

**BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001**

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Regulations Establishing System Of Ratemaking)
Docket No. RM2007-1)
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INTRODUCTION

Welcome to Los Angeles and thank you for providing me the opportunity to testify today. I will provide you with an overview of Stamps.com, the PC Postage® industry and our special perspective as a small business whose customers are small businesses. We believe small businesses have been underrepresented in the postal rate making process and urge you to take their special needs into account in implementing postal reform. I will also discuss the critical role of Intelligent Mail® in the future of the Postal Service and the new regulatory environment. Small businesses should have access to the benefits of Intelligent Mail, and PC Postage providers like Stamps.com offer the most convenient and lowest cost access to this important technology. Today's financial structure creates a disincentive as small businesses have to pay more to create mail using the Intelligent Mail barcode than to use traditional methods such as USPS Post Offices. Providing a single piece discount for small businesses who print high quality addresses and Intelligent Mail barcodes could increase the adoption of Intelligent Mail barcodes in this group by giving them a financial incentive to choose modern technology over traditional methods. Broader adoption of Intelligent Mail would also increase the amount of data available for performance measurements. Finally, I will talk about the importance of quickly adopting regulations that will allow the Postal Service to take advantage of the PAEA's new method for conducting market tests of experimental products. Experimental products are the key to the Postal Service's future; today's experiments are tomorrow's new revenue. Most commercially successful companies have found that the key to success is to constantly test alternative approaches in the market and Stamps.com believes market tests for the Postal Service can function as a "research and development engine" for creating an optimal set of products and rates. The current regulations do not comply with the new law, and new regulations are needed to allow market tests of experimental products to start in January, 2008, as provided in the law. Therefore, we urge the Commission to develop regulations enacting this authority as soon as possible, ideally prior to November 2007 so that there will be no delay in the Postal Service's first market tests.

STAMPS.COM BACKGROUND INFORMATION

Stamps.com specializes in bringing cutting edge Internet technology to small business mailers and shippers. Stamps.com is the leading vendor in the US Postal Service PC Postage® program and the leading vendor in the USPS Customized Postage market test. Stamps.com currently serves over 400,000 registered PC Postage customers that are primarily small businesses from a cross-section of industries (estimated to be about 85% of all U.S. PC Postage subscription-paying customers). Stamps.com is also a small business itself, with approximately 175 employees all in a single office in Los Angeles, California. In 1999, Stamps.com became the first company to offer a commercial software-only PC Postage solution, enabling customers for the first time ever to print real USPS postage from any Internet-connected PC and standard printer. Stamps.com's fundamental technology breakthroughs in the late 1990s are the cornerstone of all US Postal Service postage printed online via a website or from a PC today. PC Postage provides many benefits to the USPS, including at least six items: (1) PC Postage produces a secure, sender-identifiable mail piece which reduces the amount of anonymous mail in the mail stream; (2) PC Postage software has always been CASS certified and includes numerous address quality features reducing the cost to the USPS of undeliverable-as-addressed mail; (3) PC postage is run from a centralized location so it provides valuable real-time information to the US Postal Service on customer mailing and shipping behavior; (4) PC Postage can adapt quickly to changes in rates and classifications, which will be ever more important with the more frequent rate changes expected under the new law; (5) PC Postage helps educate postal customers and helps them comply with Postal Service requirements; and (6) mail produced with PC Postage software uses intelligent mail barcodes optimized to work with current and future USPS mail processing systems (we automatically print IBI on all of our postage and also print POSTNET and CONFIRM compatible barcodes on all envelopes and an e/Delivery Confirmation barcode on all packages). In addition, as IBI barcodes begin to get scanned in mail processing centers in the near future, PC Postage will become even more valuable in terms of real-time data for the USPS that can be used to improve revenue protection, to enhance mail security and deter terrorism, and to provide valuable real-time data on customer mailing & shipping behavior. Stamps.com's business goals are closely aligned with our regulator and most important business partner, the USPS. In 2004, utilizing our fundamental PC Postage technology, Stamps.com publicly launched a limited market test of PhotoStamps®, a new form of PC Postage through which consumers or businesses turn digital photos, designs or images into valid US postage. PhotoStamps is used as regular postage to send letters, postcards or packages. All PhotoStamps also include a unique IBI barcode and thus provide some of the same benefits to the USPS as previously mentioned for PC Postage. The product is available at www.photostamps.com. To order PhotoStamps, customers upload a digital photograph or image file, customize the look and feel, select the value of postage, and place the order online. Orders arrive via US Mail in a few business days.

