

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

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
(May 29, 2009)

Chairman's Information Request No. 1 was posted on May 21, 2009. The request sought answers no later than May 29, 2009. Attached are the Postal Service's responses. Some of the answers refer to materials filed in the Non-Public Annex. A separate notice regarding such materials is being filed today as well.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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May 29, 2009

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1. Please refer to the 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, Appendices C and F.
 - (a) Please provide any additional information, including supporting spreadsheets and underlying data, used to develop the FY 2008 estimated revenues and costs for Address Enhancement Services and Shipping and Mailing Supplies. The supporting spreadsheets (if any) should be accompanied by an explanatory narrative, which describes any underlying assumptions and the bases for those assumptions.
 - (b) For Greeting Cards, Stationery, and Related Items, please provide a cost estimate showing that the service is expected to cover its attributable costs. Development of the cost estimate should include, among other things, the cost of goods sold, window service costs based on transactions, and average transaction times. Please provide citations for all figures used. The cost estimate may consist of appropriate proxies and should be accompanied by a narrative of the development of the estimate.

RESPONSE:

- (a-b) Responsive information is filed under seal in USPS-MC2009-19/NP-2.

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2. Please refer to Comments of the Public Representative, April 30, 2009, at 6-7, and to Docket No. MC2008-1, Response of the United States Postal Service to PostCom et al. Motion to Sever From This Proceeding the Consideration of These Previously Unregulated Services That the Postal Service Asserts are "Postal Services", December 12, 2008 (December 12 Response). Please explain the following:
- (a) If the Postal Service is not proposing to include Advanced Notification and Tracking System, MAC Batch, MAC System & MAC Gold, Mailpiece Quality Control, PAVE System, Z4Info, Address List Sequencing, and Electronic Address Sequencing within the Address Management Services product, please explain whether the Postal Service is proposing to place these "activities" elsewhere on the market dominant product list.
 - (b) Please define "revenue [received] as an incidental matter" as the Postal Service used in footnote 11 of the December 12 Response. Please explain why postal activities that only earn revenue as an incidental matter do not implicate regulation of postal products under chapter 36.
 - (c) Please explain under what legal authority the Postal Service proposes to set fees for these "activities" even though these "activities" are not identified in the Mail Classification Schedule.

RESPONSE:

(a) The Public Representative was incorrect to identify Address List Sequencing and Electronic Address Sequencing as being "address management service offerings . . . not included as rate categories in the Postal Service's proposed draft Mail Classification Schedule language." In fact, the Postal Service has included this service in its initial Mail Classification Schedule (MCS) language, under "Address Sequencing" in the Address Management Services product.¹ This service (with manual and electronic options) had previously been included in the former Domestic Mail Classification Schedule.²

¹ See Request at Attachment A, pages 1, 7. The Postal Service provides both manual and electronic sequencing of addresses as part of the same service. DMM 507.8.2.

² Domestic Mail Classification Schedule, § 912.2d.

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With respect to Advance Notification and Tracking System, PAVE™ System Certification, MAC™ System Certification, MAC™ Gold System Certification, MAC™ Batch System Certification, and Mailpiece Quality Control Certification Training Program, the Postal Service previously explained in its December 12 Response (at 5) why it has not included those activities in the MCS language for Address Management Services:

As discussed in Appendix A, those activities do not relate to address quality; rather, they are voluntary business mail acceptance activities, relating to the certification of bulk mail software and systems, the training and certification of individuals in DMM standards, the provision of reference data concerning the DMM, and the provision of free reports on the delivery progress of bulk mailings with specific in-home delivery windows. As such, they are not address management services, meaning the description of the Address Management Services provided in the MCS language is full and complete.

In that Response, the Postal Service also explained why it has not proposed to place these activities elsewhere on the market-dominant product list. This is explained in the response to part (b) below.

The remaining activity identified by the Public Representative, Z4INFO, is a stand-alone small electronic file that can be downloaded by the public without charge from the Postal Service's RIBBS website (ribbs.usps.gov). Z4INFO does not represent address list data; it only contains format indicators of primary and secondary information for ZIP + 4 ranges. The Postal Service does not track how often the public downloads Z4INFO, and based on the few inquiries about its usage, does not appear to be used much.

(b) As the Postal Service pointed out in Footnote 11 of its December 12 Response, the activities discussed by PostCom et al. and the Public Representative earned either

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no revenue, or extremely low revenue. For two services (Advance Notification and Tracking System and Z4INFO), the Postal Service levies no charge. For other services, involving the evaluation and certification of presort and manifest mailing products developed by others (PAVETM System Certification, MACTM System Certification, MACTM Gold System Certification, and MACTM Batch System Certification), the Postal Service only levies a charge in limited circumstances that generally do not occur (which is reflected in the fact that none of these services generated revenue, with the lone exception of \$570.00 generated by PAVE in FY 2008). For the remainder, the Postal Service generates very low revenues.

