

USPS/PB-T3-12 Please refer to Table 1 in your testimony (PB-T-3) which shows that 84 percent of base year stamp sales were conducted through window transactions. Please confirm that a percentage of those sales would have involved multiple activities (e.g., a customer purchased stamps and also mailed a Priority Mail parcel) such that the costs for that specific transaction would not have been incurred solely due to stamp sales. If not confirmed, please explain.

RESPONSE

The interrogatories cited as the source of the figures in Table 1, did not ask whether stamp sales involve multiple activities, nor did the Postal Service provide this information. It is possible, of course, that some of the sales of stamps were part of a transaction that involved multiple activities. I would further note that in FY 2005 accrued costs of window service were \$2,698 million and the attributable costs were \$1,057 million. *See* USPS-LR-L-1, page 3-1. According to that library reference, window service activities are grouped into four groups: transactions involving major mail classes; transactions involving special services; stamps, cards, money orders, and stamped envelope sales and postage meter setting activities, and all other window activities. Variabilities are based on surveys of customer purchasing behavior. *See* USPS-LR-L-1, pages 3-14 and 15. Attributable costs for stamp sales are distributed based on RPW. *See* USPS-LR-L-1, page 3-16. The costs that I cite in my testimony for the cost of selling a stamp at a window are only the attributable costs.

USPS/PB-T3-13 Please explain, on fairness and equity grounds, why the Commission should recommend that a postage evidencing discount be extended to single-piece First-Class Mail with permit indicia, but not be extended to other mail classes in which mail pieces also bear permits (e.g., First-Class presort mail, Periodicals, Standard Mail, etc.).

RESPONSE

I have proposed deaveraging Single-Piece First-Class Mail rates to reflect the cost differences in postage evidencing costs. In principle, I would be in favor of extending the discount to any class or subclass where rates could be meaningfully deaveraged to reflect differences in postage evidencing costs. Priority mail appears to be the only other subclass where deaveraging would produce meaningful discounts and I would urge that the discounts I have recommended eventually be extended to Priority Mail. In First-Class Presort mail, almost all the volumes are meter or permit imprint, in Periodicals almost all the volumes are permit, and in Standard Mail and Package Services almost all the volumes are permit and meter. Thus, a deaveraging would not result in a significant cost savings for those who used the less expensive postage evidencing method. Generally speaking, I think deaveraging to allow the Postal Service to better align its prices with its costs comports with the notions of fairness and equity.

USPS/PB-T3-14 Table 1 of your testimony (PB-T-3) shows that there are several non-window stamp distribution channels currently available to the general public. Despite that fact, 84 percent of the general public purchases stamps through window transactions. At PB-T-3, page 6, at lines 6-7 you state, “lines will continue to be longer than necessary.” At PB-T-3, page 6, lines 14-14, you state that “these discounts [that you propose] would be available to mailers of small volumes of mail so long as the postage evidencing did not take the form of stamps purchased at USPS windows.” On page 8, line 13 you propose a discount of 0.1 cent.

- a. On page 7, lines 1 to 2 you indicate that you proposed discount could be extended to some non-window retail stamp transactions in the future beyond the test year. Please confirm that in the instant proceeding, your proposal only applies to the following postage evidencing methods in the test year: PC Postage, permits, and postage meters. If not confirmed, please explain.
- b. Please explain how the extension of your proposed discount to mail pieces bearing PC Postage, permits, or meter strips would reduce lines in retail lobbies during the test year.
- c. Please confirm that, if your proposed discount were approved and extended to some non-window stamp distribution channel purchases in the test year, the savings for a book of 20 stamps would be 2 cents (0.1 cents/stamp x 20 stamps). If not confirmed, please explain.
- d. If your discount proposal were extended to stamp book purchases made through alternative retail distribution channels in the test year, what percentage of test year postal retail window stamp book purchase transactions do you estimate would

shift to those alternate channels as a result of a 2-cent per book discount. Please explain your answer.

RESPONSE

Please note that at PB-T-3, page 6, at lines 6-7, I state, “lines will likely continue to be longer than necessary.” Also note that the words you cite as being on page 6, lines 14-14, are actually on lines 14-16.

- a. I strongly endorse the concept of extending my proposed discounts to all forms of postage evidencing for Single-Piece First Class mail but the PostalService was unable to provide the data to allow me to do so. I have proposed a discount applying only to PC Postage, permits, and postage meters – where I am certain that my proposed discount is less than avoided costs. I have further recommended that the Commission direct the Postal Service to develop the cost data necessary to allow the broader deaveraging.
- b. My testimony does not say that the discount I recommend would reduce lines in the Test Year. It does say that a fully implemented proposal would.
- c. Confirmed.
- d. I do not have an estimate.

