

DOCKET SECTION

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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 AMERICAN BANKERS ASSOCIATION
REDIRECTED FROM WITNESS HATFIELD
(ABA/USPS-T25-2 - 5)**

The United States Postal Service hereby files these responses to the following interrogatories of American Bankers Association: ABA/USPS-T25-2 through 5, filed September 17, 1997.

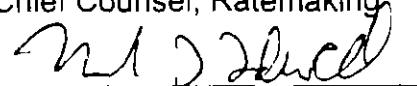
Redirected from witness Hatfield to witness Fronk, each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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October 1, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF THE ABA REDIRECTED FROM WITNESS HATFIELD

ABA/USPS-T25-2. What evidence do you have that private sector worksharing bureaus can cover the additional cost burden that reduced discounts are imposing on them? Do you have any evidence concerning their cost increases since R94-1 that would enable you to conclude that discounts can be cut or frozen and enable these bureaus to still operate profitably?

RESPONSE: In comparison to Docket No. R94-1, the 3-digit discount is increased from 5.6 cents per piece to 6.5 cents in my proposal. Similarly, the 5-digit discount is increased from 6.2 cents to 8.1 cents in my proposal. Please note that 3-digit and 5-digit letters are the largest categories of workshared mail, accounting for about 75 percent of workshared letters in the Test Year. There was no Basic Automation rate following Docket No. R94-1, precluding a comparison. I would think that these increases would enhance the ability of private sector workshare bureaus to operate profitably over that time frame.

I do recognize that our proposal calls for slight reductions in the 3-digit and 5-digit discounts. Nevertheless, this shows the longer term trend of these discounts.

While my proposals are based on Postal Service costs avoided rather than the costs of the worksharing bureaus, given the increase in these discounts since Docket No. R94-1, I am unsure what additional cost burden is being referenced in the question.

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ABA/USPS-25-3.

- a. Please confirm that the single piece mailstream that would benefit from the proposed discounts for Prepaid Reply Mail (PRM) and Qualified Business Reply Mail (QBRM) is already mostly barcoded and already generating cost savings.
- b. Please confirm that the 3 cent "incentive" proposed for PRM and QBRM mail is unlikely to result in many more (or any more) barcodes than now exists, being put on household to nonhousehold mail in the form of bill payments and the like.

RESPONSE:

- (a) Confirmed.
- (b) I agree with this statement for the Test Year. In the future, it is possible that PRM could generate some new mail volume by converting some in-person payments to the mail (see page 38 of my testimony at lines 16-21). Also, it is possible that the new QBRM rate will attract new volume in the future, but this volume is uncertain and I have not attempted to quantify it (see page 47 of my testimony at lines 1-3). Please see my response to ABA/USPS-T25-4 for the rationale underlying the discount.

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ABA/USPS-T25-4. *Is it your intention that all the 3 cents in your proposed PRM and QBRM rate be passed on to consumers or should the division between consumers and business preparers of these envelopes be divided according to market principles, much like the current dynamic between worksharing discounts and charges to those using worksharing bureaus?*

RESPONSE: My intention with both of these proposed rates is to permit a broader base of customers to more directly share in the benefits of automation. The proposed PRM rate is also designed to help address the threat of electronic diversion and, at the same time, to provide added convenience for the general public (please see pages 33-37 and 45 of my testimony). How this benefit is divided depends on how a business chooses to fund PRM or QBRM. If a business funds PRM by explicitly billing the consumer for the cost of the postage, then the 3 cents savings would be passed directly on to consumers. If a business treats PRM or QBRM as a cost of doing business and recovers the cost through other product or service prices (similar to current BRM), then the 3 cents could be divided between the business and its consumers.

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ABA/USPS-T25-5. The benchmark used for the development of the PRM and QBRM automation discount is the nonpresort single piece while the benchmark used for the development of other automation discounts in First Class is bulk metered mail. *If nonpresort single piece letter mail is convertible into (some) automation rate, as implied by the proposed PRM discount, then the supposition underlying the bulk metered benchmark that only the bulk metered mail stream is convertible is false, is it not?*

RESPONSE: No. As the Commission stated in Docket No. MC95-1 (paragraph 4302 at page IV-136), "...the single-piece mail most likely to convert to the automation categories is limited to the bulk metered mail component." Also, see my testimony at page 20. As such, I used this benchmark to set the worksharing discounts for bulk automation letters. The benchmark represents a pricing reference point to appropriately identify workshare cost savings; the benchmark is not meant to imply that every piece that converts to worksharing physically comes from a pool of bulk metered pieces. I believe the phrase "most likely" is appropriate and does not convey all inclusiveness.

DECLARATION

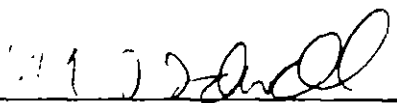
I, David R. Fronk, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

10-1-97
Date

David R. Fronk
David R. Fronk

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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October 1, 1997