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UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Before

Chairman Edward J. Gleiman,
Vice-Chairman W. H. "Trey" LeBlanc III,
Commissioners Ruth Y. Goldway
and George A. Omas

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Mailing Online Service

Docket No. MC98-1

OPINION
and
RECOMMENDED DECISION
ON MARKET TEST



Washington, DC 20268-0001
October 7, 1998

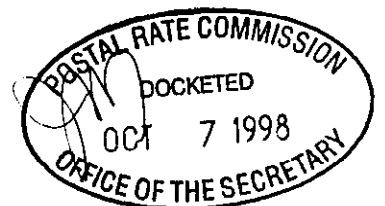


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A. INTRODUCTION

On July 15, 1998, the United States Postal Service submitted a Request for the establishment of an experimental Mailing Online special service, to be preceded by a three-month market test. Request of the United States Postal Service for a Recommended Decision on a Market Test Classification and Fee Schedule, and a Recommended Decision on an Experimental Classification and Fee Schedule for Mailing Online Service (Request). The Postal Service proposes that the market test follow an ongoing operations test.¹ Id. at 2. The most recent expected starting date for the market test is October 15, 1998.²

According to the Postal Service Request, the market test would be conducted during the Commission's consideration of the request to establish Mailing Online as an experimental service. Interim market test fees would remain in effect pending the Commission's issuance of a recommended decision on the submitted experimental mail classification, and would expire upon either implementation of the proposed experimental service, or within 3 months of a decision rejecting the experimental service proposal. Request at 3. The Postal Service's objective is to complete the limited market test by January 1999, and implement a two-year experimental classification on or about January 10, 1999, the effective date of the new rates and fees resulting from Docket No. R97-1.

¹ The Postal Service conducted a small-scale operations test of the Mailing Online Service. The operations test consisted of one postal Web server, one printer contractor and a maximum of 200 customers located in Tampa, Florida and Hartford, Connecticut. Operations test customers paid only the single-piece First-Class rate for mailing, with no additional fee for production of the mailpiece entered into the postal system. Request at 2.

² At the August 14, 1998 Prehearing Conference, the Postal Service indicated that the market test for Mailing Online could begin on October 1, 1998, using only First-Class Mail. It commented that the system software needed to use Standard A mail, which was proposed as part of the market test, would not be operational until October 15, 1998. Tr. 1/16. In its brief, the Postal Service says that it hopes to introduce Mailing Online on October 15, 1998, as part of a broader internet-based service called PostOffice Online. Postal Service Brief at 3, n.3.

On August 21, 1998, the Commission ordered that Docket No. MC98-1 be bifurcated, with separate consideration given to the market test and the experimental phase of the Mailing Online service. Order No. 1217 at 9. This Opinion and Recommended Decision is limited to the proposed market test. The Commission recommends that the market test proceed, generally at the prices proposed by the Postal Service. The Commission, however, recommends that for the market test, Mailing Online mailings not be exempt from the eligibility requirements for the destination Bulk Mail Center discount.

Description of Mailing Online. The Mailing Online service offers mailers with access to a personal computer and the internet a novel method to introduce computer-created messages into the postal system, paying online in a single transaction. Mailers first compose a document on a personal computer using word processing or desktop publishing software. The Mailing Online service is then purchased through a designated Postal Service website on the internet. Mailers select among various printing, finishing, mailing date and payment options, and submit a mailing list of recipients. The order is completed by sending the electronic document to the Postal Service website. The Postal Service batches submitted jobs where possible and transmits them electronically to digital printing contractors, who print the documents, finish and envelope them, and finally enter them at the local postal facility for delivery. Request at 1-2.

The Mailing Online service is designed for short-run (less than 5,000 pieces) direct mail advertising, invoices and solicitation mailings. Consequently, the Postal Service anticipates that small businesses such as local merchants and small offices/home offices (SOHOs) will comprise its primary customer base. Id. at 4. However, individuals as well as larger companies with low-volume mailings also are potential customers.

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The Postal Service proposes that Mailing Online service users be charged postage plus a fee for production and other pre-mailing services. Postage would be charged at either the First-Class Automation Basic or Standard Mail Automation Basic DBMC rates applicable to the finished mail piece. *Id.* at 5. According to the Service, Standard nonprofit rates will be offered to eligible mailers during the experimental service. USPS-T-1 at 7, fn. 1.

In lieu of setting specific unit fees for the Mailing Online special service, the Postal Service has proposed that in order to recover costs for the duration of the market test, the fees be set at the Service's unit contract cost for the service features purchased, plus a charge of 0.1 cent per impression, with that sum multiplied by a factor of 1.25 (thereby providing for a cost coverage of 125 percent).³ *Id.*, Attachment B1, Page 2. While only one printer has been designated for the duration of the market test (with the resulting "unit contract"), the experimental phase will involve initial printing and entry of Mailing Online pieces within the northeast corridor, with additional print sites added in other locations as demand grows.⁴ Request at 2-3. It is anticipated that printing costs may vary substantially by region due to differing levels of labor and real estate costs. USPS-T-5 at 2. Thus, although the fee design for the Mailing Online service is the same for both the market test and experimental phase, fees for the experimental phase are necessarily described as calculated by adding the printer contractual costs for the particular mailing to the 0.1 cent per impression, then

³ The impression cost figure appears in different cost variations in various Postal Service submissions. In Postal Service testimony, the impression cost is generally "rounded up" to 0.1 cents. See, e.g., USPS-T-5 at 6. However, Exhibit A, which details Service witness Seckar's unit cost development, lists the cost per impression as 0.07 cents, while Service witness Plunkett uses an 0.08 cent figure for his pricing estimates. Tr. 2/618. Finally, the Postal Service Brief refers to an 0.065 cent cost per impression. Postal Service Brief at 9.

⁴ The Service hopes to expand its Mailing Online nationwide, to 25 print sites by the conclusion of the experiment. Request at 3.

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multiplying that sum by the same 125 percent cost coverage. Request, Attachment B2, Page 1.

While the market test and the experiment of the Mailing Online service share several characteristics, there are significant distinctions between the two phases. The main difference is in the scale of the respective projects, with the market test confined to 5,000 customers in the northeast corridor, and limited collection of cost and revenue data. In contrast, the 2-year-long experiment expects to have up to 25 nationwide print sites by its conclusion, will offer nonprofit rates in addition to First Class and Standard A Regular, and provides for the collection of comprehensive cost, volume and revenue information necessary to support Commission approval of a permanent classification. The experiment will allow the Service to transmit mail electronically to a printer near the intended destination, and hopefully achieve faster, more reliable delivery. It also allows for ongoing modification or addition of available features and ancillary services (such as cards and a self-mailer option), as well as the fee schedule. *Id.* at 3-4; Tr. 2/257; Tr. 2/180.

Although acknowledging key distinctions between the market test and experiment phase of the Mailing Online service, the Postal Service Request emphasizes that the two projects represent a progression in the product development of Mailing Online, with the market test operating under conditions which approximate those sought for the experimental phase.⁵ USPS-T-5 at 4-5. In light of the market test's modest scope, scale, duration and potential impact and, further, its role as a "stepping stone" to a more permanent service offering, the Postal Service argues that the Mailing Online service qualifies for consideration under 39 CFR §§ 3001.161-166.

⁵ According to the Postal Service, these salient conditions include: (1) scalable hardware and software platform used together with a printer (or printers) whose contract represents the model for subsequent Mailing Online printers; (2) use of automation presort First-Class and Standard Mail categories; and (3) customer payment of a fee for pre-mail services. Request at 5.

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These Commission rules applicable to market tests, allow “for consideration of proposed market test within 90 days, consistent with the procedural due process rights of interested persons.”⁶ 39 CFR § 3001.164.

In order to facilitate entrance of this new service into the “rapidly emerging market and technological environment,” the Postal Service accompanied its Request with a motion to expedite Commission consideration of the market test and experimental service under 39 CFR § 3001.67 and, accordingly, to waive certain provisions of Commission Rules 64(h), 67 and 161. Motion of the United States Postal Service for Expedition, and for Waiver of Certain Provisions of Rule 161 and Certain Provisions of Rule 64(h) (July 15, 1998) (Postal Service Motion). The Service first asked for the Commission's recommendation of the experiment by the end of November 1998, in order to coordinate the possible integration of the Mailing Online service with the development of updated software, and to allow for nationwide customer access in January 1999. *Id.* at 1-2.

The Postal Service further requests that the Commission waive the requirement that a market test must accompany a request for a permanent classification change. *Id.* at 2-3. The Service asks that the market test be allowed in the context of a request for an experimental classification (which possibly would be followed by a permanent classification request), arguing that this “more logical evolution of the service” would enable the Commission to track product development more closely and also allow for

⁶ Likewise, the Postal Service maintains that the Mailing Online expanded experiment phase qualifies for 150-day expedited Commission consideration under 39 CFR §§ 3001.67 through .67d, applicable to requests for new services or mail classification changes that are experimental in character. The Postal Service cites the following features of the Mailing Online experiment phase in support of its consideration under 39 CFR § 3001.67: (a) its novelty as an electronic means of submitting documents for entry as mail; (2) the modest anticipated impact upon Postal Service costs and revenues, as well as upon the mailing costs and practices of mail users; (3) the need to collect data sufficient to support a request for a permanent mail classification change; and (4) the desirability of a two-year experiment to produce cost and volume data, as well as to demonstrate the viability of the service. Request at 6-7.

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more detailed monitoring of Mailing Online's costs, operational feasibility, reception by mailers and effect on both the overall postal system and competitors. *Id.* at 4. The Service consequently would avoid premature commitment to a permanent service in need of adjustment. Moreover, given the extended scale and scope of the market test, it would be "more realistic" if Commission-recommended interim fees were implemented. Were the Service to conduct the market test under the fee conditions of the operations test (with only the postage paid by participating mailers), finances would dictate that the market test be scaled down. The Postal Service maintains that such a scaled-back test would "necessarily compromise one or more of the three objectives — to minimize accumulated pre-mailing costs, provide customers access to discounted postage rates and develop demand based upon payment for pre-mail services rather than by providing them free — that underlie the request for market test fees as an interim step to experimental fees." *Id.* at 3, n. 2 (citation omitted).

Finally, pursuant to § 64(h)(3), the Service asks to be relieved of the duty to prefile specific information about cost and revenue effects of its proposal, on the grounds that the proposal would not alter any existing rate or fee, or produce a significant impact upon the cost-revenue relationships of existing postal services.⁷ *Id.* at 5-7. The Postal Service notes that § 64(h), appropriately interpreted in conjunction with Rule 67 governing experiments and Rule 161 governing market tests, stands for the proposition that comprehensive data may be deemed as unnecessary in these types of tests, without inevitably compromising the ability of the Commission to evaluate the proposals. *Id.* at 6-7.

