

DOCKET SECTION

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-T32-116 - 118, 125b, 127 - 129, 131 - 136
(September 24, 1997)**

The United States Postal Service hereby files the responses of witness Fronk to the following interrogatories of the Office of the Consumer Advocate, dated September 10, 1997: OCA/USPS-T32-116 - 118, 125b, 127 - 129, 131 - 136.

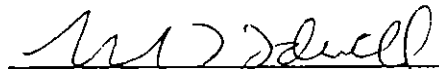
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 24, 1997

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

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.

RESPONSE:

(a)-(c) The primary purpose of both the PRM and the QBRM rate proposals is to permit a broader base of customers to more directly share in the benefits of automation (please see pages 34-36 and 44-45 of my testimony). The Postal Service expects that the implementation of PRM will increase both the number of prepaid reply envelopes offered to the public and the volume of prepaid envelopes in the mailstream. Since I estimate that QBRM in the Test Year will come from current Business Reply Mail, no major change in prepaid reply envelopes is expected from the QBRM proposal. Increasing the volume of automation-compatible mail is not the primary purpose of these proposals.

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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?

RESPONSE:

(a) As indicated in OCA/USPS-T32-136, the Postal Service anticipates that when the PRM participant pays the postage on outgoing mail pieces which contain reply envelopes, it will simultaneously pay postage on reply envelopes anticipated in response to those outgoing pieces.

(b) Per the portion of my testimony you quote in this question, mailers do not pay for unused PRM envelopes, as is also the case presently with Business Reply Mail.

(c) It is my understanding that a "doctored" envelope of this type could be identified at a number of points in the processing and delivery cycle and returned to the sender, in which case the sender would have to pay for the postage. If the envelope is not detected in mail processing or by the delivery carrier, its costs will be borne by other mailers.

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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).

RESPONSE:

(a) The implementing regulations have not yet been finalized. Please see my responses to OCA/USPS-T32-37(b); POIR No. 3, Question 22; and POIR No. 3, Question 23(a).

(b) No draft DMM language has been developed to the point where it has been circulated internally for comment. After internal circulation, proposed regulations will appear in the Federal Register.

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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.

RESPONSE:

(a) Redirected to the Postal Service for response.

(b) Please recognize that I am not an expert in enforcement or revenue assurance issues, nor have I discussed this quote or its context with Mr. De Miglio. I agree that most Americans are honest people. However, I also think it is inevitable that some unknown number of individuals will deliberately shortpay postage.

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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.

RESPONSE: I have not studied CEM or investigated the two-stamp issue. In developing the PRM proposal contained in my testimony, I took it as given that the Postal Service viewed differently-rated stamps as infeasible. Consequently, I have no basis for commenting on this question.

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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."

RESPONSE:

- (a) The research report speaks for itself.
- (b) Not confirmed. Under the Postal Service's PRM proposal, organizations could choose to explicitly bill customers for the cost of PRM postage. How to fund PRM would be the participating organization's decision. Also, the report does not address QBRM at all. Please see my response to OCA/USPS-T32-58.
- (c) See part (b) above. Also, the report states that, "[c]onvenience is the most important factor when focus group respondents determine how to pay a bill" (page 41). The price of PRM was not the key factor (32 cents, 29 cents and 27 cents were tested in the research); all focus group respondents who would switch to PRM would do so at 32 cents per piece (page 44). The key factor when respondents determine how to pay a bill was convenience.

The report further states, "[t]he participants liked PRM because it was convenient - they would no longer have to purchase stamps and envelopes for bill payment..." (page 42). The report goes on to quote the CARAVAN® research cited in my testimony

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RESPONSE to OCA/USPS-T32-128 (continued)

(at page 38, lines 8-12). The CARAVAN® research found that the great majority of households (81 percent) indicated that the inclusion of a PRM envelope with the billing statement would either have a strong positive influence or somewhat of a strong positive influence on the level of customer satisfaction with the company.

All of these factors indicate how PRM could enhance customer goodwill for participating organizations.

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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?

RESPONSE:

- (a) The report speaks for itself.
- (b) Please see my responses to OCA/USPS-T32-58 and OCA/USPS-T32-128.

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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.

RESPONSE:

(a) No. I would note that I fail to see the relevance of such consultation to the QBRM proposal. In the Test Year, QBRM volume is expected to come from current Business Reply Mail volume where organizations have already made the decision to offer prepaid reply envelopes. In terms of PRM, please see my response to OCA/USPS-T32-24.

(b) As I note in my response to OCA/USPS-T32-24(a), my estimate of 500 million pieces of courtesy reply mail that could switch to PRM in the Test Year represents a relatively small portion of bill payments. As such, the estimate reflects potential delays in the approval process.

(c) Please see responses to parts (a) and (b).

(d) Not at this time.

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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.

RESPONSE:

- (a) The Postal Service has no such information.
- (b) Please see my response to OCA/USPS-T32-127.

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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.

RESPONSE: Please see my response to OCA/USPS-T32-127.

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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.

RESPONSE:

(a) Again, I have not analyzed the two-stamp issue and consequently the statement you quote is not empirically based. Rather, please see my response to OCA/USPS-T32-128(c), which discusses the importance of convenience and the relative unimportance of PRM price in a household's selection of a bill payment method. The relative unimportance of PRM price vis-a-vis convenience may be explained by the amount of savings PRM may represent to the average household. As I state in my testimony (at page 9, lines 14-15), on average, households receive 2.9 bills per week. This represents about 12 bills per month. At a proposed PRM price of 3 cents below the single-piece rate, this represents a savings of 36 cents per month. While I would never presume to minimize the importance of these savings to those on fixed incomes, for a great many households 36 cents per month is probably not a great deal of money when compared with the convenience of not having to worry about a stamp.

Given the relative importance of convenience in a household's choice of bill payment method, I am concerned that two stamps would instead make things more confusing, burdensome, and cumbersome for the household by requiring it to

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RESPONSE to OCA/USPS-T32-134 (continued)

purchase, maintain, and use two differently-rated postage stamps for its First-Class Mail transactions and correspondence.

(b)-(d) Please see my responses to part (a) and OCA/USPS-T32-127.

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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.

RESPONSE: Please see my response to OCA/USPS-T32-127.

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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.

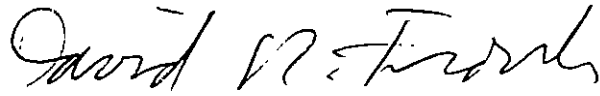
RESPONSE:

(a)-(b) The Request speaks for itself.

(c) The Prepaid Reply Mail account would be used to pay postage for the anticipated reply mail pieces, keeping those transactions separate and readily identifiable for administrative and auditing purposes.

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.



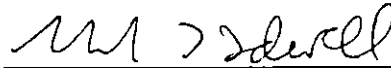
David R. Fronk

9-24-97

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.



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September 24, 1997