

ORIGINAL

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

RECEIVED

Nov 16 4 45 PM '98

MAILING ONLINE SERVICE

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PLUNKETT TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T5-39, 40(A-B), 41(A-B), 44, AND 45
AND OCA/USPS-T1-64 REDIRECTED FROM WITNESS GARVEY)

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T5-39, 40(a-b), 41(a-b), 44, and 45, filed on November 6, 1998; and OCA/USPS-T1-64, filed on November 6, 1998, and redirected from witness Garvey. Interrogatories OCA/USPS-T5-40(c), 41(c-d), 42, 43, and 46 were redirected to witness Garvey.

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

Respectfully submitted,

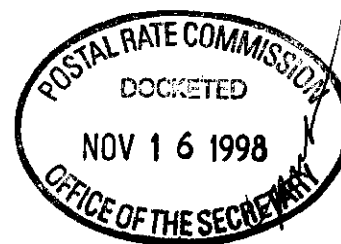
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

David H. Rubin
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -5402
November 16, 1998



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

OCA/USPS-T5-39. Please refer to your testimony at page 3. Please confirm that charging a national average price (i.e. a weighted average cost plus mark-up) for all Mailing Online jobs would have the effect of encouraging customers to submit high-cost jobs and deterring low-cost jobs. If you do not confirm, please explain.

OCA/USPS-T5-39 Response:

Confirmed, if by average you mean the average of all Mailing Online jobs, irrespective of document characteristics, and all other things are equal.

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

OCA/USPS-T5-40. Please refer to your testimony at page 2.

a. Please confirm that the cost of pre-mailing services for each Mailing Online job will be calculated separately, based on the specific paper, printing and finishing options and distribution preferences chosen by the customer for the job. If you do not confirm, please explain.

b. Please confirm that the "fee schedule" for Mailing Online constitutes a formula or set of instructions to calculate the pre-mailing fees based on the characteristics of the job. If you do not confirm, please explain.

c. Please confirm that the single fee quoted to a customer for each Mailing Online job, consisting of pre-mailing service costs, a 25 percent mark-up and postage, is calculated by computer at the San Mateo processing center. If you do not confirm, please explain.

OCA/USPS-T5-40 Response:

a. Confirmed.

b. Confirmed.

c. Redirected to witness Garvey.

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

OCA/USPS-T5-41. Please refer to your testimony at page 11, lines 2-5, and the following quote from PRC Op. MC98-1, at 13-14.

All Mailing Online mail that undergoes batching is expected to have lower mailstream cost characteristics than it has at the time that it is submitted by the customer. [footnote omitted] The Postal Service recognizes that a system that reduces the mailstream cost of mail after it is submitted by the mailer but before the Postal Service enters it into the mailstream gives rise to a number of practical pricing problems. If the Mailing Online customer were charged the mailstream rate that its mailing could qualify for under the regular schedule at the time that it submits its mailing, the mailer would go uncompensated for the reduction in mailstream costs that its purchase of Mailing Online service enhancements made possible. Alternatively, if Mailing Online customers were not quoted a mailstream price until after they placed their orders and the mailstream costs of the batches formed with their orders were calculated, customers disappointed by the quoted prices could reject them and cancel their orders. This would undo batches that were tentatively formed, and disrupt the calculation of mailstream rates for other mailings that contributed to the tentative batches. Tr. 2/567, Postal Service Brief at 13.

- a. Please confirm that all Mailing Online mail that "undergoes batching" is assumed by the Postal Service to have lower costs than when it is submitted by the customer. If you do not confirm, please explain.
- b. Please confirm that the Automation Basic discounts for all First-Class Mail, and Automation Basic Destination BMC discounts for all Standard A mail are assumed by the Postal Service to represent the average cost savings of mail that undergoes batching. If you do not confirm, please explain.
- c. Please confirm that the Postal Service agrees with the third sentence in the passage quoted above. If you do not confirm, please explain.
- d. Please confirm that the Postal Service agrees with the fourth and fifth sentences in the passage quoted above. If you do not confirm, please explain.

OCA/USPS-T5-41 Response:

- a. Confirmed generally, though costs might be equal in some circumstances.

Mailing Online pieces, of course, undergo processing beyond batching that also reduces costs.

- b. Not confirmed. I proposed use of Automation Basic rates for a number of reasons, which are explained in my testimony (USPS-T-5, pp. 10-12). While

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

these rates are not expected to represent the average cost savings, they are expected to be more representative than any other existing rate of the type of mailpiece that will be produced through Mailing Online.

c-d. Redirected to witness Garvey.

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

OCA/USPS-T5-44. Please refer to pages four and five of the Postal Service's September 25, 1998, reply brief in this docket. The following statement appears:

Because the Postal Service is applying one average rate to all Mailing Online volume, private services are not being disadvantaged. In fact, the Postal Service's proposal minimizes the potential impact on the private sector by, in effect, ceding deeper discounts to lettershops and services like DirectNet.