In Order No. 1217, issued on August 21, 1998, the Commission divided this docket into an initial phase restricted to considering issues primarily relevant to the

⁷ The Postal Service requested that §§ 54(b)(3) in part, 54(f)(2), 54(f)(3), 54(h), 54(j) and 54(l) in part be waived. Postal Service Motion at 8-9.

proposed market test, and a subsequent phase in which issues relevant to the proposed experiment will be considered. Order No. 1217 at 9. This Recommended Decision concludes Commission proceedings on the initial phase of this docket.

Order No. 1217 further granted the Postal Service's request for a waiver of the Commission's rules that require the Postal Service to append a request for a market test to a request for a permanent classification, and of the rules that require detailed information concerning the cost and revenue effects of the proposal. *Id.* at 6-9. The Commission concluded that the essential purpose of the market test rules can be served in this docket if a market test is designed and implemented in a way that is likely to be useful in evaluating the next stage of the service, even though the next stage proposed by the Postal Service is an experiment, rather than a permanent classification. *Id.* at 6-8.

The Commission noted that whether the market test would be useful in evaluating the proposed experimental service is a factual question that it would decide on the basis of the record developed during the hearing. *Id.* at 8. The Commission said that it would base its conclusions on such considerations as the timing and duration of the market test, and what data would be collected. *Id.* at 8-10. For reasons explained more fully below, the data collection plan that the Commission recommends should yield data that will be helpful in evaluating the proposed experiment, even if the market test is quite brief. It is therefore appropriate under the Commission's market test rules to allow the market test to go forward.

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B. COSTS OF MAILING ONLINE

The Postal Service identifies two types of costs applicable to both the market test and experimental phase of the Mailing Online service: (1) printer contract costs; and (2) USPS information systems (or information technology) costs.⁸ USPS-T-2 at 9, USPS-T-3 at 3. The actual printer contract unit costs will vary according to the particular printer, but will incorporate the following cost components: (1) hardware costs for the digital printer, finisher and inserter machines required to produce Mailing Online volumes; (2) personnel costs; (3) facility costs; (4) consumable costs (for items such as toner, developer and fuser agent); (5) paper and envelope costs; and (6) costs associated with the transportation of the finished product to the nearest mail processing facility. USPS-T-2 at 10, 16.

Postal Service witness Seckar testifies about contractual print site costs for the Mailing Online service during both the market test and experimental phase, providing cost estimates based on market research results. USPS-T-2 at 10. Seckar's cost model projects over a five-year period, beginning in 1999 and ending in 2003. *Id.* at 11.

Recognizing that a Mailing Online mailpiece could have any number of defining attributes, Seckar uses market research to project total "premail" or production costs for the following document permutations: 8.5" x 11" and 8.5" x 14" black and white impressions; 11" x 17" black and white impressions; and 8.5" x 11" and 8.5" x 14" spot color impressions.⁹ *Id.* at 3. Paper and envelope costs based on document size and shape, as well as insertion and transportation costs, are then added to the calculated impression costs for a document. *Ibid.* Witness Seckar's estimated printer costs are

⁸ The printer contract and information technology costs are separate from, and in addition to, the postage costs associated with an individual Mailing Online mailing.

⁹ An "impression" indicates printing on only one side of the paper, as opposed to a duplex page, which has impressions on both sides of the paper. USPS-T-2 at 3, n. 1.

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generally lower than those incorporated in the actual market test printing contract between the Postal Service and printer Vestcom International, Inc., filed on August 19, 1998.

In addition to the premailing printer costs, the Mailing Online service incurs information systems costs, as described by Postal Service witnesses Stirewalt and Seckar. The information systems costs "reflect the process of a customer sending an electronic document to the central processing center via the internet, batching the document with other Mailing Online documents, storing a back-up of the document, and then electronically sending a batch via a T1 line to one of the many print sites geographically spread across the country." USPS-T-2 at 11-12. These costs include both fixed and variable components. The fixed costs are allocated based on piece volume over the first two years. *Id.* at 12. Stirewalt characterizes start-up costs as fixed costs. USPS-T-3 at 5; USPS-LR-1. Start-up costs include computer hardware and software, servers, routers and the dedicated network set-up.

The variable cost component of the information systems costs is allocated based upon impression volume in each year. USPS-T-2 at 12. Seckar develops a per impression cost estimate of 0.07 cents for these Postal Service information technology costs for the experiment phase, which is used as a proxy for the market test. *Id.* at Exhibit A. The estimate includes volume variable costs related to the technical help desk, the processing center and the print sites. The estimate begins with a calculation of computer capacity and telecommunications throughput requirements necessary to support the estimated volume. Cost figures for each cost element are then assigned based on the results of the capacity and throughput analysis. USPS-T-3 at 3-18; USPS-LR-1.

The Postal Service does not identify discrete marketing costs associated with the Mailing Online service during either the market test or experimental phase. Witness

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Garvey states that “[a]ny advertising of the Mailing Online service will be part of more comprehensive advertisements promoting the use of existing Postal Service products such as Priority Mail or Standard Mail (A), or focusing on a means of obtaining service, such as PostOffice Online. If Mailing Online were not offered, the Postal Service would still undertake these advertisements. Accordingly, there are no advertising costs associated directly with Mailing Online, and no such costs are identified by witnesses Seckar and Stirewalt.” Tr. 4/881.

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C. PRICING OF MAILING ONLINE

Postal Service proposes a unique pricing scheme for its Mailing Online market test. Rather than establish a set fee schedule, the Service suggests the establishment of a markup of 25 percent, to be applied to the actual contracted printer costs, plus the Postal Service's internal system development costs. USPS-T-5 at 2. A postage charge based on expected weight (reflecting the number of document pages, selected finishing option, and type of envelope used) and subclass of mail delivery (First Class or Standard A Regular) would then be added to the Mailing Online customer's charges. *Id.* at 12-13.

"Cost plus" pricing elements. For the market test, the Postal Service proposes a form of "cost plus" pricing for the printer and network administration components. For printing services, the printing contractor provides a unit fee schedule for an array of page size, color, and finishing options. USPS-T-5 at 12-13. The Postal Service proposes to multiply the unit fees for the service features selected by the customer by 1.25 to yield a cost coverage of 125 percent. For network administration services, the Postal Service proposes to multiply its estimated cost of 0.1 cent per impression by 1.25 to produce a markup of 125 percent. *Id.* at 2. For mail delivery, the Postal Service proposes to charge its Mailing Online service the automation basic rate for First-Class Mail or for Standard A Mail depending on which class of mail is used. In addition, for Mailing Online sent Standard A, the Postal Service proposes to apply the Destination Bulk Mail Center (DBMC) entry discount of 1.3 cents per piece. This pricing approach assumes that no additional markup of First-Class and Standard A Mail delivery rates is needed because appropriate markups are already incorporated into those rates.

The Postal Service argues that this "cost plus" approach to pricing contract printer services is justified by the probable need to accommodate variations in contract

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printer charges from contract to contract, both across regions and over time. (Such variations will become relevant primarily after the market test). The Postal Service also argues that a "cost plus" approach to the network administration fee will ultimately be most practical, since continuing evolution of the network configuration can be expected. USPS-T-5 at 2-4.

Averaged price elements. The Postal Service offers several operational and business reasons for concluding that it would be impractical to charge a price for the mailstream portion of the Mailing Online service that precisely reflects the actual depth of sort and facility-of-entry characteristics that each batch of Mailing Online mail has at the time that it is entered into the mailstream. The resulting complexity and uncertainty surrounding Mailing Online rates, in the Postal Service's view, would forfeit much of the ability of information technology to simplify the customer interface for small volume mailers. According to the Postal Service, it would also reduce the usefulness of batching small volume mail.

The Postal Service explains the complications from the customer's viewpoint as follows. Upon accessing the Postal Service's website, the Mailing Online customer would upload his address list, and have it automatically corrected. (Defective addresses are automatically rejected and reported back to the customer). The printing contractor has a unit fee schedule for an array of page size, color, and finishing options. When the customer selects the desired options, the unit fees for each, and the unit fee for network administration, are marked up 25 percent and multiplied by the number of units ordered. At this point the costs, and therefore the prices, of printing and network services can be calculated with certainty. The mailstream costs, however, are not yet certain because the Postal Service proposes to accumulate separate Mailing Online mailings until the mid-afternoon of each day and to batch together those with common

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printing, finishing, and Zip Code characteristics and sort them to the maximum possible depth.

The Postal Service notes that Mailing Online does not fit the traditional model for earning worksharing discounts. Traditional worksharing activity generally reduces mailstream costs in proportion to the degree of preparation that the mailer performs. In the case of Mailing Online, the mailer purchases service enhancements from the Postal Service, which reduce mailstream costs in proportion to the degree of batching and sorting the Postal Service's Mailing Online network performs after the mailer purchases the service, but before the Postal Service enters it into the mailstream.

All Mailing Online mail that undergoes batching is expected to have lower mailstream cost characteristics than it has at the time that it is submitted by the customer.¹⁰ The Postal Service recognizes that a system that reduces the mailstream cost of mail after it is submitted by the mailer but before the Postal Service enters it into the mailstream gives rise to a number of practical pricing problems. If the Mailing Online customer were charged the mailstream rate that its mailing could qualify for under the regular schedule at the time that it submits its mailing, the mailer would go uncompensated for the reduction in mailstream costs that its purchase of Mailing Online service enhancements made possible. Alternatively, if Mailing Online customers were not quoted a mailstream price until after they placed their orders and the mailstream costs of the batches formed with their orders were calculated, customers disappointed by the quoted prices could reject them and cancel their orders. This would undo batches that were tentatively formed, and disrupt the calculation of mailstream rates for

¹⁰ Potential reductions could be dramatic. Batching by the Mailing Online network could, for example, reduce the postage of a single-piece letter that can meet the content requirements for Standard A Regular mail that qualifies for the destination SCF discount from 32 cents to 19.1 cents.

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other mailings that contributed to the tentative batches. Tr. 2/567, Postal Service Brief at 13.

