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MAILING ONLINE SERVICE

Docket No. MC98-1

INITIAL BRIEF OF UNITED STATES POSTAL SERVICE
REGARDING MAILING ONLINE MARKET TEST

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Kenneth N. Hollies
Scott L. Reiter
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
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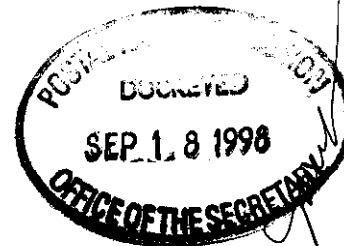


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I. Background and Summary.

On July 15, 1998, the Postal Service filed its Request for Commission recommendations regarding Mailing Online, a new service that combines the ubiquity of the internet, the user friendliness of a Web browser, and personal computer software to permit customer preparation and submission of electronic documents and mailing lists for subsequent printing, finishing, and entry as hard copy mail.

The Postal Service proposes an initial market test of Mailing Online, followed by an experimental classification. The Postal Service hopes also to propose toward the end of the experiment a permanent classification for Mailing Online. These expectations are founded on the conclusion that Mailing Online is a natural extension of the Postal Service mandate to provide an efficient system of collecting, sorting, and delivering mail nationwide. 39 U.S.C. § 403(b)(1). At a time when an increasingly broad array of services is available to customers via the internet (USPS-T-5 at 3), customer perceptions about the relative convenience of postal services are bound to change. In order to keep up with such changes, the Postal Service seeks via Mailing Online to

provide convenient access to its core services for small volume and short run mailers. USPS-T-1 at 11-12.

As directed most recently in Presiding Officer's Ruling No. 6 (September 8, 1998), this Initial Brief pertains only to the request that the Commission recommend fees and Domestic Mail Classification Schedule (DMCS) language for the market test phase of Mailing Online.

A. The Operational Plan for the Market Test is Sound.

Mailing Online operates as follows.¹ A customer accesses the PostOffice Online Web page on the internet and registers as a PostOffice Online customer. The customer can then submit a document (the contents of mailpieces produced later) and a mailing list, select from a variety of printing and finishing options, review online the appearance of the resulting mailpiece and the total cost of the job, authorize payment, and initiate the transaction. Thereafter, the Postal Service batches mailpieces based on destination and routes the batched jobs to printers. While only one printer is under contract for the market test, the experiment will involve more printers. The printer prints and finishes the mailpieces, and transports them to a local postal facility for entry into the mailstream.

As proposed, the market test would have significant limitations of scale and scope, in keeping with its purposes of assessing the viability of a new service while providing input for the Commission's (and Postal Service's) consideration of the experimental and

¹ Material in this paragraph is drawn from USPS-T-1 at 2-7, 9-11, and from written cross-examination, Tr. 2/118, 166-67, 224.

perhaps later phases of Mailing Online.² Customers would reside or conduct business in a corridor in the northeastern United States that is to be served by a single printer or be in one of the two areas from which operations test customers were drawn. Tr. 2/174-75, 220, 227-29; USPS-T-1 at 5. They would also be one of up to 5,000 registered PostOffice Online customers. USPS-T-1 at 9; Tr. 2/131, 176, 215.³ The market test has other limits, including duration (its conclusion is tied to any Commission recommendation on experimental Mailing Online by proposed DMCS SS-7), scope (specific cells in a fee schedule are requested rather than a uniform markup on a variety of changeable service options), and the availability of specified rate categories that offer

² As a practical matter, the necessity for a market test constitutes a convergence between the requisites of the linear approach embodied in the Commission's (and any regulating body's) rules of practice – which require definition of the parameters of a *service at one point in time followed by a proceeding that affords procedural due process* and considers the propriety of those parameters as they remain constant – and the essentially non-linear requirement of maintaining flexibility while designing and implementing an automated solution in today's complex and fast-changing world. This approach by the Postal Service assumes the respective sets of rules together with the potential for waiver are flexible tool sets that can be adapted to specific situations such as Mailing Online. Commission Order No. 1217, which waives certain market test requirements, demonstrates that flexibility. In particular, the Commission states that a market test proposal can be filed in conjunction with an experimental, rather than a permanent, filing, and that the market test and experimental proposal can be considered in the same proceeding. PRC Order No. 1217 at 8-9.

