

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

MAILING ONLINE SERVICE

Docket No. MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PLUNKETT TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T5-1-2, 3-4(A), 4(E), AND 5-13)

The United States Postal Service hereby provides responses of witness Plunkett to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T5-1-2, 4(a), 4(e), and 5-13, filed on July 22, 1997. Interrogatory OCA/USPS-T5-3 was redirected to witness Garvey, and interrogatory OCA/USPS-T5-4, parts b-d and f, was redirected to witness Seckar.

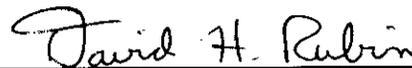
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

OCA/USPS-T5-1. Please refer to your testimony at page 13, lines 16-18.

- a. Please confirm that the duration of commercial printing contract to be awarded within the next 30 days will be for a period of 1 year. If you do not confirm, please explain and specify the time period during which the contract will be in effect, including any options for extensions.
- b. Please confirm that the commercial printing contract to be awarded within the next 30 days will specify that the commercial printer enter Mailing Online service mail matter at a named processing and distribution center. If you do not confirm, please explain.
- c. Please confirm that the cost to the Postal Service of the commercial printing contract to be awarded within the next 30 days will be used as the basis for estimating the Mailing Online impression costs for hardware, maintenance, personnel, facilities and consumables during 1999. If you do not confirm, please explain.

OCA/USPS-T5-1 Response.

a-b. Please refer to USPS-LR-5/MC98-1.

c. Not confirmed. As discussed in my testimony, the Postal Service proposes to use the contract that will be awarded in the next 30 days as the basis for determining the fees during the market test. The contract costs will be the Mailing Online printing costs during the market test, unless additional contracts are implemented during the market test.

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

OCA/USPS-T5-2. Please refer to your testimony at page 2, lines 12-16. Please explain why Mailing Online service fees do not have to be uniform nationwide, as required by section 3623(d) of the Postal Reorganization Act.

OCA/USPS-T5-2 Response.

My understanding is that the Postal Service complies with this section of the Act by offering First-Class Mail. Other classes and services do not need to have uniform rates and fees. I would note that Mailing Online fees for a given customer order will be the same regardless of that customer's physical location.

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

OCA/USPS-T5-4. Please refer to page 18, lines 9-10. You state that "at the proposed markup, revenues from Mailing Online will exceed costs during the market test and experimental periods."

- a. Please define the word "costs" as used at this point in your testimony.
- b. Please provide an estimate of the total expenditures on Mailing Online through the end of FY 1998. Please provide the basis for this estimate and break down the expenditures to the finest possible level of detail.
- c. Please confirm that the expenditure estimate requested in part (b) of this interrogatory should be included in any estimate of the incremental costs of Mailing Online. If you do not confirm, please explain the basis for your disagreement.
- d. Please provide an estimate of the incremental cost of Mailing Online through the end of FY 1998. Please provide the basis for this estimate and break down the estimate to the finest possible level of detail.
- e. Are the years 1999 and 2000 as used in your Exhibit B fiscal years or calendar years?
- f. Please provide separate estimates of the incremental costs of Mailing Online for fiscal years 1999 and 2000 and for the years 1999 and 2000 as used in your Exhibit B (if different). Please provide the basis for the estimates and break down the estimates to the finest possible level of detail.

OCA/USPS-T5-4 Response.

- a. Costs in this instance refers to the costs described in the testimony of witness Seckar (USPS-T-2).
- b. Redirected to witness Seckar.
- c. Redirected to witness Seckar.
- d. Redirected to witness Seckar.
- e. I am using the years 1999 and 2000 to reflect the Year 1 and Year 2 market from USPS-LR-2/MC98-1 research volumes underlying the numbers in Exhibit B. My understanding is that the market research estimated volumes based on the time elapsed after introduction of the product. The application of year numbers reflects conformity with convention rather than a precise estimate of when volumes will be

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

T5-4 (cont'd)

realized. The period to which the years apply (e.g. calendar or fiscal year) depends on when Mailing Online fees are implemented.

f. Redirected to witness Seckar.

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

OCA/USPS-T5-5. Please refer to your testimony at page 21, lines 3-6. You state that Mailing Online will “bypass handling costs at origin as a result of the destination entry that mailing online pieces will receive.”

- a. Please define “origin” as used at this point in your testimony.
- b. Please define “destination entry” as used at this point in your testimony.
- c. Please provide the proportion of Mailing Online volume that has received destination entry during the operations test phase.
- d. Please provide separate estimates of the proportions of First-Class and Standard Mailing Online volume that will receive destination entry during the market test phase.
- e. Please provide separate estimates of the proportions of First-Class and Standard Mailing Online volume that will receive destination entry during the experimental phase.

