

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

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

PARTIAL RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF THE OCA (OCA/USPS-43, 46, 51, 52, 53, 54)  
(June 2, 2005)

The United States Postal Service hereby provides its partial responses to the following interrogatories of the OCA, filed on May 13, 2005: OCA/USPS-43, 46, 51, 52, 53, 54. Partial objections to the entire set of questions (OCA/USP-43 – 54) were filed on May 23, 2005, and in providing these responses, the Postal Service does not intend to waive those objections.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 2, 2005

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OCA/USPS-43. Please list every domestic retail service sold by the Postal Service to the public, on a nationwide basis, that is not contained within the Domestic Mail Classification Schedule. This interrogatory applies to all services currently offered by the Postal Service to the public, including philatelic services. This interrogatory also applies to any services made available to the public since the record was closed in Docket No. R2001-1, on March 7, 2002, even if such services were terminated prior to the filing of this set of interrogatories.

- a. Provide a detailed description of the service.
- b. For each service, state whether or not it is provided, in whole or in part, based on a strategic alliance or contract between the Postal Service and one or more parties.
- c. For each service based on a strategic alliance or contract between the Postal Service and one or more parties, list all of the strategic allies and/or parties to the contract.
- d. On what date was this service first offered to the public?
- e. Is this service still available to the public? If not, when was the service discontinued? State the reasons for discontinuing the service.
- f. Provide a description of the primary purchasers of the service.
- g. Provide a complete description of the activities performed by the Postal Service in providing the service.
- h. Explain how the service is sold, e.g., over the internet, in postal facilities, or in private facilities, etc.
- i. Submit each rate/fee schedule for all rates or fees charged to purchasers since the service was first made available to the public. If the rate/fee schedule has changed from time to time, then provide each rate/fee schedule and the date it was changed.
- j. Submit all of the annual, accrued direct and indirect costs, separately identified, to provide the service, including, but not limited to, development costs, start-up costs, capital costs, common and joint costs, and costs associated with each service that has been terminated or discontinued.
- k. Submit all of the annual revenues earned by the Postal Service in providing the service.
- l. Submit annual volume figures for each service, by billing determinant.
- m. Submit annual net income (loss) figures for the service since the service was first made available to the public.
- n. Submit total revenues for the service for the entire period since the service was first made available to the public.
- o. Submit total costs (both start-up and operating) for the entire period since the service was first made available to the public.
- p. Submit total net income (loss) figures for the service since the service was first made available to the public.
- q. Give a precise citation in the current filing for every figure

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- submitted in parts j. – p.
- r. For calculations and figures not already included in the current rate case, provide all worksheets (whether hardcopy or electronic), computations, and underlying source materials.
  - s. Give a precise, detailed written description of how costs that are joint or common to (1) DMCS services and (2) services that are not classified in the DMCS have been allocated to the (1) DMCS group and (2) the non-DMCS group. Give all underlying accounting records, other records, worksheets, calculations, and computations that show the allocation process, including citations to the current rate case filing. If the Postal Service does not make such an allocation, explain why not.

**RESPONSE:**

A partial objection was filed on May 23, 2005. Certain responsive information, however, has been provided in response to OCA/USPS-53.

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OCA/USPS-46. Please list every pilot test of a potential domestic postal retail service currently being offered by the Postal Service to one or more potential customers. This interrogatory also applies to any pilot tests made available to one or more potential customers since the record was closed in Docket No. R2001-1, on March 7, 2002, even if such pilot tests were terminated prior to the filing of this set of interrogatories. This interrogatory applies to pilot tests that are nationwide, regional, or local in scope.

- a. Provide a detailed description of the pilot test.
- b. For each pilot test, state whether or not it is provided, in whole or in part, based on a strategic alliance or contract between the Postal Service and one or more parties.
- c. For each pilot test based on a strategic alliance or contract between the Postal Service and one or more parties, list all of the strategic allies and/or parties to the contract.
- d. State the number of participants in the pilot test and describe the nature of their business.
- e. State the geographic scope of the pilot test.
- f. State the criteria for allowing certain mailers (or recipients) to participate, but not others.
- g. Have any mailers (or recipients) asked to participate but were denied the opportunity to participate? If so, state the number so denied and the grounds for the denial.
- h. What classes, and/or postal services or products, are potentially affected by the pilot test? How are they affected?
- i. On what date was this pilot test initiated?
- j. Is this pilot test still being conducted? If not, when was the pilot test discontinued? State the reasons for discontinuing the pilot test.
- k. Provide a description of the primary intended users of the potential service.
- l. Provide a complete description of the activities performed by the Postal Service in conducting the pilot test.
- m. Submit each rate or fee, if any, charged under the pilot test.
- n. Submit all of the annual, accrued direct and indirect costs, separately identified, to conduct the pilot test, including, but not limited to, development costs, start-up costs, capital costs, common and joint costs, and costs associated with each pilot test that has been terminated or discontinued.
- o. Submit all of the annual revenues, if any, earned by the Postal Service in conducting the pilot test.
- p. Submit annual volume figures for each pilot test, if any, by billing determinant.
- q. Submit annual net income (loss) figures, if any, for the pilot test since the pilot test was first initiated.

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- r. Submit total revenues for the pilot test, if any, for the entire period since the pilot test was first initiated.
- s. Submit total costs (both start-up and operating) for the entire period since the pilot test was first initiated.
- t. Submit total net income (loss) figures for the pilot test since the pilot test was first initiated.
- u. Give a precise citation in the current filing for every figure submitted in parts n. – t.
- v. For calculations and figures not already included in the current rate case, provide all worksheets (whether hardcopy or electronic), computations, and underlying source materials.

