

RECEIVED
SEP 22 2 27 PM '00
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

REPLY BRIEF

OF

STAMPS.COM

**David P. Hendel
Wickwire Gavin, PC
8100 Boone Blvd., Suite 700
Vienna, VA 22182-2683
Tel. 703/790-8750
Fax. 703/448-1767**

Counsel for Stamps.com

Dated: September 22, 2000

Stamps.com's Reply Brief

Table of Contents

1.	While market research is unnecessary to support the discount, extensive market research has been conducted and is reliable.	- 1 -
2.	Stamps.com and E-Stamp employed appropriate methodologies to determine the cost savings achieved by use of PC Postage.	- 3 -
3.	Mail processing cost savings from PC Postage are readily achievable with little if any changes in mail processing activities.	- 5 -
4.	Implementation of a discount for PC Postage poses no difficulties for vendors or the Postal Service.	- 8 -
	Conclusion	- 9 -

**Before the
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

STAMPS.COM'S REPLY BRIEF

Stamps.com, Inc. hereby replies to the Postal Service's Initial Brief. Overall, the Postal Service has very little to say about the rate discount proposed by Stamps.com and E-Stamp for PC Postage.¹ The Postal Service seems to concede that there are "modest, potential savings associated with PC Postage mail" but believes no discount should be offered because the concept "requires further study." (USPS Brief, p. VII-63, -54.) We believe the mail processing cost savings from PC Postage have been well documented and that no further studies are warranted.

This brief will reply to the arguments in the order presented in the Postal Service's Initial Brief.

- 1. While market research is unnecessary to support the discount, extensive market research has been conducted and is reliable.**

Both E-Stamp and Stamps.com draw support for a PC Postage discount from various market research submitted in the record of this proceeding. While supportive, such market research is not a necessary element of the PC Postage discount. The Postal Service contends that the market research conducted by Stamps.com and E-

¹ The Postal Service characterizes our proposal as a classification change, but we actually seek only a rate discount.

Stamp is unreliable. Even if USPS's contention is true, however, it does not affect the basis for the discount. As we noted in our brief, and as is unrebutted in USPS's brief, the proposed discount is revenue neutral (Stamps.com Initial Brief, pp. 13, 28), so the extent to which the discount would be used has little bearing on the proposal.

In any event, the market research is reliable. USPS's contentions are simply based on differing professional opinions of expert witnesses. (See., e.g., Tr. 45/19975, 19981-82, 19987-88.) For example, Stamps.com submitted the testimony of Leora Lawton, who specializes in conducting online surveys. Lawton received 2,432 completed surveys and achieved a response rate of 20.4%, which is typical for such surveys. (Lawton, Tr. 23/10366-67.) In response, USPS submitted the testimony of Dr. Nancy Staisey, who critiques Lawton's survey.²

Unlike Lawton, Staisey has never conducted an on-line survey. (Tr. 45/19976.) Nevertheless, other than her own surveys, Staisey has never seen a survey that she could not critique or improve in some way. (Tr. 45/19976.) She cavalierly dismisses the finding that 84% of respondents have reduced the number of trips they make to the post office since using Stamps.com. (See Lawton, Tr. 23/10368, Staisey, Tr. 45/19984.) She contends this is unreliable because the question did not specify a particular number of months. (Tr. 45/19984.) The question asked was: "*Has Stamps.com reduced the number of trips you have to make to the post office?*" (Tr. 23/10368.) This question is easily understandable. Adding a specific monthly

² It is interesting to note that Dr. Staisey had sufficient time to conduct her own survey on the same topics, but was not requested to do so by USPS. (Staisey, Tr. 45/19972.) The Postal Service apparently sought only a critique of Lawton's survey, not actual survey results.

timeframe was unnecessary and would have changed the context of the question. Even USPS rebuttal witness Gordon concedes that PC Postage results in customers making fewer trips to the post office. (Tr. 45/20031.) Dr. Staisey also had to concede that her critique of the Lawton survey was flawed because she did not review the raw data. (Tr. 19996-98.) It must be noted that Staisey has a continuing relationship with the Postal Service, serving as PriceWaterhouseCoopers "client relationship partner" to the Postal Service. (Tr. 45/20003.)