³ PostOffice Online is an umbrella channel for the Web-based provision of a variety of postal products and services. Tr. 2/131, 154, 345-49. Indeed, from the perspective of some postal managers, the market test is of PostOffice Online, of which Mailing Online is but one component. Thus, the market test of PostOffice Online is scheduled to commence on October 15, 1998, even if fees for the pre-mail portion of Mailing Online are not then authorized or implemented. Significantly, however, Mailing Online is the only component of PostOffice Online involving any new fee or service under the Commission's immediate jurisdiction.

some discount from single-piece rates but preclude still deeper ones. Proposed DMCS SS-7.021.⁴

Customer payments for Mailing Online pieces have two components: postage and the fees for the electronic handling, printing, finishing, and entry of the pieces. For the market test, the Postal Service seeks fees based upon a markup of 1) the contractual cost from the printer, and 2) \$.001 per impression to recover volume-variable information systems costs. USPS-T-5 at 33. Since the mailing characteristics for a new service are not possible to predict with precision, it is necessary to choose some existing rate categories for Mailing Online. The rate categories selected by the Postal Service in its Request reflect the goal of providing access by relatively small mailers to the benefits of automation, and its corollary that a national service offering should provide destination entry (or its functional equivalent) for Mailing Online.

B. The Postal Service Witnesses Provide Ample and Comprehensive Support for the Market Test.

The Postal Service Request for a Mailing Online market test is supported by the testimony of eight witnesses. Witness Garvey (USPS-T-1), the manager responsible for the development of Mailing Online, describes the current and planned operation of Mailing Online, the objectives of the Postal Service, and its fit with the established

⁴ Pitney Bowes claims that it offers a service comparable in some respects to Mailing Online; that service enters mail at various rates including more deeply discounted ones. Tr. 4/889 (affirmative responses to request for admissions).

Curiously, Pitney Bowes also appears to assert in the response to part (c) that Mailing Online pieces may also be entered at deeper discounts, a point contradicted by proposed DMCS SS-7.021.

printing and mail markets. The Request was filed before a contract for printing services was completed; hence witness Seckar (USPS-T-2) used available information to project printer costs.⁵ In addition, witness Stirewalt (USPS-T-3) estimates the information technology costs not borne by the printing contractors. Witness Rothschild (USPS-T-4) conducted the market research that originally informed the Postal Service judgment regarding development of Mailing Online. When a decision was made to bring this matter to the Commission, she documented the sources and methods used to develop her market research data, as provided in the rules of practice.

Witness Plunkett (USPS-T-5) provides the pricing testimony in this case; he analyzes the proposal for market test service, including user characteristics and appropriate mail categories. He then presents a multi-celled market test fee structure based upon contract and information systems costs, and explains how the proposals meet the rate and classification criteria of the Postal Reorganization Act.

Witness Hamm (USPS-T-6) presents testimony on behalf of the Printing Industries of America, the nation's largest printing and graphic arts association. He explains that, by capitalizing on digital printing technology, Mailing Online can expand market opportunities for both printers and small mailers.

⁵ A contract with the first of what are planned to be approximately 25 printer locations was reached in August. A copy of that contract was filed as USPS-LR-11/MC98-1 and entered into the evidentiary record. Tr. 2/113; see also, Tr. 2/104-07.

Witnesses Wilcox (USPS-T-7) and Campanelli (USPS-T-8) describe their experience as Mailing Online users during the operations test and their enthusiasm for the positive impact of Mailing Online on their small businesses.

Only one intervenor filed testimony. Pitney Bowes witness Brand testifies about the relationship between Mailing Online and Pitney Bowes' DirectNET service. Details of that comparison will be explored more fully during the experimental phase of the case.

C. The Commission Granted the Postal Service Motion for Waiver.

With its Request in this docket, the Postal Service filed a motion for waiver of certain of the Commission's rules of procedure. The Postal Service moved that, to the extent the Commission rules for market tests could be read to require a request for a permanent change as a prerequisite for a market test, such requirement be waived. The Postal Service also moved for a waiver of rules seeking cost and volume information, other than that specifically provided in the testimony accompanying the Request.

In Order No. 1217, issued on August 21, 1998, the Commission granted a waiver of the requirement that a request for a market test be appended to a request for a permanent classification, and of the rules requiring detailed information concerning the cost and revenue effects of the proposal. With respect to the use of the market test rules in conjunction with an experiment, rather than a permanent service, the Commission expressed the opinion that the purpose of the market test in either case is to evaluate the next stage of the service. The Commission noted that whether the

market test helps in evaluating the experimental service is a question of fact that it would decide on the basis of the record developed during the market test phase of the proceeding. The Commission mentioned factual issues such as the duration of the market test and the data collection plan in its discussion of the usefulness of the market test to subsequent proceedings. The Commission indicated that a negative finding on this question would make its recommendation that the market test be implemented very unlikely. Order No. 1217, at 8-10. The Postal Service believes that the data collected, and the knowledge gained, during the market test, as discussed fully below, will be useful in this regard.

