

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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Postal Rate and Fee Changes, 2000

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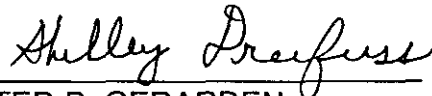
Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: SHERYDA C. COLLINS (USPS/OCA-T8-24-27)
(July 7, 2000)

The Office of the Consumer Advocate hereby submits the answers of Sheryda C. Collins to interrogatories of United States Postal Service, dated June 23, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

OFFICE OF THE CONSUMER ADVOCATE



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ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-24.

Please refer to your response to USPS/OCA-T8-9, and the web sites you reference in that response. Confirm that the following table provides an accurate summary of fees charged for the purchase of \$130 and \$700 of money orders from various Internet sources. If you cannot confirm, please provide the necessary corrections.

<u>Name</u>	\$130 Money Order		\$700 Money Order	
	Number Required	Total Fees	Number Required	Total Fees
moneyordernow.com	1	\$2.99	2	\$ 5.98
BidPay.com	1	\$7.93	2	\$25.75
sendmoneyorder.com				
Unbounce-able Internet Check				
Beginner	3	\$9.67	14	\$48.86
Power User	2	\$8.18	7	\$38.43
Super User	1	\$6.69	3	\$32.47
Money Orders				
Beginner	6	\$25.44	28	\$118.72
Power User	3	\$16.47	14	\$76.86
Super User	2	\$13.48	10	\$67.40

RESPONSE TO USPS/OCA-T8-24.

Not confirmed. Under sendmoneyorder.com, for \$130 worth of money orders, I calculated: Beginner, 6, \$24.44; Power User, 3, \$15.47; and Super User, 2, \$12.48; and for \$700 worth of money orders for Super User, 10, \$64.90. I also note that with competitors' fees at such high levels, the Postal Service could be poised to capture much of the Internet money order market if it can offer an electronic money order service at a more reasonable price.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-25.

Refer to your response to USPS/OCA-T8-9.

- (a) Confirm that PayPal.com requires credit card payment before the transfer of money. If you cannot confirm, please specify the required payment method.
- (b) Confirm that PayPal.com charges businesses 1.9% of each transaction for use of the service. If you do not confirm, please identify any charges related to business use of this service
- (c) Please explain why a customer who does not want to provide their credit card information over the Internet to complete a purchase would provide the same information to PayPal.com.
- (d) Confirm that TurboCheck is a software package rather than a service offering. If you do not confirm, please provide a description of the service TurboCheck offers and any related fees or charges.

RESPONSE TO USPS/OCA-T8-25.

- a. Not confirmed. Please see PayPal Terms of Use and Wall Street Journal article, attached.
- b. Confirmed. PayPal recently has added two new features to its website. One of them is service for Business Accounts.
- c. A customer does not have to provide credit card information to use PayPal. See answer to (a) above.
- d. Confirmed.

Terms of Use

THE FOLLOWING ACCOUNT AGREEMENT DESCRIBES THE TERMS AND CONDITIONS IN WHICH CONFINITY, INC. OFFERS YOU ACCESS TO ITS PAYPAL SERVICES. THIS AGREEMENT AFFECTS YOUR RIGHTS AND YOU SHOULD READ IT CAREFULLY.

I. Description of the PayPal Service

PayPal provides a financial platform that facilitates person-to-person financial transactions ("Payments") for registered customers of PayPal™ ("Users") in the following ways:

