

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

MODIFICATION OF MAIL CLASSIFICATION  
SCHEDULE PRODUCT LISTS IN RESPONSE  
TO ORDER NO. 154

Docket No. MC2009-19

REQUEST OF THE UNITED STATES POSTAL SERVICE  
TO ADD POSTAL PRODUCTS TO THE MAIL CLASSIFICATION  
SCHEDULE IN RESPONSE TO ORDER NO. 154  
(March 10, 2009)

In Order No. 154, the Commission determined that five services asserted to be “postal services” by the Postal Service are properly classified as such, but held that they could not be placed on the Mail Classification Schedule (MCS) product lists at that time because the formal requirements of 39 U.S.C. 3642, and 39 C.F.R. 3020.30 *et seq.*, had not been followed. See Order No. 154 at 27-38. The services discussed in that proceeding were Address Management Services; Customized Postage; Greeting Cards, Stationery, and Related Items; Shipping and Mailing Supplies; and International Money Transfer Service (IMTS).<sup>1</sup> Pursuant to that Order, and pursuant to 39 U.S.C. 3642 and 39 C.F.R. 3020.30 *et seq.*, the Postal Service hereby requests that these services be added to the MCS product lists.<sup>2</sup>

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<sup>1</sup> In addition, the Commission found that an additional service—Stamp Fulfillment Services—is a “postal service,” and required the Postal Service to file a section 3642 proceeding adding that service to the product lists. Order No. 154 at 63, 89. This is discussed below.

<sup>2</sup> One issue that has been raised previously by the Commission is the sale by the Postal Service of certain music compact discs, in a “ready-to-mail” fashion, at the Postal Store on USPS.com. See Order No. 154 at 35. The Postal Service hereby provides notice that it has discontinued the sale of those compact discs. The Postal Service continues to sell music compact discs discussed in the Supplemental Statement of Carrie A. Bornitz, filed in Phase II of Docket No. MC2008-1, which relate to a stamp

The names of the products to be added to the market dominant product list are Address Management Services and Customized Postage.<sup>3</sup> The names of the products to be added to the competitive product list are Address Enhancement Service; Greeting Cards, Stationery, and Related Items; Shipping and Mailing Supplies; International Money Transfer Service-Outbound (IMTS-Outbound); and International Money Transfer Service-Inbound (IMTS-Inbound).

Since this request is simply for the placement on the MCS product lists of already-existing products, at already-existing prices, no Governors' Decision establishing the products or prices was needed. However, pursuant to the Governors' by-laws, the Governors approved by resolution the initiation of this proceeding. See 39 C.F.R. 3.4(f).

None of these products constitutes a special classification within the meaning of 39 U.S.C. § 3622(c)(10) for market dominant products, or constitute a nonpostal product. None of these products constitutes a product not of general applicability within the meaning of 39 USC 3632(b)(3), with the exception of IMTS-Inbound. The terms governing IMTS-Inbound are documented in ten agreements with foreign postal administrations, as discussed below.

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issuance, or to a postal theme, and thus fall within the scope of the Officially Licensed Retail Products (OLRP) nonpostal product.

<sup>3</sup> The Postal Service proposes that both of these products be made part of the Special Services class. The treatment of Address Management Services as being within the Special Services class is consistent with the placement of the address quality products that have been historically regulated by the Commission. See PRC Op., R2006-1, at Appendix Two, page 93; PRC Op., R76-1, at Appendix F, page 7. In addition, Customized Postage fits logically within Special Services. Through the Customized Postage program, the Postal Service authorizes vendors to offer their customers the ability to select or create special, customized postage indicia, which adds a high degree of value to the appearance of their mail pieces. Customized Postage is thus similar to Stamped Envelopes, particularly personalized Stamped Envelopes, which provides premium qualities such as attached postage and pre-printed return addresses.

## **Mail Classification Schedule Language**

Attachment A shows the requested changes in the MCS. The proposed MCS language is identical to the MCS language that has previously been filed by the Postal Service with respect to these services,<sup>4</sup> with four exceptions. First, the language for International Money Transfer Service has been revised, as discussed below. Second, for the Greeting Cards, Stationery, and Related Items product, the price range for “Stationery” items has been revised to take into account an existing stationery set whose price falls outside of the price range as originally proposed. Third, the language of the Customized Postage product has been changed to read “customer-selected images” in order to better describe the product (the previous phrasing—“customer-specific, customer-supplied images”—did not adequately account for the fact that customers can order customized postage using library images provided by the vendor or a third party). Fourth, the name of the competitive address management services has been changed to “Address Enhancement Service,” so that it can be more readily distinguished from its market-dominant counterpart.

## **Statements of Supporting Justification**

Statements of supporting justification for the addition of these products, as specified in 39 C.F.R. 3020.32, are provided in the following attachments:

Attachment B: Statement of Alice VanGorder relating to Address Management Services

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<sup>4</sup> See Docket No. CP2009-8, Notice of the United States Postal Service of Changes In Rates of General Applicability for Competitive Products Established in Governor’s Decision No. 08-19, Attachment B at 102-04 (November 13, 2008) (IMTS); Docket No. MC2008-1, United States Postal Service Notice of Filing of Proposed Mail Classification Schedule Language for Four Products It Requests Should Be Added to the Product Lists as Postal Services (October 17, 2008) (Address Management Services, Customized Postage, Shipping and Mailing Supplies, and Greeting Cards, Stationery and Related Items).

Attachment C: Statement of Alice VanGorder relating to Address Enhancement Service

Attachment D: Statement of Thomas J. Foti relating to Customized Postage

Attachment E: Statement of Carrie A. Bornitz relating to Greeting Cards, Stationery, and Related Items

Attachment F: Statement of Carrie A. Bornitz relating to Shipping and Mailing Supplies

Attachment G: Statement of Pranab Shah relating to Inbound and Outbound International Money Transfer Services

Attachment H: Statement of Jeff Colvin relating to Inbound and Outbound International Money Transfer Services

### **Confidentiality**

Several of the supporting statements contain sensitive commercial information that is being filed under seal. In addition, the Postal Service is filing five of the bilateral agreements that make up the IMTS-Inbound product under seal. Section 3642(d)(1) notes that the provisions of section 504(g) apply to these proceedings. Section 504(g) allows the Postal Service to designate information as exempt from public disclosure based on 39 U.S.C. 410(c) and 5 U.S.C. 552(b). In particular, section 410(c)(2) exempts from mandatory disclosure “information of a commercial nature...which under good business practice would not be publicly disclosed.”

The Postal Service has generally followed the practice of according confidentiality to product-specific costs and revenues for competitive products (as opposed to competitive products as a whole). Consistent with this, the Postal Service is

designating the cost and revenue figures provided for Shipping and Mailing Supplies in Attachment F, and Address Enhancement Service in Attachment C, as confidential.

With regard to the latter, parties offer products that compete in the marketplace with the Postal Service's Address Enhancement Service, and in the event that these parties learn of Postal Service costs and revenues, they may use that information in an effort to undercut the Postal Service's offering. Meanwhile, with regard to the former, ReadyPost is provided by a third-party provider, Hallmark. This contract is currently under review for recompetition. Disclosing costs relating to this product would provide competitive information that could negatively affect this process. Redacted versions of both sworn statements, with only the cost and revenue figures removed, are being provided publicly.<sup>5</sup>

In addition, the Postal Service has also followed the practice of shielding certain details concerning its competitive negotiated agreements (including bilateral agreements with foreign postal administrations). The Postal Service maintains that certain terms of some agreements providing for inbound money order exchanges with foreign posts should be kept confidential. The agreements, which are not available publicly, contain information related to commissions and fees negotiated by the Postal

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<sup>5</sup> With regard to those cost figures, it bears mention that the data collection systems relied upon to estimate costs for postal products were not necessarily intended to provide comprehensive cost information for products that historically were outside the scope of conventional postal ratemaking proceedings. What some might refer to as "CRA-type" costs simply have not been available for most programs such as those which are the subject of this proceeding. Consequently, the cost information that is available for those programs, while usually sufficient in many respects, is not necessarily directly comparable to cost information generated by the costing systems for postal products that the Postal Service and the Commission have developed and improved over many decades. Moving forward, as efforts are made to refine costing procedures for these types of products, and to better integrate those procedures with broader postal costing systems, new approaches may yield different cost estimates. Work remains to be done to try to bring product costing for these products up to the standards typically expected for postal services, particularly given the additional challenge that the size of many of these programs (measured in terms of volume, number of transactions, etc.) may be several orders of magnitude smaller than the major postal services.

Service or its predecessor, the Post Office Department, with the foreign post that is a party to the agreement.<sup>6</sup> Disclosure of these amounts or their absence from an agreement would put the Postal Service at a disadvantage in negotiations in the future. Such information is highly confidential in the business world, and the Postal Service protects them in accordance with industry standards.

## **International Money Transfer Services**

### **A. Identification of Existing International Money Transfer Service**

Currently, Postal Service customers can purchase hardcopy international money orders valued at up to a maximum amount of \$700 that can be cashed in 30 countries.<sup>7</sup> In addition to the hardcopy money orders, Postal Service customers can also send money electronically to ten countries using the Dinero Seguro service.<sup>8</sup> The Postal Service now cashes hardcopy money orders from ten countries for its customers.<sup>9</sup>

All of these services fit within the proposed MCS language, provided in Attachment A. The hardcopy services are provided through bilateral agreements with foreign posts, which may be supplemental to the Postal Payment Services Agreement of the Universal Postal Union (UPU) or independent of it. The Dinero Seguro program

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<sup>6</sup> The agreements for inbound money order exchange are filed with this Request. Three of these agreements have been published previously, including the agreements with Montserrat, St. Kitts, and British Virgin Islands. For that reason alone, the Postal Service does not seek protective conditions for portions or all of any of those agreements. The agreements with Bahamas, Barbados, Japan, Peru and St. Vincent are filed with redactions to preserve the confidentiality of negotiated terms which, if disclosed, would put the Postal Service at a disadvantage when negotiating similar agreements. The Postal Service is unable to locate the agreements with Belize and Dominica in its records and has requested copies of the agreements from those countries. Neither of these agreements has been published. Thus, when copies of these instruments have been identified, they will be filed with redaction of negotiated terms deemed confidential.