II. The Postal Service Presents Conservative Cost Estimates in Support of its Fee Proposal.

Witness Seckar estimates the Postal Service's premailing costs for Mailing Online. USPS-T-2. Most of these costs are incurred directly by the printer, to be paid by the Postal Service as provided by contract. For purposes of the market test, these printer cost estimates are superseded by the actual prices included in the first printer contract. USPS-LR-11/MC98-1.⁶

Based on estimates provided by witness Stirewalt, witness Seckar also summarized the fixed and variable information systems costs which, for the most part, the Postal Service will be incurring directly. Witness Seckar's summary added in systems developer contract costs, including costs for developing the Mailing Online

⁶ Thus, witness Seckar's testimony now has only limited relevance, although it nonetheless provides a theoretical construct for consideration of the costs of Mailing Online.

system, and printing costs for an operations test of Mailing Online. Exhibit USPS-2A at 25-27; Tr. 2/425.

Witness Stirewalt estimates the Postal Service's information systems costs for the Mailing Online experiment. USPS-T-3; USPS-LR-1/MC98-1. His estimates include hardware, software, labor, and telecommunications costs, and consider Postal Service costs at the processing center used by Mailing Online, the printer sites, and the technical help desk. USPS-LR-1 at 5-11.

Both witnesses Seckar and Stirewalt use conservative assumptions to avoid understating their cost results. USPS-T-2 at 10-11, 14-15; Tr. 2/417, 423 (Seckar); Tr. 3/739-40, 749, 810-12 (Stirewalt). Thus, even if one were to identify some additional Postal Service costs to be recovered during the market test – which no participant has done – they would likely not result in an increase in their cost estimates.⁷

III. The Proposed Pricing Approach Ensures that Mailing Online Costs Will Be Recovered.

Witness Plunkett presents the Postal Service's pricing proposal for the market test. He proposes application of a 25-percent markup to the printer costs resulting from the first printer contract, filed as USPS-LR-11/MC98-1. These printer costs constitute over 95 percent of total variable costs for Mailing Online service.⁸ The direct application of a

⁷ Certain costs are shared among Mailing Online and other parts of PostOffice Online. These costs might not be avoided even if Mailing Online were unavailable, because the activities would still occur for PostOffice Online. See, e.g., Tr. 4/881.

⁸ Compare "Total Costs" figures in Exhibit USPS-5B (as revised August 10, 1998), page 1 with those on page 2.

markup to the printer costs provided by contract thus assures that the proposed Mailing Online fees will cover costs.⁹

To cover the Postal Service's information systems costs, witness Plunkett proposes an additional fee amount of 0.125 cents per impression. The variable information systems costs are estimated at 0.065 cents per impression, over the period of the experiment.¹⁰ Witness Plunkett applies this estimate to the market test, rounds up to 0.1 cents to be conservative, and applies the 25 percent markup. This guarantees that information systems costs will be covered by the fees, even if they are over 90 percent higher than the 0.065 cent estimate.¹¹ As witness Plunkett states:

If additional costs were identified that were proven to be variable, again, even if it doubles the estimated costs, it wouldn't necessarily change the amounts that we have identified for pricing purposes.

Tr. 2/678.

⁹ In fact, witness Plunkett suggests that the Mailing Online fee could alternatively be based on the printer costs alone, since excluding the other costs would have only a negligible impact on the fees and the cost coverage. USPS-T-5 at 6; Exhibit USPS-5B.

¹⁰ Exhibit USPS-2A at 2, as revised August 10, 1998. As proposed, fixed and start-up costs for Mailing Online are included in costs for 1999 and 2000. USPS-T-2 at 12. The experimental fees proposed for those years are designed to cover these costs. Thus, the Postal Service does not propose to recover these start-up or fixed costs during the market test.

¹¹ Variable information systems costs during the market test should be much lower than the estimates for the experimental period provided by witness Stirewalt. His cost estimates assume more than 5,000 users, and up to 17 printers, while the market test is expected to be limited to 5,000 users, and only one printer. By the same token, however, the number of impressions during the market test should be lower than the number for the experiment.