USPS/PB-T3-15 Have you or anyone else associated with or on behalf of Pitney Bowes or PSI conducted any market research studies related to the discount proposal in PB-T-3 or any other similar indicia-based postal rate discount proposal since Docket No. R2000-1? If so, please provide copies of all documentation related to those studies.

RESPONSE

No.

USPS/PB-T3-16 On page 8, line 18 of PB-T-3, you indicate that the revenue leakage would be less than \$19 million.

- a. Please provide the detailed basis for that estimate, including the test year volumes for the various mail types to which the discount would be extended.
- b. In PB-T-3, on page 4, lines 1-2, you state that “the unit attributable cost will likely approach 2 cents.” In your PB-T-2 testimony on page 4, lines 8 to 10 you state, “The Efficient Component Pricing Rule is the principle that states the discounts mailers receive for performing this work should be set at a level equal to the per unit avoided cost of the Postal Service.” Please explain why the ECPR should not be applied to your proposed postage evidencing discount.
- c. Please recalculate the leakage from part (a) if the proposed discount were 2 cents, rather than 0.1 cents.
- d. Please recalculate the leakage from both parts (a) and (c) if the discount were to be extended to all mail pieces bearing permits, regardless of class.

RESPONSE

- a. 2005 Quarterly Reports Table 3-1 aggregated across quarters show 16,785,771 (000) Single-Piece First Class Letters, Flats, and Parcels with a meter indicia in FY 2005 and 2,062,610 (000) of these pieces with a permit indicia. The Postal Service did not provide data for PC Postage in the base year. *See* PB/USPS-T32-13 (redirected to USPS). Because First-Class Single Piece volumes have been declining and are expected to continue to do so, I assume that the usage of these indicia will not increase between the Base Year and the Test Year. Therefore,

with under 19 billion pieces and a .1 cent unit leakage, total leakage would be less than \$19 million.

- b. I fully endorse applying the efficient component pricing rule to this discount. As I explained in my testimony, the Postal Service did not provide the data to allow me to do so. In the absence of complete data and not wanting to let the perfect be the enemy of the good, I have proposed discounts where I can be sure that the discount is less than the cost avoided.
- c. Under a full design, there would be no leakage. I would set rates to recover the entire revenue currently collected. This would entail a push up as well as a discount.
- d. Please see my response to USPS/PB-T3-13. I would not propose to give a discount to all permit pieces. One could calculate a lower bound estimate of the revenue loss from such an ill-advised 2 cent discount applying to all permit pieces by assuming that permit pieces in the Test Year would be the same as those in the Base Year, finding the permit pieces from the Quarterly Reports and multiplying that number by 2 cents per piece. This would provide a lower bound estimate since it is likely that mail pieces would switch to permit mail in response to a 2 cent discount.

USPS/PB-T3-17 Assuming approval of your PB-T-3 proposal, please confirm that mailers currently using PC Postage, postage meters, and permit indicia would be extended the proposed discount without being required to change their behavior in any way that would generate cost savings to the Postal Service. If not confirmed, please explain.

RESPONSE

In my proposal, just as in any new worksharing or deaveraging proposal, early adopters would be rewarded. In the long term and under the fully deaveraged proposal, changes in mailer behavior would reduce costs for the Postal Service.

USPS/PB-T3-18 In Docket No. R2000-1, E-Stamp and Stamps.com proposed discounts for PC Postage mail pieces.

- a. Please confirm that in Docket No. R2000-1, the Commission recommended a shell classification in response to these PC Postage discount proposals, which was subsequently rejected by the USPS Governors. If not confirmed, please explain.
- b. Please confirm that the cost basis for these proposed discounts was related to the presence of a barcode on the PC Postage mail pieces. If not confirmed, please explain.
- c. Please confirm that your Docket No. R2006-1 PC Postage discount includes no mail processing savings estimate associated with the presence of a barcode. If not confirmed, please explain.

RESPONSE

- a. Confirmed.
- b. Partially confirmed. I believe that improved addresses also provided a basis for the discounts.
- c. Although the expanded retail access discount that I proposed is broader than just PC Postage, I did not include mail processing cost savings associated with the presence of a bar code in my estimate of the cost savings, it is a good idea.