

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, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-122-128)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-122-128, filed on April 10, 2000. Partial objections to interrogatories OCA/USPS-122(d) and (g) were filed on April 20, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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OCA/USPS-122. Please refer to the responses to OCA/USPS-T9-30-41 (redirected to the Postal Service) and LR-I-248. LR-I-248, Section II, listed seven non-postal programs: (1) FirstClass Phone Card, (2) Retail Merchandise, (3) PostOffice Online (POL), (4) LibertyCash, (5) Dinero Siguro, (6) REMITCO, and (7) Sure Money. For each of these seven programs/products/services:

- (a) Describe the product or service being offered.
- (b) State whether, to the Postal Service's knowledge, similar products/services are offered for a fee in the private sector.
- (c) State the date of "inception."
- (d) Provide financial reports to the Board of Governors (see responses to OCA/USPS-T9-35 & 40) and any other financial reports compiling annual revenues and expenses for each program/product/service since inception. Include all "start-up" expenses for each program/product/service.
- (e) For each of the FY 1999 expenses listed in LR-I-248, Section II, break them down into volume variable and product-specific costs.
- (f) Also state, for each program/product/service, whether there are any additional volume variable or product-specific costs not listed in LR-I-248; and provide such additional costs.
- (g) For each program/product/service, state whether the program/product/service is rendered in whole or in part by a third party provider. Identify the third party provider and describe how revenues are allocated between the Postal Service and the third party provider. Also state how expenses are divided between the Postal Service and the third party provider.

RESPONSE:

All parts of this response assume that the citations to USPS-LR-I-248 refer to Section I which lists seven non-postal programs and any reference to Section II was a typo.

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(a)

- (1) The FirstClass Phonecard is the brand name of a prepaid phone card available to the public through a strategic alliance between the Postal Service and AT&T. The FirstClass Phonecard can be purchased at postal retail units and from postal vending machines throughout the U.S. (See GAO Report, U.S. Postal Service Development and Inventory of New Products, November, 1998, page 40).
- (2) Retail merchandise marketed by the Service contains either a stamp image, heritage logo, or the logo of a core service -e.g., Priority Mail. Examples of retail merchandise marketed by the Service include T-shirts, beverage mugs, neckties, greeting cards, and stationery. As of July 1998, such merchandise was being sold in all 500 postal stores and in about 25,000 of the Service's 33,000 traditional retail units. Merchandise may also be ordered from a Postal Service catalog or through the Service's Web site. However, in June 1998, the Service announced plans to curtail its retail merchandising activity. The Service will no longer sell apparel merchandise in post offices, although such merchandise will still be available at the Postmark America Store in the Mall of America and through catalog and web site programs and special events. Stationery, greeting cards, packaging products, and a limited line of collectables (sic) will continue to be sold at retail units. (See GAO Report, U.S. Postal Service Development and Inventory of New Products, November, 1998, page 46).

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- (3) PostOffice Online is a service designed to help small businesses move money, messages, and merchandise conveniently and securely over the Internet. Conceptually, PostOffice Online customers would ultimately be able to (1) pay for their mailings and print postage using their personal computers; (2) buy mailing products and supplies on-line; and (3) contact the Postal Service and request parcel pickup service, or check to see if a particular package has been delivered. Customers would also be able to design their own newsletters or advertisements and send them to the Postal Service electronically. At that point, the Service will assume responsibility for printing the documents and delivering them to the addresses the customer chooses. (See GAO Report, U.S. Postal Service Development and Inventory of New Products, November, 1998, page 46).
- (4) LibertyCash is a Postal Service stored-value card that can be used to pay for all postal products and services. The card can be filled in amounts of \$5 to \$300 at the retail unit or over the telephone. The card is replaceable if lost or damaged. The customer selects his/her own personal identification number. (See GAO Report, U.S. Postal Service Development and Inventory of New Products, November, 1998, page 52).
- (5) Dinero Seguro, which means "safe money," is an electronic version of a Money Order that can be used to transfer money from designated U.S. locations to Mexico. As part of a Dinero Seguro transaction, the customer is given a confirmation number and a prepaid phone card good for one 3-

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minute call to Mexico. The customer can then use the phone card to inform the person in Mexico that the money has been sent and pass along the confirmation number. The transferred funds can then be picked up from any one of the more than 1,300 Bancomer Bank branches in Mexico. (See GAO Report, U.S. Postal Service Development and Inventory of New Products, November, 1998, page 54).