Based on the printer contract and information systems costs, and witness Plunkett's pricing design, the Postal Service is proposing a traditional fee schedule for market test Mailing Online service. Exhibit A to this brief shows the proposed fee schedule, formulated using the prices from the first printer contract, filed in LR-USPS-11/MC98-1.¹²

IV. The Markup Should Be Limited to 25 Percent.

Limiting the cost coverage for fees to 125 percent is critical to the success of the Mailing Online market test. The proposed cost coverage is reasonable and appropriate in light of the characteristics of Mailing Online. Mailing Online permits customers to send letters and flats at First-Class Mail and Standard Mail automation rates. In this respect, Mailing Online is analogous to the annual mailing fees which enable customers to obtain discounted rates. Such fees benefit both customers and the Postal Service through reduction in the cost of mailing and increases in mailstream efficiency. These fees therefore typically have a low cost coverage; in Docket No. R97-1, the Commission recommended a 115 percent cost coverage for annual mailing fees. PRC Op., R97-1, Vol. 1, at 596. Mailing Online is expected to produce similar benefits, and thus merits a similarly modest cost coverage.

¹² The proposed fee schedule filed with the Postal Service's Request (Attachment B1 at 2) was prepared before the printer contract was completed, and therefore used variables to represent the printer prices. Note that in Exhibit A the Postal Service proposes to apply the folding fee per fold, rather than per sheet, notwithstanding replacement section 1.1 included, after page 7, in USPS-LR-11/MC98-1. See Tr. 2/662-63.

Moreover, most of the major special services were recommended based on cost coverages of less than 125 percent.¹³ Relatively lower cost coverages make sense because special services not only provide a direct contribution to institutional costs, but also provide an additional, indirect contribution, by adding value to other postal products and thus increasing their usage. Mailing Online's cost coverage likewise should be held low because Mailing Online will generate additional contribution by adding value to, and attracting more usage of, First-Class Mail and Standard Mail, both of which make substantial contribution to institutional costs in proportion to their attributable costs. See, e.g., USPS-T-5 at 9, 19.

Target customers for Mailing Online service appear to be price sensitive.¹⁴ Thus, a lower rather than a higher markup is necessary while demand is assessed during the market test and experimental phases of Mailing Online. A higher markup might keep volume too low to allow the desired data to be collected during the market test for use by the Postal Service, the Commission, and participants during consideration of the Mailing Online experiment. USPS-T-5 at 18.

¹³ The Commission in Docket No. R97-1 recommended cost coverages below 125 percent for Registry, Certified, COD, Stamped Cards, Stamped Envelopes, Box/Caller Service, and Delivery Confirmation. PRC Op., R97-1, Vol. 2, App. G, at 1. All but one of the major special services (those listed with revenues of over \$100 million in the Commission's Docket No. R97-1 Appendix G) have cost coverages below 125 percent. The only exception, money orders, is unusual because it does not necessarily complement another postal product, and much of its contribution derives from float and unredeemed money orders. The cost coverage for another high-revenue special service, return receipts, is only slightly above 125 percent, at the Commission's Docket No. R97-1 recommended fees. See PRC Op., R97-1, Vol. 1, at 577.

¹⁴ First-Class Mail customers appear most sensitive to price. Compare USPS-LR-2/MC98-1, Table 15 with Table 16; see USPS-T-5 at 18.

Finally, the proposed markup is sufficiently high to prevent undue competitive impact from Mailing Online. As discussed below, Mailing Online should meet customer needs that are not currently being satisfied by private sector providers. The distinctive contribution of Mailing Online is its provision of an auxiliary function which enhances the value of the mail by facilitating access, but which does not supplant services offered by private firms. Because most Mailing Online costs are incurred by private printers engaged in competitive enterprise, the need for a substantial markup to protect against unfair cost advantages that the Postal Service might enjoy is unnecessary. As witness Garvey testifies, no technical or legal barriers prevent any other provider from building an Internet site and contracting with digital printers to provide a similar service. Tr. 4/829-30. While the Postal Service hopes that its brand identity will attract customers to its service, it does not enjoy any particular advantage in this regard. Indeed, Pitney Bowes is an internationally known provider of mailing equipment and services that is undoubtedly counting on similar brand recognition to build demand for its DirectNET service. Pitney Bowes has not attempted to demonstrate that the Postal Service will have any inherent advantage in this marketing effort.