A more sensible approach, the Postal Service argues, is to charge Mailing Online customers a mailstream price that reflects the average mailstream cost of their mail at the time that it is entered into the mailstream. Since there are no data from which the average mailstream cost of Mailing Online can be calculated, the Postal Service argues that the automation basic rate categories (including the DBMC discount for Standard A Mail) are the categories that come closest to the average cost characteristics expected of Mailing Online mail when the service is fully deployed. The Postal Service suggests that once sufficient operating data are available to allow actual average Mailing Online mailstream costs to be calculated, it may be appropriate to establish mailstream rate categories specifically for Mailing Online mail. USPS-T-5 at 10.

Currently, to qualify for the automation basic rate for First-Class Mail, a mailing must have a minimum of 500 pieces. To qualify for the Standard A automation basic rate, a mailing must have a minimum of 200 pieces. Mailing Online has no minimum volume requirements. The Postal Service is confident that at the projected rate of volume growth, essentially all Mailing Online mailings will be combined into sufficiently large batches to meet these minimums in the planned experiment phase. For the market test, however, the Postal Service recognizes that some batches for some of the multitude of printing and finishing combinations offered may not achieve minimum volume.¹¹ The Postal Service expects most batches to far exceed the threshold volume requirement for the relevant subclass should Mailing Online become a permanent service, since at projected volumes it expects to receive tens of thousands of pieces

¹¹ There are some 42 combinations of page size, color, merge, and finishing options that will be separately batched for First-Class and for Standard A mail. Tr. 4/842.

per day at each print site. Tr. 2/572. But even then, it concedes, it is likely that a few of the less popular option combinations will not always exceed the volume thresholds currently applicable to automation basic rates. To accommodate these "exceptional cases" the Postal Service asks that the threshold volume requirements for automation basic rates be waived for Mailing Online mailings. USPS-T-5-11. It has proposed specific Domestic Mail Classification Schedule language that would implement these waivers for the market test. Request, Attachment A1 (revised August 5, 1998).

The Postal Service offers a similar argument in support of its proposed application of the DBMC discount to all Mailing Online mail entered into the Standard A mailstream. When Mailing Online is deployed at 25 print sites, it suggests, most Mailing Online mail will be deposited in the destination BMC or SCF. During the market test, the Postal Service notes, there will be a single print site in the Boston area. Customers, however, will be from the Boston/New York/Philadelphia corridor, which encompass several BMC areas. The Postal Service expects most Mailing Online mail will be addressed to zones local to the mailer, so most of this mail can be expected to go to addresses outside the Boston SCF that will be used by the printer during the market test. None of this mail will be entered at a BMC.

Since the Mailing Online mailings would not qualify for the Destination BMC discount during the market test, the Postal Service asks that the normal requirements for the DBMC discount be waived for Mailing Online. For the fully deployed Mailing Online service, it argues, most Mailing Online mail is expected to be local mail, and much of it is expected to qualify for either the Destination SCF or DBMC discount. It argues that the essential purpose of market tests under the Commission's rules is to test the market's response to the rates that are likely to be in effect when the service has matured. What the average entry characteristics of Mailing Online will be when the service is mature are not yet known. The Postal Service argues that for the market test,

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the destination BMC discount is an appropriate compromise discount that would reflect the expected average local entry characteristics of Mailing Online mail when the service has matured. USPS-T-5 at 12, Postal Service Brief at 13.

Postal Service pricing witness Plunkett contends that the Mailing Online service satisfies the requisite classification criteria of 39 U.S.C. § 3623(c), as: (1) the service positively affects the overall classification system by allowing a significant number of mailers to take advantage of worksharing opportunities and postage discounts (criterion 1); (2) market research indicates that mailers are ready to take advantage of the involved technology (*i.e.*, the internet) to conduct Postal Service business (criterion 2); (3) mail entered via Mailing Online will offer an increased speed of delivery, as well as a high degree of reliability, as evidenced by the mail piece automation compatibility at the time of entry (criterion 3); and (4) mail not in need of immediate delivery may alternatively be entered under Standard A rates (criterion 4), if applicable, thereby saving the mailer postage expense while allowing the Postal Service to improve the "match of demand with processing capacity at the point of entry" (criterion 5). *Id.* at 15-16.

According to the Postal Service, the pricing criteria of 39 U.S.C. § 3622(b) similarly are satisfied by the Mailing Online service, where: (1) the proposed markup and its application, resulting in a cost coverage of 125 percent, are both reasonable and appropriate, allowing the Mailing Online service to cover its attributable costs and contribute to institutional costs, while still effectively building a customer base through equitable pricing (criterion 3);¹² (2) the service will benefit both the general public and business mail users due to its convenience and its generation of work (and income) for the printing and document preparation businesses, as well as for the Postal Service

¹² While not noted by the Postal Service, these characteristics of Mailing Online also bear on criterion 1 of 39 U.S.C. § 3622(b) (the establishment of a fair and equitable schedule).

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(criterion 4); (3) the service may be preferable to alternative means of sending and receiving mail (such as e-mail) due to its document enhancement options (criterion 5); (4) the mailer's type of document preparation for Mailing Online allows the Postal Service to apply economies of scale which lower printing costs, and to bypass origin handling costs due to the destination entry that Mailing Online pieces will receive (criterion 6); and (5) Mailing Online adds no unnecessary complexity to the rate schedule, as existing rate schedules are used to the degree possible and the markup system eliminates the need for fee changes due to mail class rate changes (criterion 7).
Id. at 17-21.

D. RESPONSES TO THE POSTAL SERVICE'S MARKET TEST PRICING PROPOSALS

Pitney Bowes argues that the Postal Service "has decided to give itself a competitive edge" by exempting itself from the threshold volume requirements for automation basic First-Class and Standard A rates, and from the DBMC entry requirement for the DBMC discount, and passing those discounts through to Mailing Online customers. It argues that there are several "hybrid electronic/postal services" that are the functional equivalent of Mailing Online, including its DirectNET service, that will not be allowed exemptions from these discount eligibility requirements, and will not be able to pass these discounts through to their customers. Pitney Bowes Brief at 3. Similarly, the Mail Advertising Services Association, International (MASA), an association of letter shops, argues that these exemptions would "make lower rates available to [Mailing Online] users than are available to the customers of private businesses that offer the same services." MASA Brief at 6.

Pitney Bowes concedes that when Mailing Online is mature, it may well generate sufficient volumes to qualify all Mailing Online mail for automation basic discounts, and that when the dispersed network of printing facilities is deployed, it may make destination BMC entry feasible under the normal rules. But it argues that national policies favoring competition that are reflected in the Postal Reorganization Act dictate that if exemptions from discount eligibility rules for Mailing Online are warranted during its start up phase, then Mailing Online's competitors must be given the same exemptions. Pitney Bowes Brief at 4.

The Postal Service replies that exempting Mailing Online mail from the threshold volume and DBMC entry eligibility requirements would not meaningfully disadvantage DirectNET. The Postal Service emphasizes that these temporary exemptions are sought to allow it to charge average rates that would reflect the likely average

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mailstream costs of Mailing Online mailings. It notes that it proposes to waive the volume threshold only for the smallest of the automation discounts (automation basic), and to forego the numerous levels of deeper discounts for which Mailing Online mailings, after batching, are likely to qualify. In contrast, the Postal Service argues, Pitney Bowes is able to take advantage of all automation and drop ship discounts that mailings originating through DirectNET can qualify for under the existing schedule, including numerous discounts that are substantially deeper than automation basic DBMC. Tr. 2/371. The Postal Service argues that any competitive advantage that Mailing Online might gain as a result of allowing small Mailing Online mailings access to automation basic rates is likely to be more than offset by the competitive disadvantage that it will suffer by foregoing the array of deeper automation and destination entry discounts for which batched Mailing Online mailings could qualify. If DirectNET is functionally equivalent to Mailing Online, the Postal Service argues, charging an average mailstream price for Mailing Online will have two competitive effects — it will tend to cede high volume, low cost mailings to DirectNET and others, while it will tend to capture the low volume, higher cost mailings for itself. Charging an average mailstream price, the Postal Service argues, would give Mailing Online a competitive advantage only if its competitors handle predominantly low-volume mailings, and enter most of their mail at single-piece rates. According to the Postal Service, the record does not show that this unlikely circumstance, exists. Postal Service Reply Brief at 4-5.

As noted, Pitney Bowes argues that the competitive disadvantage of which it complains could be remedied by allowing all functionally equivalent “hybrid electronic postal services” the same eligibility exemptions that the Postal Service seeks for Mailing Online. The Postal Service argues that Pitney Bowes provides no workable definition of “hybrid electronic postal service.” More importantly, it argues, Pitney Bowes seeks access to average mailstream rates for DirectNET’s small volume mailings, without

restricting its access to the deeper discounts for which DirectNET's large volume mailings qualify. See Tr. 4/889. The Postal Service argues that the remedy that Pitney Bowes suggests, because of its asymmetry, would give DirectNET a competitive advantage over Mailing Online. According to the Postal Service, fairness dictates that if DirectNET were allowed to qualify its small mailings for average mailstream rates, that it should forego access to the deeper discounts that would be foreclosed to Mailing Online mailings under the Postal Service's proposal. Postal Service Reply Brief at 6-7.

The Postal Service also argues that DirectNET apparently does not have service features that require charging the customer an average mailstream price. Although Pitney Bowes contends that DirectNET is the functional equivalent of Mailing Online, Pitney Bowes Brief at 4, Pitney Bowes does not allege that DirectNET batches mailings from different customers together to achieve greater depths of presorting. Accordingly, there is no apparent reason why cost-based mailstream prices can not be determined at the time the DirectNET customer submits his order. The Postal Service argues that it should not be required to make available an averaged mailstream rate to a competitor where a competitor has no functional need to charge its customers an averaged mailstream price. Postal Service Reply Brief at 6.

E. COMMISSION ANALYSIS OF THE POSTAL SERVICE'S MARKET TEST PRICING PROPOSALS

Pitney Bowes and MASA correctly argue that a national policy favoring competition is reflected in the Postal Reorganization Act. Both cite this conclusion in the Commission's opinion regarding the Postal Service's Electronic Computer-Originated Mail service (E-COM). In reaching that conclusion, the Commission focused on § 3623(c) of the Act, which requires that classifications be "fair," and § 403(b)(1) of the Act, which mandates that the Postal Service provide "an efficient system of collection, sorting, and delivery of the mail." The Commission reasoned that these two basic goals of the Act — fairness and efficiency — embody the same pro-competitive concerns of regulatory agencies that apply the more traditional "public interest" standard. PRC Op. MC78-3 at 57.