**RESPONSE:**

A partial objection was filed on May 23 2005.

a. The Postal Service conducted a pilot test for a concept designated as Friend-to-Friend (FTF) Mail. FTF was a First-Class Mail service enhancement that enabled a postcard distributor to assume the cost of postage on cards mailed by individuals to other individuals. The cards would be addressed by the sender and mailed to the addressee. The cards usually would advertise a product or service and allow room for the sender to transmit a personal message to the recipient. The distributor would pay postage only on an “as-used” basis. Under FTF, the distributor, typically an advertiser, could distribute the postcards in a variety of ways, such as part of a direct mailing, as magazine inserts, or as hand-outs. FTF cards used a PLANET Code and other markings to create a unique identifier for each mail piece. The unique identifier was designed with the objective of enabling the Postal Service to track how much postage was due from each distributor on the basis of scans of each card during transit from entry into the mail stream until delivery. The test was limited to cards. The test was designed to determine whether, with new software to count individual cards, FTF

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could rely on CONFIRM to account for scanning activity. During the test, various program elements were tested and revised. The Postal Service began soliciting card distributors for the test in April 2001. The test was closed to new card distributors in April 2003. After July 31, 2003, participants were no longer allowed to distribute new cards. FTF postage payment accounts were required to stay active for a year after distribution terminated in anticipation of cards continuing to enter the mail stream.

- b. The test was not based on a strategic alliance.
- c. See answer to (b) above.
- d. In all, there were 92 card distributors, representing a broad range of industry sectors. Participation was strongest among customers in the Retail and Catalog sectors, as well as in Travel/Resorts, Casinos, and Entertainment.
- e. The test was national in scope.
- f. Mailers had to agree not to use FTF cards as a substitute for existing Business Reply Mail.
- g. Approximately three mailers indicated a desire to use the cards as a substitute for existing BRM and were denied participation.
- h. First-Class Mail cards were affected because the test generated new volumes. CONFIRM was affected because FTF employed the same technology to perform the scanning. Standard Mail could have been affected, to the extent that card distributors opted to use First-Class Mail FTF postcards as a medium for reaching potential customers in lieu of Standard Mail. Business Reply Mail could have been affected, to the extent that any participant opted to use FTF

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instead of BRM.

- i. The USPS began soliciting customers for the test in April 2001.
- j. The pilot test closed to new customers in April 2003 so that the concept could be reviewed and a determination made regarding whether to have senior management seek approval from the Board of Governors to submit a request to the Postal Rate Commission. Existing FTF customers were allowed to distribute already-produced cards to the public until July 31, 2003. FTF postage payment accounts were required to stay active for a year after distribution terminated in anticipation of cards continuing to enter the mail stream.
- k. During the pilot test, the intended primary commercial users were advertisers interested in leveraging their existing customer bases to deliver their messages to potential new customers. The advertisers distributed the cards to consumers, who could then mail them at the advertiser's expense to a third party.
- l. Activities included:
  - an alpha test to assess card design specifications
  - redesign of card specifications based on the alpha test
  - a structured internal test conducted in early 2001 to assess the FTF scan rate using the redesigned cards
  - formal and informal sales efforts through the USPS sales force, and with some unmanaged account, outreach by other USPS employees
  - for each card customers planned to use, review of card samples/.pdf files
  - preparation of bi-weekly activity reporting by account, using CONFIRM data

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billing of participating customers and accounting

on-going reviews of scanning and accounting performance by USPS

employees.

m. Single-piece First-Class Mail card postage was charged for each piece scanned.

n. Objection filed.

o. Revenues would equal the First-Class Mail postcard rate times the number scanned cards reflected below in response to subpart (q).

p. 2,612,084 single-piece First-Class Mail cards were scanned during the test.

q.-v. Objection filed.



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OCA/USPS-51. Please re-submit Attachment 1 to the Postal Service's response to interrogatory OCA/USPS-239, Docket No. R2001-1, dated December 17, 2001, with additional columns for all quarters since QIII, FY 2001, through the most recent quarter.

- a. What is the "SEDS" umbrella suite of services that is cited in footnote 1 of the attachment?
- b. Please list every discrete service in the "SEDS" umbrella suite of services.
- c. For every discrete service in the "SEDS" umbrella suite of services provide the following (please provide the information requested below separately for PostECS; and Electronic Postmark):
  - i. Provide a detailed description of the service.
  - ii. For each service, state whether or not it is provided, in whole or in part, based on a strategic alliance or contract between the Postal Service and one or more parties.
  - iii. For each service based on a strategic alliance or contract between the Postal Service and one or more parties, list all of the strategic allies and/or parties to the contract.
  - iv. On what date was this service first offered to the public?
  - v. Is this service still available to the public? If not, when was the service discontinued? State the reasons for discontinuing the service.
  - vi. Provide a description of the primary purchasers of the service.
  - vii. Provide a complete description of the activities performed by the Postal Service in providing the service.
  - viii. Explain how the service is sold, e.g., over the internet, in postal facilities, or in private facilities, etc.
  - ix. Submit each rate/fee schedule for all rates or fees charged to purchasers since the service was first made available to the public. If the rate/fee schedule has changed from time to time, then provide each rate/fee schedule and the date it was changed.
  - x. Submit all of the annual, accrued direct and indirect costs, separately identified, to provide the service, including, but not limited to, development costs, start-up costs, capital costs, common and joint costs, and costs associated with each service that has been terminated or discontinued.
  - xi. Submit all of the annual revenues earned by the Postal Service in providing the service.
  - xii. Submit annual volume figures for each service, by billing determinant.
  - xiii. Submit annual net income (loss) figures for the service since the service was first made available to the public.
  - xiv. Submit total revenues for the service for the entire period since the service was first made available to the public.