2. Stamps.com and E-Stamp employed appropriate methodologies to determine the cost savings achieved by use of PC Postage.

Stamps.com and E-Stamp used differing methodologies to determine the cost savings achieved by PC Postage. But the end result was essentially the same. E-Stamp's Prescott employed two separate methodologies based on comparisons with close proxies for the savings achieved by PC Postage. USPS rebuttal witness Miller found "vast" flaws in this analysis. But cross-examination of Miller revealed that these "vast" flaws were neither vast, nor even flaws, and that he did not know whether the differences he found would have had anything more than a slight effect on the cost savings calculations. (See Miller, Tr. 45/19729-731 and 19709-761.)

With respect to Heselton's cost savings calculations, which Stamps.com relies on, Miller states only that Heselton's comparison between PC Postage and QBRM is "somewhat erroneous." (Tr. 45/19673.) This contention that is based on Miller's belief that Heselton's selection of handwritten mail as the cost savings benchmark is inappropriate. The Postal Service acknowledges that it uses the exact same

benchmark for determining the cost savings of QBRM. USPS tries to distinguish the two, however, by contending that if QBRM did not exist, a handwritten mailpiece would be generated instead. (USPS Brief, p. VII-60.) But this is not true, and is contradicted by the testimony of USPS's own witness David Fronk. Fronk testified that if QBRM did not exist, such mail would revert to courtesy reply mail, not handwritten mail. (Fronk, Tr. 12/4933-34.) Moreover, common sense tells us that if a mailer could not provide a QBRM envelope, it would still provide some type of pre-printed return envelope. No mailer in their right mind would leave out a pre-preprinted return envelope simply because the return envelope could no longer be a piece of QBRM. The absurdity of fighting this contention became apparent during cross-examination. (Miller, Tr. 45/19882-86.)

The inevitable conclusion is that if Heselton has chosen the wrong benchmark for PC Postage, then USPS has *a priori* chosen the wrong benchmark for QBRM. Because unlike QBRM, which would never convert from handwritten mail, a great deal of PC Postage did convert from handwritten mail. (Heselton, Tr. 23/10499, 10528-530; Stamps.com-LR-2, Lawton survey, (40% handwritten).) As we discussed at length in our Initial Brief, however, both PC Postage and QBRM correctly employ the same benchmark of handwritten mail. The term "handwritten mail" is really a misnomer. The key aspect of the benchmark is not whether the address is handwritten but whether the mailpiece contains a pre-applied POSTNET barcode and FIM code. (See Stamps.com Initial Brief, September 13, 2000, pp. 9 - 13.) When those features are present, the Postal Service can generate substantial mail processing savings by avoiding the need to send the mailpiece to the MLOCR, the RCR, and the RBCS.

It must also be pointed out that the Postal Service does not dispute Heselton's determination that PC Postage saves the Postal Service 1.14 cents in reduced return-to-sender mail. This alone merits at least a 1 cent discount for PC Postage.

3. Mail processing cost savings from PC Postage are readily achievable with little if any changes in mail processing activities.

To maximize the mail processing cost savings achievable from PC Postage, the Postal Service need make little, if any, changes in its mail processing activities. Currently, the Postal Service processes QBRM in such a way as to achieve mail processing cost savings. If QBRM mail achieves mail processing costs savings, then the processing of PC Postage mail should achieve similar savings.