V. The Rate Categories Proposed for Mailing Online Service Should Be Recommended.

The proposed classification language limits Mailing Online service to four rate categories, First-Class Mail Automation Basic, for letters and flats, and Standard Mail

Regular Automation Basic Destination BMC, for letters and flats.¹⁵ These Automation Basic rates would be available for all Mailing Online volume regardless of whether it qualified for lesser or greater discounts.¹⁶

Since customers pay at the time their jobs are submitted, the applicable postage rate must then be known – before the ultimate level of sortation submitted by the printer is known. Because customer jobs will be batched together at the printer's location, the Automation Basic volume minimums are expected to be met, and, especially during the experiment, exceeded.¹⁷ For some batches, the volume minimum may not be met, while for others a greater density may be achieved. The Automation Basic categories thus constitute the best categories for submission of Mailing Online volume. USPS-T-5 at 11-12.

For Standard Mail, the Destination BMC discount is appropriate because Mailing Online volume should ultimately qualify for it. Tr. 1/55-56; Tr. 2/582. While BMC entry would not be required during the market test, facility-specific local entry comparable to that required for entry using those rate categories is required. Tr. 2/343, 672. USPS-T-5 at 12.

¹⁵ Proposed Classification Schedule SS-7, § 7.021 (Request, Attachment A1 at 2, as revised August 5, 1998). See also, proposed Classification Schedule 221, Notes 3 and 8 (Request, Attachment B1 at 1, as revised August 5, 1998).

¹⁶ This contrasts with Pitney Bowes' DirectNET service, for which customers sometimes receive lower rates than those for the Automation Basic rate categories. See Tr. 4/889.

¹⁷ Tr. 2/393, 572. Since there is only one printer expected for the market test, batching densities should be maximized.

Both the First-Class and Standard Mail rate categories proposed constitute fair and reasonable compromises. This approach is particularly appropriate given the fact that this is a proposal for a market test, where some uncertainty is inherent in the proposal. If such uncertainty were absent, no market test or experiment would be needed.

The proposed DMCS language should be adopted so that the prices used during the market test can most closely approximate the best available long term candidates. One market test goal is to determine the propriety of prices and product features being tested, thus informing future Postal Service and Commission consideration. The market test data collection plan can help determine what fees and rate categories are appropriate for the experiment.

VI. Recommendation of the Market Test for Mailing Online Service, as Proposed by The Postal Service, Conforms with the Statutory Ratemaking Criteria.

Witness Plunkett shows how Mailing Online satisfies the statutory classification criteria in 39 U.S.C. § 3623(c). USPS-T-5 at 14-17. Since the Postal Service plans to make Mailing Online available to all customers via the internet, the establishment of a Mailing Online classification would make the DMCS more fair and equitable (Criterion 1). Fairness and equity is enhanced further because Mailing Online will make discounted postage rates available to a greater number of customers. The convenience offered by Mailing Online (USPS-T-1 at 4, 11) makes a classification for it desirable (Criterion 2), while the speed with which customers using Mailing Online will be able to prepare and have documents entered as mail satisfies Criterion 3. Moreover, customers who require less urgent transmission of their messages may

select Standard Mail, so the Mailing Online classification would also serve customers who do not require a high speed of delivery (Criterion 4). These considerations clearly demonstrate the desirability of Mailing Online for both the Postal Service and its customers (Criterion 5).

Witness Plunkett also shows how the pricing criteria support the Postal Service's proposal. USPS-T-5 at 17-21. The pricing system proposed by the Postal Service is both fair and equitable; Mailing Online can accommodate a number of different file formats (USPS-T-1 at 3) and will be available to any customer with access to the internet. Moreover, by being based directly on contractual prices, fees will directly reflect costs incurred as a result of each customer's mailing. The fee design also satisfies Criterion 2 by allowing the Postal Service to reflect individual printer costs; thus, fees will directly reflect market factors affecting pricing in the digital printing industry. The effect that this product will have on different stakeholders (Criteria 4 and 5) has been a subject of particular interest in this case thus far. The testimonies of witnesses Hamm, Wilcox, and Campanelli (USPS-T-6, USPS-T-7, and USPS-T-8) provide compelling evidence of the positive effect that Mailing Online can have on the private sector. The Mailing Online proposal would not impose any "rate increases" upon the "general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters," and has not been shown to have any adverse impact on these groups (Criterion 4). Even if such a showing could be made, the proposed market test is of such limited scope that any effect on these groups is likely to be minimal. The rate categories proposed for use

with Mailing Online are those most likely to reflect the costs that the Postal Service will incur to process and deliver Mailing Online pieces, so the Mailing Online proposal reflects the degree of preparation for mail entered using Mailing Online (Criterion 6). The use of these rate categories during the market test will eliminate the need for a separate rate category for Mailing Online, and thus would maintain the simplicity of the rate schedules (Criterion 7).