<sup>7</sup> The list of countries accepting direct International Money Orders is published in the International Mail Manual (IMM) in Exhibit 371.2.

<sup>8</sup> The list of countries to which Dinero Seguro service is offered is available online at: <http://blue.usps.gov/marketing/retail/suremoney/welcome.htm>

<sup>9</sup> These countries include the following: Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Japan, Montserrat, Peru, St. Kitts, and St. Vincent.

is performed under an agreement with Bancomer Transfer Service, a private entity with a network of authorized agents for payouts of Postal Service money transfers to customers in Latin America.

#### B. Proposed Mail Classification Schedule Language

The proposed MCS language for IMTS in Attachment A contains provisions that were included in the Postal Service's proposed MCS language filed in Docket No. CP2009-8. See Docket No. CP2009-8, Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 08-19, Attachment B at 102-04 (November 13, 2008). However, further consideration of IMTS suggests that like Express Mail International, separate services should be created to distinguish the inbound exchanges from the outbound exchanges. This separation will allow for enhanced ease of reporting and management of the services. Additionally, language has been added to reflect the expectation of the UPU that member countries will, as of January 1, 2010, designate operators, which may or may not be posts, to fulfill on their behalf the obligations of the UPU's Postal Payment Services Agreement.

Finally, a review of the negotiated agreements and the accounting processes related to the IMTS—Inbound product demonstrated that prior assumptions about the application of the UPU Postal Payment Services Agreement required further clarification. For that reason, the Postal Service proposes new language for the IMTS—Inbound product and price category.

### C. Functional Equivalency of Inbound International Money Order Agreements

In the context of classifying an agreement for inbound expedited services, the Commission stated its intent, in Order No. 84, to organize all negotiated agreements in the Negotiated Service Agreements category. See Order No. 84 at 6. The Commission also ordered the Postal Service to provide the Commission with suggestions regarding the development of a consistent approach to organizing competitive product negotiated agreements within the MCS. Id. at 8. In its response to Order No. 84, the Postal Service proffered its suggested approach of aggregating all agreements with foreign posts and treating each agreement as a price category within the scope of a large group of similar agreements under one product name. See Docket No. CP2008-7, United States Postal Service Response to Order No. 84 and Notice of Filing Ongoing Inbound International Expedited Services Agreements, at 4-5 (July 23, 2008). However, it also concurred that should the Commission choose to adopt another approach, such as treating each agreement or set of similar agreements with foreign posts as separate products, then it would be consistent to classify the inbound agreements with foreign posts within the MCS section for Negotiated Service Agreements. Id. at 5. In practice, it appears that the Commission and the Postal Service have adopted the latter approach. Therefore, the Postal Service now demonstrates that the ten negotiated agreements under consideration as the IMTS—Inbound product are functionally equivalent and may be considered price categories within that product.

The ten negotiated agreements under consideration are functionally equivalent in that they share many similar cost and market characteristics.<sup>10</sup> For inbound money orders, their purpose is to provide for the transfer of sums of money from customers of foreign posts using paper money orders to the United States. The IMTS—Inbound product gives the payee of a foreign money order the ability to present the document for payment at post offices in the United States without any fees. All of the agreements give each post the right to determine where the service will be provided within its own territory. The money orders are valid for a set period of time, and the agreements provide for account settlement between the parties. Each agreement has a provision concerning remuneration between operators.<sup>11</sup> Refunds to customers for money orders lost or destroyed are allowed in each agreement, and the service, in all cases, can be suspended temporarily by either post under extraordinary circumstances by giving notice to the other party.

A few of the agreements have provisions that are unique, but which do not affect the operation of the service as it relates to payees in the United States for the IMTS—Inbound product.<sup>12</sup> There are no special country-specific actions that a postal employee must take when processing a money order payment; thus, the Postal Service does not

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<sup>10</sup> All of the agreements are reciprocal in nature. Each addresses the exchange of money orders between both countries involved. Because functional equivalence concerns only the IMTS--Inbound product, we address only the inbound aspects of the agreements.

<sup>11</sup> Although every agreement has a term addressing remuneration between the parties, the amount of commission varies among the instruments from zero to a fixed percentage of the face value of the money orders cashed by the Postal Service, and is reciprocal.

<sup>12</sup> For example, the agreement with the Bahamas has a provision to deal with indirect exchanges of money orders with the Isthmus of Panama and the Philippine Islands, which we understand to be no longer applicable due to changes in the sovereignty of those former U.S. possessions since the 1921 effective date of the agreement. The agreement with Peru has a provision concerning non-payment of outbound money orders cashed after notice that they have been stolen. This provision does not appear in any of the other agreements.

consider that the minor differences in the ten agreements affect either the fundamental service or the fundamental structure of the contracts.

Because the cost and market characteristics of these ten agreements are substantially similar, the Postal Service asks the Commission to treat them as functionally equivalent instruments and to classify them collectively as IMTS—Inbound Agreements within the MCS.

### **Stamp Fulfillment Services**

In Docket No. MC2008-1, the Postal Service noted that the Stamp Fulfillment Services (SFS) office in Kansas City, MO:

charges shipping and handling charges for all orders submitted, either by phone, or via the Internet. The main charge is \$1 for purchases of stamps and philatelic items.... In addition to the basic \$1 fee, the Postal Service now charges different, higher shipping and handling charges for personalized stamped envelopes, so as to better recover costs incurred to fill such orders. All stamp fulfillment handling charges are reported in GL [General Ledger] account 43340.137 (Stamps By Phone – Handling Charges), whether originating by phone or internet.

Initial Response of the United States Postal Service to Order No. 74 at 14 (June 9, 2008).

Based on this information, the Commission determined that shipping and handling fees charged by SFS are “properly classified as a postal service.” Order No. 154 at 63-64. The Commission went on to require the Postal Service to file an appropriate request to add SFS to the MCS. Id. at 89.

For the reasons discussed below, the Postal Service is not requesting the addition of SFS to the MCS. The Postal Service charges discussed in the June 2008 response to Order No. 74 are not designed to simply pass through postage charges that are incurred for the shipping of orders. In fact, the Postal Service is not charging

existing postage rates for shipments, even for personalized stamped envelopes. Instead, the \$1 charge is more like a handling charge intended to recover SFS costs for preparing orders for shipment, rather than shipping costs. Therefore, it was reasonable for the Commission to conclude that the charges properly could be classified as fees for postal services.

However, the Postal Service has been considering changes to the current SFS charges for quite some time. The \$1 charge has been found to be inadequate for the many large SFS shipments. The Postal Service has charged actual postage charges for Officially Licensed Retail Products (OLRP) since 2000, and during the last few years postage has been used as the basis for the SFS charges for personalized stamped envelopes. Based on its experience, the Postal Service has decided it should recover postage for SFS shipments directly, while recovering handling costs through the prices charged for the items. The Postal Service delayed the introduction of these changes for the shipment of stamps and philatelic products because of the pendency of Docket No. MC2008-1.

It does not make sense to charge customers separately for Postal Service costs for handling stamp orders. SFS is just one of many channels for supplying stamps, with a cost similar to the cost for stamp sales at retail windows. The Postal Service does not charge a handling fee for transactions at the retail window. Rather, customers pay for the costs of these channels through the postage rates. Furthermore, handling costs for fulfilling orders of items other than stamps (e.g., philatelic items and OLRP) are generally recovered through the prices for those items. The Postal Service's list prices for these items are the same regardless of the sales channel. For personalized

stamped envelopes, the contract with the envelope printer specifically includes handling costs, which are then baked into the envelope fees.

Therefore, the Postal Service now plans to eliminate any handling charge, and charge customers just for shipping, using existing postage prices in a way that allows the consumer to easily calculate the shipping charge. The charge for any one particular shipment from SFS would not always be the actual postage that would otherwise be charged based on the zone and weight for the mail piece being shipped. Instead, existing postage prices will be selected, for application to shipments that fall within specified parameters. This allows the shipping charge to be determined simply at the time the customer places the order, so the customer can readily determine and pay the total charge for an order, including shipping, at the time the order is placed.<sup>13</sup> For example, for 1-10 stamp items (e.g., books of stamps), the Postal Service would charge First-Class Mail postage for a three-ounce flat (\$1.22 as of May 11). Larger orders will be mailed as Priority Mail, generally at the flat-rate envelope or box rates. For items that do not fit in the flat-rate box, the Postal Service will assume zone 4 for pricing purposes, based on an average shipment to zone 4. For example, the charge for two boxes of 500 personalized stamped envelopes (weighing about 12.75 pounds), which are too big to be placed in an existing flat-rate box, would be provided to the customer based on the Priority Mail Commercial Plus postage for 13 pounds sent to Zone 4 (\$15.48). Moreover, following the practice of many catalog and Internet retailers, in some cases a maximum postage would be established for high-weight orders.

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<sup>13</sup> Orders for stamps and philatelic items can be placed by mail, fax, telephone, or online. Orders for Officially Licensed Retail Products (OLRP) can only be placed online, through the Postal Store at usps.com. Using customized software, these online OLRP orders are shipped at actual postage rates for the zone and weight of the shipment. Such an approach would not be workable for mail and fax orders.

The existing postage prices that the Postal Service plans to use are already specified in the MCS sections for the respective mail products. These postage prices are already regulated under the processes for regulating prices for the market dominant or competitive products. SFS shipping prices would automatically update when the underlying postage prices change. The direct regulation of SFS through the establishment of a separate MCS section therefore is not necessary.

Direct regulation of SFS prices would also not be practical. The Commission concluded that SFS should be classified as market dominant. Thus, its prices would, presumably, be subject to the CPI-U cap. As noted above, however, SFS plans to use both market dominant and competitive prices for shipping. The competitive SFS prices would be adjusted in January, in line with the changes for the underlying competitive products. But these competitive prices would be adjusted without regard to the CPI-U cap. As a result, the SFS prices might violate the CPI-U cap, unless the competitive products are themselves constrained by this cap. This would be contrary to the regulatory scheme established by the PAEA.

