

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

REVIEW OF NONPOSTAL SERVICES

Docket No. MC2008-1(Phase II)

SURREBUTTAL TESTIMONY

OF

DANIEL J. LORD

ON BEHALF OF THE

UNITED STATES POSTAL SERVICE

I. Autobiographical Sketch

My name is Daniel J. Lord. I am currently Manager, Postage Technology Management, which is part of Business Mail Entry and Payment Technologies. Prior to this position, I held a number of different positions within the Postal Service, starting out as a letter carrier. This is the first time I have provided testimony before the Commission.

II. Purpose of Testimony

The purpose of my testimony is to further explain the Postal Service's postage meter approval and regulatory process, which is handled by my office. I also respond to representations made by Pitney Bowes in this proceeding that my office would take certain anti-competitive actions in order to aid the manufacturer of replacement ink cartridges bearing the Postal Service's trademark.

III. Overview of Postage Meter Regulatory Process

A. Postage Meter Approval Process

The Postal Service regulates the manufacture and distribution of postage meters and PC-Postage products through the Postage Technology Management group (PTM). The PTM group consists of 1 executive and 6 staff positions. Postage meters are approved for unlimited or limited distribution by PTM. Approvals are based upon compliance with postal regulations and technical

specifications. Postal regulations, set forth at 39 CFR Part 501, dictate the process controls over the management of postage meters (inventory, destructions, etc.) that meter manufacturers are required to follow, in order to protect Postal Service revenue. These regulations also require that meters comply with certain technical specifications, which are set forth in the Information Based Indicia (IBI) performance criteria. These criteria set forth specifications concerning matters such as user authentication and data integrity. Because of the high degree of complexity and the performance criteria requirement that all postage meters be tested for Federal Information Processing Standards (FIPS) adherence, almost all postage meter testing is conducted by third-party laboratories.¹ Those results are then submitted to my office for review. In addition, as part of the approval process, the manufacturer is required to submit sample envelopes to Postal Service Engineering. The sole purpose of this requirement is to ensure that the barcodes produced by the system are readable.

When a new postage meter is being proposed to PTM for approval, a series of communications and meetings generally take place between the Postal Service and the postage meter vendor. The purpose of these meetings and communications is to make sure all Postal Service requirements have been addressed in the design of the new meter system, so that an approval will likely result from the review process. The number of meetings/communications is dependent upon the complexity of the proposal. Some new meter designs require a greater amount of time to completely understand and comprehend what

¹ FIPS is a set of standards for Federal computer systems relating to matters such as security and privacy. They are developed by the National Institute for Processing Standards, which is a part of the Department of Commerce.

is being proposed, and may lead to an approval process generally lasting as long as 60-90 days, which includes the time it takes for Engineering to test for barcode readability. Other new designs are merely a minor update to an already approved system, which means that the approval process lasts only a couple of days or a week.

B. Meter Ink

Ink used to post metered mail must contain an element (usually fluorescence, which is an ingredient put into the ink) that is detected by the Postal Service's Advanced Facer Cancellor (AFCS) mail processing equipment. While there is no need to go into all of the technical details, the presence of fluorescence, phosphorescence, or a facing identification mark (FIM) allows an AFCS to ensure that the mail piece is correctly aligned (or faced). In addition, the barcode that is produced by a meter system must be readable, and one of the primary components lending to successful readability is reflectance (a measurement of how much light "bounces" off a surface). Ink plays a primary role in reflectance.

