

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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

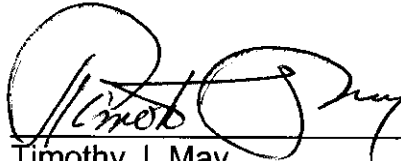
Docket No. R2000-1

RESPONSE OF E-STAMP CORPORATION
WITNESS MICHAEL JONES TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/E-STAMP-T-1-10-15)

E-Stamp Corporation hereby provides the responses of witness Michael Jones to the following interrogatories of United States Postal Service: USPS/E-Stamp-T-1-10-15, filed on June 13, 2000.

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

Respectfully submitted,



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Dated: June 27, 2000

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USPS/E-STAMP-T1-10 On page 9 lines 19 through 22 you state "the service believed that customers could not be trusted to paste labels with FIMs in the proper position on the envelope which could cause the mail pieces to be rejected by the sorting equipment with a consequent loss of the cost savings."

- a. Do you have any information from actual customer behavior regarding the placement of labels on envelopes? If so, please provide copies of all supporting data.

- b. As stated, an improperly positioned FIM would cause the mail piece to be rejected by the sorting equipment. What would happen to a mailpiece that was rejected by the sorting equipment? Would there be additional costs associated with processing a rejected mailpiece? If so, please describe any additional costs.

RESPONSE:

- a. No. The USPS made this determination on their own in 1999.

- b. A rejected mailpiece will be sorted to the reject stack. There should be additional costs associated with processing. The postal employee operating the sorting equipment may sort the mailpieces in the reject stack by hand and/or may bring the mailpieces to sorting equipment that would otherwise have been unnecessary to use. Also, the mailpieces would not be sorted by lead and trail edges which may affect their ability to be placed in other sorting equipment without further hand processing. Also, once the USPS installs equipment to read 2-D barcodes, an improperly positioned FIM may cause the USPS to not record the information contained in the 2-D barcode. This would also increase costs in the form of lost data.

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USPS/E-STAMP-T1-11 On page 10 lines 6 through 8 you state “[a]nother difficulty with address cleansing, and a source of numerous customer complaints against the USPS address-matching CD-ROM, is that it is not current nor completely accurate.”

- a. Please provide information on the number and nature of customer complaints regarding address-matching problems.
- b. What is the percentage of these address-matching problems to the total number of addresses that have been verified by E-Stamp customers in relation to the data contained in USPS address-matching CD-ROM?
- c. Please confirm that all customer reported problems, as it relates to address cleansing, are the result of non-current or inaccurate information contained in the USPS address-matching CD-ROM? If not, list and describe the sources of other address-matching customer complaints?

RESPONSE:

- a. Since August, 1999 E-Stamp has received over 12,500 complaints / problems from customers regarding address matching problems. From the information sorted out of our Customer Service / Tech Support database, the majority of complaints deal with address verification issues and not being able to use the product due to expired Address Matching System (AMS) CD-ROMs. The CD-ROMs are designed to prevent use of PC Postage Open System products if the expiration date has been reached. Aside from continuing delivery problems of new CDs from the National Customer Support Center (NCSC), there have been numerous occasions when the AMS CDs expired prematurely due to software bugs in the CD ROM programming. Other common complaints regarding AMS CDs include the inability of the CD to be recognized by the application upon installation due to other security measure issues; CDs being received broken by customers when shipped from the NCSC; and customers not being allowed to ship anything internationally. It

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should be noted that users of PC Postage Closed Systems will never have to deal with any of these issues as address matching is not performed in a closed system product.

- b. E-Stamp has not kept data on how many addresses have been correctly verified by our customers, therefore I am unable to give a percentage. I also am not certain of the number of addresses contained on the AMS CD. Considering that it is supposed to contain every deliverable address in the United States, I would assume it is a rather large number. That being said, it is a common occurrence to come across valid addresses that are not on the AMS CD because they are not considered to be deliverable. Examples of such addresses that we have come across in the past include almost all of the IRS addresses listed by the IRS in their tax forms and on their web site as the correct locations for submitting Federal Tax Returns for the year 1999, and the new location of our offices in Mountain View, CA. Although we had signed a lease for an entire building and were going to be moving shortly, our new address was not listed on the AMS CD. This concerned us a great deal as customers would not be able to use our product to send correspondence to us, including the required Quality Assurance envelope which is required to be the first stamp printed by an Open System product. Fortunately, we were able to get the NCSC to include our address on the AMS CD prior to our move earlier this month.
- c. Not confirmed. Sources of other address matching customer complaints include expiration of AMS CDs resulting in the product not being able to

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function until a replacement is received; broken CDs received by customers; CDs not being able to be recognized by our application; and the limitation of not being able to ship international destinating mail since every address has to be checked against the AMS CD and the AMS CD only contains addresses within the US and its territories.

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USPS/E-STAMP-T1-12 On page 12 lines 14 through 18 you state “[e]ven the forms of payment allowed by the USPS have been chosen based on what is the most economical to the Postal Service. If one uses a postage meter, one can pay by check. Check acceptance is the most costly method of payment for the Postal Service to handle. A PC Postage user can only pay via ACH (free to the USPS) or by credit card (fees are subsidized by the vendors per the USPS credit card agreement).”

- a. Please provide any costs studies you relied on in your testimony to determine the relative costs of the various forms of payment allowed by the Postal Service.
- b. Confirm that the costs associated with the various forms of payment are relative to the dollar value of the transaction? If not, please explain.
- c. How do the vendors subsidize the credit card fees?
- d. Confirm whether the Postal Service accept credit card payments from postage meter customers?
- e. Do certain providers of postage meters accept credit card payments from their customers? If so, who is responsible for payment of any associated fees?