OCA/USPS-T5-5 Response.

- a. Origin in this case refers to the physical location of a Mailing Online customer, where it is assumed any mail pieces would be entered if Mailing Online were unavailable.
- b. As explained in the testimony of witness Garvey (USPS-T-1, p. 2, lines 11-12), when fully implemented Mailing Online will utilize approximately 25 printers at geographic locations throughout the United States. The geographic dispersion of printing facilities is expected to allow entry of mail at or near its intended destination.
- c. The operations test currently underway is intended to test the document handling capabilities of the Mailing Online system. Accordingly, no attempt to collect this information has been made.
- d-e. As explained in Appendix A to witness Garvey’s testimony, this information will be the focus of the Postal Service’s data collection efforts during the proposed experiment. No estimates of this kind are currently available.

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

OCA/USPS-T5-6. Please refer to page 20, lines 4-6. You state that “with the Postal Service expected ultimately to spend over \$230 million annually on printing services . . . , the introduction of Mailing Online will greatly benefit printing and document preparation businesses.”

- a. Please provide an estimate of the annual revenue that “printing and document preparation businesses” ultimately will *not* receive from entities other than the Postal Service as a result of the introduction of Mailing Online.
- b. Please provide an estimate of the proportion of the \$230 million that will be profit for “printing and document preparation businesses.”
- c. Please provide an estimate of the annual profit that “printing and document preparation businesses” will ultimately *not* receive as a result of the introduction of Mailing Online.
- d. Please provide an estimate of the net increase in annual profit that “printing and document preparation businesses” will ultimately receive as a result of the introduction of Mailing Online.
- e. If you cannot provide the estimates requested in this interrogatory, please explain the basis for your belief that “the introduction of Mailing Online will *greatly benefit printing and document preparation businesses.*” [Emphasis added.] In particular, explain why the introduction of Mailing Online will not ultimately cause a *reduction* in total revenue or profit for “printing and document preparation businesses” as customers who would have purchased services directly from “printing and document preparation businesses” (and paid higher prices than the Postal Service will pay) divert their business to Mailing Online.
- f. Please confirm that the introduction of Mailing Online may generate a net benefit for the economy as a whole even if “printing and document preparation businesses” are ultimately net losers. Please explain your response.

OCA/USPS-T5-6 Response.

a-c. The Postal Service has not developed these estimates. Moreover, these questions assume that Mailing Online will siphon existing business from printing and document preparation businesses, a proposition unsupported by current evidence, and which the Postal Service believes to be substantially false. However, data collected during the experiment should shed further light on this question. USPS-T-1, Appendix A, at 3. I would also note that the support for Mailing Online embodied in the testimony of

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

T5-6 (cont'd)

witness Hamm (UDPS-T-6) suggests that printers will benefit from Mailing Online service.

- d. The Postal Service has not asked for disclosure of profit levels from interested bidders. See USPS-LR-5/MC98-1. Instead, the chosen procurement approach leaves management of the printing aspect of Mailing Online to professionals in that business.
- e. Mailing Online is expected to increase the total volume of mail whose entry is initiated using the internet. See USPS-T-1, at 8-9, and the testimony of witness Hamm (USPS-T-6).
- f. Confirmed that a net benefit may accrue; however, this question implicitly asserts that printing and document preparation businesses will be "net losers" by relying on several dubious assumptions. First is the inherent assumption that customers would have mailed as much without Mailing Online as with it. As discussed in my testimony (p. 9, lines 14-19), many of the documents projected to be sent via Mailing Online would presumably not be mailed if Mailing Online were unavailable. The testimonies of witnesses Wilcox (USPS-T-7) and Campanelli (USPS-T-8) illustrate the difficulties faced by small businesses in developing and entering the smaller mailings targeted by Mailing Online, and that the attraction of Mailing Online is found more in convenience than price. Equally questionable is the inherent assumption that Mailing Online customers would, in its absence, seek out private printing firms to produce their mailings. In addition, witness Hamm maintains that the Postal Service's proposal is clearly in the interests of the printing industry.

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
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OCA/USPS-T5-7. Please refer to USPS-T-5, Exhibit B. Please confirm that the only cost difference between page 1 and page 2 of Exhibit B is the inclusion of variable information system costs in the amount for "Impression Costs" on page 1, and the exclusion of variable information system costs in the amount for "Impression Costs" on page 2. If you do not confirm, please explain.

OCA/USPS-T5-7 Response.

Confirmed.

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

OCA/USPS-T5-8. Please refer to USPS-T-5, Exhibit B, page 1.

