

GHS-T-1
Docket No. R2006-1

DIRECT TESTIMONY

OF

CAMERON BELLAMY

ON BEHALF OF

GRAYHAIR SOFTWARE

September 6, 2006

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DIRECT TESTIMONY
OF
CAMERON BELLAMY

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Cameron Bellamy. I am the President and partner in GrayHair
3 Software, Inc. (GHS), founded in February of 2000.

4 Although this is my first official participation in a rate case, I have been involved
5 in postal affairs as they apply to industry my entire career.

6 Prior to forming GHS, I was Director of Mailing Services with Columbia House in
7 NYC for some seven years and was the second person to sign up for the Confirm beta.
8 Before that I spent over 25 years with what was then Grolier Enterprises in Danbury, CT
9 also with mail production and postal responsibilities. My entire career has been in the
10 direct mail industry, mostly as a mail owner. The last six years have been with GHS
11 which is principally a Confirm service provider. GHS is also introducing several new
12 products that offer specialized tools to direct marketers to enhance and automate
13 numerous tasks associated with producing direct mail.

14 GHS believes in mail, the power of mail and its current and long term value to
15 marketing professionals. GHS has consistently been actively involved in industry affairs
16 to promote and enhance the value of mail to our clients.

17 GHS is a leading provider of Confirm services. Its clients include a number of the
18 largest mailers in the country. GHS has been a Confirm service provider since early
19 2000 and a Platinum subscriber since that option was first made available.

1 II. PURPOSE AND SCOPE

2 The purpose of this testimony is to discuss the Confirm pricing proposals offered
3 by the Postal Service and by the Office of Consumer Advocate (OCA). GHS will review
4 some of the difficulties with the proposal of the Postal Service, and offer reasons and
5 provide background considerations in support of the OCA pricing proposal.

6 III. GHS SUPPORTS THE PRICING PROPOSAL FOR CONFIRM PUT FORWARD
7 BY THE OFFICE OF CONSUMER ADVOCATE

8 As part of the current proceeding, the Postal Service is proposing a fundamental
9 change in the way that Confirm service is priced. As a Platinum subscriber to the
10 Confirm service, serving clients including major First-Class and Standard mailers, GHS
11 would be significantly harmed by the proposed pricing, and is unable to support the
12 proposal of the Postal Service. GHS believes that there is not an adequate justification
13 for substantially changing the current pricing structure, and that absent such a
14 justification, the prudent course of action is to modify the existing pricing structure.
15 Moreover, GHS believes that the proposal of the Postal Service does not provide a
16 favorable environment for the growth of the Confirm program, and does not promote the
17 long term interests of the Postal Service, or the mailing industry, or mail users.

18 Instead, GHS fully supports the proposal put forward by the OCA, which
19 essentially retains the current Confirm pricing structure while revising the rates for the
20 subscription levels in an upward direction to cover the attributable costs of the program
21 as represented by the Postal Service, and to contribute to the institutional costs in a
22 manner that meets or exceeds the contribution proposed by the Postal Service.

1 A. The Existing Subscription-Based Fee Schedule Can Be Adjusted to Allow
2 the Postal Service To Cover Attributable Costs And Contribute To
3 Institutional Costs

4 The current subscription-based fee schedule, even with rates unchanged, comes
5 fairly close to covering the expected costs for the 2008 test year. The total costs when
6 the 1% contingency is included are \$1,200,890, according to USPS-T-40, p. 19, but the
7 revenues expected on the basis of the current rates are \$1,018,250, based on USPS-
8 LR-L-124_Final.xls, WP-4. In other words, the shortfall is only \$182, 640, or 15% of the
9 costs, compared to the breakeven point, although this would have to be increased to
10 take into account the need to make a contribution to the institutional costs. It is therefore
11 unnecessary for the Postal Service to abandon this pricing structure, providing that the
12 rates can be adjusted upward in order to cover attributable costs and contribute to
13 institutional costs. Although the OCA proposal assigns a substantially higher cost
14 increase to the Platinum level than to the other levels, GHS believes that this is
15 reasonable since the unlimited pricing option is retained. GHS believes that the value of
16 Confirm service is sufficient that Platinum subscribers in general, many of which
17 represent companies far larger than itself, will readily pay the increased fees for
18 subscriptions resulting from the OCA proposal. What is of most importance is not the
19 subscription fees, but avoidance of per-scan charges that will limit the market for the
20 service.