During a meter approval process, if the meter vendor identifies that the meter ink used in the system is currently in the market, no additional testing for fluorescence is done by the Postal Service. If the meter companies are using a "new" ink, they must submit a series of samples to the Postal Service. Testing of the ink for fluorescence is performed on a device called a "2C Light Meter," which measures the level of "excitation" of the ink. The scale used is called PMU, or Phosphor Meter Unit. The Postal Service requires a PMU level between 20 and

70 PMUs. Each postage meter company has also been issued (on loan) a 2C Light Meter for internal testing; some, like Pitney Bowes, have several light meters on loan and our understanding and experience with Pitney Bowes is that they do utilize the light meters for ink self-testing prior to submitting samples to the Postal Service. In addition, if a meter system is using a new ink or if the meter system itself is new (as opposed to an update to an already-approved system), the manufacturer must submit sample envelopes to Engineering to test for IBI barcode readability. Barcode readability requirements and reflectance standards are specified in the Performance Criteria and Security Architecture for Closed IBI Metering System (Appendix C).

The extent of the Postal Service's involvement in meter ink is therefore in ensuring that the ink is properly fluorescent, and produces readable barcodes. The Postal Service does not regulate meter ink to the same degree as it regulates the postage meter systems as a whole. Whereas my office closely reviews the manufacturing and distribution process for postage meter systems, in order to ensure that they adhere to postal regulations and protect Postal Service revenue, we do not so for ink cartridges. For example, while the Postal Service conduct audits or reviews on meter vendors' internal management of postage meters, we do not so for ink cartridges. In fact, if the Postal Service discovers a significant amount of mail in the mail stream that is not being properly faced or has readability issues, the Postal Service deals directly with the customer by mail or phone contact, rather than the meter vendor.

IV. Pitney Bowes' Comments

I have reviewed the comments that have been filed by Pitney Bowes alleging that the Postal Service will engage in anti-competitive behavior due to the fact that the Postal Service regulates postage meter systems, and also licenses its trademark on replacement ink cartridges for those systems. In particular, Pitney Bowes claims that 1) my office may seek to prevent new product innovation in the postage meter market; and 2) my office may use new product design information, or other confidential information provided by Pitney Bowes as part of the approval process, for the benefit of the Postal Service's ink cartridge licensee. In my opinion, neither of these statements are valid concerns.

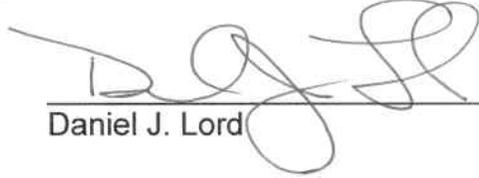
Taking the second point first, my office strictly protects confidential information that is conveyed to us by meter manufacturers. While there is no specific, written PTM policy that I can point to, any non-technical (marketing) documentation that is marked "confidential" or with similar markings is generally not even retained by the Postal Service. In fact, many of the meetings we have with the meter industry regarding new approvals or updates occur at the meter manufacturers' location, and it is practice that no documentation is removed from these meetings. We do have much technical documentation on most if not all current, approved meters. This documentation is secured in locking file cabinets within PTM. Any documentation received and/or retained as part of the meter approval process is therefore kept in the strictest confidence, and is not shared with other functions in the Postal Service, or with any party outside the Postal Service. In addition, any sample envelopes that are submitted to the Postal

Service are either destroyed, or, if requested, are returned to the manufacturer, and are not shared with other groups within the Postal Service, or with any outside parties.

Furthermore, my office has no incentive to prevent new product innovation in the postage meter market. Postage meters, along with PC-Postage, are very important to the Postal Service, accounting for the payment of nearly 20 billion dollars of the Postal Service's revenue, meaning the Postal Service has strong incentives to maintain a viable, dynamic meter market. Furthermore, the purpose of my office is to ensure that postage meter systems adhere to the process controls and technical requirements that have been set forth by the Postal Service in our regulations, and which are described in very specific documents that all postage meter manufacturers have. These requirements are transparent, well-known, and limit the reasons why my office can deny approval to a meter system. This is especially true with respect to postage meter ink, which as I discussed earlier is subject only to minimal technical standards concerning fluorescence and reflectance.

Declaration

I declare, under penalty of perjury, that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.



Daniel J. Lord

7-6-2009

Date