The Postal Service contends that QBRM and PC Postage do not achieve equal savings because they bear different FIM codes. FIM C mail (QBRM) is sorted to bins 1 and 2 on the AFCS. (Miller, Tr. 45/19877.) According to Miller's written testimony, FIM D mail (PC Postage) is processed differently because it is sorted to bins 5 and 6, which is sent with other machine printed mail. (Miller, Tr. 45/19674.) Upon cross-examination, this testimony softened substantially. It was revealed that there are in fact no national processing standards, that Miller did not talk to any USPS plant managers to determine how PC Postage was actually being processed, and that some plants could today actually be processing PC Postage to bins 1 and 2, just as they do for QBRM. (Miller, Tr. 45/19888-89.) It is thus hardly clear that, despite their differing FIM codes, QBRM and PC Postage are processed differently.

But even if it were true that FIM C (QBRM) and FIM D (PC Postage) are currently being processed differently, nothing prevents the Postal Service from processing both types of mail in the same way. All that would need to be done is to have the AFCS sort PC Postage to bins 1 and 2, the same way that QBRM mail is sorted.. Then, both PC Postage and QBRM would be processed directly to the outgoing primary operation, skipping the need to be sent to the MLOCR, RCR, or RBCS. There is nothing that would prevent PC Postage from being processed in such fashion. It must be remembered that QBRM mail is not necessarily local mail, so that it cannot be assumed that a significant portion of QBRM goes directly to "hold-outs." QBRM, like PC Postage, can sent to an individual from anywhere in the country, and can end up being delivered to the QBRM mailer anywhere in the country. (See Fronk, Tr. 12/4938.) Witness Miller offered that PC Postage would be processed differently than QBRM because it would be sent to a "residue bin." (Miller, Tr. 45/19879.) But no rationale was offered for this bizarre contention, and there is no evidence this would occur. Why send such mail to the residue bin? PC Postage has a POSTNET barcode that can be read by USPS automation equipment. Simply send the mailpiece on its way in the same fashion that QBRM is sent on its way.³

Another issue raised by USPS is the erroneous contention that defective pieces are likely to constitute as much as 14% of PC Postage mail stream. (USPS Initial Brief, p. VII-62.) This is completely untrue and is derived from taking out of context a small portion of Kuhr's answer to an interrogatory. Kuhr stated that while 14% of the QA

³ In Miller's defense, it must be noted that he was not aware that at one time QBRM and PC Postage both employed the same FIM C code. (Tr. 45/1988.)

envelopes received are initially not quite up to specification, most such problems are *corrected* when the second envelope is sent:

Approximately 14% of the envelopes we receive are not quite up to specification, and we request the customers to send us another one. *Most problems are corrected after the second envelope is sent.* Only 0.3% of the envelopes we receive are seriously out of specification, and we immediately suspend printing for those customers until a customer support representative can help to correct the issue. [Kuhr, Tr. 23/10351 (a), emphasis added; 10309.]

Thus, only an insignificant portion of PC Postage pieces will be outside specification. Those pieces which are initially sent to Stamps.com for their QA inspection – and a QA envelope inspection is required to be sent immediately upon customer registration (Tr. 23/10309) – are corrected after the second envelope is sent.

The Postal Service's contention is further misguided because, even if it had been true, it would mean that 86% of the mailpieces are still fully within specification. Should the discount be completely denied when 86% of PC Postage addresses are fully within the specification? The Commission need not address this question, however, since only an insignificant portion of mailpieces are outside of the required specification.

Finally, the Postal Service contends that the volume of PC Postage may not be sufficiently large to justify a discount. We disagree, but assuming it were true, then the discount would have only a trivial impact on postal finances. If PC Postage revenue remained at \$30 million per year (Gordon, Tr. 45/20013), and if half of this amount were pieces of First Class mail eligible for the proposed discount, the total impact on postal revenues would be less than \$1.5 million. Moreover, it is likely that USPS would incur no substantial costs in making any needed modifications to mailflow processing to

maximize PC Postage cost savings. All that is needed is essentially a simple flick of a switch on the AFCS. The Postal Service has itself submitted no estimate of the costs it would incur to make such changes to its mailflow schemes. This stands in sharp contrast to the estimates USPS submitted on the costs it would incur in implementing other proposed discounts for First Class mail.