(6) REMITCO extended the Postal Service's business of delivering payments, such as credit card and utility payments, to the actual processing of remittance documents. Remittance processing involved opening return envelopes and extracting bill payments, processing the checks and depositing them into business recipients' bank accounts, and electronically transmitting remittance records to the business recipients. (See GAO Report, U.S. Postal Service Development and Inventory of New Products, November, 1998, page 42). The Postal Service released its interest in REMITCO effective July 1, 1999.

(7) Sure Money currently refers to a pilot test with the Postal Administration of the Dominican Republic using the Dinero Seguro technology platform.

(b) In the case of FirstClass Phone Cards, similar products/services are offered, presumably for a fee, in the private sector.

For retail merchandise, as discussed in part (a) of this response, retail merchandise marketed by the Service contains either a stamp image, heritage logo,

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or the logo of a core service-e.g., Priority Mail. As such, similar products/services with this intellectual property are not offered for a fee in the private sector.

For PostOffice Online, the Internet offers any number of businesses that allow consumers to purchase and pay for products and services online. Particular Postal services available only through PostOffice Online, such as the Delivery Confirmation service, would not be available through competitors. Considering the expansive reach of the Internet, it is not possible to definitively say for each facet of PostOffice Online whether or not similar products/services are offered for a fee in the private sector.

Stored-value cards similar to LibertyCash are offered in the private sector by many merchants such as Wal-Mart, Shell and Blockbuster. The Postal Service has not investigated whether or not merchants in the private sector offer their cards for fees.

Electronic transfer of funds, like Dinero Seguro and Sure Money, are offered in the private sector and there is presumably a fee involved.

The Postal Service's association with REMITCO has ended.

(c) The dates of inception are:

**FirstClass Phone Card: November 1996 (Strategic alliance signed)
(See GAO Report, U.S. Postal Service Development and Inventory of New
Products, November, 1998, page 27).**

**Retail Merchandise -- Local marketing: Prior to FY 1997
-- Centralized marketing: Early FY 1997
(See GAO Report, U.S. Postal Service Development and Inventory of New
Products, November, 1998, page 46).**

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PostOffice Online: Pilot program

LibertyCash: Pilot program.

Dinero Seguro: Pilot program

REMITCO: Pilot program (discontinued)

Sure Money: Pilot program.

- d) Partial objection filed on April 20, 2000. Using the format presented in LR-I-248, Table 1 that accompanies this response provides the available annual revenues and expenses for each program/product/service since inception.
- e) The expenses listed in LR-I-248 cannot be broken down into volume variable and product-specific costs. Volume variability is a definition applied to cost components to describe their response to mail volume changes. The determination of the degree of volume variability for cost components is the result of special and ongoing studies, data collection, economic analysis, etc. Even though all the expenses presented in LR-I-248 are in cost components that have a degree of volume variability (zero or greater), to say that the individual expenses comprising that cost component have the same degree of volume variable is not accurate; the accuracy of the volume variability of a component may or may not apply to the individual accounts that make up the cost component.

Product-specific costs is another term used to describe a characteristic of cost components and their costing treatment. It is not possible to isolate the product-specific aspects of the expenses presented in LR-I-248 in any meaningful way.

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Even assuming that all the expenses presented in LR-I-248 are product-specific, the FY 1999 sum is only \$85 million, which is .1% of total costs.

- f) The response to part (e) applies here as well.
- g) Partial objection filed on April 20, 2000.

For FirstClass Phone Cards, the Postal Service has a strategic alliance with SmarTalk Teleservices, Inc. With Dinero Seguro, transferred funds can be picked up from any one of the more than 1,300 Bancomer Bank branches in Mexico. At this time, Sure Money is currently being tested in conjunction with the Postal Administration of the Dominican Republic. REMITCO was operated for the Postal Service by a private company – REMITCO Management Corp. Within the area of Retail Merchandise, the Postal Service licenses its intellectual property rights to third party manufacturer and publishers for application on a variety of products. PostOffice Online currently has no third party providers. LibertyCash is provided by the Postal Service for the purchase of postal products.

Table 1

Response of United States Postal Service to Interrogatories
of the Office of the Consumer Advocate
OCA/USPS-122 d.

		FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	Since Inception
FirstClass Phone Cards	Operating Revenue:	\$ -	\$ 1,083,330	\$ 10,032,412	\$ 17,075,405	\$ 19,485,113	\$ 47,676,260
	Operating Expenses:	\$ 401,420	\$ 1,271,611	\$ 12,465,659	\$ 15,437,669	\$ 14,535,294	\$ 44,111,653
	Operating Income (Loss)	\$ (401,420)	\$ (188,281)	\$ (2,433,247)	\$ 1,637,736	\$ 4,949,819	\$ 3,564,607
Retail Merchandise	1/ Operating Revenue:	\$ -	\$ -	\$ 25,916,903	\$ 44,115,757	\$ 25,602,150	\$ 95,634,810
	Operating Expenses:	\$ -	\$ -	\$ 23,674,015	\$ 36,322,564	\$ 21,354,868	\$ 81,351,447
	Operating Income (Loss)	\$ -	\$ -	\$ 2,242,888	\$ 7,793,193	\$ 4,247,282	\$ 14,283,363
PostOffice Online	2/ Operating Revenue:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operating Expenses:	\$ -	\$ -	\$ -	\$ 9,585,928	\$ 18,185,295	\$ 27,771,223
	Operating Income (Loss)	\$ -	\$ -	\$ -	\$ (9,585,928)	\$ (18,185,295)	\$ (27,771,223)
LibertyCash	3/ Operating Revenue:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operating Expenses:	\$ -	\$ -	\$ -	\$ 9,618,830	\$ 1,567,523	\$ 11,186,353
	Operating Income (Loss)	\$ -	\$ -	\$ -	\$ (9,618,830)	\$ (1,567,523)	\$ (11,186,353)
Dinero Seguro	Operating Revenue:	\$ -	\$ 28,090	\$ 1,413,719	\$ NA	\$ 6,200,000	\$ NA
	Operating Expenses:	\$ -	\$ 2,455,653	\$ 9,559,617	\$ 16,820,138	\$ 13,515,053	\$ 42,350,461
	Operating Income (Loss)	\$ -	\$ (2,427,563)	\$ (8,145,898)	\$ NA	\$ (7,315,053)	\$ NA
REMITCO	4/ Operating Revenue:	\$ -	\$ -	\$ 1,357,418	\$ NA	\$ 3,900,000	\$ NA
	Operating Expenses:	\$ 16,500	\$ 1,243,369	\$ 6,255,325	\$ 11,129,750	\$ 13,958,480	\$ 32,603,424
	Operating Income (Loss)	\$ (16,500)	\$ (1,243,369)	\$ (4,897,907)	\$ NA	\$ (10,058,480)	\$ NA
Sure Money	5/ Operating Revenue:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operating Expenses:	\$ -	\$ -	\$ -	\$ 1,326,923	\$ 2,133,342	\$ 3,460,265
	Operating Income (Loss)	\$ -	\$ -	\$ -	\$ (1,326,923)	\$ (2,133,342)	\$ (3,460,265)

1/ Includes \$634,689 of costs to develop and create products.

2/ PostOffice Online is an Internet based distribution channel for delivery of postal services . The initial offering included Mailing Online, Shipping Online and secure payment over the Internet. Earlier versions of Internet services also included Electronic Commerce and Desktop Post Office. As such, the prior years amounts for PostOffice Online are shown in a single column.

3/ The information on LibertyCash is available only as a total "Prior Years" amount before FY 1999.

4/ Effective 07/01/99, the Postal Service released its interest in REMITCO.

5/ Nearly all prior year expenses were in FY 1998.

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OCA/USPS-123. Are the revenue and expense figures set forth in LR-I-248 for “[v]arious ‘nonpostal’ programs for the period ended Quarter IV, 1999” for the entire fiscal year 1999, i.e., Quarter I - Quarter IV, 1999? If not, please explain the period of time that is reflected. Also, are the figures expressed in thousands, i.e., should “000” be added for each figure presented? If not, please explain.

RESPONSE:

Yes, the revenue and expense figures set forth in LR-I-248 for “[v]arious ‘nonpostal’ programs for the period ended Quarter IV, 1999” are for the entire fiscal year 1999, i.e., Quarter I - Quarter IV, 1999. Yes, the figures expressed are in thousands, i.e., “000” should be added for each figure presented.

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OCA/USPS-124. Does the Postal Service offer PostECS at the present time? If so, why has PostECS been omitted from the list of nonpostal services set forth in LR-1-248? If the Postal Service does offer PostECO service, then provide for Post ECS all of the information that has been requested in OCA/USPS-122.

RESPONSE:

No, the Postal Service does not offer PostECS as a service at the present time.