21 B. Gray Hair Software And Other Platinum Subscribers Have Built Their
22 Business Models On The Current Pricing Structure

23 In order to become a Confirm service provider, GHS acquired employees, high
24 speed computing capability, and extensive data storage capacity. The business model
25 was based on the availability of the unlimited option, in that the more clients that could

1 be obtained, the greater the chances of offsetting the startup costs. At the time it was
2 unknown how much competition would occur, whether from other potential resellers, or
3 from large mailers who could use their own mailings as a starting point, and large
4 suppliers who could use their own clients as a starting point. GHS intended from the
5 beginning to differentiate itself by offering data storage capacity that was second to
6 none. GHS is not satisfied merely to exceed the 15 days of data storage the Postal
7 Service provides, which is often not enough even to clear a single mailing if Standard
8 mail has been used. We go far beyond that by providing for multiple years of data
9 storage. This allows for year over year reporting and trend analysis. The assumption of
10 entrepreneurial risk was rewarded with some initial success as GHS was able to secure
11 agreements with customers. The requirement to “start the clock” was not easily met,
12 but by programming software systems and then revising them as needed, GHS was
13 able to participate in a process involving multiple parties that results in submission of
14 the required EMD files. GHS customers include large First-Class and Standard mailers,
15 who are interested not only in mail delivery performance on a short term basis, but also
16 about long term trends regarding delivery. Therefore GHS provides general and
17 customer specific reports which go beyond what the Postal Service has offered through
18 its own auspices. For some years, GHS has participated regularly in MTAC work groups
19 regarding Confirm, in industry associations such as PostCom, and in Confirm user
20 groups. While aware of internal discussions within the Postal Service regarding the
21 Confirm pricing structure, GHS was not offered the chance to participate in market
22 research or other structured discussions concerning the Postal Service proposal. It was
23 only upon studying the proposed Confirm pricing structure after the rate case was

1 submitted that GHS became aware that the proposal represented the abandonment of
2 one business model in favor of another quite different approach. Specifically, the
3 abandonment of the unlimited option for Platinum service providers represents a
4 departure from one business model in favor of a different model involving per-scan
5 charges based on declining price blocks as a major component of revenue. It is a
6 matter of concern that this has been done without any market research studies.

7 C. The Presence of Confirm Resellers In the Marketplace Has Had Beneficial
8 Effects, Contributes To Overall Lowest Combined Costs, And Could Have
9 Been Anticipated By The Postal Service

10 The Postal Service seems somewhat disappointed that Confirm resellers
11 including GHS were able to garner significant numbers of customers. Perhaps this is
12 because they projected, based on market research, that there would be more direct
13 subscribers, and underestimated the proportion of resellers that would develop in
14 response to the opportunity, including the unlimited option.

15 In his comprehensive report on Confirm included in the proceedings of the Sixth
16 International Conference on Postal Automation (ICPA), held in Washington DC, on May
17 30 through June 2, 2006, Nick Barranca, USPS VP for Product Development, states
18 that approximately half of Confirm subscribers are resellers (p. 6).

19 Surely the Postal Service might recognize that there are some benefits from the
20 existence of the reseller category. Each reseller must find a way to distinguish itself,
21 adding more choices in the market offerings, and by seeking economies of scale,
22 contributing to lower prices for consumers of the service. Since there are multiple
23 resellers competing against one another on both price and efficiency, this contributes
24 toward the achievement of the lowest combined costs across the value chain. Many

1 large firms want to focus on their core capabilities, so that they actively seek resellers to
2 provide expertise in what is perceived as a peripheral area by the large firm. Other
3 firms simply do not know how to set up a full featured service and are happy to defer to
4 those who have worked through the difficulties of meeting often stringent and frequently
5 changing requirements. Though market studies may not have predicted this
6 development, it can be difficult for those being surveyed to anticipate how they would
7 react to alternatives that are not yet available. In past situations the Postal Service has
8 found it not always easy to determine in advance how mailers would respond to other
9 new opportunities, such as drop shipping in Standard mail. But this is part of the
10 institutional history of the Postal Service. So the presence of resellers should be no
11 great surprise, and insofar as it contributes to a healthy marketplace, no particular
12 cause for chagrin. As long as the Postal Service does not arbitrarily intervene in the
13 market to prohibit resellers, and allows them to compete along with firms developing in-
14 house proprietary solutions, their presence is quite predictable.

