

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

MAILING ONLINE EXPERIMENT

Docket No. MC2000-2

NOTICE OF UNITED STATES POSTAL SERVICE CONCERNING
DECISION OF THE GOVERNORS
(August 15, 2000)

The United States Postal Service hereby gives notice of the following decision of the Governors in Docket No. MC2000-2:

DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON THE
RECOMMENDED DECISION OF THE POSTAL RATE COMMISSION ON MAILING
ONLINE EXPERIMENT, DOCKET No. MC2000-2 (AUGUST 7, 2000)

A copy of the Governors' Decision is attached, together with the Board of Governors' Resolution No. 00-10 implementing the Decision.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Kenneth N. Hollies

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE
ON THE RECOMMENDED DECISION OF THE POSTAL RATE COMMISSION
ON MAILING ONLINE EXPERIMENT, DOCKET No. MC2000-2**

August 7, 2000

Statement of Explanation and Justification

On June 21, 2000, the Postal Rate Commission issued its Opinion and Recommended Decision in Docket No. MC2000-2. The Recommended Decision responds to the Postal Service's request for a three-year Mailing Online experiment, by which customers nationwide can transmit documents to the Postal Service over the Internet for printing and delivery in the mail. For the reasons given below, we approve the Recommended Decision.

Background

The Postal Service filed a request on November 16, 1999, for a three-year Mailing Online experiment. The experiment is intended to enable the Postal Service and its customers to gain experience with this newly developed service, while developing the informational foundation for consideration of a permanent service offering. The Postal Service previously conducted a much more limited market test of an earlier version of the service, based on the Commission's Opinion and Recommended Decision issued October 7, 1998, and approved by the Governors on October 16, 1998, in Docket No. MC98-1.

Mailing Online seeks to make mailing quick, easy and convenient by joining electronic transmission over the Internet with the reach of the Postal Service's universal mail delivery

network. As the means for exchanging messages expand into electronic alternatives, Mailing Online will introduce a new, low-cost option making the mails more affordable and attractive for some postal customers, such as single-piece mailers and those running small offices or home offices who have difficulty taking advantage of traditional service providers. In a single website visit to USPS.com, the Mailing Online customer can upload a word processing document (such as Word or WordPerfect) and a list of addresses, and pay the applicable postage plus a fee based on commercial printing charges and information technology costs. The Mailing Online system will presort and distribute the items electronically to participating printers around the country for printing and entry into the mail and localized delivery.

The Commission's Recommended Decision approved the three-year experiment. After holding evidentiary proceedings, the Commission made several adjustments to the proposal presented by the Postal Service. The Recommended Decision includes higher fees for the information technology and printing portions of the service based upon attribution of additional costs and a greater markup. Accepting a stipulation and agreement developed by the Postal Service with several other parties, the Commission also approved an adjustment to the limited waiver of minimum volume requirements so as to extend to providers of functionally equivalent services the same postage rates payable under Mailing Online. Further, the Commission recommended collection and reporting of certain additional information over the course of the experiment.

Discussion

Action

By law, the Governors' options for acting on a Commission Recommended Decision are closely constrained. We may approve the Commission's recommendations and order them

placed in effect, or we may reject them. In appropriate circumstances, we may allow the Recommended Decision to take effect and take further action, either to seek judicial review or to ask the Commission to reconsider certain issues. The statute refers to this option as "allow[ance] under protest."¹ We may only modify the specific recommended rates and classification language, if we have first rejected them, and the Commission has issued a subsequent Recommended Decision after resubmission of the matter by the Postal Service.²

We have reservations about some elements of the Commission's fee recommendations.³ We refer to these briefly below. On balance, however, we believe that our best course of action is to begin the experiment. We hope that our concerns will be illuminated by the information and data that are gained as the experiment progresses, and that we will be able to revisit these matters in future proceedings to establish a permanent Mailing Online service or to consider other experimental service proposals

Nevertheless, we approve the Commission's Recommended Decision for a Mailing Online experiment. Under the circumstances, we can accept the fees and the other provisions recommended by the Commission. The Postal Service developed the Mailing Online proposal to further its responsibilities to provide needed and desirable services to our customers and the nation. Through the experiment, we hope to test Mailing Online as a way to keep the postal system up to date, by taking good advantage of the channel now offered by the Internet to enter communications into the traditional mailstream. In this regard, we believe that the approval of this experimental service admirably manifests our partnership with the Commission in pursuing those goals. We look forward to the progress of the experiment, and hope that the Commission's Opinion provides a foundation for the

¹ See 39 U.S.C. § 3625(c). In the past, we have elected to seek reconsideration not just for protest but also for correction or clarification of the Commission's conclusions and recommendations.