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- xv. Submit total costs (both start-up and operating) for the entire period since the service was first made available to the public.
- xvi. Submit total net income (loss) figures for the service since the service was first made available to the public.
- xvii. Give a precise citation in the current filing for every figure submitted in parts j. – p.
- xviii. For calculations and figures not already included in the current rate case, provide all worksheets (whether hardcopy or electronic), computations, and underlying source materials.
- xix. Give a precise, detailed written description of how costs that are joint or common to (1) DMCS services and (2) services that are not classified in the DMCS have been allocated to the (1) DMCS group and (2) the non-DMCS group. Give all underlying accounting records, other records, worksheets, calculations, and computations that show the allocation process, including citations to the current rate case filing. If the Postal Service does not make such an allocation, explain why not.

**RESPONSE:**

A partial objection was filed on May 23, 2005. See, however, the attachments provided in response to OCA/USPS-53, which include updated information on EPM, which is the only service relevant to this question which operated in the base year in this proceeding.

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OCA/USPS-52. Please re-submit Attachment 1 to the Postal Service's response to interrogatory OCA/USPS-240, Docket No. R2001-1, dated December 17, 2001, (which provided information for FirstClass Phone Cards; Retail Merchandise; PostOffice Online; LibertyCash; Dinero Seguro; REMITCO; and Sure Money), with additional columns for all quarters since the period included in the "FY 2001" column, through the most recent quarter.

- a. Provide a detailed description of each service listed in the Attachment.
- b. For each service, state whether or not it is provided, in whole or in part, based on a strategic alliance or contract between the Postal Service and one or more parties.
- c. For each service based on a strategic alliance or contract between the Postal Service and one or more parties, list all of the strategic allies and/or parties to the contract.
- d. On what date was this service first offered to the public?
- e. Is this service still available to the public? If not, when was the service discontinued? State the reasons for discontinuing the service.
- f. Provide a description of the primary purchasers of the service.
- g. Provide a complete description of the activities performed by the Postal Service in providing the service.
- h. Explain how the service is sold, e.g., over the internet, in postal facilities, or in private facilities, etc.
- i. Submit each rate/fee schedule for all rates or fees charged to purchasers since the service was first made available to the public. If the rate/fee schedule has changed from time to time, then provide each rate/fee schedule and the date it was changed.
- j. Submit all of the annual, accrued direct and indirect costs, separately identified, to provide the service, including, but not limited to, development costs, start-up costs, capital costs, common and joint costs, and costs associated with each service that has been terminated or discontinued.
- k. Submit all of the annual revenues earned by the Postal Service in providing the service.
- l. Submit annual volume figures for each service, by billing determinant.
- m. Submit annual net income (loss) figures for the service since the service was first made available to the public.

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- n. Submit total revenues for the service for the entire period since the service was first made available to the public.
- o. Submit total costs (both start-up and operating) for the entire period since the service was first made available to the public.
- p. Submit total net income (loss) figures for the service since the service was first made available to the public.
- q. Give a precise citation in the current filing for every figure submitted in parts j. – p.
- r. For calculations and figures not already included in the current rate case, provide all worksheets (whether hardcopy or electronic), computations, and underlying source materials.
- s. Give a precise, detailed written description of how costs that are joint or common to (1) DMCS services and (2) services listed in Attachment 1 have been allocated to the (1) DMCS group and (2) the Attachment 1 group. Give all underlying accounting records, other records, worksheets, calculations, and computations that show the allocation process, including citations to the current rate case filing. If the Postal Service does not make such an allocation, explain why not.
- t. Attachment 1, as filed on December 17, 2001, appears to have an addition error for LibertyCash, in the line for “Cumulative Balance”, and the column “Since Inception.” OCA calculates the Cumulative Balance Since Inception at \$4,246,492. If, indeed, an incorrect figure was included in the Attachment to interrogatory 240, then please use a corrected figure in responding to the instant interrogatory.

**RESPONSE:**

A partial objection was filed on May 23, 2005. See, however, the attachments provided in response to OCA/USPS-53, which include updated information on all of the services mentioned in this question except REMITCO, which ceased operations before the base year in the last omnibus rate proceeding. With respect to the last subpart, regarding the cumulative balance for (now terminated) LibertyCash, the Postal Service has no greater information to bring to

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bear than does the OCA, although it certainly appears that the referenced figure was incorrect, and the alternative figure suggested in the question seems likely to be the correct one.

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OCA/USPS-53. Please refer to Attachment F of the Request, at pages 14 -15. There are 5 unnumbered paragraphs on these pages. For nonpostal services involving window clerk activity (unnumbered paragraph 3), provide all calculations, worksheets, and primary sources for the total expense figure of \$123 million in FY04.