Moreover, Postal Service data systems associate costs for SFS shipping with the product used for the shipment. Aligning costs with revenues for a separate SFS product would require a complex special study. It is much simpler to assign revenues from the shipping charges to the appropriate product, matching the cost attribution for the shipments.

The Postal Service is still working on the specific postage prices that it will charge for shipments, but plans to complete this process soon. The change from the current charges (\$1 for most shipments of stamps and philatelic items and higher

charges for personalized stamped envelopes) to new charges based on appropriate postage will be provided in a prior public notice, explaining in detail the criteria that will be used to determine the postage charges that apply to particular orders.

### **Conclusion**

As explained in the supporting justifications, the Postal Service believes that these products should be added to the product lists. The Commission has already accepted that these services constitute “postal services,” and the statements explain the proper categorization of these services (i.e., market-dominant or competitive) based on the criteria of section 3642, and 39 C.F.R. 3020.30 *et seq.* The Commission should therefore approve this request, as set forth in its rules.

As required by 39 U.S.C. 3642(d)(1), notice of this Request is being published in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE  
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**MAIL CLASSIFICATION SCHEDULE**

**PART A—MARKET DOMINANT PRODUCTS**

**1000 MARKET DOMINANT PRODUCT LIST**

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**SPECIAL SERVICES**

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**[ADDRESS LIST SERVICES] ADDRESS MANAGEMENT SERVICES**

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**CUSTOMIZED POSTAGE**

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**1001 MARKET DOMINANT PRODUCT DESCRIPTIONS**

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**1500 SPECIAL SERVICES**

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**1515 [Address List Services] Address Management Services**

**1515.1 Description**

Address Management Services ensure that address elements and address lists are correct and up-to-date. In addition to providing software or information about ZIP Code™ lists, addresses, or moves, the services also include certifying systems to ensure that the proper address information is used. Some services allow the purchaser or licensee to make unlimited copies or to make additional copies for a fee.

*Address Sequencing*

Address Sequencing service provides for the removal of incorrect addresses, notation of missing addresses, and addition of missing addresses.

*AEC II® Service (Address Element Correction II)*

AEC II sends addresses with errors that cannot be resolved through other Address Management services to the field for resolution based on knowledge of delivery personnel. The mailer is provided with the correct address or with information that the address is not a recognized deliverable address.

*AIS Viewer*

The AIS Viewer is an interactive CD-ROM that provides the ability to retrieve, view, and print accurate and current ZIP Code™ information for all 50 states on demand, eliminating hardcopy reports.

*Barcode Certification*

The Barcode Certification program evaluates manufacturers' printers, computer software, and computer systems that produce a barcode in order to certify that the barcode meets all dimensional specifications required by the Postal Service.

*Carrier Route Information System (CRIS)*

The Carrier Route service provides reference information needed to apply carrier route codes to addresses. Copying is allowed for an additional fee.

*CASS™ System Certification (Coding Accuracy Support System)*

CASS evaluates and certifies the accuracy of address-matching software that applies ZIP + 4, DPV, LACS<sup>Link</sup>, CRIS, DSF2, eLOT, RDI and Five-Digit ZIP. The Postal Service certifies software meeting its standards until the expiration of the applicable CASS cycle. Software must be re-certified for each CASS cycle. Ordinarily, a CASS testing cycle extends from August 1<sup>st</sup> through July 31<sup>st</sup> of the next year, and permits software use until the following July 31<sup>st</sup>.

*Change-of-Address Information for Election Boards and Registration Commissions*

Change-of-Address Information for Election Boards and Registration Commissions service provides election boards and voter registration commissions with the current address of a resident addressee, if known to the Postal Service.

### *City State*

The City State service is a comprehensive ZIP Code™ list associated with the appropriate city, county, and Post Office™ names. Copying is allowed for an additional fee.

### *Computerized Delivery Sequence (CDS)*

Computerized Delivery Sequence (CDS) provides and updates delivery sequence address information by carrier route for qualified mailers.

### *Correction of Address Lists*

Correction of Address Lists service provides current information concerning name and address mailing lists or correct information concerning occupant mailing lists to certain owners of such lists. New names will not be added to a name and address mailing list, and street address numbers will not be added or changed for an occupant mailing list.

### *Delivery Statistics*

The Delivery Statistics service provides statistical information regarding delivery by carrier route and Post Office™ box section. Copying is allowed for an additional fee.

### *Delivery Type*

The Delivery Type service provides an ASCII text file that indicates the type of deliveries (i.e. P.O. Box, street, unique, military and general deliveries) made within each 5-digit ZIP Code™ area in the United States. Copying is allowed for an additional fee.

### *DMM Labeling Lists*

DMM Labeling Lists contain destination ZIP Codes with the corresponding Postal Service™ facility destination information.

### *DPV® System*

The DPV® System, in conjunction with CASS Certified address matching software, validates delivery points. Unlimited sub-licensing is allowed by software developers without further payment.

*DSF<sup>2</sup> Service (Delivery Sequence File – 2<sup>nd</sup> Generation)*

The DSF<sup>2</sup> service is used to check mailing address accuracy, identify address types, and obtain walk sequence numbers. The DSF<sup>2</sup> database is the most complete Postal Service address database available, containing every deliverable mailing address in the United States, and is used to: verify that address lists are correct and complete, identify business versus residential addresses, recognize commercial mail receiving agencies (CMRA), provide walk sequence numbers and postal codes, identify seasonal addresses, detect addresses vacant for over 90 days, and categorize addresses by delivery type, e.g., curbside, door slot, box, etc. DSF<sup>2</sup> processing includes address standardization that may be used to apply for CASS qualification.

*eLOT<sup>®</sup> Service (enhanced Line of Travel)*

eLOT service gives mailers the ability to sort their mailings in approximate carrier-casing sequence. Copying is allowed for an additional fee.

*FASTforward<sup>®</sup> MLOCR*

The FASTforward system makes change-of-address information for moves available to mailers so that it can be applied to a mail piece while it is being processed on a Multi-line Optical Character Reader (MLOCR).

*FASTforward<sup>®</sup> Move Update Notification (FFMUN)*

The FASTforward Move Update Notification (FFMUN) service enables the FASTforward<sup>®</sup> change-of-address information to be sent to the customer in an electronic file. The electronic file can then be used to update the customer's database.

*Five-Digit ZIP*

The Five-Digit ZIP service provides detailed street data for multi-coded cities (i.e., cities that have more than one 5-digit ZIP Code), so that the proper ZIP Code can be identified. Copying is allowed for an additional fee.

### LACS<sup>Link</sup>® Service

LACS<sup>Link</sup> service provides mailers an automated method of obtaining new addresses when rural style addresses are converted to street-style addresses. The three types of licenses are:

Interface Developer which grants the right to develop an interface between address-matching software and the LACS<sup>Link</sup> database service;

Interface Distributor which grants the right to sub-license the interface and the LACS<sup>Link</sup> database service to third parties; and

End User which grants the right to obtain the LACS<sup>Link</sup> database service directly from the Postal Service for use in updating mailing lists.

### MASS<sup>TM</sup> System Certification (Multiline Accuracy Support System)

MASS provides certification for Multiline Optical Character Readers (MLOCs), Remote Video Encoding (RVE), Local Video Encoding (LVE), and Encoding Stations (“equipment”). The MASS certification process is designed to evaluate the ability of the equipment to process address information using CASS Certified<sup>TM</sup> software, and apply an accurate delivery point barcode (DPBC) to a mailpiece. The Postal Service separately certifies the equipment for a manufacturer and the user. Certified equipment can be used until the expiration of the applicable MASS cycle. Ordinarily, a MASS testing cycle extends from August 1<sup>st</sup> through July 31<sup>st</sup> of the next year, and permits use until the following July 31<sup>st</sup>.

### NCOA<sup>Link</sup>® Service

The NCOA<sup>Link</sup> service makes change-of-address information for moves available to mailers. The five types of licenses are:

NCOA<sup>Link</sup> Interface Developer which grants the right to develop a software interface between address-matching software and the NCOA<sup>Link</sup> service database.

NCOA<sup>Link</sup> Interface Distributor which grants the right to unlimited sub-licensing of software interfaces developed pursuant to an NCOA<sup>Link</sup> Interface Developer License.

NCOA<sup>Link</sup> Full Service Provider (FSP) which grants the right to perform address list updating services for both the licensee and third party mailers using 48 months of change-of-address data. Postal Service database services such as DPV and LACS<sup>Link</sup> are included.

NCOA<sup>Link</sup> Limited Service Provider (LSP) which grants the right to perform address list updating services for third party mailers, as well as for licensee’s own mail using 18 months of change-of-address data.

NCOA<sup>Link</sup> End User Mailer (EUM) which grants a mailer the right to perform address list updating for its own mail using 18 months of change-of-address data.

The Postal Service tests the systems under the Developer, FSP and LSP licenses to ensure that they meet Postal Service performance requirements.

#### *NCOA<sup>Link</sup> Service--ANK<sup>Link</sup>® Service Option*

ANK<sup>Link</sup> provides an option for NCOA<sup>Link</sup> Limited Service Provider and End User Mailer licensees to acquire an additional 30 months of change-of-address information. ANK<sup>Link</sup> informs mailers that a customer has moved, along with the move effective date. It does not provide the new address.

#### *Official National Zone Charts*

The Official National Zone Charts identify the appropriate distance code assigned to each originating and destination pairing for every ZIP Code in the nation.

#### *RDI<sup>TM</sup> Service*

The RDI data service verifies whether a delivery type is classified as residential or business.

#### *Z4CHANGE*

The Z4CHANGE service provides the information necessary to facilitate frequent and cost-effective updating of very large computerized mailing lists for automation compatibility and improved deliverability. Copying is allowed for an additional fee.

#### *ZIP + 4<sup>®</sup> Service*

The ZIP + 4 service is the base reference that can be used to assign the correct ZIP + 4 Code associated with a physical address. Copying is allowed for an additional fee.

#### *ZIPMove*

The ZIPMove data file assists address-matching software in providing up-to-date, accurate ZIP + 4<sup>®</sup> codes.