² See 39 U.S.C. § 3625(d).

³ Some of these concerns are also reflected in Commissioner Goldway's separate opinion.

successful introduction of a permanent version of Mailing Online, as the experiment's results become available.

Importance of Mailing Online

We regard Mailing Online as an important initiative in the larger national effort to make full and best use of America's enormous investment of resources, public expectations, and tradition in the universal postal system. We share a responsibility to manage this investment well – to make it efficient, economical, and responsive to present and future needs.

The primary goal of Mailing Online is to improve customer service by making mailing easy. Mailing Online provides a convenient electronic means for entry of small volume or short-run mailings and broadens access to the benefits of mail processing automation. Since it also drives costs from the mail processing system by capitalizing upon automation compatibility and the avoidance of certain processing steps, Mailing Online should ultimately benefit all users of the mail. Finally, Mailing Online opens yet another market for third-party providers who wish to bundle their own value-added services and take advantage of this channel for entry of mail.

To serve its customers well, the Postal Service must make the most of developing technology to update, modernize, and complement its services in sensible, businesslike, evolutionary ways that serve the public interest. Mailing Online is a valuable step in this process. It employs technology to provide a more convenient means for entering mail. It extends the benefits of automated processing and sorting, including associated cost savings, to smaller mailing operations, thus encouraging small-office and home-office businesses to build their mail volumes. The record demonstrates that these smaller mailers are under-served by currently available private mail preparation services. Mailing Online is carefully tailored to minimize direct competition with private providers while serving

consumers and private providers by also helping to build the overall market for this kind of service.

Accommodations Provided by the Commission

The Governors appreciate that the Commission shares the objective, as stated in its Opinion,⁴ that “[t]he Postal Service can and should develop innovative services” such as Mailing Online. The Recommended Decision benefits from a number of points on which the Commission has displayed welcome flexibility in accommodating the special circumstances of rolling out a new service. Through two proceedings – first for the Mailing Online market test, and now for the larger experiment – the Commission has successfully adapted its procedures to the stages of product development. In providing a fee structure for Mailing Online, the Commission accepted the approach suggested by the Postal Service for calculating fees based on actual contractor costs. By promoting and approving a stipulation among the Postal Service and other parties on minimum volume requirements, the Commission resolved an issue of fairness between Mailing Online and private hybrid mail preparation services. Looking ahead to the next phase in the development of Mailing Online, the Commission has accepted a termination schedule for the experiment that will help to prevent a gap in service availability to customers if a proposal for a permanent service is pending at the end of the three-year period.

We also appreciate the Commission’s determination that certain research and development costs for developing a new service should not be recovered through fees for the experimental phase. We agree that including such costs might “unreasonably inflate the ‘experimental’ price, and render the rates unrealistic.”⁵ As new proposals are developed, the Postal Service should identify research and development costs, as well as costs related to

⁴ PRC Op., MC2000-2, at ii.

⁵ PRC Op., MC2000-2, at 55.

building an information technology infrastructure, so that such costs will not inflate charges as new products are introduced.

The Commission's assistance in matters such as these demonstrates how flexible approaches can facilitate the further innovations in service that will be required, as the Postal Service continues to embrace changes in technology and demand.

Concerns Relevant to Future Innovations

Among the matters treated within the Commission's Opinion, we have also noted some areas of concern, particularly from the standpoint of building a solid foundation for successful future innovations. We appreciate that the litigation format over which the Commission presides exposes the Postal Service and the other contestants to some risk of give and take in the resolution of the case. We hope that the Commission's treatment of some of these matters can be limited by the record in this docket, and will not signal unreasonable hurdles for the introduction of future new services for which these issues may have greater bottom line consequences.

Costing

The Postal Service proposed to apply a markup to volume variable costs only, including printer and information technology (IT) costs. The Commission recommended marking up all costs it identified as attributable to Mailing Online, including fixed start-up and advertising costs, as well as credit card costs driven by Mailing Online fee revenue. In dissent, Commissioner Goldway thought that the IT costs for establishing the experiment (and the permanent service) should not have been treated as experimental costs. The portion of these costs spent before the experiment begins should be treated as institutional research and development costs, while the IT costs for enhancements during the experiment should

be treated either as an institutional investment in the Postal Service's information network infrastructure, or as costs recoverable by the future, permanent Mailing Online.

We believe that customers of an experimental service should not have to pay all of its start-up costs during the short duration of an experiment. This inflates fees just as the Postal Service is trying out a new service. The common sense approach applied in the private sector, offering lower prices when a service is introduced, should be available to the Postal Service. This is especially appropriate when the systems funded by the start-up expenditures are expected to remain in use for a permanent service.