- a. Please provide the IOCS questions that separately identify “nonpostal” services.
- b. Include all of the accounting expense data referred to in unnumbered paragraph 3.
- c. Display data separately for each discrete “nonpostal” service and show how they sum to the \$123 million total.
- d. Separately identify development costs for each “nonpostal” service and in total.
- e. Separately identify start-up costs for each “nonpostal” service and in total.
- f. Separately identify capital costs for each “nonpostal” service and in total.
- g. Separately identify common and joint costs for each “nonpostal” service and in total. Include all calculations, worksheets, and primary sources for the allocation of joint and common costs between DMCS services and “nonpostal” services.
- h. Separately identify costs associated with each “nonpostal” service that has been terminated or discontinued and in total.
- i. For nonpostal services involving window clerk activity, provide all calculations, worksheets, and primary sources for the total revenue figure of \$239 million in FY04.
- j. Provide all comparable data requested in this interrogatory, including parts a. – i., for Fiscal Years 2001, 2002, 2003, and the most recent quarters of 2005.
- k. Provide test year estimates, i.e., FY2006, by discrete “nonpostal” service and in total, for expenses and revenues. Explicitly state all assumptions made in developing these estimates. Provide all calculations, worksheets, and primary sources used to develop the estimates.

**RESPONSE:**

Partial objection filed on May 23, 2205. See Attachments One and Two to this

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response. Attachment One provides breakouts by product for FY04, and, to the extent that information is available for the same products, FY03 and FY02. The figures for FY04 yield the FY04 subtotals provided on pages 14-15 of Attachment F to the Request with respect to window clerk programs and nonwindow clerk programs. Please note that for FY02 and FY03, years prior to the base year in this proceeding, any totals or subtotals shown in Attachment One pertain only to those programs for which base year information is provided, and are not comprehensive totals to the extent that programs which did not continue into the base year have not been included, even if they had minor activity in FY02 and FY03. Note that Dinero Seguro/Sure Money was not included in the figures provided in Attachment F to the Request, because it is an international service, and is included in Attachment One only in response to the specific request in OCA/USPS-52 for update of a set of programs which included Dinero Seguro. Attachment Two provides program descriptions and related information for the rows in Attachment One.

a. To produce cost data for nonpostal and other services involving window clerk activity, Question 18F, Part 2, of the IOCS survey asks data collectors to “enter the one activity that best describes the window service employee’s activity at the time of the reading.” They are asked to choose from a list of thirty-one activities, five of which are nonpostal services. The nonpostal services on the list to choose from are U.S. Passport applications, Retail Products, Migratory Bird Stamps, Phonecards and Selective Service Registration. The tallies recorded by the data collector for nonpostal activities are merged with all of the tallies in the

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IOCS database and the total number of tallies for each of the window activities is produced. These tallies represent the proportion of window clerk labor time spent on each of the services nationally and direct window clerk labor costs are divided up according to these time proportions for each product or service.

Added to direct labor costs for each service are window clerk time waiting for a customer, break time, moving empty equipment, clocking in and out, and piggyback costs. Piggyback costs at the window are such things as service-wide benefits, supervisor costs, general office and clerical, cleaning and protection, plant and maintenance, rents, fuel and utilities, custodial supplies and services, and building and lease depreciation and interest expense, all of which vary with the volume of service at the window.

k. Test Year revenue for nonpostal products is included in Other Income on line 13 of Witness Tayman's Exhibit USPS-6D. The explanation of how Other Income is forecasted is provided in Chapter X.e at pages 443-45 of USPS-LR-K-50. As review of those pages shows, forecasts for nonpostal products are not made on a product-level basis, except for FedEx boxes, which are the only item included in the "Retail Alliances" line under Other Income. Essentially, in the aggregate, these revenues are forecasted as an average of previous aggregate revenues.