15 D. The Continued Use of Additional ID Codes By Some Platinum Subscribers
16 Will Help Maintain Confirm Revenues

17 Among the Platinum Confirm service providers, there are a variety of business
18 models designed to appeal to different segments of the market. GHS aimed to provide
19 multi-year storage capacity with customized reports, providing fast turnaround in a
20 highly secure environment. Others emphasized providing large numbers of customers
21 with a low-priced and easy to use service, while seeking to get many of these same
22 customers to use more advanced services, or to use services more often. Several
23 Platinum subscribers sought to combine advanced logistics capability with near real
24 time mail tracking on an aggregate basis. Still others sought to add proprietary data to

1 Confirm observations to create unique information capabilities of use to direct
2 marketers.

3 Some of these market segments and their participants have built systems
4 designed to provide protection to clients against any likelihood of inadvertent mixing of
5 data. This protection can include the purchase of additional Confirm ID codes, at further
6 expense to the subscriber, to achieve another level of administrative separation. GHS
7 can affirm that once having embarked on such an approach, it is essential to
8 consistently maintain confidentiality and enhance security for clients who require the
9 maximum assurances. GHS is certain that it will continue to purchase additional ID
10 codes for these purposes, and expects that some but not all other Platinum providers
11 will do likewise for similar reasons. Others will take advantage of the fact pointed out by
12 the Postal Service that the four-state bar code allows additional digits with which to
13 create unique identifiers without the use of additional ID codes.

14 The OCA pricing proposal does not include provision for any purchasing of
15 additional ID codes in the test year. GHS points this out, not in order to call for any
16 modifications in the OCA proposal, which is believed to enjoy wide support in the
17 industry, but to emphasize that the purchase of additional ID codes provides further
18 revenue expectations beyond those directly shown in the OCA proposal. Moreover, this
19 factor offers some margin of safety on behalf of the expectation that the revenue targets
20 of the Postal Service can be met by modifying the current Confirm pricing structure.

1 IV. THE REVISED PRICING STRUCTURE PROPOSED BY THE POSTAL
2 SERVICE IS NOT ONLY UNNECESSARY IN ORDER TO COVER PROJECTED
3 COSTS, BUT HAS SERIOUS DRAWBACKS THAT CAN BE AVOIDED BY
4 MAINTAINING THE CURRENT PRICING STRUCTURE

5 If the only way to meet the revenue targets of the Postal Service for FY 2008
6 were to radically change the current pricing structure by such means as abolishing the
7 unlimited option, adding an unprecedented and untested concept of units, and charging
8 one class of mail five times more than another for the privilege of finding out where the
9 mail is while in Postal Service custody, then GHS might be logically compelled to go
10 along with it, even though retaining serious concerns. But to change the basic pricing
11 approach in what amounts to the second inning of the game, with a product that is still
12 in its nascent stages, is premature and destabilizing. No one can fairly deny that the
13 Confirm process is about to go through rapid technical change, as one bar code
14 symbology, the four-state code, with its own physical dimensions and requirements,
15 replaces another, the PLANET Code, which is basically a prototype of intelligent mail.
16 Although improvements have been made, there remain erroneous or incomplete
17 observations that still occur at high enough levels to lead to repeated joint
18 industry/postal meetings to try to fix the problems. There are still significant differences
19 between the performance on flats as opposed to letters. The burden of proof should be
20 on the Postal Service when it seeks to make such drastic changes, without open public
21 discussion or consultation with those it sometimes thinks of as partners, in the pricing
22 structure of a program that lies squarely in the path toward intelligent mail. GHS looks
23 toward a future in which all mail, at least in appropriate subclasses, is tracked from the
24 start of the clock to near the point of delivery.