- a. Do you agree with this statement.
- b. Please confirm that if the Postal Service "cedes" volume eligible for deeper discounts to private services, then Automation Basic becomes the minimum rate that any MOL mailing would qualify for, not an average.
- c. Please explain how the Automation Basic rate can be an average qualifying rate, when all volume eligible for a lower rate has been "ceded" to private industry.
- d. What MOL volume is available to balance the costs of MOL mailings that fail to be batched and fail to qualify for any discount?

OCA/USPS-T5-44 Response.

a. Yes.

b-d. The Postal Service has not ceded volume, merely the opportunity of offering deeper discounts in order to compete for this volume. Customers may elect Mailing Online for a number of reasons having nothing to do with postage rates. The Postal Service moreover expects that some Mailing Online volume would meet the qualifications for lower rates than Automation Basic when batched, even if none of the unbatched mail would qualify for those rates (or even Automation Basic). Therefore, some Mailing Online mail would qualify for rates lower than Automation Basic absent the proposed limitation of Mailing Online mail to the Automation Basic rates.

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

OCA/USPS-T5-45. Please refer to pages three and four of the Postal Service's September 25, 1998, reply brief in this docket. The following statement appears:

In designing Mailing Online to meet the needs of small customers, the Postal Service plans to merge documents from different customers in order to achieve greater densities than would otherwise have been possible. In order to charge customers at the time they submit their jobs, a postage rate must be quoted before the batching is completed and the actual presort level is known.

- a. Do you agree with this statement.
- b. Please confirm that quoting a postage rate to customers before the batching is completed and the actual presort level is known does not require quotation of the specific Automation Basic rates proposed by the Postal Service in this docket. If you do not confirm, please explain.
- c. Please confirm that the Postal Service is willing to consider another postage rate, other than Automation Basic, for Mailing Online based upon experience during the market test. If you do not confirm, please explain.

OCA/USPS-T5-45 Response:

- a. Yes.
- b. Confirmed.
- c. Not confirmed for the experiment. The reasons for proposing use of the Automation Basic rates are contained in my testimony. Given the limited nature of the market test, it is unlikely to provide sufficient data to support a different rate. Based on data gained during the experiment, a different rate might be proposed for a permanent version of Mailing Online.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE REDIRECTED FROM WITNESS
GARVEY**

OCA/USPS-T1-64. Please refer to page 4 of the October 16, 1998, Governors' Decision in this docket. The following statement appears there: "The Commission recommended a novel, 'floating' fee schedule, which, in place of particular fees, displays the formula (discussed above) by which the fees are calculated based on the prices set forth in the contract between the Postal Service and the printer, rather than fixed fees for the particular contract currently in place. As the Commission noted, this allows for the flexibility needed to accommodate the potential use of multiple printing contractors and to accommodate changes in individual contracts without further proceedings."

- a. Please confirm that the fee schedule adopted by the Governors (and requested by the Service and recommended by the Commission) is more in the nature of a set of instructions or algorithm for calculating a rate rather than a mathematical formula. If you do not confirm, please explain.
- b. Please confirm that pre-mailing fees for MOL are, in fact, calculated by a computer using a set of programmed instructions--i.e., an algorithm. If you do not confirm, please explain.
- c. Please explain why the flexibility of a "floating" fee schedule cannot also be utilized for the calculation of the postage portion of the MOL price.
- d. Please confirm that a fully enumerated fee schedule for MOL would require approximately 3000 fees (based on job-type/page-count variations) for each print site, or approximately 75,000 fees when 25 print sites are operational. If you do not confirm, please explain.
- e. Please confirm that a fully enumerated fee schedule for MOL would be subject to constant revision (through proceedings before the Commission) as circumstances (e.g., new options, additional print sites) changed. If you do not confirm, please explain.

OCA/USPS-T1-64 Response:

a-b. Confirmed in part. The fee schedule included in the Commission's Opinion

(Opinion, Appendix One at 2) contains a set of fees presented in a form more

appropriately described as formulae. However, the act of incorporating said

formulae into the Mailing Online software gives rise to an algorithmic formulation.

c. All of the parameters necessary for the operation of the algorithm used to calculate

fees can be known at the time that a customer presents a document for acceptance.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE REDIRECTED FROM WITNESS
GARVEY**

The same is not true of postage rates if rates are based on the depth of sort that a customer's mailing attains as a result of document batching.

- d. Confirmed as an approximation, though I would caution that prior to activation of all 25 sites the available features of Mailing Online may change in such a way as to change the number of possible combinations.
- e. Confirmed that a fully enumerated fee schedule for MOL (using numbers only) could be subject to the need for constant revision.

DECLARATION

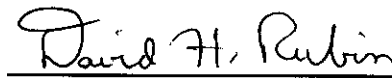
I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: NOVEMBER 16, 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
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
November 16, 1998