1. Confinity, Inc. ("Confinity") will transfer a Payment from the PayPal account of a Payment sender ("Sender") to the PayPal account of a Payment recipient ("Recipient") (or to an unregistered account if Recipient is not yet a User) upon electronic notification of the transaction. A User may initiate a Payment by (i) using the PayPal web site to make a Payment to a Recipient ("Web Payment"), (ii) using the PayPal software on a hand-held device to make a Payment to a Recipient's email address ("Email Payment") or (iii) using the PayPal software to make a Payment to a Recipient's hand-held device ("Palm Payment").
2. Recipient will not be able to spend any money received until PayPal receives electronic notification of a Payment and transfers funds to the Recipient.
3. Electronic notification of a Payment occurs (i) immediately when a User initiates a Web Payment, (ii) when the Sender of an Email Payment connects with the PayPal server or (iii) when either the Sender or Recipient of a Palm Payment connects with the PayPal server.
4. Successful transfer of funds occurs (i) immediately upon electronic notification of a Payment, if the Sender's PayPal account balance is greater than or equal to the amount of a Payment or (ii) when a charge to the Sender's credit card is accepted during electronic authorization, if the Sender's PayPal account balance is less than the amount of a Payment and the Sender had elected to fund their account with a credit card.
5. **Once a Payment is made it is non-reversible and non-refundable.**
6. **A User may elect to withdraw all or part of the balance of his or her PayPal account by direct deposit into the User's bank account or by physical check sent to the User's street address.** Direct deposits to a User's bank account will only be processed after proper authorization has been received by PayPal. Such authorization will require verification of the User's email address, bank routing number and bank account number. Physical checks will only be issued upon verification of the User's email address.
7. **Each User who elects to pay with a credit card will be limited to \$500.00 for credit card charges, until verification of email and credit card billing addresses has been completed. Upon verification of both email and credit card billing addresses, the charge limit for each User will increase to \$2,000.00 over a 6-month period, subject to credit availability from the User's credit card company.**
8. The minimum transaction amount for payments between Users is \$0.01.
9. A User may add funds to a PayPal account by requesting an electronic funds transfer from the User's verified bank account or by mailing a physical check to Confinity at its

corporate offices. User agrees to allow Confinity to make two deposits of up to \$0.99 each, at Confinity's own expense, into User's bank account for the purpose of verifying User's bank account.

II. Responsibilities of Users

In order to become a User of PayPal you must register online. You must also read and agree to the terms and conditions of this agreement, including:

1. You must provide Confinity with valid and accurate information. You must be a resident of the United States and be at least 18 years of age. You will not open more than one PayPal account. Confinity reserves the right to terminate duplicate accounts or any account containing untruthful information.
2. If you provide credit card information, you agree that we may charge your credit card for all Payments initiated by you for amounts above your then-current PayPal account balance.
3. If you do not provide credit card information, you agree that you will not attempt to initiate any Payment for amounts above your then-current PayPal balance. If you breach the terms of this paragraph, Confinity reserves the right to reject your Payment and you will be solely responsible for the consequences of this rejection.
4. If you request an electronic funds transfer to your bank account, you will provide an initial authorization in accordance with our instructions. After an initial authorization is received, you agree that we may access your bank account at any time you instruct us to make a transfer to your bank account. If you request an electronic funds transfer from your bank account, you grant Confinity the right to validate the authenticity of your bank account by making a one-time deposit into your bank account at Confinity's own expense. After you have verified your bank account by correctly entering the amounts Confinity deposited on the website, you agree that we may access your bank account at any time you instruct us to make a transfer from your bank account to your PayPal account.
5. You agree not to engage in behavior that could reasonably be construed as providing yourself a cash advance from your credit card, and agree not to assist users who engage in behavior that could reasonably be construed as providing themselves a cash advance from their credit cards. Such behavior includes, but is not limited to, a User paying someone by charging a credit card, then receiving the funds back from the original Recipient and attempting to withdraw the funds from a PayPal account. Confinity reserves the right to reverse all such transactions and to terminate any accounts that are associated with such behavior.
6. You agree not to use unsolicited email, usenet, message board postings, or similar methods of mass messaging (spam) to gather referral bonuses. The use of spam to promote the PayPal service has strict negative consequences. We will immediately and permanently terminate the account of any user who has used unsolicited email to gain referrals. In addition, you may be subject to state and federal penalties and other legal consequences under applicable law if you send unsolicited email. Our [Anti-Spam Policy](#) is intended to protect our users, the Internet, and us.
7. You are responsible for confirming the identity of the other party in a payment.
8. You consent to have your name and email address made available as identification to anyone whom you have paid or who has paid you through PayPal.
9. In the event of the loss or malfunction of your handheld device, payments made since

THE WALL STREET JOURNAL

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February 16, 2000

PayPal Sees Torrid Growth With Money-Sending Service

By JATHON SAPSFORD

Staff Reporter of THE WALL STREET JOURNAL

If your acquaintances are even slightly tech-savvy, it may not be long before somebody beams money into your e-mail in-box.