1 A. The Postal Service Concedes That the Revised Pricing Structure Will
2 Inhibit Usage of Confirm

3 USPS witness Mitchum responded to the Presiding Officer's Information Request
4 (POIR No. 4, question 3), asking how Confirm volume had been calculated for the test
5 year after new rates were taken into account, with an enlightening step-by-step
6 explanation. The second step, according to Mitchum, was to reduce the number of
7 scans for each subscriber downward by 10 percent "to reflect a contraction in demand
8 as a result of the increased prices." This shows that the Postal Service proposal does
9 not just risk a reduction in usage of Confirm, it actually is premised upon a reduction in
10 the usage of Confirm. The account later clarifies that the Postal Service does not think
11 each user will literally end up with fewer scans, but that the total scans, when all gains
12 and losses have been accounted for, are expected to decrease by 10 percent.

13 This shows definitively that the Confirm pricing proposal in R2006-1 is not based
14 on the same set of assumptions that motivated the MC2002-1 proposal. It shows that
15 the Postal Service is no longer interested in pricing Confirm for growth, thus changing
16 the business model for the subscribers. Surely this calls for further explanation, but
17 instead there is little effort by the Postal Service to maintain intellectual consistency.
18 The arguments of the Postal Service witnesses in 2002 are not refuted; rather, for the
19 most part, they are ignored. It may be that the institutional memory for the Postal
20 Service must now be located outside the institution itself. A good place to start is with
21 the arguments of MC2002-1 USPS witness Kiefer:

22 With most postal products, the marginal costs of additional mail
23 pieces constitute a large portion of the totality of cost causally related to
24 that product. As mentioned earlier, Confirm[®] is different in this respect.
25 Once the Confirm[®] hardware and software are in place, the cost of
26 additional scans is extremely small. A transaction based price would
27 accordingly exceed the true marginal cost by a large factor. This would be

1 economically inefficient pricing, and would likely produce several
2 undesirable outcomes:

3 • It would lead some potential customers to restrict usage by
4 barcoding only some mailings or by just "seeding" barcoded pieces within
5 a larger mailing. Limiting the number of barcoded pieces both diminishes
6 the value of the information received by the customer and, more critically,
7 impairs use of the Confirm[®] product for measuring operational
8 performance.

9 • It would also increase administrative costs since each
10 transaction would have to be tracked and billed.

11 • It would increase the difficulty of projecting Confirm[®] revenues,
12 since they would fluctuate depending on customers' potentially volatile needs.

13
14 One looks in vain for any attempt in the current proceeding to dispute these
15 conclusions or even to acknowledge them except when responding to interrogatories or
16 during cross examination.

17 What does witness Kiefer, the pricing witness, recommend for Confirm pricing in
18 MC2002-1? He advocates the subscription based pricing that was agreed upon at the
19 end of the proceeding, which is still in force today:

20 The simple alternative to pricing Confirm[®] by the number of
21 scans is a subscription price. Under this approach, customers would
22 pay a fixed fee to use Confirm[®] for a specified period of time. During
23 the subscription period they could use the service without paying for
24 each transaction. Pricing by subscription has several attractive
25 features:

26 • It would encourage Confirm[®] subscribers to place
27 barcodes on all their mail rather than limiting usage to occasional
28 mailings, or seeding barcodes within mailings.

29 • It is easier to administer than transaction based pricing,
30 since the Postal Service would have to bill for a limited number of
31 subscriptions, rather than tracking and billing all transactions.

32 • It would make Confirm[®] revenue forecasting easier,
33 since the number of subscriptions would likely be more stable than
34 the number of barcoded pieces mailed.

35
36 There is symmetry between the advantages of subscription pricing and the
37 disadvantages of per-scan pricing. Witness Kiefer states that per-scan pricing is

1 economically inefficient. GHS believes that subscription based pricing with at least one
2 option for unlimited use is not just more efficient, but allows for the growth of the usage
3 of Confirm, which has salutary effects on a large number of postal initiatives in
4 technology. These initiatives include seamless verification, validation of address quality,
5 service performance measurement, and postage accountability. All these initiatives and
6 others to come are dependent on increased mailer utilization of mailpiece barcodes,
7 particularly the four-state code. One of the first two intelligent mail services that are in
8 the process of being introduced by the Postal Service is OneCode Confirm. It only
9 makes sense for the Postal Service to encourage mailer behavior that will be
10 increasingly important as the era of intelligent mail continues to unfold. It is hard to
11 understand why the Postal Service would not want to align its pricing with its goals in
12 the area of automation and technology.