Reinforcing the general "fairness" standard articulated in § 3623(c)(1), the Act prohibits any "undue or unreasonable discrimination among users of the mails." 39 U.S.C. § 403(c). Section 3622(b)(5) is the provision of the Act that bears most specifically on Pitney Bowes' allegation that it will be harmed by the proposed exemption of Mailing Online mailings from the automation basic and destination BMC eligibility requirements. Section 3622(b)(5) requires that in setting prices the Commission consider "the available alternative means of sending and receiving letters and other mail matter at reasonable costs." The Supreme Court has stated that § 3622(b)(4) and (5) manifest Congressional intent to "prevent unfair competition" *National Association of Greeting Card Publishers v. USPS*, 462 U.S. 810, 829 n.24 (1983).

The most directly relevant case in which the Commission was asked to apply these policies was the second E-COM case, Docket No. R83-1 (E-COM II). In that case, MASA alleged that the Postal Service proposed to implicitly "charge" itself a

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discriminatory price for mailstream services, just as MASA and Pitney Bowes allege in the instant docket. In E-COM II, the Commission concluded that the Postal Service should offer mailstream services to E-COM at the same price that would apply to other mailers because failing to do so was shown to be likely to have specific, anti-competitive effects.

MASA, the Justice Department, and the Federal Trade Commission staff argued, and the Commission agreed, that the Commission could prevent undue price discrimination if it conceptually unbundled the bottleneck mailstream service from the remainder of E-COM services, and "charged" E-COM (that is, deducted from total E-COM revenues) the same mailstream price that MASA members had to pay.

In arriving at that conclusion, the Commission discussed how antitrust concepts should be applied in Commission proceedings. After concluding that the Act requires the Commission to consider the competitive effects of the rates that it recommends, the Commission noted that it is obligated by the Act to balance its concern for the competitive effects of the rates that it recommends with concern for the other basic ratemaking goals articulated in the Act. PRC Op. R83-1 at 15-16. The Act, the Commission observed, "enacts a compromise between entrepreneurial rationality and traditional public-service oriented concepts." *Id.* at 16. The Commission observed that antitrust doctrines are not directly applied by regulatory agencies, and that regulation in many cases is intended to be an alternative means of achieving the same objectives of competition, i.e., to restrain monopoly profits, foster innovation, and broaden consumer choices. *Id.* at 15, citing the first E-COM case (PRC Op. MC78-3 at 55-56).

In E-COM II, the Commission discussed how the § 403(c) prohibition against "undue discrimination . . . among users of the mails" should be applied where a proposed charge for mailstream service is alleged to discriminate in favor of the Postal Service. The Commission concluded

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[i]f the E-COM user enjoys an effective price reduction on the carriage of his completed E-COM letter in the First-Class mailstream, for no reason other than that the letter has entered the mailstream from a Postal Service SPO rather than the facilities of a letter preparation firm, discrimination is prima facie present, and may indeed be the 'undue or unreasonable' discrimination referred to in § 403(c).

PRC Op. R83-1 at 37.

In order to make out a prima facie case of rate discrimination, however, the Commission concluded that an abstract assertion of rate discrimination was not dispositive. Applying standard antitrust concepts found in the Sherman, Clayton, and Robinson Patman Acts, the Commission required parties to show that they were competing in the relevant market (the same market as the Postal Service's offering), and that they were likely to suffer material competitive harm. PRC Op. R83-1 at 22-24. It should be noted that the Clayton Act, as amended by the Robinson Patman Act, is the primary source of legal standards for adjudicating charges of price discrimination outside the regulatory context. The Robinson Patman Act, by its terms, condemns price discrimination only to the extent that a threat to injure competition is demonstrated. See, *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 220 (1993).¹³

¹³ Since the decision in R83-1 the Supreme Court has re-examined "primary-line" price discrimination, i.e., "injury to competition between the discriminating seller and its competitors." See Areeda and Hovenkamp, *Antitrust Law*, Vol. 3, p. 431 *et seq.* (1996), discussing the Supreme Court's departure from *Utah Pie v. Continental Baking Co.*, 386 U.S. 685 (1967) via its decision in *Brooke Group*. *Utah Pie* was often interpreted to permit antitrust liability for primary-line price discrimination on a mere showing that the defendant intended to harm competition or produced a declining price structure. In *Brooke Group* the Court stated: "That below cost pricing may impose painful losses on its target is of no moment to the antitrust laws if competition is not injured: It is axiomatic that the antitrust laws were passed for the 'protection of competition, not competitors.'" *Id.* at 224. See also, *Stelwagon Manufacturing v. Tarmac Roofing Systems*, 63 F.3d 1267, 1271 (3d Cir. 1995), *cert. denied*, 516 U.S. 1172 (March 18, 1996).

The Commission found that the effective average mailstream price that the Postal Service proposed to implicitly charge E-COM would be unfair to its competitors, and that MASA had made the requisite showing that material competitive injury was likely to result.¹⁴

In E-COM II, MASA further argued that it would be anticompetitive to allow the Postal Service to use the rate for First-Class basic presorted mail as a proxy for the mailstream cost to be charged to E-COM because some E-COM mailings probably could not qualify for that rate.¹⁵ The Commission concluded that the mailstream rate E-COM mailings would have qualified for at the time they were submitted was not particularly relevant to choosing a nondiscriminatory mailstream cost to be charged to E-COM. PRC Op. R83-1 at 207. Based on the cost characteristics that E-COM was likely to exhibit after submission by the customer, but before entry into the mailstream, the Commission concluded that the First-Class basic presort rate would serve as a nondiscriminatory mailstream price to charge to E-COM. The Commission concluded that after the Postal Service batched E-COM mailings at the various print sites and entered the batches into the mailstream, E-COM was likely to be as dense as First-Class basic presort mailings.

As part of E-COM II, the Postal Service proposed eliminating the existing minimum volume requirement of 200 messages per mailing per print site. Parties

¹⁴ The Commission concluded that the proxy mailstream cost that the Postal Service proposed to apply to E-COM (the cost of First-Class basic presort) was below the postage rate that MASA's member lettershops typically paid for mailings that had comparable average cost characteristics (the marked up rate for First-Class basic presort). To protect MASA's member lettershops from the material competitive harm that this discriminatory pricing policy was shown likely to cause, the Commission established an accounting approach under which E-COM was to be charged the fully marked up First-Class basic presort rate typically paid by MASA's member lettershops.

¹⁵ MASA argued that because E-COM mailings were divided up among 25 different print sites, some E-COM mailings probably would not be sufficiently dense to qualify for the First-Class basic presort rate at the time that the customer submitted them. See PRC Op. R83-1 at 206.

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argued that because of their presumed higher than average costs, it would be anticompetitive to allow mailings that did not meet this threshold to be mailed at the same rate as submissions that did meet that threshold. The Commission focused on the degree of cost averaging that eliminating the minimum volume requirements was likely to cause, and found it to be modest. It also focused on the operational problems that the 200 message minimum had created, and found that they warranted elimination of the threshold volume requirement. *Id.* at 253-60.

The conclusions that the Commission reached concerning the alleged mailstream price discriminations in E-COM II are not controlling with respect to Mailing Online. Those conclusions depend to a large degree on the Commission's findings as to the specific competitive circumstances of that case. Though similar, the facts in E-COM II are not parallel to those in the Postal Service's proposed Mailing Online rate design. The conceptual unbundling of mailstream charges from non-mailstream charges in E-COM II involved ascribing an implicit mailstream cost to E-COM. The mailstream price that the Postal Service proposes to charge Mailing Online is an explicit price. But, as in the E-COM II result, the Commission regards the underlying economic reality, not the legal form of the pricing proposal, to be controlling when evaluating assertions that rates are unduly discriminatory in form, and unreasonably anticompetitive in effect.

E-COM II is relevant to the instant case primarily in what it required parties to demonstrate in order to make out a *prima facie* case that mailstream charges made to the Postal Service's offering were unduly discriminatory. As described above, the Commission based its conclusion on a factual determination with respect to the relevant market for the Postal Service's offering, the nature of the material competitive harm that a specific competitor was likely to sustain, whether the degree of cost averaging that a

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classification feature was likely to entail was reasonable, and whether there was sufficient operational justification for such averaging.

The record in the market test phase of this docket is not adequately developed to support definitive findings of fact in any of these areas. As noted above, the Postal Service claims that because Mailing Online is configured to serve individual and small volume mailers, it has no direct competitors. It is not clear from the record the extent to which other hybrid mailers target this market segment. Pitney Bowes argues that DirectNET is the functional equivalent of Mailing Online, and therefore competes with it directly. The record is vague, however, as to the functionality of DirectNET or other hybrid providers. When and how prices are quoted to the customer, whether batching occurs, the extent to which small volume customers are sought or accepted, when entry into the mailstream is likely, and what service options are offered is unclear.

Similarly, Pitney Bowes asserts that it will sustain competitive harm if an averaged mailstream rate is made available to small Mailing Online mailings. Its argument, however, is made in the abstract. It asserts that it is self-evident that it cannot compete fairly with Mailing Online for small, higher cost mailings, unless it can enter them at the same averaged mailstream price that would be available to small Mailing Online mailings. The Postal Service replies that to the degree that an averaged mailstream price would give Mailing Online an edge in attracting small hybrid mailings, it will, at the same time, give its competitors an edge in attracting larger hybrid mailings. The Postal Service argues that this would cause material competitive harm to DirectNET only in the unlikely circumstance that DirectNET handled predominantly small mailings entered at single-piece rates. The Commission does not agree with the proposition that competitive harm would exist only if DirectNet handles predominantly small mailings. Nevertheless, the record does not indicate whether the competitive position of DirectNET or other hybrid mail providers would actually be hurt by the Postal

Service's pricing proposal, because it does not indicate whether its competitors actually enter hybrid mail at volumes below the thresholds from which the Postal Service wants to exempt itself. Nor does the record adequately address the question of whether the Postal Service's pricing proposal is likely to discourage market entry by an entrepreneur that might target that portion of the hybrid mail market that consists of mailings smaller than the volume thresholds for automation discounts.

The record is also not well developed concerning whether operational or business needs justify the degree of discrimination that results when an averaged mailstream price is available to Mailing Online customers but not to hybrid mail providers. The Postal Service describes the pricing and operational uncertainty that would arise if Mailing Online customers were to place tentative orders, await tentative batching results, and then decide whether to conclude the transaction based on the tentative mailstream price quoted. However, the record does not indicate whether charging an average mailstream price upfront is the only feasible cure for this uncertainty. The record does not indicate, for example, whether it would be feasible from an operational and business standpoint to charge currently applicable mailstream rates to Mailing Online mailings that are initially under the current threshold volume requirements for automation discounts, and then make an appropriate rebate to their account after batches are ultimately formed. Such a determination would have a bearing on whether the degree of discrimination that is inherent in the Postal Service's proposed unilateral exemptions are undue or unreasonable.