Don't delete it. The money's good.

It's all part of a new online payment system called PayPal.com (www.paypal.com), and it's growing by 9,000 new users a day just three months after its official launch. The system responds to many of the needs that led to the creation of virtual currencies with names like "beenz" and "Bippy dollars." But PayPal uses real dollars. And now, instead of just techno-nerds, the service is attracting mainstream users.

Driving PayPal's torrid growth is a simple joining of two proven technologies: e-mail and the credit-card network. Registered users can send a payment to anybody with an e-mail address just by writing a dollar amount into an online form. When the e-mail is sent, the payment is charged to the sender's credit card or bank account. Registration takes five minutes.

If the person on the other end isn't a registered PayPal user, that's OK. The receiver just fills out the form attached to the e-payment to tap the money, which is already waiting in a PayPal.com account in the receiver's name.

Completing the form also registers the receiver as a user. "This is what people in technology call a viral product," says Peter Thiel, the chief executive of PayPal.com. "It's easier than catching a cold. And it is spreading as fast as a virus."

Taking the money out of the system isn't as quick. PayPal will cut a check and send it to you through the regular mail, credit it to your credit card or transfer it into your bank account -- all of which can take up to a week. But the big fans of the system keep the money in their accounts to use again.

That last option is the key to how PayPal hopes to thrive. The PayPal account doesn't provide interest, so PayPal can invest any money left there until the user wants to spend it. If PayPal keeps growing at its current rate, the company hopes it will soon manage enough customer money to both make a profit and absorb all the fees involved in credit-card transactions. For now, the PayPal service is free, and Mr. Thiel says the company has no intention of ever charging its customers.

Among PayPal's most common uses is the cybersettling of accounts between family and friends. Andrew Brenner, for example, a 31-year-old tech-industry employee, recently threw a big barbecue party with friends. Afterward, he e-mailed \$83 to pay his buddy for his share of the burgers and beer.

A few weeks later, another friend was short the cash for his share of a fish dinner at a Palo Alto, Calif., restaurant. Mr. Brenner knew that his buddy did have a hand-held computer with e-mail capacity: So right there in the restaurant, over the remains of prawns and swordfish, Mr. Brenner asked his friend to send him an e-mail for \$20.

As the friend sent the e-payment over the red-checkered tablecloth, Mr. Brenner paid the bill knowing

his friend's share would be in his account at PayPal. "PayPal is replacing currency," says Mr. Brenner flatly. "This is becoming the payment service of the Internet."

Some heavy hitters in venture capital agree. Wall Street's Goldman Sachs Group Inc., together with a fund tied to the West Coast Web incubator idealab!, recently invested \$23 million in PayPal.com during its second round of venture financing. Its first round came from Nokia Corp., the Finnish mobile phone giant, and Deutsche Bank AG of Germany. Before that, the company was working with seed money from individuals and a hedge fund run by the current chief executive, Mr. Thiel.

Mr. Thiel, a blond 32-year-old who says "awesome" a lot, graduated from Stanford Law School in 1992 and soon joined the Wall Street law firm of Sullivan & Cromwell. A year later he joined CS First Boston, where he traded currencies for a few years. By 1996 he had moved back out to his native California to start up his own hedge fund. In 1998, he met PayPal's chief technology officer, Max Levchin, who wanted to launch a venture that provided encryption technology.

Mr. Thiel's hedge fund bought into the idea, and Mr. Thiel joined the new venture himself as CEO. Launched in December 1998 under the name Confinity, the company focused on providing financial institutions with the technology to make online and mobile transactions secure. But the start-up soon saw the huge demand for secure payment systems on the Web.

When the new company hit on combining the credit-card network with e-mail and launched the PayPal service, more investors started to take note. Now, Confinity is in the process of changing its corporate name to PayPal, and Mr. Thiel is giving a lot of the company's money away.