13 B. The Postal Service Also Acknowledges That Confirm Has A High Degree
14 of Price Elasticity

15 In proposing the subscription-based fee structure in Docket No. MC2002-1,
16 Postal Service witness Kiefer (USPS-T-5) specifically stated that the demand for
17 Confirm is highly price elastic. This is one of the reasons that Kiefer rejected the
18 transaction based pricing structure and instead proposed the subscription based pricing
19 structure. Although the Postal Service may have changed its position in terms of which
20 pricing approach it now favors, it presents no arguments to show that the price elasticity
21 of Confirm service has changed since 2002. Accordingly, we should expect that some
22 mailers will respond to the attempt of the Postal Service to turn individual Confirm scans
23 into a profit center by rationing their use of the service. This change in behavior would

1 make Confirm at one and the same time less useful for the mailers and less informative
2 for the Postal Service.

3 C. The Distinction Between First-Class and Standard Mail Confirm Pricing Is
4 Arbitrary, Not Based on Cost, Nor Specifying a Value Criterion

5 In his response to OCA/USPS-T40-13, USPS witness Mitchum concedes that the
6 per scan cost for barcoded First-Class mail does not differ from the per-scan cost for
7 barcoded Standard mail. Nevertheless, the Postal Service wants to charge five times
8 as much for scans in Standard mail. One might think that this is prima facie evidence of
9 value based pricing as currently used by the Postal Service for repositionable notes.
10 However, in his response to the interrogatory OCA/USPS-T40-15, Mitchum does not
11 confirm that value based pricing was used. Instead, in responding to the interrogatory
12 POSTCOM/USPS-T40-7, Mitchum describes a procedure in which per-scan charges
13 were decided upon first, and then kept to a low level for First-Class mail, requiring a
14 higher per-scan rate for Standard mail in order to cover costs.

15 It is difficult for GHS to accept that a three-to-one ratio for repositionable notes
16 for using Standard mail rather than First-Class mail is value based pricing, while a five-
17 to-one ratio for Confirm scans in Standard mail compared to First-Class mail, when
18 there admittedly is no cost difference involved, is not value based pricing. Perhaps the
19 real difference between the two cases is that there is no value based criterion offered in
20 the Confirm proposal. This amounts to pricing based neither on cost nor on value,
21 which may therefore be reasonably considered as arbitrary pricing. GHS has too little
22 experience in rate case proceedings to be certain whether this is an appropriate way for

1 pricing to be determined, but it certainly makes it more difficult to criticize the reasoning
2 underlying a price differentiation when no reasons are offered.

3 Perhaps the difficulty lies in the type of reasons that might have to be offered if
4 there were an obligation to provide reasons. There could be a value based reason for
5 charging more for First-Class scans than for Standard mail scans, such as the higher
6 value of the First-Class mail piece, particularly if it contains a credit card or other item
7 that can create risk if not delivered to the proper recipient. But the USPS has no
8 inclination to pursue that line of reasoning, since it wants to promote rather than retard
9 the use of First-Class mail, whose volume has been declining. There could be a value
10 based reason for charging more for Standard mail scans than for First-Class mail scans,
11 such as the greater need to track the progress of Standard mail pieces that on average
12 take considerably longer to be delivered than is the case for First-Class mail. But the
13 Postal Service is not likely to argue that the value of Confirm is greater when the
14 underlying mail service is not as predictable and reliable.

15 GHS could be more comfortable with pricing that is neither cost based nor value
16 based, if not for the effect on its customers, in this case particularly its Standard mail
17 customers. They seek to use the mail to achieve commercial purposes that are
18 important to them, and are dependent on the Postal Service for consistent and reliable
19 delivery, which sometimes does not occur. In many cases they are subject to the
20 monopoly that applies under current law for Standard mail letters and some flats. Now
21 they are being asked to pay more for the privilege of knowing where their mail pieces
22 might happen to be, at any point between induction into the Postal Service and ultimate

1 delivery. This is not a matter to be taken lightly. What is needed is more transparency,
2 not less.