*ZIP Code™ Sortation of Address Lists*

ZIP Code Sortation of Address Lists service provides sortation of addresses to the finest possible ZIP Code level.

## 1515.2 Prices

	(\$)
Address Sequencing	
Per correction (removal of each undeliverable address, or addition of each missing or new address)	0.34 <sup>1</sup>
<sup>1</sup> When rural routes have been consolidated or changed to another post office, there is no charge for correction if the list contains only names of persons residing on the routes involved.	
Insertion of blanks	0.00
AEC II®	
1-100 records resolved, minimum fee	25.00
Additional records resolved, per record	0.25
AIS (Address Information Systems) Viewer (per year, per operating system)	
City State Delivery Type	50.00
County Name Retrieval	50.00
Delivery Statistic Retrieval	75.00
ZIP + 4 Retrieval	50.00
Barcode Certification	
Per Certification Test	500.00
Carrier Route (per year)	
Cartridge 1 - 20 States	450.00*
Cartridge All States	900.00*
CD-ROM per state	22.50*
CD-ROM All States	900.00*
CASS™ (Coding Accuracy Support System)	
Cycle Testing: (for next cycle) August-January	200.00
Cycle Testing: February, March	500.00
Cycle Testing: April	600.00
Cycle Testing: May	700.00
Cycle Testing: June	800.00

Cycle Testing: July	900.00
Cycle Testing: (for current cycle) After July 31 <sup>st</sup>	1,000.00
Change-of-Address Information for Election Boards and Registration Commissions	
Per change of address	0.33
City State (per year)	
Cartridge All States	350.00*
CD-ROM All States	350.00*
Computerized Delivery Sequence (CDS) (per address, per year)	0.00675
Minimum (per year)	33.75
Correction of Address Lists	
Per submitted address	0.34
Minimum charge per list (30 items)	10.20
Delivery Statistics (per year)	
Cartridge All States	350.00*
CD-ROM All States	350.00*
Delivery Type (per year)	50.00*
DMM (Domestic Mail Manual) Labeling Lists	60.00
DPV™ service (per year)	10,000.00
Fees are prorated for first year based on the month the agreement is executed.	
DSF <sup>2</sup> ® service (per year)	100,000.00
Each additional location per year	50,000.00
Each additional platform per location per year	50,000.00
Initial fee is prorated for first year based on the month the agreement is executed. There is no proration for additional locations or platforms.	
eLOT™ (enhanced Line of Travel) (per year)	
CD-ROM per state	30.00*
CD-ROM All States	800.00*
<i>FASTforward</i> ® MLOCR (per year)	5,000.00
Each additional site per year	5,000.00
Each additional platform per year	5,000.00
<i>Fastforward</i> Move Update Notification (FFMUN) (per year)	100.00

Five-Digit ZIP (per year)	
Cartridge All States	500.00*
CD-ROM All States	500.00*
<hr/>	
LACSLink™	
Interface Developer (First Year)	1,000.00 <sup>2</sup>
Interface Developer (each one-year extension)	300.00 <sup>2</sup>
<sup>2</sup> Interface Developer fees are waived for certified CASS and NCOA <sup>Link</sup> Full Service Provider distributors fulfilling requirement to provide users access to LACSLink	
Interface Distributor (per year)	1,200.00 <sup>3</sup>
<sup>3</sup> Interface Distributor fee are waived for certified CASS distributor who provides End Users of LACS <sup>Link</sup> Distributor products with access to LACS <sup>Link</sup> System	
Data Distributor (per year)	300.00
End User (per year)	300.00 <sup>4</sup>
<hr/>	
<sup>4</sup> End User fee is waived for certified NCOA <sup>Link</sup> Full Service Providers who fulfill requirement to offer LACS <sup>Link</sup> as component of its products and services	
<hr/>	
Fees are prorated for first year for LACS <sup>Link</sup> Interface Distributor, Data Distributor, and End User based on month the Postal Service certifies system. Interface Developer test fees are waived if part of CASS certification; otherwise, CASS test fees apply for stand-alone testing.	
<hr/>	
MASS™ (Multiline Accuracy Support System)	
MASS Manufacturers (MLOCR)	
Cycle Testing: (for next cycle) November – June	500.00
Cycle Testing: July	1,000.00
Cycle Testing: (for current cycle) After July 31st	1,500.00
MASS End-Users (MLOCR)	
Cycle Testing: (for next cycle) March – June	500.00
Cycle Testing – July	1,000.00
Cycle Testing: (current cycle) After July 31st	1,500.00
MASS Manufacturers (Encoder)	
Cycle Testing: (for next cycle) November – June	300.00
Cycle Testing – July	750.00
Cycle Testing: (for current cycle) After July 31st	1,000.00
MASS End-Users (Encoder)	

Cycle Testing: (for next cycle) March – June	300.00
Cycle Testing – July	750.00
Cycle Testing: After July 31st	1,000.00
<b>NCOA<sup>Link®</sup></b>	
Initial Interface Developer (first year fee)	5,000.00
Interface Developer (per each one year extension)	1,000.00
Interface Distributor (per year)	25,000.00
Full Service Provider (per year)	175,000.00
Full Service Provider Each Additional Site (per year)	87,500.00
Limited Service Provider (per year)	15,000.00
Limited Service Provider (per each one year extension)	
One Site only	15,000.00
Each additional site	7,500.00
ANK <sup>Link</sup> optional (per year)	3,500.00
End User (first year)	7,500.00
End User (each renewal year)	
One site	7,500.00
Each additional site	3,750.00
ANK <sup>Link</sup> optional (per year)	750.00
NCOA <sup>Link</sup> fees (excluding Interface Developer) prorated for first year based on month Postal Service certifies system. No proration for fees for additional sites.	
NCOA <sup>Link</sup> Test, Audit (each)	1,000.00
Official National Zone Charts (per year)	
Software CD-ROM	60.00
Matrix	50.00
RDI <sup>™</sup> (per year)	300.00
First year pro-rated based on date of execution of license	
Z4 (ZIP 4) Change (per year)	
Cartridge All States	3,000.00*
CD-ROM All States	3,000.00*
ZIP + 4 <sup>®</sup> Product (per year)	
Cartridge 1 - 20 States	450.00*
Cartridge All States	900.00*
CD-ROM per state	22.50*

CD-ROM All States	900.00*
ZIP Code™ Sortation of Address Lists Per 1,000 addresses, or fraction	115.00
ZIP Move (per year) Cartridge All States	100.00*
CD-ROM All States	100.00*

\* **AMS Price Table for Additional Copies** Address Management Services with an asterisk allow copying for an additional fee. The fee is calculated by multiplying the list price by a factor based on the total number of copies to be made, as shown below.

$$\begin{array}{r}
 \text{Price* (per year, from above)} \\
 \times \text{ Factor corresponding to number of copies (far right column below)} \\
 \hline
 \$ = \text{ Total Price (per year)}
 \end{array}$$

Number of Copies	*Price (From Above)	Multiply by	Factor
1 – 100	*Price	x	0.5
101 - 200	*Price	x	1.0
201 - 300	*Price	x	1.5
301 - 400	*Price	x	2.0
401 – 500	*Price	x	2.5
501 – 600	*Price	x	3.0
601 – 700	*Price	x	3.5
701 – 800	*Price	x	4.0
801 – 900	*Price	x	4.5
901 – 1,000	*Price	x	5.0
1,001 – 10,000	*Price	x	6.5
10,001 – 20,000	*Price	x	8.0
20,001 – 30,000	*Price	x	9.5
30,001 and over	*Price	x	11.0
Unlimited quantity of any of the following: Five-Digit ZIP, City	\$10,000.00	--	--

State, CRIS, Delivery Statistics, eLot, ZIPMove, ZIP + 4			
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**15XX Customized Postage Program****15XX.1 Description**

The Customized Postage program authorizes vendors to provide their customers with Postal Service-authorized postage consisting of customer-selected images aligned with Postal Service-approved indicia of postage payment. As a condition of participation, a vendor must comply with all Postal Service requirements, including the content of submitted images and specifications for postage indicia printing. The vendor must also allow Postal Service inspection to ensure compliance.

A vendor's annual participation fee allows the vendor to print at two facilities. Additional print sites may be added at a reduced fee. The Postal Service has no control over the price that the vendor charges its customers, beyond the applicable price for postage. The face amount of the postage is remitted to the Postal Service by the vendor.

**15XX.2 Prices**

	<b>(\$)</b>
Annual Participation Fee (up to two printing facilities)	300,000
Additional Printing Sites (3-50 sites, each site)	50,000
Over 50 Printing Sites (each site)	5,000

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**PART B—COMPETITIVE PRODUCTS****2000 COMPETITIVE PRODUCT LIST**

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**INTERNATIONAL**

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**INTERNATIONAL MONEY TRANSFER SERVICE-OUTBOUND  
INTERNATIONAL MONEY TRANSFER SERVICE-INBOUND**

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**SPECIAL SERVICES**

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**ADDRESS ENHANCEMENT SERVICE****SHIPPING AND MAILING SUPPLIES****GREETING CARDS, STATIONERY, AND RELATED ITEMS**

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**2001 COMPETITIVE PRODUCT DESCRIPTIONS**

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**2525 International Money Transfer Service--Outbound**

## 2525.1 Description

International Money Transfer Service--Outbound enables customers to make payments or transfer funds to individuals or firms in foreign destinations. This product includes both hardcopy money orders and electronic money transfers, which may be offered in cooperation with foreign postal administrations, commercial banks and money-transfer operators. The amount for a single international postal money order or electronic money transfer may be limited as specified in the International Mail Manual. Additional restrictions on the quantity and dollar value of international money transfers imposed by law, the destination country, or under requirements prescribed by the Postal Service may apply.

## 2525.2 Price Categories

The following price categories are available for the product specified in this section:

- **International Money Orders**  
This applies to hardcopy money orders. A receipt of purchase is provided at no additional cost. The Postal Service will replace money orders that are spoiled or incorrectly prepared, regardless of who caused the error, without charge if replaced on the date originally issued. If a replacement money order is issued after the date of original issue because the original was spoiled or incorrectly prepared, the applicable money order fee may be collected from the customer.