VII. Mailing Online Service Is Designed to Benefit Under-served Postal Customers.

As witness Garvey testifies, Mailing Online is designed to use advanced technology, in particular the internet and digital printing, to benefit under-served postal customers. USPS-T-1 at 1. Individuals and small businesses are identified as prospective users of Mailing Online and the main drivers of its requirements and development. *Id.* at 8-9. Mailing Online can provide these customers with highly convenient Web-based access to traditional postal delivery services, and the added benefits of access to sophisticated digital printing and discounted automation postage rates. *Id.* at 1. Witness Plunkett summarizes the Postal Service objectives for Mailing Online:

The Postal Service has developed Mailing Online to meet the needs of small, independent businesses. In its historical role as a public service, the Postal Service has long striven to provide mailing and communications services that meet the needs of individuals and small businesses. Since the Postal Reorganization Act, the Postal Service and the Postal Rate Commission have worked together to develop products and price incentives that have allowed larger mailers to reduce mailing costs by taking advantage of worksharing opportunities. The concurrent growth of presorting and consolidation industries have further allowed small and medium-sized businesses to share in the benefits of worksharing. But these industries may not meet the needs of

some small and home office (SOHO) customers. In addition to allowing individual, SOHO, and small nonprofit customers an easier means of accessing postal services, Mailing Online offers an opportunity for these customers, who might otherwise be unable to take advantage of worksharing, to reduce their mailing costs through a form of worksharing.

USPS-T-5 at 16-17.

Potential Mailing Online customers include small-volume mailers and those not currently using the mail. USPS-T-1 at 9, 13. Mailing Online will introduce these customers to the benefits of automation preparation and allow them to become more sophisticated in their understanding of mailing processes. *Id.* at 13. Much of the existing mail volume from these smaller mailers is now produced on desktop printers rather than by commercial printers. *Id.*

The Postal Service is focusing the marketing of Mailing Online on small customers like witnesses Wilcox and Campanelli, as demonstrated by targeting the PostOffice Online brochure toward "small businesses." Tr. 2/514. Neither witness had found a private company that had been able to handle mailing needs satisfactorily. 2/523-34; 545. As witness Campanelli testifies, "[p]roviding products and services for small businesses is not a priority for most large corporations." USPS-T-8 at 3. Until they began using Mailing Online, these witnesses were spending valuable time preparing their mailings on their own – time they would prefer to devote to their businesses.

USPS-T-7 at 1; USPS-T-8 at 1.

VIII. Mailing Online Is Designed to Avoid Direct Competition with Existing Businesses and to Provide an Overall Business Benefit.

Mailing Online is designed specifically to fill a niche not being served by existing providers; this characteristic should minimize direct competition with existing private businesses. USPS-T-1 at 1, 9, 13; Tr. 2/143-39, 152; Tr. 4/834-36. The offering of Mailing Online is consistent with the mandate to plan, promote and provide efficient and economical services to bind the nation together. 39 U.S.C. §§ 101, 403(a). Witness Garvey explains in detail the differences between Mailing Online and other similar services, showing that Mailing Online has unique characteristics not shared by these services. Tr. 2/252-54. He also details why Mailing Online is not well suited for longer-run print jobs targeted by existing bulk hybrid mail businesses. Tr. 2/147.

There is a potential for Mailing Online to benefit lettershops, at least in the long term. The economies of digital printing may improve the lettershops' competitive position over time, and they may be able to bid on Mailing Online contracts. In addition, some Mailing Online customers may increase their use of direct mail or their businesses may grow to the point where becoming direct customers of lettershops is more efficient. USPS-T-1 at 13; Tr. 2/151. Although some small-volume mailings could migrate to Mailing Online because of its greater convenience and despite its greater costs, shifts away from lettershops to more electronic forms of communication will evolve naturally regardless of Postal Service action. USPS-T-1 at 13; Tr. 4/833. Ultimately, as witness Garvey testifies, "If successful, Mailing Online could enhance the image of postal services among technology adopters, stem their migration to alternate

methods, and enable creative lettershops to build more personalized and individually-responsive systems capitalizing on the online approach." USPS-T-1 at 13; see also, Response of witness Garvey to MASA/USPS-T1-16(a), filed September 8, 1998.