3 D. The Declining Block Model Is Appropriate For Increasing Mail Piece
4 Volume In a Negotiated Service Agreement But Not For Ephemeral
5 Observations Concerning the Progress of Mail Pieces Through the
6 System

7 GHS has noticed the frequent use of the declining block model in Negotiated
8 Service Agreements designed to increase mail volume in First-Class and in other
9 classes. Since mail pieces all have specific and tangible costs of processing and
10 delivery, they all must pay some postage, and it seems appropriate to use declining
11 block models to provide incentives for the mailer to produce the largest volume that is
12 consistent with covering costs and being fair to other mailers not part of the agreement.
13 But this approach makes much less sense for pricing an ancillary service that has no
14 purpose except in the context of a mailer having provided mail pieces to the Postal
15 Service already, and being concerned with their delivery being as consistent and
16 reliable as possible. The proposition that if the mailer tracks some mail at a higher per
17 scan charge, it is then entitled to track more mail at a lower per scan charge, does not
18 encourage mailers, many of whom are inclined to feel that the Postal Service should be
19 responsible for consistent and reliable delivery in any event. It is something akin to
20 purchasing an automobile and then being told that there is an additional charge for the
21 steering wheel.

22 What is the real product being sold by the Postal Service here? In Negotiated
23 Service Agreements, it is clear that the opportunity to mail more pieces at a lower rate
24 after having qualified for the lower rate by mailing a predetermined number of pieces
25 might be an offer worth taking. In the case of Confirm, passive electronic observations

1 about the status of a mail piece within a processing system that is otherwise opaque to
2 the customer are being turned into a secondary product, which the mailer may in fact be
3 motivated to purchase, but only because of uncertainty about the reliability and
4 consistency of the primary product. GHS believes that Confirm service is essential to
5 the mailers and the Postal Service, but that the information provided is just part of the
6 value of mail as a means of communication, not some separate product whose
7 contribution to the financial health of the Postal Service must be maximized.

8 V. THE CURRENT PRICING STRUCTURE IS BETTER SUITED TO MEET THE
9 GOAL OF IMPROVING MAIL AS A MEANS OF COMMUNICATION FOR THE
10 BENEFIT OF MAIL USERS, MAILERS, AND THE POSTAL SERVICE ITSELF

11 A. Volume Would Be Maintained and Increased, Even With A 95% Increase
12 For Platinum Subscribers

13 Under the OCA pricing proposal, there would be fee increases of 0 percent for
14 the Silver subscribers, 16 percent for Gold, and 95 percent for Platinum subscribers,
15 including GHS, producing a cost coverage of 127.3 percent in the test year. While the
16 Platinum subscribers would receive the highest percentage increase, they would retain
17 the unlimited option, and therefore have a number of avenues available to them to grow
18 their business. Furthermore, most of the Platinum subscribers represent companies
19 that are likely to be far larger than GHS. It can be expected that most of them will
20 renew as Platinum subscribers, and seek to expand their business activities in order to
21 make up for the fee increase, There should be no diminishment in the Silver
22 subscribers who receive no increase, and a limited impact on the Gold subscribers
23 facing a 16% increase. Some current subscribers may drop out of the program, but
24 other new subscribers will be attracted by the four-state code and the new product

1 offerings that the Postal Service will introduce. The OneCode ACS program in
2 particular can be expected to have a synergistic effect on Confirm. By developing the
3 capability to use OneCode ACS, which requires use of the four-state code, a mailer is
4 also removing a barrier to the use of Confirm, namely the need to put two barcodes,
5 POSTNET and PLANET, on the mail piece. It is reasonable that mailers seeking to use
6 OneCode ACS may also elect to use OneCode Confirm.