An important factual finding necessary to determine whether the Postal Service's proposed Mailing Online mailstream prices for the market test are reasonable is whether Mailing Online volumes will be sufficient in the long run (after batching), to bring essentially all Mailing Online mailings above the current volume thresholds for automation discounts, and assure that essentially all Standard A Mailing Online

mailings would be entered at the destinating Bulk Mail Center. Pitney Bowes and the Postal Service agree that this would moot the issue of undue price discrimination. Postal Service Brief at 20, Pitney Bowes Brief at 3-4. The Postal Service asserts that when Mailing Online is fully deployed in its third year of operation, there should be more than 100,000 pieces of Mailing Online mail submitted to each print site per day. Tr. 4/873. The Postal Service argues that these volumes would be more than sufficient to make exemptions from the current eligibility requirements for automation basic and destination BMC rates unnecessary. Tr. 2/411. It suggests that volumes are likely to obviate the need for the exemptions even earlier, during the proposed experiment phase. USPS-T-5 at 11.

Pitney Bowes argues that it will be harmed if Mailing Online is allowed exemptions from the eligibility requirements for automation basic and destination BMC rates even for the market test. Tr. 4/822. Whether, and how soon, Mailing Online volumes will obviate the need for exemptions, therefore, is a critical piece of information that can only be reliably obtained by conducting the actual market test. This is perhaps the most significant benefit of allowing the market test to go forward. In the Commission's judgment, the market test will be of such limited scope and duration that any harm to the potential competitors of Mailing Online, and to competition overall (e.g. potential entrants) is likely to be minor.¹⁶

In evaluating how useful market test data will be during the experiment phase, however, the Commission must draw a distinction between the proposed exemption from the minimum volume requirement for automation basic rates and the proposed exemption from the destination BMC entry requirement for DBMC discounts. The

¹⁶ The Postal Service will restrict the market test to 5,000 customers of PostOffice Online from three metropolitan areas, for a period of approximately three months. Some of these customers may use Shipping Online, and never try Mailing Online.

market test is likely to yield volume information that will help the Commission, in the experiment phase, to evaluate the continued need for an exemption from the minimum volume requirement for automation basic rates. Even during the limited market test, the average size of customer submissions may well show that the proportion of mailings that need an exemption from the minimum volume requirements is negligible. In contrast, there is little likelihood that the destination entry profile of Mailing Online mailings will provide a basis for inferring the proportion of Mailing Online mailings that are likely to qualify for either the destination BMC or destination SCF discounts when the Mailing Online network is fully deployed.

This is because there will be only one print site in operation during the market test, using a single SCF entry facility in Waltham, Massachusetts. Tr. 2/143. It is intended to serve customers throughout the Boston, New York, and Philadelphia metropolitan areas--a region served by a large number of SCFs. During the market test, Mailing Online customers will be allowed to send mailings anywhere in the United States. Therefore, under the most optimistic volume-growth scenario, it is implausible that the majority of Mailing Online mailings would destinate within the Waltham, Massachusetts SCF. The plausibility that a majority of Mailing Online mailings would ever qualify for destinating BMC or SCF discounts depends on the full deployment of the Mailing Online network, with its planned 25 distributed printing sites and entry facilities. Under these circumstances, market test data showing the entry characteristics of Mailing Online are not likely, in the experiment phase, to provide meaningful help to the Commission in evaluating the entry characteristics that Mailing Online mailings will have when the distributed entry network is fully deployed.

For this reason, the Commission declines to recommend that Mailing Online be given exemptions from the DBMC discount requirements during the market test. The Commission, however, does not prejudge the question of whether it might be

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appropriate to provide an exemption from the DBMC discount requirements during the experiment phase.

In the Commission's view, disallowing the DBMC discount is unlikely to significantly reduce the value of the market test, since the printer charges and the automation basic discount are the major price elements that the Postal Service proposes to test for Mailing Online. Although the Postal Service's volume estimates are necessarily speculative, they are not unreasonable. Market tests are most meaningful when they test the demand for a service at rates that are reasonably representative of the rates that will be charged when the service is mature. From that standpoint, it would appear that the most useful market test of Mailing Online would be one that employs the automation basic rates proposed, based upon the reasonable expectation that at mature volumes, Mailing Online mail is unlikely to need exemptions from the minimum volume requirements for those rates.

F. COST COVERAGE OF MAILING ONLINE

Attributable costs. As Mailing Online is configured, a high proportion of its costs are incurred on a unit basis. As a result, the risks that expected volumes will not be realized, and that start up costs will not be recovered and have to be borne by other classes of mail is minimized. The Commission considers it unreasonable to attribute, and attempt to recover, Mailing Online's start up costs during the market test, because the market test is so limited in its scope and duration. Neither does the Commission attribute joint marketing costs that benefit Mailing Online. Its failure to do so, however, should not be construed as prejudging the legitimate issue of whether such costs should be attributed during the experiment phase of Mailing Online.

Cost coverage. The cost of Mailing Online service consists of two components: printing costs and information systems costs. To calculate Mailing Online fees, a 25 percent markup is applied to both the printing and the information systems costs. The printing costs are taken directly from the contract found in USPS-LR-11. Printing costs, therefore, are known and certain. The 25 percent markup above those costs will ensure that they will be covered by the printing fees.

The Postal Service does not develop an information systems cost estimate specifically for the market test. Instead, the volume variable unit cost estimate developed for the proposed experiment by witness Seckar, is used as a proxy. This unit cost is \$0.065 cent, which witness Seckar rounds up to \$0.1 cent. This unit cost is less than two percent of the printing costs of any mailpiece. It is therefore reasonable to expect that the markup on the combined printing and information systems cost would be sufficient to cover the information systems cost, even if these costs are grossly understated. The Postal Service validly observes that as a result of the rounding up of unit information costs from \$0.065 to \$0.1 cent, and the 25 percent markup above the

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rounded figure, information systems costs would be covered by information system fees, even if they turn out to be over 90 percent higher than estimated. Postal Service Brief at 9.

With respect to mailstream service, the Postal Service has proposed that four existing rate categories be used for Mailing Online—First-Class automation basic for letters and for flats, and Standard A automation basic for letters and for flats. These rates are proxies for the average of the expected mailstream costs of Mailing Online mail entered under each category. For some batches, the threshold volume required to be eligible for automation basic rates may not be met, while for the remainder, a greater density should be achieved. The automation basic categories, therefore, are the most reasonable proxies for the mailstream costs of Mailing Online. USPS-T-5 at 11-12.

The financial effect on the Postal Service of charging its proposed mailstream rates for Mailing Online is likely to be neutral. The financial losses from accepting mailings that are too small to qualify for the automation basic rates are likely to be offset by financial gains from accepting mailings, or batching mailings, that are large enough to qualify for deeper discounts than the ones to be applied. Even if the losses are not fully offset by the gains, the automation basic rates still incorporate a substantial markup that provides additional insurance against any financial losses that might arise from providing mailstream service to Mailing Online.

Markup for the Special Service. The proposed attributable cost coverage of 125 percent for the printing and information systems cost components of Mailing Online is less than the attributable cost coverage that the Commission historically has chosen for Standard A mail (typically set above 130 percent in recent general rate cases) and for First-Class mail (typically set above 160 percent in recent general rate cases). The Postal Service argues that because Mailing Online is a price sensitive experimental service in its start up phase, a markup somewhat below the average for mature classes

is appropriate. The Postal Service argues that it will help this nascent service find its market and build volumes to the level that will support reasonable judgments about the nature of the market and the future viability of the service. USPS-T-5 at 18-19. The Commission concludes that these are reasonable grounds for recommending the 25 percent markup requested.

For the reasons summarized above, the Commission concludes that during the brief market test proposed by the Postal Service, at the rates that the Commission recommends, Mailing Online is likely to cover its attributable costs, and to make a reasonable contribution to institutional costs.

Price structure. The form of the Postal Service's proposed Special Service rate schedule for Mailing Online is unique in the sense that it does not specify a set of rates for the array of service features available. It specifies a formula for determining those rates. The formula applies a specific markup (25 percent) to a set of contract printer costs that are not displayed in the DMCS and are allowed to vary as contract printer charges vary. See Appendix One.

While unorthodox, a "floating" price schedule of this kind does not seem unreasonable in the context of the proposed market test. The flexibility that it provides appears to be necessary to accommodate the potential use of multiple contractors with differing contract charges, and to accommodate changes in individual contracts without further regulatory proceedings. This approach allows changes in underlying printer charges to be made without regulatory oversight. The Postal Service, however, argues that the contracts are awarded based on competitive bids, and the discipline of the market provides an alternative safeguard to that which regulatory review would traditionally provide. This argument is plausible. The risks presented by approval of a "floating" price schedule will be minor, at least for the brief market test proposed. The

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Commission concludes that they are outweighed by the advantages of having a flexible price structure that maintains a target percentage contribution to institutional costs.

The Commission has determined that the balance of ratemaking and classification policies embodied in the Act argue in favor of allowing this limited market test to proceed. The Commission finds that the Postal Service has demonstrated the reasonable prospect that Mailing Online will recover its attributable costs and make a contribution toward institutional costs over the brief period of the market test, which the Commission finds to be consistent with § 3622(b)(3). There is also a reasonable expectation that Mailing Online will substantially benefit individual, home office, and small-volume business mailers by simplifying their interface with the Postal Service's complex rates and regulations [consistent with § 3622(b)(7)], reducing their transaction costs [consistent with § 3622(b)(2)], and making it feasible for them to take advantage of automation and drop ship discounts that previously have been used predominantly by large volume mailers [consistent with § 3623(c)(1), (3), and (5)]. It also appears that it has the potential to speed delivery of the mail [furthering § 3623(c)(3)], and to attract significant new volumes of high quality, low-cost mail to the Postal Service. This is likely to make the Postal Service a more viable participant in the rapidly evolving communications market.