**FY 2004 NONPOSTAL PRODUCTS (\$000)**

| Product                            |                   | FY 2002     | FY 2003 | FY 2004        |
|------------------------------------|-------------------|-------------|---------|----------------|
| <b>Migratory Bird</b>              | Revenue           | N/A         | N/A     | 182            |
|                                    | Expenses          | N/A         | N/A     | 1,237          |
|                                    | Net Income (Loss) | N/A         | N/A     | (1,055)        |
| <b>Passports</b>                   | Revenue           | 48,865      | 86,257  | 124,723        |
|                                    | Expenses          | 43,392      | 38,722  | 37,155         |
|                                    | Net Income (Loss) | 5,473       | 47,535  | 87,568         |
| <b>Phone Cards</b>                 | Revenue           | 9,314       | 5,099   | 8,101          |
|                                    | Expenses          | 5,503       | 1,046   | 1,215          |
|                                    | Net Income (Loss) | 3,811       | 4,053   | 6,886          |
| <b>Retail</b>                      | 1/ Revenue        | 83,588      | 92,292  | 105,985        |
|                                    | Expenses          | 45,926      | 54,643  | 83,468         |
|                                    | Net Income (Loss) | 37,662      | 37,649  | 22,517         |
| <b>Selective Service</b>           | Revenue           | N/A         | N/A     | 0              |
|                                    | Expenses          | N/A         | N/A     | 153            |
|                                    | Net Income (Loss) | N/A         | N/A     | (153)          |
| <b>WINDOW SUBTOTAL</b>             | Revenue           | 141,767     | 183,648 | <b>238,991</b> |
|                                    | Expenses          | 94,821      | 94,411  | <b>123,228</b> |
|                                    | Net Income (Loss) | 46,946      | 89,237  | <b>115,763</b> |
| <b>AOL CD Program</b>              | Revenue           | Not Started | 4,759   | 7,687          |
|                                    | Expenses          | Not Started |         | 0              |
|                                    | Net Income (Loss) | 0           | 4,759   | 7,687          |
| <b>FedEx Dropboxes</b>             | Revenue           | 20,716      | 26,721  | 20,246         |
|                                    | Expenses          |             |         | 0              |
|                                    | Net Income (Loss) | 20,716      | 26,721  | 20,246         |
| <b>Meter Manufacturers Program</b> | Revenue           | Not Started | N/A     | 173            |
|                                    | Expenses          | Not Started | N/A     | 0              |
|                                    | Net Income (Loss) | 0           | 0       | 173            |
| <b>Affiliates &amp; Alliances</b>  | Revenue           | N/A         | N/A     | 42             |
|                                    | Expenses          | N/A         | N/A     | 55             |
|                                    | Net Income (Loss) | 0           | 0       | (13)           |
| <b>Collaborative Logistics</b>     | Revenue           | Not Started | 834     | 567            |
|                                    | Expenses          | Not Started | 50      | 0              |
|                                    | Net Income (Loss) | 0           | 784     | 567            |
| <b>Magazine Subscriptions</b>      | Revenue           | Not Started | N/A     | 40             |
|                                    | Expenses          | Not Started | N/A     | 532            |
|                                    | Net Income (Loss) | 0           | 0       | (492)          |
| <b>Electronic Payment</b>          | 2/ Revenue        | 1,676       | 373     | 225            |
|                                    | Expenses          | 3,154       | 66      | 15             |
|                                    | Net Income (Loss) | (1,478)     | 307     | 210            |
| <b>Electronic Postmark (EPM)</b>   | Revenue           | 113         | 98      | 75             |
|                                    | Expenses          | 1,804       | 580     | 301            |
|                                    | Net Income (Loss) | (1,691)     | (482)   | (226)          |
| <b>Imagitas</b>                    | Revenue           | 3,550       | 6,311   | 9,870          |
|                                    | Expenses          | 2,120       | 532     | 1,370          |
|                                    | Net Income (Loss) | 1,430       | 5,779   | 8,500          |
| <b>Liberty Cash</b>                | 3/ Revenue        |             |         | 0              |
|                                    | Expenses          | 317         | 220     | 6              |
|                                    | Net Income (Loss) | (317)       | (220)   | (6)            |
| <b>Licensing Programs</b>          | Revenue           | N/A         | N/A     | 2,717          |
|                                    | Expenses          | N/A         | N/A     | 2,672          |
|                                    | Net Income (Loss) | 0           | 0       | 45             |
| <b>Mailing Online</b>              | Revenue           | 1,880       | 3,903   | 1,182          |
|                                    | Expenses          | 12,521      | 13,063  | 906            |
|                                    | Net Income (Loss) | (10,641)    | (9,160) | 276            |
| <b>NetPost Certified Mail</b>      | 4/ Revenue        | 0           | 116     | 41             |
|                                    | Expenses          |             | 0       | 0              |
|                                    | Net Income (Loss) | 0           | 116     | 41             |
| <b>NetPost Cardstore</b>           | 5/ Revenue        | 25          | 24      | 65             |
|                                    | Expenses          |             |         | 11             |
|                                    | Net Income (Loss) | 25          | 24      | 54             |
| <b>Postmark America</b>            | 6/ Revenue        | 1,413       | 1,568   | 904            |
|                                    | Expenses          | 1,551       | 1,819   | 814            |
|                                    | Net Income (Loss) | (138)       | (251)   | 90             |
| <b>NONWINDOW SUBTOTAL</b>          | Revenue           | 29,373      | 44,683  | <b>43,834</b>  |
|                                    | Expenses          | 21,467      | 16,330  | <b>6,682</b>   |
|                                    | Net Income (Loss) | 7,906       | 28,353  | <b>37,152</b>  |
| <b>Dinero Seguro/Sure Money</b>    | 7/ Revenue        | 3,074       | 2,336   | 2,167          |
|                                    | Expenses          | 6,092       | 6,109   | 1,280          |
|                                    | Net Income (Loss) | (3,018)     | (3,773) | 887            |

1/ Includes Retail and ReadyPost  
2/ Terminated April 04  
3/ Terminated Sept 03  
4/ Terminated April 04, FY02 Rev & Exp reported in Mailing Online, FY03 Exp reported in Mailing Online  
5/ FY02 & FY03: Exp reported in Mailing Online  
6/ Store closed May 04  
7/ International

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### MIGRATORY BIRD STAMPS

This program is the result of an agreement between the Postal Service and the United States Fish and Wildlife Service governing the responsibilities of each agency to the other in connection with the administration of the Migratory Bird Hunting and Conservation Stamp (Duck Stamp) Program. The agreement pertains specifically to the distribution and sale of the Duck Stamp to the general public through Postal Service retail outlets. The primary customers are wildlife hunters and stamp collectors.

### PASSPORTS

Passport Applications is a partnership with the US Department of State. In compliance with a Memorandum of Understanding between the agencies, the Postal Service receives a fee for processing new Passport Applications. A passport application, form DS-11, is completed by a postal customer and presented at the retail unit at one of our designated passport acceptance locations. The form is reviewed for completeness and an ID is verified. The completed application is sent to a specific Department of State address for processing. The retail unit charges two fees for the application, one for the Postal Service and one for the Department of State. The Department of State fee is forwarded to their bank. In some retail locations, the Postal Service also offers customers the ability to obtain passport photos for an additional fee.