For a fee, inquiries or claims may be filed by the purchaser, payee, or endorsee as an ancillary service.

- **Electronic Money Transfers**  
The service includes a receipt with the confirmation number, exchange rate, amount of foreign currency, and fee paid for this service. This service is available at select USPS retail outlets and may be provided in partnership with a vendor or directly with a foreign post or its country's designated operator. There are no additional charges when the transferred funds are retrieved in the destination country. For a fee, customers may request a refund or change the recipient information, consistent with provisions of the IMM, as ancillary services.

### 2525.3 Prices

#### *International Money Order*

	<b>(\$)</b>
Per International Money Order	3.85
Inquiry fee	5.20

#### *Vendor Assisted Electronic Money Transfer*

	<b>Transfer Amount</b>		<b>Per Transfer (\$)</b>
	<b>Minimum Amount (\$)</b>	<b>Maximum Amount (\$)</b>	
Electronic Money Transfer	0.00	750.00	10.00
	750.01	1,500.00	15.00
	1,500.01	2,000.00	20.00
Refund	0.00	2,000.00	25.00
Change of Recipient	0.00	2,000.00	10.00

#### *Direct Electronic Money Transfer*

*(reserved)*

**2527 International Money Transfer Service--Inbound**

## 2527.1 Description

Inbound International Money Transfer Service provides a service to foreign postal administrations or their countries' designated operators, commercial banks or money-transfer operators for payment of electronic or hard copy money orders to recipients in the United States. There is no charge to the recipient for this service. The service includes processing the paid money orders through the Federal Reserve Bank system and settlement of accounts.

## 2527.2 Price Categories

- **Bilateral or Multilateral Agreements**  
Payment is made according to negotiated terms included in bilateral or multilateral agreements.  
Inbound Money Transfer Service Agreements 1 (Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Japan, Montserrat, Peru, St. Kitts, St. Vincent)

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**2XXX Address Enhancement Service**

## 2XXX.1 Description

*Address Element Correction (AEC)*

Address Element Correction (AEC) service identifies and corrects bad or incomplete addresses using enhanced computer logic.

*Address Matching System Application Program Interface (AMS API)*

The Address Matching System Application Program Interface (AMS API) is a core set of compiled address-matching software instructions that developers incorporate into their software so that address lists can be updated with address data from the following databases, which are integrated into the AMS-API: City State, ZIP + 4, Five-Digit ZIP, eLOT, DPV, and LACSLink.

For an additional fee, a developer may install the AMS-API on multiple computers for its own use. Additional fees are charged if the developer wants to resell its address-matching software.

Developers, for an additional fee, may obtain computer software instructions that permit the API to access the RDI data when licensed separately.<sup>1</sup> Additional fees are charged if the developer wants to resell RDI-API.

*Topological Integrated Geographic Encoding and Referencing (TIGER/ZIP + 4<sup>®</sup>)*

The Topological Integrated Geographic Encoding and Referencing (TIGER/ZIP + 4) service is a bridge file that allows mailers to access other information using the ZIP + 4 codes they already have associated with their addresses. This file offers demographers and market researchers a method to relate ZIP + 4 coded address lists to Census Bureau demographic data.

2XXX.2 Prices

	(\$)
<b>Address Element Correction (AEC)</b>	
(per record processed)	0.015
Minimum charge per list	15.00
<b>Address Matching System Application Program Interface (AMS API) (per year, per platform)</b>	
Developer's Kit, one platform	3,800.00
Each Additional, per platform	1,350.00
Additional Database License	
Number of Additional Licenses	
1 – 100	2,040.00
101-200	4,080.00
201-300	6,120.00
301-400	8,160.00
401-500	10,200.00
501-600	12,240.00
601-700	14,280.00
701-800	16,320.00
801-900	18,360.00
901-1,000	20,400.00

<sup>1</sup> These databases are explained in the Address Management Services of the Market Dominant Products List section.

1,001-10,000	26,520.00
10,001-20,000	32,640.00
20,001-30,000	38,760.00
30,001-40,000	44,880.00
Resell License, one platform	16,700.00
Each Additional, per platform	8,350.00
<b>RDI API Developer's Kit</b>	
Each, per platform	300.00
Resell License, one platform	1,200.00
Each Additional, per platform	600.00
Above API License Fees prorated during the first year based on the date of the license agreement	
Additional Database Discs, DVD	
AMS API: DPV, LACS <sup>Link</sup> and/or eLOT	10.00
IBIP version of above (DVD Only)	10.00
Additional database, e.g., City-State, ZIP + 4, Five-Digit	10.00
Additional Database Discs, CD ROM	
AMS-API: DPV and LACS <sup>Link</sup> API	22.50
eLOT	7.50
Additional database, e.g., City-State, ZIP + 4, Five Digit	7.50
<b>TIGER/ZIP+4<sup>®</sup></b> (per year)	
CD-ROM Per State	50.00
CD-ROM All States	700.00

## 2XXX Shipping and Mailing Supplies

### 2XXX.1 Description

The Shipping and Mailing Supplies product includes packaging materials that are used to package, seal, protect, and label items for mailing.

*Mailers*--Mailers include envelopes of various sizes that may or may not have added cushioning.

*Cartons*--Cartons are boxes of various sizes.

*Supplies*-- Supplies includes tape, bubble wrap, labels, and related material

### 2XXX.2 Prices

	<b>(\$)</b>
Mailers	0.39 to 6.79

Cartons	0.99 to 10.29
Supplies	0.49 to 14.65

## 2XXX Greeting Cards, Stationery, and Related Items

### 2XXX.1 Description

Greeting Cards, Stationery, and Related Items include items designed to be used to mail personal messages.

*Greeting cards*—Greeting cards include cards with envelopes and may be sold individually or as sets.

*Stationery*—Stationery includes paper, envelopes, postcards, note cards, and note pads and are sometimes packaged as sets

### 2XXX.2 Prices

	<b>(\$)</b>
Greeting Cards	0.99 to 15.99
Stationery	0.10 to 75.99

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**Statement of Supporting Justification  
For Address Management Services**

I, Alice VanGorder, Manager, Address Management, am sponsoring this request that the Commission add Address Management Services to the Mail Classification Schedule (MCS). This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. 3020.32, as indicated. I attest to the accuracy of the information contained herein.

(a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

(b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

As discussed in my statement filed in Docket No. MC2008-1, these Address Management services allow mailers to deposit mail with the Postal Service bearing improved address quality. This helps to reduce the costs to mailers and the Postal Service associated with undeliverable-as-addressed (UAA) mail. It also helps the Postal Service deliver mail quickly and efficiently. Other services in this product help mailers use the mail more efficiently and enhance their mailing results, as well as qualify for postage discounts. As such, the offering by the Postal Service of these products is consistent with the objectives and factors of section 3622, including objectives (1) and (3), and factors (5) and (12).

Furthermore, each of the Address Management services is already offered to the public. Adding the services to the Mail Classification Schedule will not change their

prices. Accordingly, the change is consistent with the requirements of 39 U.S.C.

3622(d).

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Not applicable. The Postal Service is proposing that this product be market dominant.

- (d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Not applicable. The Postal Service is proposing that this product be market dominant.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

The services are not covered by the postal monopoly for “Private Express for Letters and Packets” under 18 U.S.C. 1696 because the product is used for the preparation, rather than conveyance, of mail.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

Enterprises in the private sector are not able to deliver these services because they use address data that are compiled and privately maintained by the Postal Service. The Postal Service, however, permits private sector entities, such as software developers and vendors, to incorporate several of these services into software that the

developers or vendors license to their customers, while maintaining the privacy of the underlying address data.

*(g) Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

The Postal Service does not have any views from customers as to whether these services should be market dominant or competitive. On December 5, 2008, PostCom *et al.* filed a motion in Docket No. MC2008-1 requesting that the Commission establish a separate docket to consider the addition of Address Management services to the Mail Classification Schedule. PostCom requested that these services be considered market dominant, but only until such time as this proceeding is completed.

*(h) Provide a description of the likely impact of the proposed modification on small business concerns.*

Each of the Address Management services is already offered to the public. Adding the services to the Mail Classification Schedule will not change the services or their prices. Thus, the impact on small business concerns should be minimal. The Postal Service maintains the Rapid Information Bulletin Board System on its website where mailers can obtain detailed information about these products. Adding these services to the MCS will provide Postal Service customers, including small businesses, with another resource for obtaining information about these products and their prices. The regulatory structure for market dominant products is designed to protect customers in markets where the Postal Service has substantial market power by limiting price increases through the price cap.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

At the time of the PAEA's enactment, these products were not included in the former Domestic Mail Classification Schedule. On October 17, 2008, the Postal Service proposed that these products be included in the Mail Classification Schedule under the market dominant products listing. The Postal Service has offered these products to mailers for a number of years to assist them in preparing their mailings. It is unlikely that Congress specifically considered whether these products should be defined as part of the market dominant or the competitive product list.

**Statement of Supporting Justification  
For Address Enhancement Service**

I, Alice VanGorder, Manager, Address Management, am sponsoring this request that the Commission add to the list of competitive products the Address Enhancement Service that consists of: Address Element Correction (AEC), Address Matching System Application Program Interface (AMS API), and Topographical Integrated Geographic Encoding and Referencing (TIGER/ZIP + 4). This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. 3020.32, as indicated. I attest to the accuracy of the information contained herein.

- (a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

Not applicable. The Postal Service is proposing that Address Enhancement Service be a competitive product.

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Classifying Address Enhancement Service as a competitive product will not impair the ability of the Postal Service to meet the statutory cost coverage requirements.

Address Enhancement Service makes a positive contribution to the Postal Service's institutional costs. Therefore, if Address Enhancement Service is classified as

a competitive product, it is expected to meet the requirements of 39 U.S.C. 3633(a)(2), and will not impair the ability of competitive products, as a whole, to comply with 39 U.S.C. 3633(a)(3), which, as implemented by 39 C.F.R. 3015.7 (c), requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products arises (39 U.S.C. 3633(a)(1)).