These services offerings are designed in such a way as to minimize, rather than maximize, the amount of revenue they generate. This reflects the fact that, for these activities, any *de minimis* revenue that is generated is purely incidental to the purposes behind the activity. The Postal Service offers these activities at no charge (including some activities where charges are levied only in unusual circumstances), or at charges that seek to simply defray some of the costs of providing the service, so as to assist customers who voluntarily seek ways to ensure that the mail that is tendered to the Postal Service can be more efficiently handled. This, in turn, helps the Postal Service increase the efficiency (and thus lower the costs) of its mail acceptance and processing operations, and may also encourage the increased usage of the mailstream. The benefits to the Postal Service from these activities therefore come through these secondary effects. This is in contrast to regular postal products, which are priced in part to generate revenue so as to support the provision of universal postal services.

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While these activities are designed to support the Postal Service's mission, they do so through means other than revenue generation.

The fact that these services are intended to derive minimal, if any revenue, is of course most clear from the two activities (Advance Notification and Tracking System and Z4INFO) which are offered free-of-charge. In addition, PAVE™ System Certification, MAC™ System Certification, MAC™ Gold System Certification, and MAC™ Batch System Certification are performed free-of-charge except in certain limited circumstances. The fees that are charged are not intentionally designed to generate revenue (as evidenced by the fact that these services have not generated revenue in the last two fiscal years, with one minor exception noted above). Rather, the fees exist to incent developers of the products being certified to ensure those products do not have to be subjected to repeated testing, or testing outside of the normal cycle, which in turn helps to minimize the costs of the Postal Service in performing the evaluation and certification activities. Any revenues that they generate will therefore be sporadic and *de minimis*.

Other activities will generate very low revenue as a regular matter (i.e., revenue will be earned each time service is provided), but the very design of the service offering is to ensure that the amount of revenue earned is minimal. The Postal Service charges what can properly be characterized as *de minimis* administrative fees for the Postal Explorer CD-Rom and MQC Certification Training Program. A perusal of the fees for the MQC Training Program, for instance, quickly discloses that the Postal Service is simply charging small fees for the test and study materials, which is inconsistent with any notion that the Postal Service sees that program as a means of generating

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maximum revenue, in a manner similar to commercial test preparation companies, such as Kaplan and Bar-Bri. Rather, the Postal Service engages in this activity with a view towards increasing the amount of people with knowledge of the DMM, with the hope that this will lead to large secondary benefits (e.g., increasing the efficiency and attractiveness of the mail for customers). While the Postal Service seeks to defray some of the costs of providing the study and test materials, the fees are designed so as to produce a very low amount of revenue, purely incidental to the intended purpose of the program.

In addition, for PAGE™ System Certification, the Postal Service charges certification fees to defray some of the labor and travel costs (1-2 weeks for 1-2 employees) necessary to perform the evaluation and certification activities. This program was set up to ensure that Periodicals software provides accurate advertising percentages and other Periodicals information needed for Periodicals entry and pricing. The certification charges are therefore solely to recover costs, rather than generate revenue. In fact, they not been changed since they were established around 2000. The User Certification charges, meanwhile, are for certifying that new employees of Periodicals companies can use the software; they are similar to the small administrative charges for MQC Certification.

The purpose of regulation under the market-dominant provisions of chapter 36 is generally to ensure that users of services in a market in which the Postal Service is dominant (within the meaning of section 3642(b)(1)) are protected from the Postal Service taking advantage of its market-dominance by maximizing revenue through the imposition of excessive prices, or by reducing service. Hence, market-dominant product

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prices are protected by a price cap, and a requirement that any prices charged for them be "just and reasonable." Furthermore, the Postal Service must publish and adhere to service standards for market dominant products.

However, these concerns about protecting users of a particular service from monopolistic behavior on the part of the Postal Service are simply not present when one encounters services, such as these, that are voluntary, and that are explicitly designed in such a way so as to minimize the amount of revenue (if any) that they generate (leading to either the generation of no revenue, or very low revenue). Indeed, subjecting these activities to the cost reporting requirements, price change requirements, classification change requirements, and myriad other requirements attendant to being a "market-dominant product" regulated under chapter 36 would impose considerable additional costs to the Postal Service in administering them. These additional costs would call into question the continued business viability of the fees, because those costs would most likely outweigh the incidental revenue that the fees generate. Yet, it makes business sense for these fees to exist. For instance, it would be counterproductive to eliminate the possibility that fees may be imposed under the PAVE™ and MAC™ certification systems, since doing so would eliminate the incentives that they provide to product developers to ensure that their products will not require repeated, or off-cycle, testing by the Postal Service. The better result is for the Commission to forbear from applying such unnecessary regulation (and costs) on these activities.

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Finally, the Postal Service is not seeking here to create any sort of loophole by which to avoid Commission regulation over revenue-producing activities. These public,³ voluntary activities are designed in such a way as to generate no revenue, sporadic revenue, or, at the most, *de minimis* revenue (only one of these activities generated revenues in excess of \$10,000 in any one year). To assuage any concerns, the Postal Service would not be opposed to filing, each year, a document similar to Appendix A of its December 12 Response detailing the fees and revenues (if any) for those activities identified by the Public Representative and PostCom et al, for which fees are (actually or potentially) charged. By this, the Commission could determine each year whether it remains appropriate to treat these as not being “products.”