That's because PayPal provides a virtual \$10 coupon to any user who signs up a friend -- and gives the friend a \$10 coupon as well. In other words, it costs PayPal \$20 for each new user, or \$2 million for 100,000. Mr. Thiel says the approach is much more effective -- and a lot cheaper -- than buying a 30-second ad during the Super Bowl.

Other companies have also deployed or are working on online payment, including eBay Inc. and CheckFree Holdings Inc. Since PayPal's launch, 190,000 users have signed up, and 9,000 or more new users are signing up each day.

Some investors value Web-based financial-services companies at \$1,000 to \$10,000 a customer. Using the middle of that range, PayPal's franchise would now be valued at around \$500 million.

The product is a particular boon for online auction denizens because it cuts out the risks of being paid by check through the mail. Lisette McConnell, a 33-year-old graphic designer, sells custom-designed neckties on eBay. She has trusted buyers before, sending goods before checks cleared, only to find out the check wasn't any good. Other merchants spend thousands of dollars and per-transaction fees to be able to accept credit cards. But PayPal makes all that unnecessary. "It's like air money," Ms. McConnell says.

There are limitations on bigger transactions, in order to combat fraud and hackers. Cathy Rowekamp, 48 years old, of Winnsboro, S.C., sells antiques online. Once shipping charges are thrown in, her prices are in the thousands of dollars. Buyers of her chests, dressers and rockers must get a form from PayPal through the mail confirming their street address to conduct transactions larger than \$200.

That's supposed to take only a matter of days, but the turbo-charged growth at the company has caused delays, all of which Ms. Rowekamp is finding frustrating. "I want it to work so bad," she says.

One user, Jim Bruene, had his payments frozen when he tried to get around the limit. The publisher of a financial newsletter called Online Banking Report, he sent a freelance reporter several e-payments that totaled more than \$200. But the PayPal fraud alarms kicked off, and Mr. Bruene's money was tied up for weeks. "If you're a consumer and a couple thousand dollars disappeared for two weeks, you probably wouldn't want to use" the service again, Mr. Bruene says.

"Sometimes I worry that we're too obsessed with security," concedes Mr. Thiel. Other online payment systems have received bad press over lax security. But long before last week's hacking attacks, PayPal sought to keep its system secure by hiring a board of advisers staffed with heavyweights in encryption technology. One is Stanford University Prof. Martin Hellman, one of the brains behind the most commonly used form of encryption on the Internet. Another is Stanford Prof. Dan Boneh, who leads a team of researchers who specialize in code breaking.

To fire off payments for anything more than \$200, a consumer must wait for PayPal to send through the mail an address confirmation, which has a coded approval number. Only after keying in that number can consumers make larger payments online. "Fraud protection is a trade-off," says Mr. Thiel. "If you make it totally airtight, it becomes less user-friendly."

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ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-26.

Refer to your response to USPS/OCA-T8-6. Does the mere fact that a customer lives on a rural route or purchases money orders from a rural carrier imply that the customer has a "modest income"? Please explain.

RESPONSE TO USPS/OCA-T8-26.

No. I am aware of rural routes not far from my own home whose customers most certainly could not be described as having "a modest income." I have no knowledge as to whether these customers purchase money orders from their rural carriers. However, I would suspect that these customers have access to bank accounts and credit cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-27.

Refer to your response to USPS/OCA-T8-8.

- (a) Please identify any Postal Service money order competitors you are aware of, besides 13th Street Variety, that charge 28 cents for a money order.
- (b) Please confirm that the owners of the Paradise Liquor Store and 13th Street Variety are not required to charge a fee sufficient to recover their cost of selling a money order. If you do not confirm, please explain.

RESPONSE TO USPS/OCA-T8-27.

- a. I do not have specific knowledge of other competitors who charge 28 cents for a money order. However, I would not be surprised to find others.
- b. Not confirmed. I have no knowledge regarding any business requirements pertaining to the owners of Paradise Liquor Store.

DECLARATION

I, Sheryda C. Collins, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T8-24-27 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed July 7, 2000

Sheryda C. Collins

CERTIFICATE OF SERVICE

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

A handwritten signature in cursive script that reads "Shelley Dreifuss".

SHELLEY DREIFUSS

Washington, D.C. 20268-0001
July 7, 2000