The Postal Service estimates [REDACTED] in direct costs, and [REDACTED] in revenue for this service in FY2008. The Postal Service has not separately tracked the indirect costs. The Postal Service continues researching these costs, but is not yet able to report them.

- (d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Each price category for the competitive Address Enhancement Service is explained separately below.

## **AEC**

Address Element Correction is a service that uses enhanced computer logic to correct and standardize address elements for which CASS Certified address-matching software is unable to confirm a delivery point. If an address is missing an address element, or an address element is incorrect, the CASS Certified software used to process the address list may lack sufficient information to determine the ZIP + 4 Code. Under AEC, the Postal Service runs address lists that have been submitted to it against the AEC computer program, which uses computer logic to correct common misspellings

and other errors in address elements, such as nonstandard abbreviations, incorrectly joined elements, improperly ordered elements, address lines containing data other than the actual address, and missing elements. For example, if an address on a mailing list is 3117 WWETMONT, the Postal Service's AEC could correct the misspelling to WESTMONT.

With respect to AEC service, customers may avail themselves of commercial services that provide correction of poor quality addresses from mailing lists.<sup>1</sup> Inaccurate addresses (specifically those deliverable addresses that cannot be matched to a USPS ZIP + 4 Code or do not receive a delivery point validation (DPV) confirmation using commercially available CASS Certified address-matching software) are candidates for address correction provided by these various private sector firms. The existence of these assorted alternative services constrains the Postal Service from exercising sufficient market power to raise prices, without losing business.

### **AMS API**

The Address Matching System Application Program Interface (AMS API) is a core set of compiled address-matching software instructions that developers incorporate into their software so that address lists can be updated with address data from the following databases that are integrated into AMS API: City State, ZIP + 4<sup>®</sup>, Five-Digit ZIP, eLOT<sup>®</sup> Service (enhanced Line of Travel), DPV<sup>®</sup> Service (Delivery Point Validation), and LACS<sup>Link</sup><sup>®</sup> Service. For an additional fee, a developer may install the AMS API on multiple computers for its own use. Additional fees are charged if the developer plans to resell its address-matching software.

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<sup>1</sup> A Google search using the term "AEC Addresses" identified services offered by many private firms. These private firms include Pitney Bowes Group 1, Anchor Computers, and BCC Software.

With respect to the AMS API, customers may avail themselves of commercial services that provide address-matching to a USPS ZIP + 4 code and DPV confirmation of addresses from mailing lists.<sup>2</sup> Commercially available CASS Certified address-matching software predate the AMS API entry into the marketplace. The AMS API is primarily used by small software developers to bring their CASS Certified address-matching software to market. The existence of these various alternative products constrains the Postal Service from exercising sufficient market power to raise prices, etc., without losing business.

#### **TIGER/ZIP + 4:**

Businesses that wish to target mailings to customers or market to potential customers located in certain ZIP Codes can relate addresses within ZIP + 4 coded address lists to demographic data compiled by the Census Bureau. Many companies also use the TIGER/ZIP + 4 data for purposes other than mailing; this includes insurance premium determination, insurance claims analysis, and county and municipal utility rates setting.<sup>3</sup> Businesses have other avenues open to them to obtain this information. The Census Bureau offers numerous products that rely upon demographic data. Many private sector companies create their own TIGER/ZIP+4-like data products by buying the necessary Census Bureau data and overlaying that with ZIP Code information they obtain from the Postal Service.

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<sup>2</sup> A Google search using the term "Address Matching" identified services offered by many private firms including Pitney Bowes Group 1, Anchor Computers, and Business Objects.

<sup>3</sup> A Google search using the term "Demographic Products ZIP Codes" identified products and services offered by many private firms including DemoReports.com, DemographicsNow.com, and ERSI.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

Address Enhancement Service is not covered by these provisions. See part (d) above.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above.

- (g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

While customers are aware that the three categories within this product can be purchased from vendors other than the Postal Service, the Postal Service does not possess any views from customers as to whether the Address Enhancement Service should be market dominant or competitive. On December 5, 2008, PostCom *et al.* filed a motion with the PRC to establish a separate docket to consider the Postal Service's addition of address management services to the Mail Classification Schedule as a postal product. PostCom requested that the services be considered market dominant, but only pending the completion of this proceeding.

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

There is likely to be a minimal impact, if any, on small business concerns.

**AEC:** Small businesses who use AEC have many options available to them for correcting address elements in their address lists. AEC provides them with another choice for improving address quality.

**AMS API:** End users are generally larger companies that have the programming prowess to create their own in-house address matching software using the AMS API. The resellers/developers are generally small companies that create address matching software using the API and then market their products to other small to medium size companies.

**TIGER/ZIP + 4:** Small businesses who use TIGER/ZIP + 4 to target mailings based on demographics have many other avenues available to them to obtain the demographic data provided by TIGER/ZIP + 4.

The inclusion of Address Enhancement Service (consisting of AEC, AMS API and TIGER/ZIP + 4 price categories) in the competitive product list is unlikely to have any further effect on these businesses. In a competitive market, the primary regulatory concern regarding small businesses is not that an offering is over-priced, but that it is under-priced. Within the regulatory structure established by the PAEA, the competitive product rules are designed to address this concern. They establish a cost floor for products and services designed to ensure fair Postal Service competition within the market place. Conversely, the regulatory structure for market dominant products is designed to protect customers in markets where the Postal Service has substantial market power by limiting price increases through the price cap; this limitation would more likely be adverse to the interests of small business competitors of AEC, AMS API and TIGER/ZIP + 4 were they instead deemed market dominant.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

It is unlikely that Congress specifically considered whether Address Enhancement Service should be market dominant or competitive. At the time of the PAEA's enactment, this product or any of its offerings were not included in the former Domestic Mail Classification Schedule. On October 17, 2008, the Postal Service proposed that this product be included in the Mail Classification Schedule under the competitive products listing. At the Commission's request, the Postal Service is supplementing that proposal with today's filing. The Postal Service is replacing the term "Address Management Service" in the October 2008 competitive products listing with the term "Address Enhancement Service". This reduces the chance of confusion between the competitive product and the market dominant product that is also called "Address Management Service".

**Statement of Supporting Justification  
For Customized Postage**

I, Thomas J. Foti, Manager, Marketing Mail, am sponsoring this request that the Commission add Customized Postage to the Mail Classification Schedule (MCS). This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. 3020.32, as indicated. I attest to the accuracy of the information contained herein.

- (a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

The Customized Postage program allows authorized vendors to offer their customers the ability to design Postal Service-authorized postage consisting of customer-specific, customer-selected images aligned with Postal Service-approved indicia of postage payment. It has proven to be a popular means for mailers to personalize the correspondence and other mail that they send, and thus promotes the increased usage of mail. This program is consistent with the factors and objectives of section 3622, including objective (5), factor (8), and factor (13). With regard to factor (13), under this program the vendor provides its customer with a secure, sender-identified evidence of postage. The barcode that is provided on a piece of customized postage is unique, Information-Based Indicia. Furthermore, the evidence of postage

can be tied back to the vendor's customer, so that the mail piece bears evidence of postage provided to a particular customer of the vendor.

The proposal to add Customized Postage is also consistent with section 3622(d). The Postal Service is simply requesting that Customized Postage, which is already offered to the public, be added to the Mail Classification Schedule.

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Not applicable. The Postal Service is proposing that Customized Postage be a market dominant product.

- (d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Not applicable. The Postal Service is proposing that Customized Postage be a market dominant product.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

The services are not covered by the postal monopoly for "Private Express for Letters and Packets" under 18 U.S.C. 1696 because the product is used for the preparation, rather than conveyance, of mail.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

Customized Postage is a program whereby, in exchange for a participation fee, vendors receive authorization from the Postal Service to provide their customers with Postal Service-authorized postage consisting of customer-specific, customer-selected images aligned with Postal Service-approved indicia of postage payment. The Postal Service has entered into agreements with four authorized Customized Postage vendors for the last several years; the most recent agreement was an extension for the period commencing on May 16, 2008 and running for a one-year period. The participation fee enables the Postal Service to monitor compliance with the Agreement, including policing of image control and review, inspection of the provider's printing locations, and Postal Service trademark usage. As a condition for the vendors to participate in the program, the Postal Service has issued content guidelines for all images; these guidelines are incorporated into the authorization letter granting authority entered into with each vendor. The vendor is responsible for ensuring compliance with the guidelines. In addition, to the extent that the vendor conducts printing in more than two facilities, an additional charge to permit inspection and monitor compliance is also assessed. The ultimate price charged to purchasers of Customized Postage is set by the vendor. In any event, the Postal Service receives the PRC-approved rate for the postage.

- (g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

No data relevant to the appropriate classification of the Customized Postage Program as either market dominant or competitive has been compiled. It is my

understanding that all four vendors are interested in continuing to participate in the program.

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

Customized Postage offers small businesses an opportunity to use custom images to enhance the appearance of their mail, possibly making their mail more distinctive and attractive to customers. I therefore believe that the offering of this product provides benefits to small businesses. I am aware of no small business concerns providing a similar product that may be negatively affected. Even if there were, this proposal simply adds an already-existing service, at already-existing prices, to the Mail Classification Schedule. Thus, the additional impact on such small business concerns should be minimal.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

At the time of the PAEA's enactment, these products were not included in the former Domestic Mail Classification Schedule. On October 17, 2008, the Postal Service proposed that this product be included in the Mail Classification Schedule under the market dominant products listing. The Postal Service has offered this product to mailers for a number of years to provide additional methods for postage evidencing.

**Statement of Supporting Justification**  
**For Greeting Cards, Stationery, and Related Items**

I, Carrie A. Bornitz, Manager, Retail Marketing, am sponsoring this request that the Commission add Greeting Cards, Stationery, and Related Items to the list of competitive products. The Postal Service has sold greeting cards and other stationery items through its retail channels for over a decade. These items oftentimes feature stamp designs and other postal intellectual property. Greeting cards and stationery foster the use of the mails, because they are used to send personal correspondence through the Postal Service.

This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. 3020.32, as indicated. I attest to the accuracy of the information contained herein.