4. Implementation of a discount for PC Postage poses no difficulties for vendors or the Postal Service.

Finally, the Postal Service contends that it is not certain that the discount could be implemented during the test year. (USPS Initial Brief, p. VII-63.) The Postal Service contends that it could take up to nine months to make the required software modifications. While we appreciate the Postal Service's allowance of such a long lead time to implement these changes, there can be no serious doubt that both vendors would work around the clock to produce compliant software prior to the date of implementation. The vigorous pursuit in this proceeding of the proposed discount by Stamps.com and E-Stamp should be some indication of the importance these companies place in obtaining and implementing a discount for PC Postage. Moreover, E-Stamps's witness Jones and Stamps.com's witness Kuhr both testify that making the software changes necessary to implement the rate discount would require only minor modifications. (Jones, Tr. 29/13653; Kuhr, Tr. 23/10331.) They are in a better position to assess the time needed to make these changes than is Mr. Gordon. Had this issue been raised by the Postal service earlier in the proceeding, we could have submitted further testimony to reassure the Postal Service that the required software changes would be accomplished in as little as two weeks.

It is important to note that witness Gordon states that the Postal Service itself would only need six to ten business days to complete testing of the software revisions. (Tr. 45/20018.) Thus, it is almost a certainty that the software would be ready, tested, and approved prior to the effective date of the discount. In any event, even if the software were not ready or approved by the first possible date, that would not be a reason to deny the discount.⁴

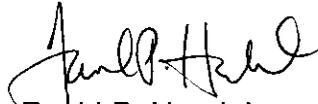
Conclusion

It is undisputed that PC Postage saves the Postal Service in mail processing costs, return-to-sender costs, and other costs (such as reduced window service transactions). We have demonstrated that PC Postage will achieve the same mail processing cost savings as is currently being achieved by QBRM. The requested 4-cent and 3-cent discounts are reasonable, revenue neutral, and well justified under ratemaking statutes and policy considerations. At last, a mechanism has arisen that

⁴ Douglas Carlson opposes a PC Postage discount, but his reasoning is misguided. He contends that since there are some pre-barcoded mailpieces that are not produced by PC Postage, PC Postage should not be singled out for a discount. The argument fails because unlike those other mailpieces, all PC Postage mailpieces contain a barcode and a FIM code, and the barcode accuracy is assured by CASS-certified software. He contends that our proposal de-averages First Class mail, when in fact it does not. (See Stamps.com Initial Brief, pp. 13, 28.) Finally, he opposes a discount because PC Postage can only be used if purchased from a third-party vendor. Apparently unaware of the contradiction, he supports Pitney Bowes's proposal for a metered mail discount, which similarly could not be obtained without purchasing equipment from a third-party vendor. In fact, it is more economical to purchase PC Postage service from a third-party vendor (as low as \$1.99 per month) than it is to purchase a traditional postage meter. (See Kuhr, Tr. 23/10339.) Moreover, we are not aware of any postage discount that can be obtained without a customer's use of some type of equipment, software, or service purchased from a third-party vendor.

would allow individuals, small businesses, and home offices to directly share in the benefits in the postal automation, without any of the concerns traditionally associated with single-piece discounts. We encourage the Commission to take hold of this opportunity and grant the requested discounts.

Respectfully submitted,



David P. Hendel
Wickwire Gavin, PC
8100 Boone Blvd., Suite 700
Vienna, VA 22182-2642

Tel.: (703) 790-8750
Fax.: (703) 448-1767 or 448-1801

Counsel for Stamps.com

CERTIFICATE OF SERVICE

I hereby certify that I have this 22 day of September 2000, served the foregoing document in accordance with the Commission's Rules of Practice.