### PHONE CARDS

This is program involving pre-paid cards bearing philatelic images, sold at post office retail counters and in vending machines. They enable users to place domestic and international phone calls up to the value of the card. The Postal Service and its long-distance telephone service alliance partner (AT&T) share revenue. The primary purchasers of the service are retail customers who purchase as a gift or on an impulse, or travelers without access to cell or land phones. Phone cards are placed on consignment by the vendor until sold over the counter, at which point they are activated and funds are remitted to the vendor. Vending machine cards are batch activated prior to placing into the machine.

### READYPOST®

ReadyPost® is a USPS-branded line of decorative and generic shipping supplies designed for sale in postal retail locations to support mailing needs of our customers. The products (boxes, padded mailers, bubble mailers, envelopes,

## ATTACHMENT TWO TO RESPONSE TO OCA/USPS-53

mailing labels, bubble wrap, etc.) support the core business and the designs are unique to the USPS. The program provides added convenience for customers with one-stop shopping for packaging and mailing items. The program is based on a contract with Hallmark Custom Marketing, Inc. Primary customers are retail customers mailing packages or correspondence who require packaging materials to facilitate the mailing process. Packaging would include decorative products required by some customers for special occasion mailings. Customers may use the products as part of a mailing at the time of purchase, or retain them for future use.

The IOCS does not distinguish between ReadyPost activity and activity relating to other retail merchandise. Therefore, using expense figures which include IOCS costs, it is not possible to disaggregate between ReadyPost and other retail merchandise, and the expenses and revenues have thus been combined under Retail in Attachment One to the response to OCA/USPS-53. Revenue figures (in \$000) for ReadyPost by itself, however, were \$70,300 in FY02, \$80,870 in FY03, and \$90,636 in FY04.

### RETAIL

This program provides for the sale of licensed retail merchandise in post offices. Licensees utilize postal trademarks and stamp images to develop products that can be displayed in offices. Four seasonal catalogs of products are developed and mailed to Postmasters/station managers so that they may select product for resale in their offices. OLRP products are currently produced by fourteen participating licensees. Licensees periodically change due to adding and deleting of licensees. Postal retail customers purchase these products on display in the retail units, and they are usually gift items that represent convenience purchases. These items are individually ordered by each retail unit and displayed in the retail lobby for resale. The items are purchased over the counter. As noted above, revenue and expenses for this program and ReadyPost have been combined in Attachment One. Separate revenues for this program (in \$000) were \$13,288 in FY02, \$11,422 in FY03, and \$15,349 in FY04.

### SELECTIVE SERVICE

The Postal Service has agreed with the Selective Service to make its brochures available in postal retail lobbies. The brochures are free and available to any individual desiring to register with Selective Service. Brochures are completed by the individual registering and presented to the retail associate for verification of identification. The brochure is then mailed to the Selective Service agency by the retail unit. There is no fee associated with this service.

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### AOL CD PROGRAM

The Postal Service has allowed America Online (AOL) to place one take-one CD display in up to 13,842 lobbies. In exchange for marketing through postal retail outlets, AOL pays the Postal Service a fixed fee for retail space, and provides the Postal Service with up to 100MB of space on the registration CDs distributed through post offices. Postal Service branding appears on the AOL welcome screen as part of the registration process; and AOL subscribers are given the opportunity to link to and register for Postal Service services through USPS.com. The Postal Service logo also appears on the AOL web-browser with a direct link to the USPS.com home page. This provides the Postal Service with exposure to all new AOL customers acquired through postal outlets. Additionally, a Click-N-Ship tutorial and shortcut, is downloadable to the computer desktops of customers that register for the AOL free trial using AOL discs distributed through postal outlets. The AOL discs also include information on carrier pickup, calculating postage, Zip Code lookup, free shipping supplies, postal locator and ordering stamps online. Under the agreement, AOL is responsible for installing and restocking the take-one CD displays. The Postal Service provides no services in connection with these take-one CD displays. AOL is responsible for installation, CD replenishment, and removal of displays and CDs. The agreement, currently in negotiation, will be modified in June 2005 to reduce the number of participating locations.

### FEDEX DROPBOXES

As part of a non-exclusive contract between FedEx and the Postal Service, FedEx pays fees to the Postal Service to allow it to locate its express drop boxes outside or in proximity to post offices. These fees are based on the number of boxes installed, FedEx package volume growth, and package type. FedEx boxes are currently installed at about 5,000 post offices. The Postal Service provides no services in connection with these drop boxes. All responsibilities related to installation, maintenance, collection, and removal are FedEx's.

### METER MANUFACTURERS MARKETING PROGRAM

Pitney Bowes and the Postal Service entered into a non-exclusive test-marketing relationship whereby the Postal Service would make available certain retail space for the test marketing of PB postage meters and scales in selected lobbies through the use of marketing and/or promotional materials including written promotional marketing materials displayed in an exhibit. The purpose of the test is to determine the economic and practical feasibility of a longer term marketing relationship for the marketing of PB products in Post Office retail lobbies. Brochures are displayed as free "take-ones".

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### AFFILIATES AND ALLIANCES

Creating an Affiliate Relationship is a method for acquiring or exchanging products or services, or creating a revenue stream. Affiliate relationships are generally established for the purposes of generating visitor traffic, making purchases, or completing transactions between two websites. These agreements are usually based on a pay-for-performance model which is measured by number of clicks, registrations, sales or any combination of the above. Affiliates that do not generate revenue are referred to as linking agreements.

Today, we limit consideration of Affiliates to those that complement our core product offering, generate mail, and/or provide value to our customers. These relationships are solidified through an Affiliate Agreement between the Postal Service and our business affiliate. The Postal Service has more than 75 linking agreements with companies, such as the PC Postage Vendors and other government agencies. Additionally, there are several revenue generating affiliate agreements.