- (a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

My understanding is that these provisions are not applicable, because the Postal Service is proposing that Greeting Cards, Stationery, and Related Items be a competitive product.

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633.*

Classifying greeting cards and stationery items as a competitive postal product going forward should not impair the ability of the Postal Service to meet the statutory standards for competitive products. Firm statements about the past performance of this product are hindered by the fact that cost data for these items has historically been subsumed within the larger category of Retail Merchandise. However, the Postal Service is very sensitive to the need to comply with the competitive products rules going forward, now that these products are becoming subject to regulation. The Postal Service has begun to track costs for newly-introduced greeting card and stationery products it sells at retail. Furthermore, Postal Service policy with respect to greeting cards and stationery is to price with at least a 50 percent mark-up over the wholesale price (though the price may be lower when the item is subject to a clearance sale). Note that because the costs of acquiring inventory from a vendor are usually front-loaded (i.e., paid when the items are delivered to us), there is generally a period of time after an item is introduced when the gross revenues obtained from the units sold do not yet cover the acquisition costs of the entire inventory. Breakeven, in this narrow sense, often does not occur until a number of months after a new item is introduced. (Because there is a shorter selling window for holiday items, however, the expectation is for them to cover the inventory acquisition costs over a much shorter time frame.) As a consequence, evaluation of the reported financial performance of this type of item over a given time period needs to include consideration of the relationship of that time period to the life cycle of the individual item in question. Once the inventory costs have been covered, of course, the reported financial performance will improve considerably.

For some items introduced in FY 2008, sales have been soft, due in large part to the economic downturn, which negatively affected the sale of our holiday products in particular. However, I am confident that going forward the Postal Service will sell greeting cards and stationery in a profitable manner, through careful and prudent management, and thereby achieve what I understand is the requirement that this product cover its attributable costs. Furthermore, because the costs and revenues associated with this product are rather small, the addition of this product to the product lists should not have a material impact, either way, on the ability of competitive products, as a whole, to comply with 39 U.S.C. 3633(a)(3), which I understand requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products should arise (39 U.S.C. 3633(a)(1)).

- (d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Greeting cards and stationery are available through many retail outlets, such as the large big box retailers, supermarkets, drug stores, and specialized greeting card and stationery stores. Thus, this market is highly competitive.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

My understanding is that this product is not covered by these provisions.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above.

- (g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

Customers are of course aware that they can purchase greeting cards and stationery through numerous other vendors. However, no specific data on customer views regarding the regulatory classification of greeting cards and stationery as market dominant or competitive are available.

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

The Postal Service has provided greeting cards and stationery items as part of its retail product mix for over a decade. Thus, the placement of this product on the competitive products list will have little, if any, additional impact on small business concerns.

As noted above, greeting cards and stationery are available through numerous vendors, operating in a competitive market place. In a competitive market, the primary regulatory concern regarding small businesses is not that an offering is over-priced but that it is under-priced. My understanding is that within the regulatory structure established by the PAEA, the competitive product rules are designed to address this concern, because they establish a cost floor for products designed to ensure fair Postal Service competition within the market place. Conversely, my understanding is that the regulatory structure for market dominant products is designed to protect customers in markets where the Postal Service has substantial market power by limiting price

increases through the price cap; this limitation is more likely to be adverse to the interests of small business competitors of this product.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

The Postal Service has long provided greeting cards and stationery through its retail channels. This proceeding simply places that product within the regulatory structure of the PAEA. Treatment of greeting cards and stationery as a competitive postal service is appropriate for the reasons discussed above.

**Statement of Supporting Justification**  
**For Shipping and Mailing Supplies**

I, Carrie A. Bornitz, Manager, Retail Marketing, am sponsoring this request that the Commission add Shipping and Mailing Supplies (SMS) to the list of competitive products. SMS provides postal customers with convenient access to the supplies necessary to prepare their items for entry into the mailstream. This includes Postal Service-branded packaging supplies currently offered under the ReadyPost Registered trademark. The ReadyPost line includes a generic line of standard mailing cartons, specialty boxes, mailing tubes, mailing envelopes, and a variety of packaging tapes and other shipping accessories, as well as a decorative product line that consists of mailing cartons, bubble mailers, mailing labels and licensed image shipping products. The ready availability of these items from the Postal Service provides convenience to the customer, and makes access to the mailstream easier.

This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. 3020.32, as indicated. I attest to the accuracy of the information contained herein.

*(a) Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

My understanding is that these provisions are not applicable, because the Postal Service is proposing that SMS be a competitive product.

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633.*

Classifying SMS as a competitive product will not impair the ability of the Postal Service to meet the statutory cost coverage requirements. Based on what I am told is the best information available, in FY 2008, SMS covered its costs, and made a contribution to the Postal Service's institutional costs. In particular, based on data provided to me, in FY 2008 the ReadyPost program generated approximately [REDACTED] [REDACTED] in revenue, with expenses of approximately [REDACTED]. The amount by which FY 2008 revenues for SMS exceed estimated costs creates a compelling expectation that, if it is classified as a competitive product, SMS can meet the requirements of 39 U.S.C. 3633(a)(2), which I understand requires a competitive product to cover its costs. Likewise, the addition of SMS would not impair the ability of competitive products as a whole to comply with 39 U.S.C. 3633(a)(3), as implemented by 39 C.F.R. 3015.7(c), which I understand requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs. Accordingly, it is my understanding that no issue of subsidization of competitive products by market dominant products arises pursuant to 39 U.S.C. 3633(a)(1).<sup>1</sup>

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<sup>1</sup> It is my further understanding that, although the ReadyPost cost estimate cited above is commensurate with previous costs estimates provided for these types of programs (e.g., Docket No. R2006-1, Attachment G to Request, May 4, 2006, page 17), it is not necessarily comparable, in terms of quality and precision, to the cost estimates for the major postal products presented in the CRA Report. I am told that

- (d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

Mailing and shipping supplies are available through many retail outlets, such as the large office supply stores (e.g., Staples, Office Max), other big box stores, supermarkets, drug stores, and mailing and shipping stores such as CMRAs. Thus, this market is highly competitive.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

My understanding is that SMS is not covered by these provisions.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above.

- (g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

Customers are of course aware that they can purchase mailing and shipping supplies through numerous other vendors. However, no specific data on customer views regarding the regulatory classification of SMS as market dominant or competitive are available.

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the Postal Service's costing personnel are exploring ways to improve costing for these types of products, and specifically to better integrate treatment of their costs into the broader cost reporting systems.

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

The Postal Service has long provided shipping and mailing supplies through its retail channels. Thus, the placement of this product on the competitive products list will have little, if any, additional impact on small business concerns.

As noted above, shipping and mailing supplies are available through numerous vendors, operating in a competitive market place. In a competitive market, the primary regulatory concern regarding small businesses is not that an offering is over-priced but that it is under-priced. My understanding is that within the regulatory structure established by the PAEA, the competitive product rules are designed to address this concern, because they establish a cost floor for products designed to ensure fair Postal Service competition within the market place. Conversely, my understanding is that the regulatory structure for market dominant products is designed to protect customers in markets where the Postal Service has substantial market power by limiting price increases through the price cap; this limitation is more likely to be adverse to the interests of small business competitors of SMS.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

The Postal Service has long provided SMS through its retail channels. This proceeding simply places that product within the regulatory structure of the PAEA. Treatment of SMS as a competitive postal service is appropriate for the reasons discussed above.

**Statement of Supporting Justification**  
**For International Money Transfer Service**

I, Pranab Shah, Managing Director, Global Business, and Vice President, am sponsoring the Request that the Commission add International Money Transfer Service—Outbound (IMTS—Outbound) to the competitive products list. Additionally, I am sponsoring the Request that the Commission add International Money Transfer Service—Inbound (IMTS—Inbound) to the competitive products list and add ten functionally equivalent bilateral agreements with foreign posts as competitive products with prices not of general applicability. The proposed Mail Classification Schedule (MCS) language for IMTS—Outbound and IMTS—Inbound describes the requirements for these types of products. My statement supports the Postal Service’s Request by providing, to the best of my ability, the information required by each applicable subsection of 39 C.F.R. 3020.32. I attest to the accuracy of the information contained herein.

(a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change is in accordance with the applicable statutory provisions.

(b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. § 3622(d), and that it advances the objectives of 39 U.S.C. § 3622(b), taking into account the factors of 39 U.S.C. § 3622(c).*

Not applicable. The Postal Service is proposing that the two products, IMTS—Outbound and IMTS—Inbound, be added to the competitive products list. Further, the

Postal Service is proposing that the ten functionally equivalent bilateral agreements with foreign postal operators be included in the IMTS-Inbound listing as a single product.

(c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Upon initial review of the Postal Service's Annual Compliance Report for 2008, the Commission inquired about the apparent failure of IMTS<sup>1</sup> to cover its costs. Commission Information Request No. 1 (Jan. 14, 2009), Question 4(b). The January 22nd response to Question 4(b), filed as part of USPS-FY08-NP28, indicated that although the Postal Service was aware of the problem, further study was required to understand its causes before any representations could be made as to how the problem might be corrected.

Despite diligent and continuing efforts to analyze the relevant systems, processes and data, the Postal Service is, as yet, without sufficiently reliable information upon which to draw conclusions concerning the corrections that would be required properly to address the shortfall in cost coverage for international money orders. Several factors contribute to this. The statement provided by Jeff Colvin provides additional clarification.