(c) These activities are designed in such a manner as to ensure that they generate either no revenue, or a very low amount of revenue. As such, they are comparable to other activities of the Postal Service that may generate incidental revenue, but are not commercial activities primarily designed for financial gain. Cf. Order No. 154 at Appendix I, page 2.⁴ At the same time, these activities clearly relate to the core postal function of moving the mail, and as such fall comfortably within the Postal Service's general and specific powers to provide “postal services.” There is simply no need, however, to characterize these activities as also being “products,” and thus subject to

³ The Postal Service identifies and describes these activities at its Rapid Information Bulletin Board web-site (<http://ribbs.usps.gov>).

⁴ For instance, the Postal Service charges a fee, from which it derives some revenue, for maintaining a list of persons who do not wish to receive sexually oriented advertising through the mail, which serves to protect the integrity of the mailstream. The Commission does not treat this activity as a “product” because it is not a commercial activity. Id. at 83.

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regulation under chapter 36, for the reasons discussed above. If they are not "products," there is no requirement in the statute or Commission regulations that they be placed in the Mail Classification Schedule.

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3. What are the current plans for collecting cost, revenue, and volume data for each proposed market dominant product?

RESPONSE:

The Postal Service is reviewing all its internal reporting systems consistent with its plans to collect and report cost, revenue, and volume data in the next ACR report. The Postal Service is working to ensure that its reporting for Address Management Services and Customized Postage meets the regulatory needs for cost, revenue, and volume reporting.

It is expected that data systems sampling will not provide adequate data for most of these services. Instead, cost methodologies will be developed (and submitted to the Commission for prior review) to generate additional information. The Postal Service will look at program expenditures to identify the costs for each proposed market dominant product.

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4. Please refer to Comments of the Public Representative at 4-6. The Public Representative asserts that (1) the Postal Service's supporting justification only mentions a few choice factors and objectives for each proposed market dominant product; (2) the supporting justification does not address the factors and objectives mentioned (except for factor 13 for the Customized Postage product); and (3) the supporting justification does not address the remaining factors and objectives as required by 39 CFR 3020.32(b). Please address each object and factor mentioned in the supporting justification for Address Management Services and Customized Postage (except for factor 13). Does the Postal Service believe any other objective or factor is relevant to one or more of these offerings? If so, please discuss.

RESPONSE:

The **Customized Postage** program helps "assure adequate revenues, including retained earnings, to maintain financial stability" by contributing revenues from the license charges paid by authorized vendors. The program also encourages more mail volumes, leading to additional postage revenues; these revenues "create[] predictability and stability in rates". By increasing revenues and mail volume, thus enhancing predictability and stability in rates, this program satisfies both objectives 2 and 5.

The Postal Service believes that some customers are choosing to use mail as a means of communication because they can apply Customized Postage (customer-specific designs) to the mail. The Customized Postage program thus enhances "the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail" (factor 8).

The Postal Service does not believe that other objectives and factors are relevant to the Customized Postage program.

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In its supporting justification to add **Address Management Services** to the Mail Classification Schedule, the Postal Service stated that “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).” The Postal Service does not believe that other factors or objectives are relevant for Address Management Services. The Postal Service provides the following supplemental information:

Section 3622(b)(1) To maximize incentives to reduce costs and increase efficiency. The Postal Service's overarching goal with its Address Management Services is to reduce the volume of mail that is undeliverable as addressed (UAA). Mailers who use Address Management Services ensure updated addressing on their mailpieces, and reduce the number of mailpieces that the Postal Service must handle manually, return to sender, or discard. Properly prepared mail helps the Postal Service reduce its costs and increase efficiencies.

Section 3622(b)(3) To maintain high quality service standards established under section 3691. When mailers use Address Management Services to improve the accuracy of address information displayed on mailpieces that they deposit with the Postal Service, the Postal Service is able to make full use of its automated systems to process the mail so that it can be delivered in a timely manner. This increases the satisfaction of both the mailer and the recipient of the mail, and also assists the Postal Service in meeting its service standards.

Section 3622 (c)(5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service. Mailers who use Address Management Services to prepare their mail with updated

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address information may obtain certain postage discounts. This provides them with incentives to properly address mailpieces. At the same time that mailers may be able to receive postage discounts, the Postal Service realizes cost savings when mail can be processed by the Postal Service's automated systems. The Postal Service can then reduce its costs because it is not required to devote as many resources to individually process questionable mailpieces.

Section 3622(c)(12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services. Most services in Address Management Services enable mailers to use technology that the Postal Service offers in order to ensure accurately addressed mailpieces that can be easily read by the Postal Service's automated equipment. By increasing the amount of mail that can be processed by technology, the Postal Service reduces the burden and cost of UAA mail. This enables the Postal Service to provide affordable service.

CERTIFICATE OF SERVICE

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

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