### COLLOBORATIVE LOGISTICS

The Postal Service contracts annually for \$2.4 billion in highway contracts for mail transportation between hundreds of plants, air mail centers, bulk mail centers, and hub and spoke centers in our network. Utilization of these vehicles varies by day of the week, time of the month, and season of the year. We have strategic efforts underway aimed at optimizing the facilities and the transportation system serving those nodes. However, due to the natural imbalances of mail volume between cities, we know that there will still be underutilized space on some contracted highway transportation. Under a program called Collaborative Logistics, we sell underutilized longhaul space to shippers desiring to move non-mail items (i.e., items which will not subsequently enter the mailstream). Space has been sold to any party who meets our criteria. Written agreements are lane specific, and may be ended at either party's wish. We have sold space primarily back to our highway contractors, and freight brokers. Our core business rules for the test precluded selling space where it could impact mail security or service. Long haul trips were chosen exclusively, more than 4 hours in each direction. We chose direct trips only, so there were no complications of having to offload mail at intermediate points. One of the major benefits of this program has been that, in the course of attempting to identify available space, opportunities to adjust purchased transportation contracts to save costs have been identified and implemented. These improvements, however, have also reduced the scope of the Collaborative Logistics program. There are currently no lanes being sold, no active agreements, and no strategic alliances.

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### MAGAZINE SUBSCRIPTIONS

This is a service provided by Affiliate Agreement with Magazine Mall. Through it, consumers and small to medium sized businesses are able to access and order magazine subscriptions from [www.usps.com](http://www.usps.com). Customers are able to receive up to 85 percent off of the regular retail price. Service is sold and accessed through [www.usps.com](http://www.usps.com). In Attachment One, it seems that expenses unrelated to this program have for some reason substantially inflated the amount that should appear in its accounts. The true expenses of the Magazine Subscription program for FY04 are estimated at \$32,000.

### ELECTRONIC PAYMENT

The USPS Online Payment Service, also known as USPS eBillPay, was an online service for bill payment. The service was offered through a strategic alliance with CheckFree Corporation. It was discontinued on May 1, 2004. The market as a whole did not grow as quickly as expected. New entrants, such as banks which were unwilling to join the market when the Postal Service became involved, subsequently entered, and the service was not meeting the expectations of the Postal Service. The Postal Service provided the online website and branding for the service, which was sold online through [usps.com](http://usps.com).

### ELECTRONIC POSTMARK (EPM)

The USPS Electronic Postmark (EPM) is an out-sourced all-electronic service giving customers a way to time-stamp electronic files. The EPM provides evidence that a document or file existed at a specific time and date and detects changes made to the postmarked document. Since January of 2003, the service has been performed entirely by an outside vendor, Authentidate, under postal direction, policies, and branding. The Postal Service shares a portion of the EPM fees collected. Enrollment, payment, software installation and use are all web-based. Fees are on a per transaction basis. The primary uses are for time date stamp integrity authentication of faxed doctor's orders and end user documents, such as contracts or patient notes. The role of the Postal Service is to set policy, establish pricing, and perform security certification of any software that is USPS branded. The service is sold over the internet via online sales, or via a hardcopy sales agreement.

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### IMAGITAS (MoverSource)

The MoverSource is a strategic alliance agreement between the Postal Service and Imagitas, which recently became a wholly-owned subsidiary of Pitney Bowes, Inc. Roughly 17 percent of the American population moves each year, and every year the Postal Service processes an average of 44 million change-of-address orders. Managing this process is a large and costly undertaking. In 1995, the Postal Service and Imagitas formed a strategic alliance to improve the accessibility and convenience of change of address service, and to help defray Postal Service costs. The following services are provided under the strategic alliance:

The Mover's Guide – A package that includes PS Form 3575, Change of Address Order, and PS Form 3576, Change of Address Request for Correspondents, Publishers, and Businesses; move-related tips; and advertisements for move-related products and services.

Welcome Kit – An envelope sent to movers that contains the official USPS Confirmation Notification Letter (CNL) sent to the new address of COA filers, along with information about the mover's new community and move-related advertising.

MoversGuide Online (MGO) - This site, located on usps.com, allows a mover to file an electronic COA order online. Similar to the hardcopy Mover's Guide, the online version provides move-related savings, tips and information.

Overall, the MoverSource alliance helps the Postal Service avoid costs associated with distributing change of address materials and operating the change of address feature on usps.com. It does so by allowing Imagitas to sell advertising contained in those materials and presented on the MoversGuide Online site of usps.com. Purchasers of advertising in MoverSource products are targeting movers to promote products and services in approved move-related advertising categories. Several large (Fortune 500) firms advertise with the MoverSource, including JC Penny, Home Depot, and Ford. The Postal Service provides no activities under the MoverSource alliance beyond those it already provides to offer change of address services. All MoverSource materials are produced by Imagitas and all advertising services are provided by Imagitas. MoverSource products feature category-exclusive advertising opportunities for potential sponsors.

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### LIBERTY CASH

The Liberty Cash Program was a stored value card program that was terminated two years ago. The card could be loaded up to \$300 and was piloted in ten districts. There was no retail fee for issuance and therefore no retail revenue realized. The only active portion of the program is now limited to issuing customer refunds of leftover customer balances. The card allowed customers to place advance deposits with the Postal Service and to draw down those balances to make postal purchases. This provided utility to business customers who wanted to limit credit purchases to postal products without providing a standard credit card to their employees. The basis for the service was a contract with Bank of America, with FDMS as the subcontractor. The primary purchasers were small business and home based businesses, who purchased the card over the retail counter. The card was initially opened with a deposit from the customer. Account setup was accomplished in the POS unit. Deposits would increase the stored value of the card, while purchases over the counter would decrease the stored value.