Pricing

We do not believe that the cost coverage for an experimental offering should normally be as high as the Commission has recommended in this instance. The recommended decision assumed a cost coverage of 155.2%, compared to the 132.3% requested by the Postal Service. The Opinion suggested three reasons for this substantially higher markup. First, the Commission regarded Mailing Online as having high value of service. We certainly believe that Mailing Online has the potential to become a high-value service. From the difficulties experienced in implementing the Mailing Online market test, however, and for a new service dependent on the integration of computer systems, it seems premature to increase the cost coverage at the experimental stage. Moreover, Mailing Online's lack of printing options and personalized service, compared to private mail preparation services, suggests a lower value of service.

Second, the Commission considered that the higher cost coverage would help ensure that Mailing Online covers its costs. We have some concern that the markedly higher fees recommended by the Commission will tend to discourage use by customers, unnecessarily depressing Mailing Online volumes and revenues. Moreover, there seems little reason to

fear that Mailing Online might fail to cover its costs. Over 90 percent of the costs are volume variable, and thus recoverable at any markup level. The fixed costs would have been covered under the Postal Service's proposal, even if two thirds of the projected volume failed to materialize. Under the Commission's recommendation, fixed costs will be covered even if nearly seven eighths of projected volume never materializes.

Third, the Commission may have regarded the considerable markup cushion as additionally useful as a foil to competition concerns, which we discuss in the next section of this Decision.

In the end, the Commission applied the overall system-wide cost coverage, even though Mailing Online is a special service. Many special services have lower cost coverages, in part because they tend to contribute revenues indirectly by attracting new mail volume. Nearly 40 percent of Mailing Online volume is expected to be new mail, which will generate additional contribution from postage.

Competition

In responding to competition concerns advanced by one of the parties, the Commission stated that it does not enforce the antitrust laws.⁶ We agree. These laws are not applicable. The Commission and the Governors apply the Postal Reorganization Act.

The Commission examined at length various arguments that Mailing Online would unfairly harm competitors, but found no anti-competitive impact on the record developed. In this portion of the Commission's Opinion, we are not certain whether the Commission majority regarded competition considerations as a contributing ground for the higher markup it recommended, or meant only to observe that competition concerns seem well out of play at the markup level recommended for the other reasons given in the Opinion. In our view, when allegations of anti-competitive behavior fall short, then competitive factors will not justify imposing on the public higher prices. We wish to be clear that we find no basis in the fair competition issue, as presented here, for increasing the markup in this case, and place no reliance on that consideration in approving the fees recommended. It would be unreasonable to expect the Postal Service, while competing fairly, to charge higher fees just for the benefit of competitors. As the U.S. Court of Appeals for the Second Circuit has stated, competition is the value protected under the Postal Reorganization Act, not particular competitors.⁷

Mailing Online has been crafted to minimize direct competition. It specifically aims to serve smaller-scale customers who are not currently served well. Its printing features are simpler than those provided by traditional mailing service companies. Mailing Online provides less extensive customer service than those companies afford.

⁶ PRC Op., MC2000-2, at 25.

⁷ *Direct Marketing Ass'n v. United States Postal Service*, 778 F.2d , 96, 106 (2nd Cir. 1985).

Most Mailing Online costs are imposed by private printers, and simply passed through by the Postal Service. In such circumstances, we see little justification for making consumers pay more for Mailing Online. Moreover, Mailing Online operates under regulatory disadvantages compared to the competition, and must return for a thorough review by the Commission within three years.

The Commission took care to stress at the very outset of its Opinion that the net effect of its adjustments to the fees for Mailing Online would require a customer sending a two-page First-Class Mail piece to pay 40.9 cents in combined postage and fees, as compared to 37.9 cents as the Postal Service had requested.⁸ The fact that postage accounts for the larger share of the customer's total burden (for smaller documents) tends to mitigate the impact of the Commission's substantial increase in the fees in this instance. The Governors anticipate that, in other circumstances where the price of an experimental service is more directly sensitive to the treatment of the kinds of issues discussed in this section, greater caution will be needed to make sure that postal innovation is not thwarted or discouraged unnecessarily. We believe that there has been enough litigation on Mailing Online at this point, and are accepting the Commission's recommendation so that the experiment can proceed.

ESTIMATE OF ANTICIPATED REVENUE

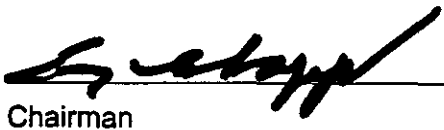
Based on Table 3 in the Commission's Opinion, we anticipate that Mailing Online will realize approximately \$612 million in revenue over the course of the experiment.