Mailing Online therefore has the potential to fulfill several of the most basic mandates that the Act imposes on the Postal Service. It holds out the promise of helping preserve the Postal Service as a "basic and fundamental" public service, that can "bind the Nation together through the personal, educational, literary, and business correspondence of the people" and of extending "prompt, reliable, and efficient services to patrons in all . . . communities" through the internet, in furtherance of § 101(a). Making electronic access available to small businesses and other small organizations, and perhaps even to individuals, is likely to help the Postal Service provide "the most

expeditious collection, transportation, and delivery” [§ 101(e)], and to help it give the “highest consideration to the prompt and economical delivery of all mail.” [§ 101(f)]

If Mailing Online proves to be a viable service, it has the potential to help “maintain an efficient system of collecting, sorting, and delivering mail nationwide” as required by § 403(b)(1). It therefore appears that the basic features of Mailing Online could significantly aid the Postal Service in its pursuit of the fundamental goals of § 403(a), which requires the Postal Service “to plan, develop, promote, and provide adequate and efficient postal services at fair and reasonable rates and fees.” Accordingly, the Commission finds that, on balance, it is in both the public’s interest and the Postal Service’s interest to allow Mailing Online to be offered briefly in a limited market as a step in determining whether it is likely to realize this potential.

The Commission recommends that the proposed market test proceed despite what the Commission perceives as a potentially serious flaw in its rate design. By exempting Mailing Online mailings from the threshold volume eligibility requirements that apply to its competitors, the Postal Service will be able to compete for at least the small-volume portion of the market on preferential terms. The Commission concludes that temporarily allowing this preference is not unreasonable because of the significant transactional benefits that it makes possible. The Commission, however, must express its misgivings about extending this preference beyond the market test period. The Commission urges the Postal Service to explore other means of giving Mailing Online customers access to the economies of batching that do not require blanket exemptions for Mailing Online mailings from the eligibility requirements for automation discounts.

The Commission declines to require a specific alternative to this unilateral preference during the market test, because the market test is expected to be very brief, rapid volume growth may obviate the need for an alternative, and the record concerning

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alternatives is poorly developed. In particular, the Commission declines to adopt Pitney Bowes' proposal that the contested exemptions be extended to any "hybrid electronic postal service" because, as the Postal Service emphasizes, the definition is broad and prone to ambiguity, and administering such a requirement would likely prove difficult.

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G. DATA COLLECTION DURING MARKET TEST

1. Pitney Bowes' Argument that a New Survey Must Be Conducted During the Market Test

Pitney Bowes asserts that the Commission, as a condition of approving the requested market test, should require the Service to conduct a new market survey during the market test phase, replacing the hypothetical price points used in the original survey with actual Mailing Online market test printing prices. It also says the Commission should require the Service to complete the new survey in time for submission and examination in hearings on the experimental proposal. Pitney Bowes Brief at 1; 6-9.¹⁷

In support of its proposal, Pitney Bowes contends that witness Rothschild's volume evidence is not solidly grounded, since it was developed before the initial printing contract for Mailing Online was entered into, and was based on price points very different from those that the Postal Service will achieve under the initial printing contract for Mailing Online services. *Id.* at 6-7. As an indication thereof, it notes that the OCA calculated postage and fees for one representative piece at \$1.19 using the survey price, compared to a higher contract price, during the market test phase, of

¹⁷ The referenced market survey was filed as USPS-LR-2/MC98-1. It was adopted by Postal Service witness Rothschild and incorporated in her testimony. *See generally* USPS-T-4. The survey's main purpose was to provide estimates of the volume that the Mailing Online service might realize under various product configuration and pricing scenarios. The qualitative phase of the survey consisted of 12 focus groups (three each in Chicago, Los Angeles, Tampa and Washington, DC) with a broad range of potential end-users and intermediaries. The quantitative phase consisted of a survey of decision makers responsible for the production and/or distribution of the high potential applications identified in the qualitative phase. The data collection effort underlying the survey of decision makers employed telephone screening and a questionnaire. *Id.* Pitney Bowes says the new market test should be "of the type" presented by witness Rothschild, but indicates it could be simplified in certain respects, such as by deleting portions designed to elicit responses to enhanced services that may not be part of any experiment approved by the Commission. Pitney Bowes Brief at 9, including n. 4.

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\$1.6013. For another piece, Pitney Bowes says the OCA calculated that postage and fees under the survey price would be 71 cents, compared to the lower figure of 50 cents at the initial contract price. *Id.* at 7.

Pitney Bowes contends that the Commission needs good estimates of Mailing Online volumes if it is to perform realistic evaluations of the revenues and cost coverages the new service will yield, and argues that requiring a new survey will yield more reliable volume forecasts for the subsequent experimental classification filing. *Id.* at 8.¹⁸ It acknowledges that Commission rules do not explicitly require a market survey of any type, but argues that current circumstances justify a new one because the Service has presented a market survey for consideration and has conceded, through witness Garvey, that the results would be different if the survey were conducted again. *Id.* at 7.

Pitney Bowes also dismisses the Service's representation that it intends to augment witness Rothschild's survey-based volume estimates with actual volume data from the market test, claiming this information will be "fragmentary, at best." *Id.* at 8, citation omitted. *See also* Pitney Bowes Reply Brief at 6.

The Service is the only participant that directly addresses Pitney Bowes' proposal for a new market test as a condition of Commission approval, and opposes it on several grounds. In response to the assertion regarding the Commission's need for good volume estimates to support realistic evaluations of revenues and cost coverages, the Service acknowledges that volume estimates will be needed to evaluate a *permanent* service, but notes that there is no requirement that such estimates be produced during the market test to assist with the Commission's evaluation of the

¹⁸ Pitney Bowes also says that unless the Commission requires the Service to perform a new market survey, "one of the core purposes of the [Commission's] market test rules will be defeated," since an essential piece of information will be unavailable. *Id.*

request for an *experimental* service. Postal Service Reply Brief at 7, citing Pitney Bowes Brief at 6.

With respect to the nature and purpose of the survey, the Service asserts that the original study was initially commissioned for business purposes, not specifically for this filing. *Id.* at 8 (fn. 8). It argues that providing more information than strictly required by applicable Commission rules “should not obligate it to do even more market research when . . . the procedures being followed here provide better ways to project Mailing Online volumes.” *Id.* Moreover, the Service says it has estimated volumes for the experiment based upon the best information available, at the time of the filing, thus meeting its obligations under the statute and the Commission’s rules. *Id.*

The Service also dismisses Pitney Bowes’s argument that no further volume information will be developed in the course of the market test, on grounds that the market test is neither designed nor intended to produce projectible estimates of national volume. According to the Service, “the simple reason” for this is that gathering that type of data is one of the goals of an experiment, and it maintains that superior volume estimates are, in fact, expected to be produced as part of the *experiment*. *Id.* at 8 (emphasis in original.)

The Service further notes the Commission has consistently interpreted the rules for experimental services to contemplate waiver of the usual rules that require provision of volume estimates “for the very reason that collecting such information is one of the reasons for conducting an experiment.” *Id.* Its assessment of the Commission’s general position, as evidenced to date, is that “in each experimental case, volume data are developed as appropriate to the circumstances of the service.” *Id.* at 9. Given this position, the Service says:

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In this case, it is expected that as the experimental service progresses and as Mailing Online is made available in more locations via a national network of printers, it will be possible to base volume projections on actual Mailing Online usage. Projections based upon measures of actual behavior tend to be inherently more accurate than ones based on statements regarding intended behavior, which, no matter how well designed and conducted, is all market research can produce. Thus, attempting to reprise the survey during the market test is unnecessary and less effective than allowing the experiment to collect volume and other data.

Id. at 9.

The Service also takes issue with Pitney Bowes's assumption that a new survey could be successfully completed during the market test period. It notes that while a new survey would be expected to take five months, which is less time than the original survey, the upcoming holiday season means that additional time would be needed. Therefore, it says that further survey results could not be expected until long after the market test was concluded. Additionally, the Service notes that quantitative market research of the quality needed to withstand scrutiny in Commission proceedings is expensive, and asserts there is no need for this expenditure "because the experiment itself will produce better information." Id. at 9-10 (fn. omitted).

With respect to the argument that the Commission needs new volume data to estimate cost coverages, the Service notes that the proposed fees are based almost entirely on actual printer costs, so there is no need for volume information to calculate the cost coverage of fees above those costs. Instead, it says volume estimates are only needed for the non-printer costs, whose magnitude in relation to printer costs is so small that they have no significant effect on the cost coverage. Id. at 10, citing Postal Service Initial Brief at 8-9.

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As to cited examples of differences between contract-based and survey-based prices, the Service notes that the contract for services during the market test is in a high-cost area. Thus, it says it should not be surprising that prices found in the contract are different from those selected earlier as representative of a national average. Accordingly, the Service says there is no basis for concluding that the contract prices are more indicative of a national average than those used in the market research. *Id.* at 10.

Commission Analysis. During ongoing experiments required data collection, including that supporting volume estimates, is tailored to the circumstances of each proposal. Thus, in some cases, a condition like the one Pitney Bowes proposes here might be appropriate. However, in the context of the limited market test requested by the Postal Service, several considerations lead to the conclusion that a new market survey should not be required. First, as the Service notes, Commission rules do not require an extensive market survey as a prerequisite to conducting an experiment. Given the Service's representations that it will be collecting volume-related data during the market test, it seems more appropriate to allow it to proceed obtaining and evaluating "real world" experience, rather than resume assembling focus groups and distributing questionnaires. Additionally, several practical considerations are factors here. One, as the Service notes, is that the discrepancy between the survey prices and initial contract prices that Pitney Bowes cites is attributable, at least in part, to the fact that the contract was let in a high-cost area. Another is the expense associated with repeating the survey and the likelihood of delay in completing it. Given the combined effect of these factors, the Commission is not conditioning its recommendation on a new market survey of the type already submitted in this case.

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2. Reporting of Market Test Operations Data

During the market test, the Postal Service proposes to provide data to the Commission and the parties on the characteristics of Mailing Online mail, customer reactions to the service, and costs that are specific to Mailing Online. For the most part, the Service proposes to report mail characteristic data weekly, cost data by Accounting Period, and the remainder biweekly. Postal Service Reply Brief at 10-16. The OCA requests that all data be provided on a weekly basis, in greater detail and include additional information, such as the depth of sort achieved by batching. OCA Brief at 12, 16 and 33. MASA and Pitney Bowes support the OCA proposals and request some additional data. MASA Brief at 4 and Pitney Bowes Brief at 1.

After review of the record concerning the data collection plan, the Commission recommends that the following information be provided during the market test for use during consideration of the proposed experiment.

- a. Number of Mailing Online users; transactions; total pages, and volume by finishing characteristics broken out by day; and total revenue, volume and revenue by subclass, volume by shape and other operational statistics broken out by week with results reported to the Commission weekly.