### LICENSING PROGRAMS

The United States Postal Service Licensing Program generates revenue through the licensed use of intellectual property either wholly or jointly owned by the Postal Service. Such intellectual property includes stamp images, copyrighted material, the Postal Service corporate signature, other trademarks, service marks and trade dress. Licensees can pay specific fees for usage, but in most cases pay a royalty for each item that contains Postal Service intellectual property. Property containing Postal Service intellectual property is sold in various marketplaces and territories, which in some cases includes sales in Postal Service retail locations through the Official Licensed Retail Product Program (OLRP). OLRP consolidates all products of official USPS licensees that can be sold in retail locations in an annual catalog, which local postmasters can order from. Products are also sold through the Postal Store on [usps.com](http://usps.com). In most cases, the Postal Service receives a royalty credited to the Licensing Program regardless of where or how the product is sold, and Retail separately receives credit for the markup between the wholesale and retail price of the various products sold through the program at Postal Service retail locations.

### MAILING ONLINE

NetPost Mailing Online is an electronic-to-hardcopy printing and mailing service. Services are provided by PosteDigital. Customers are able to create, print and access First-Class, Standard, Non-profit, and G-10 mailings via the Postal Service's corporate web site, [www.usps.com](http://www.usps.com). The service is not provided by the Postal Service, but is accessed through [www.usps.com](http://www.usps.com).



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### NETPOST CERTIFIED MAIL

NetPost Certified Mail allowed customers to create a document on a computer and transmit it electronically through usps.com along with the mailing list. The service then verified the mailing addresses, added the appropriate barcode, printed and folded the letter, and completed the certification forms electronically. This program was terminated in April 2004. The primary purchasers of the service were small to large businesses. The role of the Postal Service was program management/development of service and new enhancements.

### NETPOST CARDSTORE

NetPost Card Store allows customers to create high-quality, personalized greeting cards that are printed and mailed the next business day. Customers may also choose to insert a retail gift card inside their greeting card and schedule the date and time they would like it to be printed and mailed. Services are provided by Touchpoint Inc. The primary purchasers of the service are consumers, and small to medium sized businesses. The role of the Postal Service is program management/development of service and new enhancements. Service is not provided by the Postal Service, but is accessed through [www.usps.com](http://www.usps.com).

### POSTMARK AMERICA

The Postmark America store was a unique Post Office located in the "Mall of America" in the Northland District providing core mailing services and postal related merchandise and apparel. The store was a model unit and test site for evaluating new retail solutions. It supported Retail access and the revenue goals of all core products, including stamps for correspondence and transactions, domestic and international packages services, extra services, ad mail and packaging products, retail merchandise, phone cards, and money orders. Shoppers at the Mall of America were offered merchandise presented in a Post Office Express unit environment as retail merchandise for sale. The Postmark America store closed on April 25, 2004, as it was not meeting its financial targets.

### DINERO SEGURO/SURE MONEY

Sure Money is the umbrella title for the Postal Service's international funds transfer service offered through 2,800 postal retail units with high concentration of Hispanic immigrants. The service is branded Dinero Seguro at retail, and provides service to 10 countries in Latin American and Caribbean. It operates

## **ATTACHMENT TWO TO RESPONSE TO OCA/USPS-53**

through a strategic alliance with Bancomer Transfer Service. Primary users are retail customers who are immigrants of the countries served by the service. The Postal Service collects the name of the recipient and sender, the amount of funds to be sent; the funds and service fee; and provides the data to Bancomer Transfer Service to complete the transaction. The service fee and the foreign exchange amount (to convert dollar-denominated funds into local currency) are combined and shared between the Postal Service and Bancomer Transfer Service.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF THE OCA

OCA/USPS-54. For nonpostal services with no associated window clerk activity (unnumbered paragraph 4), provide all calculations, worksheets, and primary sources for the total expense figure of \$7 million in FY04.

- a. Include all of the accounting expense data referred to in unnumbered paragraph 4.
- b. Display data separately for each discrete “nonpostal” service and show how they sum to the \$7 million total.
- c. Separately identify development costs for each “nonpostal” service and in total.
- d. Separately identify start-up costs for each “nonpostal” service and in total.
- e. Separately identify capital costs for each “nonpostal” service and in total.
- f. Separately identify common and joint costs for each “nonpostal” service and in total. Include all calculations, worksheets, and primary sources for the allocation of joint and common costs between DMCS and “nonpostal” services.
- g. Separately identify costs associated with each “nonpostal” service that has been terminated or discontinued and in total.
- h. For nonpostal services with no associated window clerk activity, provide all calculations, worksheets, and primary sources for the total revenue figure of \$44 million in FY04.
- i. Provide all comparable data requested in this interrogatory, including parts a. – i., for Fiscal Years 2001, 2002, 2003, and the most recent quarters of 2005.
- j. Provide test year estimates, i.e., FY2006, by discrete “nonpostal” service and in total, for expenses and revenues. Explicitly state all assumptions made in developing these estimates. Provide all calculations, worksheets, and primary sources used to develop the estimates.

**RESPONSE:**

Partial objection filed on May 23, 2005. See Attachments One and Two to the response to OCA/USPS-53.

## CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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Eric P. Koetting

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