In short, Global Business' review and analysis of the information available at this time suggests that the product may or may not be contribution positive (or offered at a margin such that operational changes or pricing adjustments could be implemented to

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<sup>1</sup> Initially, in response to Order No. 26, the Postal Service proposed MCS language only for outbound IMTS in Docket No. RM2007-1, September 24, 2007. Subsequently, the Commission advised that inbound products would be subject to the same regulatory process as outbound products, and in response to Order No. 43, the Postal Service provided proposed MCS language for inbound IMTS in Docket No. RM2007-1 on November 11, 2007. The Postal Service, however, proposes that the inbound and outbound IMTS constitute two separate products, and its Request proceeds on the basis of this proposal.

return it to profitability). Further review, possibly including special studies, is needed for the Postal Service to be able to identify the drivers of the cost-coverage shortfall reported in the FY 2008 ACR and to notify the Commission of the corrective steps it is taking. I do not believe it would be prudent for the Postal Service to raise the price for these products in reliance on the reported costs, because those costs may be overstated. Raising the prices prematurely could lead to abandonment of the products by their current users, negatively impacting volume, which is an essential element of the cost determinants which must be studied more carefully. Additionally, to the extent that raising prices involves costs charged by or fees and commissions paid to foreign postal administrations, these costs and revenues are negotiated and cannot be changed unilaterally by the Postal Service. Moreover, some of the agreements are over 100 years old and require a more comprehensive negotiation to bring them into alignment with 21<sup>st</sup> century financial transaction practices. The Postal Service is, however, addressing the urgent need to ensure that the IMTS products cover their costs and is actively engaged in exploring its options for terms for its bilateral agreements with foreign postal administrations.

At present, it is not possible to say with confidence that either IMTS—Outbound or IMTS--Inbound is or is not covering its attributable costs. For the Commission to meet its statutory obligation of 39 U.S.C. 3633(a)(2) to “ensure that each competitive product covers its costs attributable,” the Postal Service proposes in FY 2009 to study further, as best it can within the constraints of its processes, systems and budget, the basic information needed to analyze the cost coverage of both IMTS products and to report again to the Commission by July 15, 2009, on this issue. At that time, the Postal

Service expects to be able to take action with regard to the IMTS products. Specifically, we expect to be able either to demonstrate that the costs are overstated using current methodologies and begin to develop an alternate methodology with input from the Commission that will provide a more accurate representation of the costs for products with small sample sizes, or we will begin the process of increasing the prices. In the meantime, the Postal Service submits that, even if IMTS were not covering its costs, there would be no reason to believe that it is being cross-subsidized by market dominant products, because international competitive products, of which IMTS—Outbound and IMTS--Inbound are only two, produce a net contribution to the Postal Service. This satisfies the requirement of 39 U.S.C. 3633(a)(1).

*(d) Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

The market for international money transfers is both broad and deep, and it is well-established. Banks, such as Wells Fargo and Citibank, and large, globally renowned private companies, such as Western Union, MoneyGram, Xoom and AlertPay, participate in the market and drive competition. The Postal Service is already in this market and does not appear to be at risk of obtaining sufficient market power to raise prices or decrease quality without losing volume to other competitors. One private sector service provider reported that 50 percent of its 2007 revenue of \$4.9 billion was attributable to consumer-to-consumer transactions.<sup>2</sup> The Postal Service's Fiscal Year

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<sup>2</sup> The referenced information is reported in pages 1-3 of Western Union's 2007 Annual Report, which is available on its website, at <http://ir.westernunion.com/investor/annuals.cfm>.

2008 reported revenue from IMTS is dwarfed by comparison. The Postal Service's ability to set prices is constrained by the existence of many other providers of similar services. As such, the market precludes the Postal Service from taking unilateral action to increase prices or decrease service.

Moreover, the Postal Service may not decrease quality or output without risking the loss of business to large competitors that offer similar international money transfer services. The relevant market also does not allow the Postal Service to raise prices or offer prices substantially above costs; rather, the products are premised on prices that provide sufficient incentive for customers to use its services rather than a competitor. If the Postal Service were to raise these prices, it would risk losing these customers to a private competitor in the international money transfer industry.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. § 1696, subject to the exceptions set forth in 39 U.S.C. § 601.*

Neither IMTS—Outbound nor IMTS—Inbound is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. § 1696, subject to the exceptions set forth in 39 U.S.C. § 601, because these services do not include the conveyance of letters.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above. It is common knowledge that banks, other financial institutions and large private companies provide international money transfer services for consumers under similar conditions. One major private sector service provider

reported in its 2007 Annual report to investors that it had a network of 59,000 agents in the U.S. and Canada alone.<sup>3</sup>

(g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

The customers using IMTS—Outbound are customers of the Postal Service in the United States. These customers currently purchase hard copy money orders to send to other countries, or they transfer money electronically to several countries in Latin America. This indicates that the relevant segment of postal customers in general finds this type of product to be preferable to similar products offered by the Postal Service's competitors. Customers are aware that competitive services are provided by other entities. In this filing, the Postal Service does not request to modify the current services being offered. Thus, customers will not be affected if the Commission decides to classify IMTS—Outbound as a competitive product. The Postal Service, however, does not have specific data available on the views of customers regarding this change to the MCS.

The customers of IMTS—Inbound consist of ten foreign posts. Our understanding from informal communication with these posts is that they are pleased that IMTS is considered a postal service so that they may continue to offer their customers the opportunity to send money orders to the individuals and firms in the United States. We are unaware of the foreign posts' specific views regarding the regulatory classification of these contracts.

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<sup>3</sup> *Id.*

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

The market for services comparable to the Postal Service's IMTS is well-established and highly competitive. The formal regulatory step of adding IMTS—Outbound and IMTS—Inbound to the MCS as a competitive product will have no impact on business as it is being conducted today. The status quo will be maintained with regard to small business concerns. To the extent that small businesses are engaged in the business of facilitating money transfers to foreign countries or facilitating the payout of money transfers to individuals in the United States, the proposed modification of adding IMTS—Outbound and IMTS—Inbound to the competitive products list of the MCS will neither discourage nor encourage their continued participation in the competitive market. To the extent that small businesses send and receive their own money transfers, the Postal Service's IMTS offerings extend to these customers additional options to facilitate payments. Indeed, the Direct Marketing Association expressed its view that "the provision of electronic money transfer systems will empower and enable smaller businesses to expand their businesses globally at price points which do not make it efficient to use international wire money transfers through commercial banks."<sup>4</sup>

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

The proposed modification, which would formally add IMTS—Outbound and IMTS—Inbound to the competitive products list of the MCS, should have no tangible

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<sup>4</sup> Letter from Dr. Ramnath A. Lakshmi-Ratan, Executive Vice President & Chief Operating Officer, Direct Marketing Association, to Paul Vogel, Senior Vice President, Global Business (June 13, 2008), filed in Docket No. MC2008-1 on June 23, 2008.

impact on the industry as business is being transacted today. Nevertheless, it will have a significant impact on the perception of potential customers regarding the future of postal international money transfers. Adding these products to the competitive products list will send the message that the Postal Service is capable of developing and offering competitive products to transfer money to locations around the world where such services have previously been unavailable, in part due to the underdeveloped networks of banks or other secure payout agents.

Representatives of many countries have expressed positive views in anticipation to being able to exchange money transfer services with the Postal Service. Some are similar to those expressed by the Director General of Correos de México who said: “[A] large percentage of money recipients in Mexico have to travel long distances, with all the personal and financial costs that this implies, to the nearest city where there is a bank or another payout agency to get their money. Correos de México could get closer to these remittance beneficiaries given its incomparable network of postal offices and agencies, and thereby lower these customers’ costs and inconveniences.”<sup>5</sup>

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<sup>5</sup> Letter from Purificación Carpintero, Director-General, Correos de México, to Paul Vogel, Senior Vice President, Global Business (June 23, 2008) filed in Docket No. MC2008-1 on June 24, 2008; see also Letter from Edouard Dayan, Director General, Universal Postal Union International Bureau, to Paul Vogel, Senior Vice President, Global Business (July 28, 2008), filed in Docket No. MC2008-1 on July 28, 2008.

**Statement of Supporting Justification  
For International Money Transfer Service**

I, Jeff Colvin, Manager, Cost Attribution, am providing this statement with regard to the Request that the Commission add International Money Transfer Service to the competitive products list.

(c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Upon initial review of the Postal Service's Annual Compliance Report for 2008, the Commission inquired about the apparent failure of IMTS to cover its costs. Commission Information Request No. 1 (Jan. 14, 2009), Question 4(b). The January 22nd response to Question 4(b), filed as part of USPS-FY08-NP28, indicated that although the Postal Service was aware of the problem, further study was required to understand its causes before any representations could be made as to how the problem might be corrected.

The Postal Service is, as yet, without sufficiently reliable information upon which to draw conclusions concerning the corrections that would be required to properly address the shortfall in cost coverage for international money orders.

As an example of an information gap, a portion of the costs attributed to the IMTS are estimated window service costs or costs piggybacked on window service costs. The estimated IMTS window service costs are based upon a small number of tallies, out of the very large total number of IOCS tallies recorded for FY 2008. The small number of tallies, of course, corresponds to the relatively small proportion of window clerk time one would expect would be related to the relatively small number of

IMTS transactions. Year-to-year, however, with a sampling based system such as IOCS, the relatively rare occurrence of window service activities related to IMTS will tend to cause volatility in the window service cost estimates for this product. These circumstances call into question exclusive reliance on IOCS tallies as the basis for the estimation of IMTS window service costs.

The Postal Service believes that it is necessary to determine whether it is appropriate to explore a different methodology for determining the transaction time and window service costs attributable to IMTS. If such a new methodology were to be more fully developed, it would likely require coordination between a number of operational and administrative functional groups within the Postal Service, as well as with the Commission.

Information gaps may similarly exist in other areas of costing and with regard to the appropriate volumes. Further review, possibly including special studies, is needed for the Postal Service to be able to identify the drivers of the cost-coverage shortfall reported in the FY 2008 ACR and to notify the Commission of the corrective steps it is taking. The Postal Service is addressing the urgent need to ensure that the IMTS product covers its costs and proposes to report again to the Commission on this issue by July 15, 2009.

At present, it is not possible to say with confidence either that IMTS is or is not covering its attributable costs. For the Commission to meet its statutory obligation of 39 U.S.C. 3633(a)(2) to “ensure that each competitive product covers its costs attributable,” the Postal Service proposes in FY 2009 to study further, as best it can within the constraints of its processes, systems and budget, the basic information needed to

analyze the cost coverage of the IMTS product. If development of a more refined cost distribution methodology is indicated, the Postal Service will propose such a methodology to the Commission for its consideration and input with the expectation that the methodology could be applied to FY 2010 revenue and cost data.