PostECS is currently being pilot tested by the Postal Service to determine its viability as a service that could be offered by the Postal Service in the future.

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OCA/USPS-125. Does the Postal Service offer a product or service called PostX at the present time? If so, why has PostX been omitted from the list of nonpostal services set forth in LR-I-248? If the Postal Service does offer PostX service, then provide for PostX all of the information that has been requested in OCA/USPS-122.

RESPONSE:

No, the Postal Service does not offer a product or service called PostX. PostX is a privately held corporation based in Cupertino, California that today announced it will be the first company to offer USPS Electronic Postmark for Internet Documents.

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OCA/USPS-126. Does the Postal Service offer a product or service called Electronic Postmark at the present time? If so, why has the Electronic Postmark been omitted from the list of nonpostal services set forth in LR-I-248? If the Postal Service does offer Electronic Postmark service, then provide for Electronic Postmark all of the information that has been requested in OCA/USPS-122.

RESPONSE:

The Postal Service today will begin offering a service called USPS Electronic Postmark. USPS Electronic Postmark is a feature designed for email subscribers interested in ensuring a higher level of security for their electronic messages and will be available through participating email providers as an add-on feature. Previously, USPS Electronic Postmark was in the pilot phase of development. As such, detailed financial data on the extant service does not exist.

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OCA/USPS-127. Please refer to ;the response to OCA/USPS-T9-31. Are the costs and revenues resulting in the "difference of \$31.1 million" limited to the enumerated services in the Rule 54(h)(1) statement (i.e., insurance, COD, money orders, ... draft registration)?

RESPONSE:

No.

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OCA/USPS-128. Government Accounting Office Report "U.S. Postal Service: Development and Inventory of New Products," GAO/GGD-99-15, issued November 24, 1998, indicates that for the non-postal products and services studied through FY 1997 showed total revenues of \$148.8 million and expenses of \$233.5 million. For the domestic non-postal products and services only which were included in the GAO report, please reconcile the revenues and expenses with the revenues and expenses through FY 1997 of the non-postal services listed in LR-I-248 and in responses to OCA/USPS-122-126. If any such products and services are not either listed in LR-I-248 or in response to OCA/USPS-122-126, please explain why they were omitted.

RESPONSE:

Table 1 that accompanies this response provides a comparison of the amounts shown in the Government Accounting Office Report "U.S. Postal Service: Development and Inventory of New Products," GAO/GGD-99-15, issued November 24, 1998, and the amounts shown in the response to OCA/USPS-122. Table 1 that accompanies the response to OCA/USPS-122 d) provides the information as it was presented to the Board of Governors over a period of years.

The omission of any products that were listed in the GAO report from LR-I-248 is the merely the result of interpretation. The information provided in the library reference was taken from the presentations to the Board of Governors because it was most current. Thus, the products and services listed in the response were merely those listed in the Board presentation.

Response of United States Postal Service to Interrogatories
of the Office of the Consumer Advocate
OCA/USPS-128
Table 1

LR-248	Internat'l	GAO Report Products	Profit (Loss)	Without Internat'l	OCA 122d. Table 1	Difference
X		FirstClass PhoneCard	(3.0)	(3.0)	(2.4)	0.6
X		REMITCO	(6.1)	(6.1)	(4.9)	1.2
		Electronic Commerce Services	(20.3)	(20.3)		
	X	Global Priority Mail	(5.4)			-
	X	Global Package Link	(1.1)			-
X		Retail Merchandise	3.3	3.3	2.2	(1.1)
		Postmark America				
X		PostOffice Online	(0.8)	(0.8)	NA	
		WEB Interactive Network of Gov't Services	(4.0)	(4.0)		
		Deliver America	(3.2)	(3.2)		
		Information Based Indicia Program	(3.1)	(3.1)		3.1
		Customer Initiated Payment System	(1.3)	(1.3)		1.3
		Unisite Antenna Program	(1.6)	(1.6)		1.6
X		LibertyCash	(6.4)	(6.4)		6.4
X		Dinero Seguro	(10.5)	(10.5)	NA	
X		Sure Money	(0.5)	(0.5)	(8.1)	(7.6)
		Delivery Confirmation	(2.9)	(2.9)	NA	
		Provisional Packaging Service	(2.6)	(2.6)		
		Pack and Send				
		Fastnet	(11.7)	(11.7)		
	X	Global e-Post	(3.5)			
			(84.7)	(74.7)	(13.2)	61.5

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.


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