RESPONSE:

a) I did not rely on any cost studies. The information has been obtained from two sources: the Federal Register and the Treasurer of the USPS. Up until 1998, checks were the preferred form of payment according to the USPS as listed in the Federal Register. However, on 9/2/98, the USPS stated in the Federal Register:

The USPS encourages the Providers to recommend the use of the following payment forms by order of preference:

1. ACH Debit
2. ACH Credit
3. Wire Transfer
4. Debit Card Optional

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5. Credit Card Optional

6. Check

Representatives from USPS Treasury have stated that they prefer ACH Debit because it is free and that they do not want to accept checks because it is too expensive. To meet customer demand, USPS Treasury has agreed to allow Credit Cards but only if the Providers agreed to a contract that mandated that the Providers will pay for all network fees on total purchases per month over a certain limit. Despite the list of six payment forms in the Federal Register that are part of the current regulations for Manufacture, Distribution, and Use of Postal Security Devices and Information-Based Indicia, to date the USPS has only allowed ACH Debit and Credit Card payments for PC Postage products.

b) Not confirmed. ACH transactions are free. Credit Card fees are a percentage of the transaction. Because I have not been allowed to use checks, I am not completely certain, but believe that the fees for processing checks are based on a flat fee.

c) Vendors are required to pay all network fees for credit card purchases on all amounts of postage purchases over \$850 per month per license. This amount is charged back to the vendors on a monthly basis by USPS Treasury. Therefore, the customer purchases the postage via credit card, the vendor pays the network fees when the purchase amounts go over a certain limit for the month and at that point the USPS is getting paid without having to incur any of the fees.

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d) According to USPS Treasury, they do not accept credit card payments from postage meter customers.

e) According to USPS Treasury, certain providers of postage meters do accept credit card payments from their customers. In this case, the providers are responsible for the fees.

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USPS/E-STAMP-T1-13 On page 16 lines 5 through 7 you state “[a]ll pieces mailed at a discount will be recorded in the log file kept for each device. The log files can be audited to prove that only qualified pieces were receiving discounts.”

- a. Please explain the process by which the log files are used to prove that only qualified pieces receive discounts.
- b. Can the log files be used to determine if a customer applied postage to a label versus an envelope?
- c. Can the log files be used to determine the weight of a mailpiece?

RESPONSE:

- a. Upon modifying the log files to track such information as substrate (envelope, label, etc.), weight and level of address cleansing, the log files can then be run through an automated process which would cross-check that all mailpieces created at discounted rates met all of the requirements to qualify for a discount. This cross-check can be performed by each Provider themselves, or can be performed by the USPS when the log files are uploaded to the USPS each accounting period.
- b. Yes, it could be modified to record the substrate used.
- c. Yes, it could be modified to record the weight.

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USPS/E-STAMP-T1-14 On page 16 lines 7 through 9 you further state “[a]ll accounting functions will be performed in real time as the mail pieces are generated, thus saving the Service the costs associated with maintaining all of the postage accounts required by permit mailers.”

- a. Please explain what is meant by “accounting functions”.
- b. How are these functions performed in “real time”?
- c. What is the relationship between “accounting functions” and the costs associated with maintaining postage accounts of permit mailers? Confirm whether any of your PC Postage customers are prior permit mailers? If so, how many.

RESPONSE:

- a. By “accounting functions” I refer to setting up permit accounts, depositing funds into permit accounts, producing balance statements for permit accounts, filling out paperwork to document postage used per mailing, accepting and inspecting mailings, posting postage usage activity to permit accounts to deduct postage from balances, verifying that sufficient funds are on deposit in order to pay for a mailing and reconciling account balances to ensure proper accounting.
- b. These functions are either handled through the PC Postage software products during usage or are eliminated by the use of PC Postage. The postage account is set up through the software and all reporting is done from the Provider to the USPS in batch files sent at regular intervals. It is possible for an account to be established, funds to be deposited, postage to be deducted as mailpieces are printed while verifying sufficient funds are available, balances are reconciled on the E-Stamp server and by the USPS database, and always up to date reports are available for the customer to

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review their activity and balances, all within the same day and without any human intervention except by the user who is generating the activity. This is what I refer to as "real time".

- c. Whenever any of the "accounting functions" mentioned above require human intervention to perform, the costs to perform these functions are higher than if they were all automated. In the case of permit mailers, many if not all of these functions require some degree of human intervention, thereby increasing the costs associated with maintaining accounts for permit mailers.

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USPS/E-STAMP-T1-15 On page 16 line 20 you refer to “demonstrated savings already enjoyed”. Please quantify the demonstrated savings already enjoyed and discuss how these savings have been achieved.

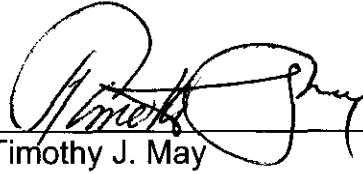
RESPONSE:

E-Stamp witness Prescott has quantified the cost avoidance enjoyed by the Postal Service on each piece of PC Postage Product mail. (E-Stamp-T-2, pp. 8-11)

The savings identified have been achieved simply because, by the very nature of PC Postage Product, it avoids a number of the mail processing steps that would otherwise have been performed on the same pieces of mail were they not a PC Postage Product.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the Postal Service by hand and by First-Class Mail upon all participants in this proceeding requesting such service.



Timothy J. May

Dated: June 27, 2000