nothing to do with electronic diversion. Rather, it is simply stating that PRM would not impact these BRM customers much since their envelopes are already prepaid.

(b) I partially agree with this statement. The quantitative market research I cite in my testimony demonstrates that PRM could potentially generate some new volume by converting some in-person payments to PRM. At the same time, the research suggests that the convenience of PRM is more likely to forestall electronic diversion than reverse it (see pages 38 and 39 of my testimony).

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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:

(a)-(c) Redirected to the Postal Service.

(b) There would be no fees, only the rate of 32, 29, or 27 cents, respectively.

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OCA/USPS-T32-99. Current BRM users were asked to consider implicit PRM at a 32 cents per-piece fully loaded price. Given the mail volume profile of the BRM users in the interview, what would their current fully loaded BRM postage price have been?

RESPONSE: If I assume that these current BRM users had qualified for the prebarcoded BRM fee of 2 cents and used one-ounce BRM pieces, the fully-loaded price would be 34 cents (32 cent rate plus a 2-cent per-piece fee).

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OCA/USPS-T32-100. Current CRM users were asked to consider implicit PRM at a 32 cents per-piece fully loaded price. Given the mail volume profile of the BRM users in the interview, what would their current fully loaded postage price have been?

RESPONSE: I am unsure what the reference to BRM users is meant to imply for this question. Currently, if we assume CRM users do not prepay postage, their postage cost is \$0 for the returning envelopes.

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

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:

(a) Please see my responses to OCA/USPS-T32-66, 71, and 90.

(b)-(e) Redirected to the Postal Service.

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

OCA/USPS-T32-104. At page 35 of the report it is stated: "The representative from the long distance communication company indicated that they might be interested in investigating this product if the price were 26 cents per piece, which is the current price they are paying to send their mail from their business to customers."

- a. At the proposed 30 cents per-piece price proposed in this docket for PRM and QBRM, and assuming all other rate and service proposals in this docket are adopted (including associated PRM and QBRM fees and qualifications),
 - *please provide a quantitative profile of companies that might switch from CRM to PRM or QBRM, e.g., the mail volume that would be necessary to make the change worthwhile.*
- b. Please quantify or estimate transaction costs a company considering switching from CRM to PRM or QBRM would incur (except for fees paid to the Postal Service). For example, such transaction costs might include costs of reprinting envelopes, sending notices to customers, and administrative costs. Explain the derivations of all quantifications and estimates used.

RESPONSE:

- (a) In terms of QBRM, in my testimony I state that QBRM in the Test Year will come from current BRM that is prebarcoded and presently paying the 2-cent per-piece BRM fee, rather than from CRM (see page 46, lines 13-22). In terms of CRM, there is no minimum volume needed to qualify for PRM, and a breakeven calculation is really not meaningful if CRM users are not currently paying the return postage. If a CRM user was already prepaying the postage, the postage comparison would be the proposed single-piece rate of 33 cents versus the proposed PRM rate of 30 cents plus \$1,000 per month. On a postage basis only, the breakeven volume would be about 33,333 pieces monthly.
- (b) For QBRM, please see my response to part (a) above. I have not developed an estimate of such transaction costs. I also have not quantified the potential float advantages associated with getting the remittances back sooner or the increased customer good will that can accrue to a participating organization.

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

OCA/USPS-T32-105. Please refer to page 35 of the report where it is stated: "Overall, CRM users were not very interested in the implicit version of PRM, even at different price levels." "At 27 cents, only two of the seven CRM businesses indicated any level of interest above low." At page 40, the report concludes: "The price of the implicit variation of PRM would prohibit current CRM users from introducing this product. Current CRM users, while interested in the implicit PRM product conceptually, indicated that the cost is prohibitive, even at 27 cents."

- a. Reconcile these statements and findings with the projected volume estimates in your direct testimony.
- b. Given these statements and findings, why did the Postal Service propose PRM and QBRM?

RESPONSE:

(a)-(b) Please see my responses to OCA/USPS-T32-66, 67, 71, and 90.

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

OCA/USPS-T32-106. Please refer to the OCA's Courtesy Envelope Mail ('CEM') Proposal in Docket No. MC95-1.

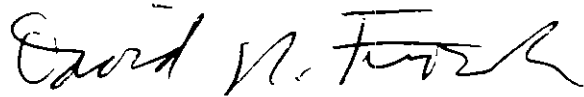
- a. Please list all reports, studies, and surveys (whether or not in final form) relating to the CEM proposal, or to any proposal substantially similar to the CEM proposal, of which you are aware.
- b. Please supply the documents meeting the definition in (a) if such documents have not already been submitted to the Commission in this proceeding.
- c. Please list all pending proposals for reports, studies, and surveys (whether or not in final form) relating to the CEM proposal, or to any proposal substantially similar to the CEM proposal, of which you are aware.

RESPONSE:

- (a) Please see the response of the Postal Service to OCA/USPS-20(a).
- (b) Not applicable.
- (c) Objection filed.

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.

A handwritten signature in cursive script, reading "David R. Fronk", written over a horizontal line.

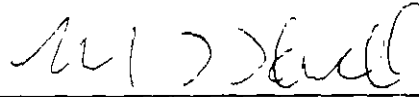
David R. Fronk

9-16-97

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 cursive script, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1145
September 16, 1997

BEFORE THE