⁸ PRC Op., MC2000-2, at i. Since postage is fixed at 27 cents, this actually constitutes a 27.5 percent fee increase compared to the Postal Service's proposal.

ORDER

In accordance with the foregoing Decision of the Governors, the changes in the Domestic Mail Classification Schedule, and its attendant rate and fee schedules, set forth in Attachment A hereto and incorporated herein, are hereby approved and ordered into effect. In accordance with Resolution 00-10 of the Board of Governors dated August 7, 2000, the changes set forth in Attachment A will take effect at 12:01 a.m. on September 1, 2000.

By The Governors:



Chairman

CHANGES IN RATE AND FEE SCHEDULES

In the notes to Rate Schedule 221, First-Class Mail, additions are underlined and deletions are in brackets. In the notes to Rate Schedule 222, First-Class Mail, additions are underlined; there are no deletions. Fee Schedule 981, Mailing Online, contains all new material (underlined), and replaces the current Fee Schedule 981 in its entirety. In Schedule 1000, additions are underlined.

FIRST-CLASS MAIL

SCHEDULE 221 NOTES

- ³ Rates apply to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements specified by the Postal Service and, for the Basic Presort rate, documents provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section [Fee Schedule]981.

- ⁸ Rates apply to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery[-]point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements specified by the Postal Service, and, for the Basic Presort rate, to documents provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section [Fee Schedule]981.

FIRST-CLASS MAIL

SCHEDULE 222 NOTES

- ² Rates apply to bulk-entered mailings of at least 500 pieces, which must be barcoded and meet other preparation requirements specified by the Postal Service and, for the Basic Presort rate, to documents provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section 981.

FEE SCHEDULE 981

MAILING ONLINE

Description

Fee

Fees are calculated by multiplying 1.52 times the sum of printer contractual costs for the particular mailing and 0.5 cents per impression for other Postal Service costs.

1.52 x (P + 0.5¢ x I)

P = Printer Contractual Costs

I = Number of Impressions

This provision expires the later of:

- a. three years after the implementation date specified by the Postal Service Board of Governors, or
- b. if, by the expiration date specified in (a), a proposal to make Mailing Online permanent is pending before the Postal Rate Commission, the later of:
 1. three months after the Commission takes action on such proposal under section 3624 of Title 39, or
 2. —if applicable—on the implementation date for a permanent Mailing Online.

FEE SCHEDULE 1000

	Fee

Authorization to Use Bulk Parcel Return Service	\$100
<u>Certification of a system as functionally equivalent to Mailing Online.¹</u>	<u>\$100</u>

SCHEDULE 1000 NOTES

- ¹ This provision expires the later of:
- a. three years after the Mailing Online implementation date specified by the Postal Service Board of Governors, or
 - b. if, by the expiration date specified in (a), a proposal to make Mailing Online permanent is pending before the Postal Rate Commission, the later of:
 - 1. three months after the Commission takes action on such proposal under section 3624 of Title 39, or
 - 2. —if applicable—on the implementation date for a permanent Mailing Online.

**CHANGES IN THE
DOMESTIC MAIL CLASSIFICATION SCHEDULE**

In the following changes to the Domestic Mail Classification Schedule,
additions are underlined and deletions are in brackets.

**STANDARD MAIL
CLASSIFICATION SCHEDULE**

321.231 General. The automation rate categories apply to Regular subclass mail that:

- a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section 981;

321.431 General. The automation rate categories apply to Nonprofit subclass mail that:

- a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section 981;

364 Regular

[The following service may be obtained in conjunction with mail sent under this classification schedule upon payment of the appropriate fees:]Regular subclass mail will receive the following additional services upon payment of the appropriate fees:

	Service	Schedule
a.	Mailing Online	981

365

Nonprofit

Nonprofit subclass mail will receive the following additional services upon payment of the appropriate fees:

	<u>Service</u>	<u>Schedule</u>
a.	<u>Mailing Online (starting on a date to be specified by the Postal Service)</u>	<u>981</u>