On behalf of the Printing Industries of America, witness Hamm testifies that "Mailing Online is a logical extension of th[e] partnership" that has existed between the printing industry and the Postal Service since the early days of the nation. He testifies that the members of his organization are eager to participate in Mailing Online. The most immediate benefit would be the volume of business generated for those printers who have contracts with the Postal Service. USPS-T-6 at 2. Potential benefit exists, according to witness Hamm, not only for those printers, but for all printers. As smaller mailers become efficient mailers, or as new businesses are spawned as a result of the new marketing opportunities offered by digital printing technology, demand for printing services will increase. Accordingly, the printing industry sees Mailing Online as a positive business opportunity. *Id.* at 3.

IX. The Postal Service Has No Monopoly on Mailing Online-type Operations or its Potential Market.

Although existing providers of hybrid mail services have technical capabilities similar to Mailing Online's, Mailing Online will be better suited at this time to meet the distinct needs and characteristics of small-volume mailers. Witness Garvey testifies that no commercial organization is doing what Mailing Online proposes to do for small mailers. Tr. 4/830.

Furthermore, while existing hybrid mail services differ in significant ways from Mailing Online, no barriers preclude changes in their operations to serve small volume mailers more effectively. In fact, the existence of Mailing Online could well have a beneficial commercial effect by stimulating existing firms to improve their products and levels of service for use by smaller-volume mailers. They could, for example, batch together the files of different customers in order to take advantage of deeper discounts. Tr. 4/829-30. Indeed, the postage discounts potentially available to these providers are greater than the level of discounts proposed for the Mailing Online market test and experiment. Tr. 4/889.

Pitney Bowes witness Brand criticizes exemption of Mailing Online from the volume minimums (Tr. 4/816-25; Tr. 4/823), but fails to consider the flip side of the coin that its DirectNET service allows entry of mail at more deeply discounted rates. Tr. 4/889. Moreover, the Postal Service expects that exemptions from volume minimums will be unnecessary if Mailing Online matures. The DMCS language exempting Mailing Online volume from the minimums simply permits the market test (and perhaps the experiment) to mature under conditions likely emulative of its final form. Finally, as explained above, no commercial organizations currently offer services for small mailers that are functional equivalents to Mailing Online service. See, e.g., Tr. 2/143-49.

X. The Market Test Will Inform Postal Service Operations and Marketing Decisions and the Commission's Consideration of the Experiment.

The Postal Service plan for data collection appears as Appendix B to USPS-T-1, and by its terms incorporates the descriptions in Appendix A to USPS-T-1. In addition, the OCA filed a motion regarding additional details it would like to see collected,¹⁸ and the Postal Service responded.¹⁹ The response indicates that some of the ideas proposed by the OCA warrant inclusion in the data collection plan. The Presiding Officer later indicated that the scope of data to be collected was an issue being certified to the Commission, to be addressed in the decision on the request for a market test. Tr. 2/103.

The Postal Service submits that data required to be collected as part of the market test should be useful in informing the Commission in its evaluation of the experimental service proposal.²⁰ The Commission should accordingly limit the type and scope of information collected to that deemed necessary for further evaluation. The Postal Service examined the needs for information in light of the ability to provide it, and responded accordingly in the Appendices to USPS-T-1 and in the Response to Data Collection Motion.

¹⁸ Motion of the Office of the Consumer Advocate Concerning a Data Collection Plan for a Market Test of Mailing Online (Data Collection Motion), filed August 17, 1998.

¹⁹ Response of United States Postal Service to Motion of the Office of the Consumer Advocate Concerning a Data Collection Plan for a Market Test of Mailing Online (Response to Data Collection Motion), filed August 19, 1998.

²⁰ The market test will provide an opportunity for the Postal Service to establish working relationships with contract printers, gauge customer demand, and refine the features of the service. USPS-T-1 at 6.

The Postal Service's data collection focus during the market test will be on mailpiece information, as described in USPS-T-1, Appendix A, with collateral emphases upon resource utilization and costing. Actual volume-variable costs incurred during the course of the market test and experiment are relevant to evaluation of the experiment. These data may ultimately prove more useful than the cost estimates previously provided by the Postal Service for purposes of evaluating the experimental service and therefore will be collected and reported, as the Postal Service has indicated. The Postal Service expects to collect other useful data as indicated below.

Information concerning expenditures on the data links between the postal Web server and respective print sites will be collected. Mailpiece information will continue to be derived from reports generated by the Mailing Online server and will include data regarding finishing characteristics. The following demand data elements can be reported weekly during the market test: total transactions, total revenue, total pages, volume by simplex or duplex, volume by color versus black and white, volume by page size, volume and revenue by subclass, volume by shape, and volume by finishing characteristics.