- a. For 2000, please confirm that the number of "Pages printed on 8.5x14 paper" is 108,818,495. If you do not confirm, please explain.
- b. For 2000, please confirm that the number of "Pages printed on 8.5x14 paper" should be 189,917,493. If you do not confirm, please explain.
- c. In the column "Total 1999-2000," please confirm that the number of "Pages printed on 8.5x14 paper" should be 298,735,989. If you do not confirm, please explain.

OCA/USPS-T5-8 Response.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

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

OCA/USPS-T5-9. Please refer to USPS-T-5, Exhibit B, page 1.

- a. For 2000, please confirm that the number of "Pages printed on 11x17 paper" is 214,963,422. If you do not confirm, please explain.
- b. For 2000, please confirm that the number of "Pages printed on 11x17 paper" should be 265,367,121. If you do not confirm, please explain.
- c. For 2000, please confirm that the number of "Total Pages" should be 2,155,919,234. If you do not confirm, please explain.
- d. In the column "Total 1999-2000," please confirm that the number of "Pages printed on 11x17 paper" should be 417,416,574. If you do not confirm, please explain.
- e. In the column "Total 1999-2000," please confirm that the number of "Total Pages" should be 3,391,212,961. If you do not confirm, please explain.

OCA/USPS-T5-9 Response.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.

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

OCA/USPS-T5-10. Please refer to USPS-T-5, Exhibit B, page 1, Note (1).

- a. Please confirm that fixed information systems costs are \$2,285,697. See USPS-T-2, Exhibit A, at 26. If you do not confirm, please explain.
- b. Please confirm that the fixed information system costs referred to in part (a) above were incurred in the development of Mailing Online service. If you do not confirm, please explain.
- c. Please explain how the fixed information systems costs referred to in part (a) above are to be recovered through premailing fees from Mailing Online service customers.
- d. Please confirm that the fixed information systems costs referred to in part (a) above will become institutional, rather than attributable, costs of the Postal Service. If you do not confirm, please explain.

OCA/USPS-T5-10 Response.

- a. Not confirmed. In errata filed July 23, 1998, this number was changed to \$2,283,697.
- b. Partially confirmed. Some of these costs have yet to be incurred.
- c. Please refer to my testimony, page 6, lines 11-15.
- d. Not confirmed. See response to part c. Moreover, the implication of the question, that fixed information systems costs will be treated as ongoing institutional costs of the Postal Service, conflicts with the cost estimates presented by witness Seckar. According to him, these costs are incurred only during the first two years that Mailing Online is expected to operate, and thus are more akin to startup costs than institutional costs.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T5-11. Please refer to USPS-T-5, Exhibit B, page 1.

- a. For 2000, please confirm that the cost of pages printed on 8.5x14 paper is \$599,147. If you do not confirm, please explain.
- b. For 2000, please confirm that the cost of pages printed on 8.5x14 paper should be \$1,045,672. If you do not confirm, please explain.
- c. In the column "Total 1999-2000," please confirm that the cost of pages printed on 8.5x14 paper should be \$1,626,240. If you do not confirm, please explain.

OCA/USPS-T5-11 Response.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
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OCA/USPS-T5-12. Please refer to USPS-T-5, Exhibit B, page 1.

- a. For 2000, please confirm that the cost of pages printed on 11x17 paper is \$2,265,631. If you do not confirm, please explain.
- b. For 2000, please confirm that the cost of pages printed on 11x17 paper should be \$2,796,866. If you do not confirm, please explain.
- c. For 2000, please confirm that the "Total Paper Costs" should be \$12,421,246. If you do not confirm, please explain.
- d. In the column "Total 1999-2000," please confirm that the cost of pages printed on 11x17 paper should be \$4,349,717. If you do not confirm, please explain.
- e. In the column "Total 1999-2000," please confirm that the "Total Paper Costs" should be \$19,317,658. If you do not confirm, please explain.

OCA/USPS-T5-12 Response.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.

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

OCA/USPS-T5-13. Please refer to USPS-T-5, Exhibit B, page 1.

- a. For 2000, please confirm that "Total Costs" are \$95,469,504. If you do not confirm, please explain.
- b. For 2000, please confirm that "Total Costs" should be \$97,425,026. If you do not confirm, please explain.

OCA/USPS-T5-13 Response.

- a. Confirmed.
- b. Confirmed.

DECLARATION

I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

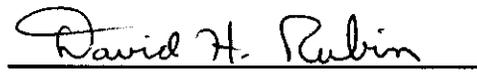
A handwritten signature in black ink, appearing to read "Michael K. Plunkett", written over a horizontal line.

MICHAEL K. PLUNKETT

Dated: JULY 31, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


David H. Rubin

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July 31, 1998