People from all over the country have enthusiastically embraced PhotoStamps. During the first 7 ½ week market test period in 2004, over 2,750,000 PhotoStamps sold, and in the first 22 ½ months of the current set of market tests that began in May 2005 Stamps.com has sold more than 35,000,000 PhotoStamps representing nearly \$15 million in US Postal Service revenue. In addition, Stamps.com estimates that as much as 50% of this revenue is brand new US Postal Service revenue as customers substitute from electronic communication back to physical mail, increase their usage of the mail, or purchase PhotoStamps for collector's items or gifts that never get used on mail. In addition, 72% of PhotoStamps customers have stated that PhotoStamps make mail more exciting to send, 55% say PhotoStamps make mail more exciting to receive, and 56% say PhotoStamps make their perception of the US Postal Service more positive or much more positive.

PROTECT THE INTERESTS OF SMALL BUSINESSES

Small businesses are critical to our nation's economy and strength, and are critical to helping the United States compete in today's global marketplace. According to the U.S. Small Business Administration, small businesses have generated more than 60 percent of new jobs over the last decade, and have created more than 50 percent of non-farm private gross domestic product. Small businesses have historically been underrepresented and less successful in postal rate proceedings compared to large mailers. Because of the complexity of the postal rate process and their diffuse nature, small businesses have not gotten the consideration they deserve. For example, extensive worksharing discounts are available to large mailers but small businesses' practical opportunities to participate in worksharing are limited. Stamps.com believes the PRC should establish regulations that consider the impact of decisions on small businesses wherever the effect of rates on business mail users are considered.

INTELLIGENT MAIL

Stamps.com notes the number of positive comments received by the PRC concerning the benefits of promoting the use of Intelligent Mail by all sectors of the mailing industry. The USPS states it will "continue in its efforts ... to have mail use the Intelligent Mail barcode." The Postal Service, under the leadership of the Postmaster General, has frequently stated its commitment to this important initiative, which the Postal Service has estimated to have the potential to reduce mail processing costs by over a billion dollars per year. It is our belief that Intelligent Mail concepts and the USPS Intelligent Mail group are generally headed in the right direction. Intelligent Mail is making mail more valuable through innovative products that provide mail visibility and value-added extra services, and is making mail better through streamlined mailing processes that promote ease of use and seamless induction/acceptance.

We agree with the many commenters who stated that effective ratemaking under the PAEA will accelerate the benefits to the postal system from the prompt implementation of Intelligent Mail practices. There are already a number of discount-laden rate classifications that can be applied to encourage and reward the

adoption of Intelligent Mail by larger mailers. These rate classifications, where customers are required to use barcodes like the POSTNET barcode, could be readily revised to require use of the Intelligent Mail Barcode. Unfortunately, these classifications currently exclude lower volume mailers from obtaining discounts for any address-cleansing and prebarcoding activities they perform, thereby not encouraging such activities.

The PAEA's clear goal of promoting Intelligent Mail presents an opportunity for the PRC and USPS to provide a justifiable worksharing discount to small business and consumer mailers. A new mail classification could be created for low volume or single piece Intelligent Mail. As an example, single piece letter mail with addresses cleansed by CASS-certified software and with the corresponding Intelligent Mail barcode could be made eligible for a discount. The discount would be justifiable because of the address quality, the barcode, and the Intelligent Mail characteristics which make the mail less likely to be returned to the sender for improper address, improve USPS processing efficiency lowering USPS costs, and provide an information-rich mail piece.

Such a discount would encourage the adoption of the Intelligent Mail barcode in the portion of the mailstream that is now least likely (and not incentivized) to use barcodes and address cleansing. We estimate fewer than two percent of small and home based businesses use barcodes and address cleansing for any of their mailings today. The capability would be accessible to small businesses and consumers through software packages like those provided by Stamps.com and other PC Postage vendors. We encourage the Postal Service and the PRC to establish and approve a mail classification that provides small businesses and individuals the opportunity and incentive to participate in the benefits of postal automation and Intelligent Mail.