The Service offers to provide the number of users and transactions on a daily basis with the remainder of the data on a weekly basis. Postal Service Reply Brief at 11. The OCA argues that daily information is needed to better estimate system capacities and communications costs. OCA Brief at 17-19. The Commission concludes that some data by day is necessary to obtain a more complete picture of how the Mailing Online service is being utilized. Daily data will enable the Commission to determine how Mailing Online demand is distributed through the week and matches the communication, information and printing capacities developed for the market test.

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Since the weekly data are derived from the individual transactions that occur on a daily basis, the data reporting requirement does not seem to be overly burdensome.

- b. Distribution of jobs submitted through Mailing Online by volume reported biweekly.

The OCA proposes that the Service track Mailing Online usage by individual customers (anonymously) as it did in the operations test, see response to interrogatory OCA/USPS-T1-24. OCA Brief at 17. This information is useful for determining the distribution of transactions and users by volume, but it could be burdensome to report regularly in the format suggested by the OCA. Therefore the Commission directs that the Service provide data on the distribution of transactions, by reporting the number of transactions or jobs submitted to Mailing Online that have a volume between the following intervals: 1 to 100; 101 to 200; 201 to 300; 301 to 500; 501 to 1,000, 1,001 to 2,500; 2,501 to 5,000; and over 5,000. The information should be reported biweekly for each class of mail and should be presented for jobs received over the most recent two week period and cumulatively from the start of the market test.

The distribution data will enable the Commission to determine the extent to which Mailing Online is actually being used for small volume mailings, and the extent to which batching makes low volume users eligible for automation discounts. In providing data on users, the Postal Service should take care to eliminate all indications of the identity of specific users. Should a party have a need for data with finer detail on information by job and user, it can be sought through discovery during consideration of the experiment proposal. To facilitate such discovery, the Service is requested to retain the raw data necessary to track usage by individual customers.

- c. Daily volume of Mailing Online batches separated by class of mail to be reported biweekly.

OCA identifies the need for data on the results of the Mailing Online batching function. Specific tables for reporting the daily volume of batches by class, shape, and job characteristic type are presented in the OCA Brief at 15. The Commission believes that these tables may be overly burdensome for routine reporting and does not require the Service to provide information in that format. However, the Commission concludes that information on daily volume by batch and class will provide insight into whether the requested waiver of minimum volume requirements for automation rates is needed or justified.

- d. Depth of sort information on mailings submitted to Business Mail Entry Unit to be reported biweekly.

The OCA and MASA argue that depth of sort information is needed on the batches of mail that are entered into the mail stream in order to determine if the proposed postage rates are appropriate and to what extent the proposed waiver of minimum volumes for eligibility for automation rates is necessary in practice. MASA Brief at 5 and OCA Brief at 12. The Postal Service contends that depth of sort information from the market test will not be representative for the experimental phase due to the limited scope of service during the market test. 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 at 7-8. If the depth of sort data are collected during the market test, then the representativeness of the data can be evaluated during consideration of the proposed experiment; however, without the data, the issue would be foreclosed. Therefore the Commission includes depth of sort information in the data collection plan.

The Postal Service offers to submit mailing statements on a biweekly basis. Postal Service Reply Brief at 12. If the mailing statements provide the level of sort achieved on each batch submitted to the Business Mail Entry Unit, even though a single automation basic rate is being applied for all pieces, then the provision of these statements will be sufficient. However, if the mailing statements do not reflect the depth of sort for each mailing that results from a Mailing Online batching operation, then the Service must find an alternative means of providing the depth of sort data for each batch.

- e. Printer site logs to be provided to the Commission biweekly.

The Postal Service offers to keep logs at the printer site with dates of receipt and entry of mailings with annotations to reference expected date of mailing. *Id.* at 13. The OCA requests that more detailed daily logs be maintained to document the Postal Service's ability to transmit batched files to the print site by the cutoff time, and the printer's ability to enter the mailings at the Business Mail Entry Unit by the cutoff time. OCA Brief at 31. The Commission concludes that the printer site logs can provide useful information on the ability of the Service to meet Mailing Online deadlines without additional data collection on the flow of jobs between the Service and the printer. If during consideration of the proposed experiment, parties determine that the information offered by the Postal Service is inadequate to address the extent to which deadlines are in fact met, then additional data can be requested through discovery.

Pitney Bowes proposes that the Service provide data on the degree to which mailing statements match mailing submissions. Pitney Bowes Brief at 12. As a means of providing the data, Pitney Bowes notes that bulk mail acceptance clerks keep a log of disqualified mailings and proposes that a special log of Mailing Online disqualifications be maintained and the results reported to the Commission as part of

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the data collection plan. Compliance is an essential part of on-going bulk mail operations. One of the benefits of a market test is the identification and correction of problems leading to disqualifications. The Commission expects the Service to address these issues, and will not require any special data collection procedures to report the level of disqualifications at this early stage.

- f. Data for assessment of customer reactions to Mailing Online to be provided biweekly.

The Postal Service proposes several data elements to be used to assess customer reactions to the Mailing Online service. These proposed elements include:

- Consolidated reports on help desk logs to be provided biweekly. Postal Service Reply Brief at 12.
- Reports on options customers select as reflected in mail characteristic data provided weekly. Postal Service Brief at 22.
- Edited results from "voluntary questionnaires requesting information about the customer's use of specific types of mailing applications, the number of employees and the type of business." Postal Service Reply Brief at 12-13.
- Analyses of e-mails and other feedback received. Tr. 2/312.

Each of these elements is considered useful and is incorporated in the recommended data collection plan with biweekly reporting of results.

The OCA recommends that when customers place orders through Mailing Online that data be obtained on the type of item being mailed in terms of the five applications or uses the Service projected for Mailing Online, and the industry and number of employees of the customer. OCA Brief at 8-10. The OCA asserts that these data on

uses would be valuable for corroborating or adjusting the results of Rothschild's market survey, which employs specific uses or application types as building blocks to develop volume estimates. OCA Brief at 3-9. MASA asserts these data will be useful for an assessment of the effect of Mailing Online on competitors providing alternative mailing services for the same type of applications. MASA Brief at 7.

The Service contends that the collection of these data as part of the ordering process would be intrusive. Response of United States Postal Service To Motion Of The OCA Concerning A Data Collection Plan for a Market Test of Mailing Online at 4. The Commission agrees that requesting mailers to provide content information when submitting mail is intrusive and could discourage use. Furthermore, since the Commission does not consider it necessary to replicate or corroborate the Rothschild study as part of the market test, obtaining information related to components of that market study are not essential. Thus the Commission will not require the collection of data on customers or the content of the mail as part of the operation of Mailing Online.

MASA requests that the Service collect and report information about features that may be added or dropped as a result of customer preferences. MASA Brief at 8. The Commission expects the Service to report when changes to the Mailing Online service are being proposed, but does not require that information be reported on what could lead to a decision.

MASA requests that information be collected as to whether market test users would have mailed the pieces sent through Mailing Online using a third-party mailing service and different rate category if Mailing Online were not available. MASA at 7. The Commission does not recommend the addition of this data collection to the ordering process in light of Postal Service objections to obtaining customer information in that manner.

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- g. Costs specific to Mailing Online and for selected expenditures common to Mailing Online and other services (Advertising and Marketing, Processing Center, Help Desk, Communications and Printer Site) to be reported each accounting period.

The Postal Service has offered to provide all costs that are specific to Mailing Online that are representative of the experimental period but has objected to providing joint costs as being burdensome, infeasible or inappropriate given current costing methods. Postal Service Reply Brief at 13. The issue of whether an activity is representative of the experimental period should be deferred to consideration of the experimental proposal. In the meantime, joint costs that benefit Mailing Online should be considered as potentially relevant to either the attributable costs or the appropriate markup for Mailing Online. They should be collected and reported to the Commission on an accounting period basis.

The Commission agrees that some of the common costs that parties propose be collected are not necessary. For example, the Commission considers the OCA proposal to collect costs of administrators and managers through the use of personal logs as unnecessary and inappropriate. OCA Brief at 27. However, all set up costs and on-going expenses for equipment, software, communications and processing activities that involve Mailing Online should be collected and reported to the Commission. During consideration of the experiment, the issue of how to attribute such costs can be fully considered only if the costs are available.

The Service proposes to start using the Fast Forward address checking system at some point during the experiment. Tr. 2/140. MASA notes that the Service, or independent licensed contractors, normally charge for Fast Forward service but Mailing Online customers will receive it automatically. Therefore, MASA argues that the cost of providing the Fast Forward service must be determined and properly attributed to Mailing Online. MASA Brief at 4. The Commission agrees that data concerning the

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cost of providing Fast Forward service to Mailing Online should be available for consideration during the proposed experiment, and directs the Service to provide estimates of the cost when used during the market test. Under cross examination, witness Garvey stated that he knew of no reason "why the usage of the Fast Forward system in connection with Mailing Online during the market test could not be reported as part of the data report to the Commission." Tr. 2/315.

The costs of advertising and marketing that refer to Mailing Online are to be reported even when they also refer to other services. The Service has indicated that there will be an advertising and marketing campaign during the market test that promotes PostOffice Online, of which Mailing Online is a part. A marketing contract exists and will be implemented independent of the Mailing Online market test. Consequently the Service argues that the advertising and marketing costs are joint and common to several postal services and should not be allocated, even in part, to Mailing Online. Parties argue that it may be appropriate to attribute some advertising costs to Mailing Online and that the issue should be resolved during consideration of the experiment. MASA at 5, OCA at 29, and Pitney Bowes at 5. In order to properly consider the issue, advertising cost data must be available. The Commission agrees on the value of the cost data without prejudging the attribution issue. In providing advertising and marketing cost data, the Service should be comprehensive. For example, the costs of Postal Service customer service representatives marketing Mailing Online, should be included in the reported costs.

- h. Logs of activities specific to Mailing Online will be maintained to differentiate and segregate those activities from others to be reported biweekly.

The Postal Service has offered to provide these logs where possible and appropriate on a biweekly basis. Postal Service Reply Brief at 13. Specifically, it has

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offered to maintain a log of PostOffice Online Help Desk activities that will record the number of Mailing Online calls, the percentage these are of total calls, and the nature of calls but not the duration of the calls. Feasibility and burden problems are cited regarding the recording of call duration. Postal Service Reply Brief at 13. The OCA specifically requests the data be reported on the duration of calls in order to estimate the overall costs of the help desk. OCA Brief at 24. The Commission accepts the Service's burden claim and will not require the duration of calls be recorded, especially in light of the relative size of the costs.

The Service has also offered to maintain logs of Mailing Online activities at the print site. Postal Service Reply Brief at 13.

- i. Raw data used for the Mail Characteristic reports should be retained by the Service in order that the data might be available through discovery.