The measurement of customer opinion and preference begins when customers choose among these elements. By reporting these usage statistics, the Postal Service will be reporting customer preferences among the choices available within Mailing Online since usage is a specific measure of acceptance. Further, the Postal Service can evaluate the help desk information in light of customer reaction and opinion and can report such consolidated information on an accounting period basis. Certain

market research survey results, where appropriate to experimental service projections, can also be reported to the Commission.

Resource and cost reporting can be performed for information systems, telecommunications and help desk functions. Logs will be maintained of Mailing Online-specific activities where it is possible and appropriate to differentiate and segregate them.

For the customer help desk, this can include reporting the number of help desk calls received that are specific to Mailing Online, the percentage of total PostOffice Online calls this number represents, and a general categorization of the reason for the calls. In analyzing these data, however, the fact that help desk costs might not be eliminated if there were no Mailing Online calls needs to be considered.

For information systems, logs will be maintained of activities performed solely in support of Mailing Online systems at the print site locations and the postal data processing center. Actual costs incurred for information systems expenditures can be reported on an AP basis. Telecommunications costs for print site data transmissions can also be reported.

The collection and reporting of other data that are not predictive of what can be expected for the experiment or which monitor costs that are not driven solely by Mailing Online service ought not be required. Since the scope of the market test is limited – numerically, demographically and geographically, any quantitative information gathered on such specific variables as depth of sort and batch characteristics would not be representative of the experiment and would be of questionable value in evaluating the

experimental Mailing Online service. In addition, all marketing expenditures will be specific to PostOffice Online – a general channel to postal products and services, rather than Mailing Online (Tr. 2/154, Tr. 4/881), so those costs are not uniquely relevant to Mailing Online.²¹ Similarly, personnel costs in the nature of management and administration time are not volume variable and need not be collected.

XI. The Commission Should Recommend a Market Test for Mailing Online as an Appropriate Balance of Interests.

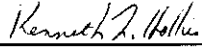
Based on the considerations discussed above, the Commission can conclude, as does the Postal Service, that the proposed service reflects a proper balance between the interests of postal customers and the public in the most efficient and effective postal services and the service industries that provide services associated with the processing and delivery of mail. Tr. 4/834-36. As witness Garvey testifies, he knows of “no specific competitive effects of Mailing Online that would warrant interfering with the policy choice to offer it on a market test and later experimental basis. *Id.*

²¹ The OCA's argument to the contrary appears to suggest it is now proposing fully distributed costing.

WHEREFORE, the United States Postal Service requests that the Commission recommend to the Board of Governors that Mailing Online be implemented.

Respectfully submitted,
UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Kenneth N. Hollies

Scott L. Reiter
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3083
Fax: (202) 268-5402
September 18, 1998

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Exhibit A
Proposed Fee Schedule for Market Test

SPECIAL SERVICES

SCHEDULE SS-7 -- Mailing Online

<u>Feature</u>	<u>Fee</u>
<u>Paper (per sheet)</u>	
<u>8½ x 11</u>	<u>\$0.006</u>
<u>8½ x 14</u>	<u>\$0.009</u>
<u>11 x 17</u>	<u>\$0.014</u>
<u>Printing (per impression)</u>	
<u>Simplex (8½ x 11)</u>	<u>\$0.026</u>
<u>Simplex (8½ x 14)</u>	<u>\$0.026</u>
<u>Duplex (8½ x 11)</u>	<u>\$0.026</u>
<u>Duplex (8½ x 14)</u>	<u>\$0.026</u>
<u>Spot Color (per impression)</u>	<u>\$0.013</u>
<u>Finishing</u>	
<u>Folding (per fold)</u>	<u>\$0.013</u>
<u>Stapling (per staple)</u>	<u>\$0.010</u>
<u>Saddle Stitch (per finished piece)</u>	<u>\$0.250</u>
<u>Tape Binding (8½ x 11) (per finished piece)</u>	<u>\$0.563</u>
<u>Tape Binding (8½ x 14) (per finished piece)</u>	<u>\$0.688</u>
<u>Applying Tabs to Self Mailer</u>	<u>\$0.088</u>
<u>Envelopes</u>	
<u>#10 envelope</u>	<u>\$0.019</u>
<u>Flat envelope</u>	<u>\$0.068</u>
<u>Inserting (per envelope)</u>	
<u>#10 envelope</u>	<u>\$0.017</u>
<u>Flat envelope</u>	<u>\$0.194</u>

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Kenneth N. Hollies

Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 18, 1998