PERFORMANCE MEASUREMENTS

We believe Intelligent Mail can also play a crucial role in the USPS efforts, in consultation with the PRC, to establish performance measurements for market-dominant products. The USPS plans to install and operate equipment and software that will make it possible to track the location of letters and flats that have an Intelligent Mail barcode within the USPS infrastructure in real time. This will provide an unprecedented amount of new data that will allow measurement of the performance of the USPS network in real time.

The Stamps.com customer base represents well over 400 thousand registered users that originated nearly 200 million mail pieces last year, and we believe that (with the right financial incentives) the PC Postage industry could grow to represent millions of users and billions of pieces of mail. For smaller mailers, PC Postage is the easiest and most cost effective way to print Intelligent Mail barcodes. The data provided by the large amount of Intelligent Mail originated by the PC Postage industry provides a great amount of data from which the USPS could measure its network performance.

In addition, the Intelligent Mail data from PC Postage differs from the Intelligent Mail data from large mailers in at least two significant ways. First, current small business PC Postage customers include many rural and remote locations as

opposed to the urban concentration of large mailers. Second, PC Postage customers tend to utilize blue collection boxes and carrier pickup for depositing their mail whereas large mailers tend to drop mail at commercial drop locations. Thus, information available from the Intelligent Mail barcodes from users of PC Postage could be used as an effective and balanced sample of the USPS network performance across the nation, including the more geographically remote parts of the network, and including the portions of the USPS network that are not typically utilized by large mailers.

PC Postage can also provide information about the history of a mail piece that predates its entry in to the USPS system. This information, when combined with the USPS scan information can allow for measurement time frames all the way back to the initial printing of postage and including the initial induction of the mail piece into the USPS network. This would allow for more and better measurement of the effectiveness of induction methods relevant to small mailers, such as collection boxes and carrier pickup.

Unfortunately, as mentioned previously, today small mailers have to pay more out of pocket to use PC Postage and print an Intelligent Mail barcode than to use traditional methods and send mail without a barcode. Again, we believe a justifiable workshare discount available to small business and consumer mailers is the answer to encourage more Intelligent Mail from small mailers so as to provide as much data for performance measures as possible.

MARKET TESTS OF EXPERIMENTAL PRODUCTS

Stamps.com commends the PRC for accelerating the rulemaking process to allow ratemaking to begin under the PAEA as soon as possible. This will allow the USPS to begin modern ratemaking and will eliminate the need for a final rate case under the cumbersome old rules. We are concerned, however, that the intense focus on developing rules to implement PAEA's new method for setting postage rates might result in less attention to a key feature of the PAEA: the enhanced statutory authority to conduct market tests of experimental products. We believe that it is equally important that the Commission enact rules that will allow the Postal Service to take advantage of the PAEA's new method for conducting market tests of experimental products in a timely manner.

Section 203 of the PAEA gives the Postal Service greater flexibility to develop, introduce, and bring to the market new and experimental products. This greater flexibility to act nimbly in the market was a highly touted feature of the Act. Experimental products are key to the Postal Service's future; today's experiments are tomorrow's new revenue. Stamps.com believes this tool can function as a "research and development engine" for creating an optimal set of products and rates. We believe Intelligent Mail and experimental market tests are synergistic and early candidates for use of this new authority. The information provided by Intelligent Mail solutions could also be used to concretely measure the success or failure of various tests. We also recommend that the new regulations be as streamlined as possible, to allow maximum flexibility to create optimum rates. The thirty day period from

when the USPS must notice a planned new market test should simply be used by the PRC to make a streamlined determination whether the planned market test violates the statutory requirements for market tests.

Any delay in allowing the Postal Service to exercise the new statutory authority of market tests could negatively impact the Postal Service in its effort to introduce and evaluate new products in an ever-changing environment. If the Postal Service wishes to immediately take advantage of this benefit of the PAEA, it should be allowed to do so, and it should not be delayed by a lack of new regulations. The PAEA authorizes market tests under the new law to commence as soon as January 1, 2008; therefore, we urge the Commission to develop regulations enacting this authority by November 2007 so that there will be no delay in starting this process.

Thank you again for the opportunity to provide this testimony.