**SPECIAL SERVICES
CLASSIFICATION SCHEDULE**

980 **ACCEPTANCE ALTERNATIVES**

981 **MAILING ONLINE**

981.2 **[Description of Services]Availability**

981.21 Mailing Online is available for documents submitted in an electronic form, along with an address list, to be entered under the following classification schedules:

a. **Express Mail;**

[a.].b. **First-Class Mail;**

[b.].c. **Regular and Nonprofit subclasses of Standard Mail.**

- 981.22 Except as provided in section 981.23, d [D]ocuments presented through Mailing Online are eligible for only the following rate categories:
- a. Express Mail Next Day Service and Second Day Service
 - [a.]b. First-Class Mail Letters and Sealed Parcels Automation Letters Basic
 - [b.]c. First-Class Mail Letters and Sealed Parcels Automation Flats Basic
 - d. First-Class Mail Cards Automation Basic
 - e. First-Class Mail Single-Piece Priority Mail
 - [c.]f. Standard Mail Regular Automation Basic Letters
 - [d.]g. Standard Mail Regular Automation Basic Flats
 - h. Standard Mail Nonprofit Automation Basic (starting on a date to be specified by the Postal Service)
 - i. Standard Mail Nonprofit Automation Basic Flats (starting on a date to be specified by the Postal Service)

981.23 That portion of a Mailing Online mailing consisting of pieces with addresses that cannot be made to meet Postal Service addressing requirements is not eligible for any Automation Basic rate categories, but instead may be sent, at the option of the Mailing Online customer, at the applicable single-piece rates for First-Class Mail Letters and Sealed Parcels, First-Class Mail Cards, or Priority Mail.

981.3 Requirements of the Mailer

981.31 Documents and address lists must be presented in electronic form, as specified by the Postal Service, through the [Postal Service's Mailing Online][[i]internet site specified by the Postal Service. Documents must be prepared using application software approved by the Postal Service.

981.4 **Other Special Services**

Other special services that are available in conjunction with the subclass of mail chosen by the Mailing Online customer are available for Mailing Online pieces only as specified by the Postal Service.

981.[4]5 **Fees**

981.[4]51 The fees for Mailing Online [service]are described in Fee Schedule 981.

981.6 **Functionally Equivalent Systems**

981.61 **General.** Mailpieces created by a system certified by the Postal Service to be functionally equivalent to Mailing Online are eligible for the same rate categories as Mailing Online mailpieces. Mailpieces created by a certified, functionally equivalent service are in no case eligible for rate categories providing larger discounts than Mailing Online mailpieces would receive.

981.62 **Definition.** A functionally equivalent system is one which is capable of all of the following, comparable to Mailing Online, as specified by the Postal Service:

- a. accepting documents and mailing lists from remote users in electronic form, such as via the Internet, or converting documents and mailing lists to electronic form;
- b. using the electronic documents, mailing lists, and other software including sortation software certified by the Postal Service that sorts to the finest level of sortation possible, to create barcoded mailpieces meeting the requirements for automation category mail, with 100 percent standardized addresses on all pieces claiming discounted rates;
- c. commingling mailpieces from all sources without diversion to any other system and batching them according to geographic destination prior to printing and mailing; and
- d. generating volumes that exceed on average any otherwise applicable volume minimums.

981.63 **Certification**

- 981.631 **General.** Functionally equivalent systems must meet the requirements for certification specified by the Postal Service.
- 981.632 **Fee.** Functionally equivalent systems are subject to the annual certification fee set forth in Fee Schedule 1000.
- 981.633 **Cancellation.** Certification can be cancelled by the Postal Service for failure to continue to meet the requirements of this section and those specified by the Postal Service.
- 981.[5]7 **Duration of Experimental Service Period[Market Test]**
- 981.[5]71 [The provisions of section 981 expire no later than implementation of an experimental Mailing Online service following acceptance or allowance by the Governors of the Postal Service of a recommended decision by the Postal Rate Commission, or no later than 3 months after issuance of a recommended decision by the Commission rejecting the Postal Service's request for an experimental Mailing Online service; or no later than 3 months after issuance of a decision by the Postal Service Governors rejecting a Commission recommended decision on an experimental Mailing Online service.]
The provisions of section 981 expire the later of:
- a. three years after the implementation date specified by the Postal Service Board of Governors, or
 - b. if, by the expiration date specified in (a), a proposal to make Mailing Online permanent is pending before the Postal Rate Commission, the later of:
 - 1. three months after the Commission takes action on such proposal under section 3624 of Title 39, or
 - 2. —if applicable—on the implementation date for a permanent Mailing Online.

RESOLUTION OF THE BOARD OF GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE


Resolution No. 00-10

Effective Date of New Classification

RESOLVED:

Pursuant to section 3625(f) of Title 39, United States Code, the Board of Governors determines that the classification and fees that were ordered to be placed into effect by the Decision of the Governors adopted on August 7, 2000, shall become effective at 12:01 a.m. on September 1, 2000.

The foregoing Resolution was adopted by the Board of Governors on August 7, 2000.



Secretary

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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August 15, 2000