OCA recommends that the data be provided routinely to permit analyses that are unanticipated at this point in time, but become of interest as various Mailing Online trends develop. OCA Brief at 16. Pitney Bowes recommends that the data be retained so that it will be available through discovery in case anomalies develop in the reports. Pitney Bowes Brief at 13. The Commission believes that the Pitney Bowes approach provides sufficient backup for the analysis capability that OCA seeks without any undue reporting.

- j. Summary.

In summary, the Service is required to provide the following data according to the indicated schedule. The reports are to be submitted promptly after the close of the reporting period.

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Weekly Reports:

The daily number of Mailing Online users; transactions; total pages; and volume by finishing characteristics. See (a.) above.

The weekly total revenue; volume and revenue by subclass; volume by shape and other operational statistics. See (a.) above.

Biweekly Reports:

Distribution of jobs submitted through Mailing Online by volume. See (b.) above.

Daily volume of Mailing Online per batch. See (b.) above.
Depth of sort information on mailings submitted to Business Mail Entry Unit. See (d.) above.

Printer site logs on flow of jobs. See (e.) above.

Data for assessment of customer reactions to Mailing Online. See (f.) above.

Logs of activities specific to Mailing Online will be maintained to differentiate and segregate those activities from others. See (h.) above.

Accounting Period Reports:

Costs specific to Mailing Online and for selected expenditures common to Mailing Online and other services (Advertising and Marketing, Processing Center, Help Desk, Communications and Printer Site). See (g.) above.

Data To Be Retained:

Raw data used for the Mail Characteristic reports should be retained by the Service in order that the data might be available through discovery. See (i.) above.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

001746

Before Commissioners: Edward J. Gleiman, Chairman;
W.H. "Trey" LeBlanc III, Vice Chairman;
Ruth Y. Goldway and George A. Omas

Mailing Online Service

Docket No. MC98-1

RECOMMENDED DECISION

(Issued October 7, 1998)

A public hearing having been held in the above-entitled proceeding, and the Commission, upon consideration of the record, having issued its Opinion on the Postal Service Request for a market test in this docket, which is attached hereto and made a part thereof,

IT IS ORDERED:

That the Commission's Opinion be transmitted to the Governors of the Postal Service and that the Governors thereby be advised that:

1. (a) The fees set forth in Appendix One hereof are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3622(b) thereof; and they are hereby recommended to the Governors for approval.
- (b) The amendments to the Domestic Mail Classification Schedule set forth in Appendix Two are in accordance with the policies of title 39 of the United

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Recommended Decision on Market Test

- 2 -

States Code and the factors set forth in § 3623(c) thereof; and they are hereby recommended to the Governors for approval.

By the Commission.

(S E A L)

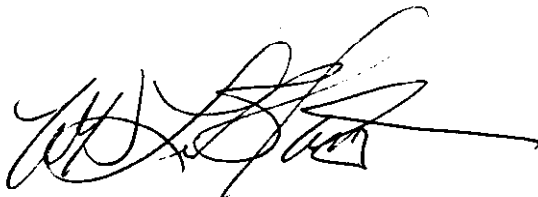


Margaret P. Crenshaw
Secretary

CONCURRING OPINION OF VICE CHAIRMAN LEBLANC

I congratulate the Postal Service for proposing an innovative and apparently useful product which may prove to be very beneficial to small users of the mail and to the Postal Service itself. That said, I cannot agree that Mailing Online (a competitive service) and more specifically the market test, should be allowed access to the letter mailstream (a monopoly service) on more favorable terms than those allowed to its actual and potential competitors. The record is unclear about how much actual competition there is in the market for which the Postal Service has designed Mailing Online, the small office, home office (SoHo) market. Internet services of all types, however, are sprouting up at a dizzying pace. Failure to allow potential competitors to serve the SoHo market on the same terms as the Postal Service could have a devastating effect on competition in this segment of the dynamically growing internet services market.

I believe, however, that the market test is so limited that its potential to harm actual or potential competition is limited. Consequently, I concur in this decision.



W.H. "Trey" LeBlanc III
Vice Chairman

RECOMMENDED CHANGES IN RATE AND FEE SCHEDULES

The following changes represent the rate and fee schedule recommendations of the Postal Rate Commission in response to the Postal Service's Request for a Mailing Online market test. In addition to substantive changes, the provisions reflect minor editorial and conforming changes. In the notes to Schedule 221, First-Class Mail, proposed additions are underlined; there are no deletions. Schedule SS-7, Mailing Online, is new material.

**FIRST-CLASS MAIL
SCHEDULE 221 NOTES**

³ Rates apply to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements prescribed by the Postal Service and, for the Basic Presort rate, documents provided for entry as mail using Mailing Online service, pursuant to classification schedule SS-7.

⁸ Rates apply to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements prescribed by the Postal Service and, for the Basic Presort rate, documents provided for entry as mail using Mailing Online service, pursuant to schedule SS-7.

Add Schedule SS-7 to read as follows.

SCHEDULE SS-7 — Mailing Online

Feature	Fee
Paper (per sheet)	
8½ x 11	1.25(P ₁)
8½ x 14	1.25(P ₂)
11 x 17	1.25(P ₃)
Printing (per impression)	
Simplex (8½ x 11)	1.25(P ₄ + 0.1¢)
Simplex (8½ x 14)	1.25(P ₅ + 0.1¢)
Duplex (8½ x 11)	1.25(P ₆ + 0.1¢)
Duplex (8½ x 14)	1.25(P ₇ + 0.1¢)
Spot Color (per impression)	1.25(P ₈)
Finishing	
Folding (per fold)	1.25(P ₉)
Stapling (per staple)	1.25(P ₁₀)
Saddle Stitch (per finished piece)	1.25(P ₁₁)
Tape Binding (8½ x 11) (per finished piece)	1.25(P ₁₂)
Tape Binding (8½ x 14) (per finished piece)	1.25(P ₁₃)
Applying Tabs to Self Mailer	1.25(P ₁₄)
Envelopes	
#10 envelope	1.25(P ₁₅)
Flat envelope	1.25(P ₁₆)
Inserting (per envelope)	
#10 envelope	1.25(P ₁₇)
Flat envelope	1.25(P ₁₈)

Note: P_x represents contractual costs, for feature x, that the Postal Service will pay based on the Mailing Online printer contract between Vestcom International, Inc. and the United States Postal Service. The market test fees expire in accordance with the provisions in classification schedule SS-7, section 7.051.

**RECOMMENDED CHANGES IN THE
DOMESTIC MAIL CLASSIFICATION SCHEDULE**

The following changes represent the changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service's Request for a Mailing Online market test. With one exception, proposed additions are underlined and proposed deletions are in brackets. The exception is Classification Schedule SS-7, Mailing Online, which is entirely new material.

**FIRST-CLASS MAIL
CLASSIFICATION SCHEDULE**

221.31 a. Is prepared in a mailing of at least 500 pieces, or is provided for entry as mail using Mailing Online service, pursuant to schedule SS-7;

260 [First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of the fees prescribed in the corresponding schedule:] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

j.	<u>Reserved</u>	
k.	<u>Reserved</u>	
l.	<u>Mailing Online</u>	<u>SS-7</u>

**STANDARD MAIL
CLASSIFICATION SCHEDULE**

321.231 a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry as mail using Mailing Online service, pursuant to schedule SS-7.

364 **Regular**

The following service may be obtained in conjunction with mail sent under this classification schedule upon payment of the appropriate fees:

<u>Service</u>	<u>Schedule</u>
a. <u>Mailing Online</u>	<u>SS-7</u>

Add Classification Schedule SS-7 to read as follows.

CLASSIFICATION SCHEDULE SS-7 — MAILING ONLINE

7.01 Definition

7.010 Mailing Online is a service that allows mailers to submit electronic documents, with address lists, for subsequent conversion into hard copy form, entry as mail, and delivery.

7.02 Description of Service

7.020 Mailing Online is available for documents submitted in an electronic form, along with an address list, to be entered under the following classification schedules:

- a. First-Class Mail;
- b. Regular subclass of Standard Mail.

7.021 Documents presented through Mailing Online are eligible for the following rate categories:

- a. First-Class Mail Letters and Sealed Parcels Automation Letters Basic
- b. First-Class Mail Letters and Sealed Parcels Automation Flats Basic
- c. Standard Mail Regular Automation Basic Letters
- d. Standard Mail Regular Automation Basic Flats

7.03 Requirements of the Mailer

7.031 Documents and address lists must be presented in electronic form, as specified by the Postal Service, through the Postal Service's Mailing Online internet site. Documents must be prepared using application software approved by the Postal Service.

7.04 Fees

7.041 The fees for Mailing Online service are described in Fee Schedule SS-7.

7.05 Duration of Market Test

7.051 The provisions of schedule SS-7 expire no later than implementation of an experimental Mailing Online service following acceptance or allowance by the Governors of the Postal Service of a recommended decision by the Postal Rate Commission, or no later than 3 months after issuance of a recommended decision by the Commission rejecting the Postal Service's request for an experimental Mailing Online service; or no later than 3 months after issuance of a decision by the Postal Service Governors rejecting a Commission recommended decision on an experimental Mailing Online service.

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Appendix A
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POSTAL RATE COMMISSION
Washington, D.C. 20268-0001

Office of the Secretary

October 7, 1998

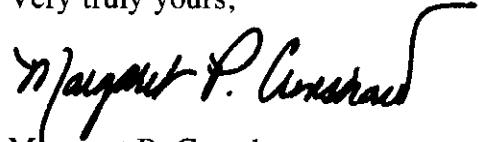
Re: Docket No. MC98-1

Mailing Online Service

TO THE PARTY ADDRESSED

There is enclosed, pursuant to Section 3001.12 of the Rules of Practice and Procedure, the Postal Rate Commission's Opinion and Recommended Decision on Mailing Online Service.

Very truly yours,



Margaret P. Crenshaw
Secretary

Enclosure

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

FROM: Office of the Secretary

SUBJECT: Documents (Pleadings and Other Papers) on the Opinion and
Recommended Decision on Mailing Online Service in Docket
No. MC98-1.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

CERTIFICATION

I hereby certify that the attached documents as listed on the appended sheets are true and correct copies of documents on file with the Commission on the Opinion and Recommended Decision on Mailing Online Service in Docket No. MC98-1.

October 7, 1998
DATE

Margaret P. Cusack
SECRETARY

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

FROM: Office of the Secretary

SUBJECT: Documents (Pleadings and other papers) in Docket No. MC98-1

DATE 10-9-98

SIGNATURE Robert Terrell