7 As stated by USPS witness Mitchum in response to MMA/USPS-T40-4, a
8 Platinum subscriber with one billion scans would receive a 460% increase under the
9 USPS proposal. Though he states that no Confirm service provider receives this many
10 scans, GHS currently expects to do so during 2006. GHS does not know at what point
11 “rate shock” is technically produced, but this level of price increase from a key supplier
12 would be harmful to any business, and is all the more alarming when it is realized that
13 the Postal Service proposal assumes reduced usage of Confirm until at least 2008.

14 B. Internet Pricing Builds Markets and Lays A Foundation For Growth of
15 Intelligent Mail Services

16 The term “Internet pricing” needs some elaboration, though references to Internet
17 pricing models occurred in the MC2002-1 testimony. It may amount to more than an
18 unlimited option at the Platinum level, but it requires that there be at least one level of
19 service with the unlimited option. Internet service providers do offer service for periods
20 of time (e.g., months), often with lower priced options with usage constraints, generally
21 in conjunction with higher priced options for unlimited usage. Possibly the periodic fee
22 for the unlimited option is larger than it would otherwise be, because of high volume
23 users among those having paid for the unlimited option. But the service providers (the
24 Postal Service in the case of Confirm) can gear their business plans around the

1 fostering of the development of high volume users, from whom they plan to gain
2 revenue in other ways. Building a critical mass of users is indispensable. Not all
3 revenue streams flow directly to the service provider, but the number of interacting
4 participants in the market segment creates opportunities for all and puts the Postal
5 Service into a quite favorable position. For example, the Postal Service can use the
6 intelligent mail platform to support programs like OneCode ACS, which can produce
7 additional revenue while at the same time lowering USPS address quality defects.

8 It is pointless for the Postal Service to counterpose, as USPS witness Mitchum
9 does, the revenue gained by the subscribers to the revenue gained by the Postal
10 Service from direct sales of Confirm subscriptions. For example, in his testimony, on
11 page 4154, he worries about “people moving out from the Postal Service into the
12 resellers”. The Postal Service should not think of the Confirm revenue as a zero-sum
13 game, though unfortunately that appears to be the case with this witness.

14 The Postal Service, in adopting the Internet pricing model, needs to create the
15 largest pool of subscribers and of users (especially of users who barcode entire mailing
16 segments), in order to lay the groundwork for the era of full blown use of intelligent mail.
17 The Postal Service is thinking strategically about intelligent mail, but this thinking has
18 not extended as far as the pricing department. Strategic thinking about intelligent mail
19 may lead the Postal Service to conclude that a relatively rapid shift by mailers to the
20 new technology should be encouraged, since it is in the best interest of the Postal
21 Service as well as the industry and the larger public. Looked at from that perspective,
22 the USPS Confirm pricing proposal seems both shortsighted and counterproductive.

1 C. Avoid Reversion to Seeding On the Part of Mailers Primarily Interested In
2 Container Tracking

3 Any introduction of per-scan charges for Confirm will have a tendency to retard
4 the growth of not only Confirm in particular but also intelligent mail. The Postal Service
5 substantially underestimates the amount of difficulty that mailers face in learning to use
6 these new technologies. Since Confirm is highly price elastic, per-scan charges will
7 deter new mailers from adoption of a mailing process that incorporates intelligent mail
8 services, and other mailers will stay in Confirm but may cut back on their quantities.
9 The most vulnerable situation is with mailers interested in mail tracking of aggregates
10 more than of individual pieces. They can use Confirm only as a seeding technique, with
11 a few pieces per container using PLANET codes and others unchanged. Then if at
12 least one scan is received from any piece on the container, the assumption can be
13 made that the container has reached the processing stage. These mailers have less
14 need than some others to put barcodes on entire mailing segments. And with this
15 mindset, they are less likely to use address hygiene programs like OneCode ACS,
16 which encourages barcoding of entire mailing segments.

17 VI. IN RECENT PUBLIC STATEMENTS OUTSIDE THE CURRENT RATE CASE,
18 THE POSTAL SERVICE HAS SUPPORTED THE RATIONALE ON WHICH THE
19 CURRENT PRICING STRUCTURE IS BASED

20 In his presentation on Confirm from the International Conference on Postal
21 Automation (ICPA), held in Washington DC, on May 30 through June 2, 2006, Nick
22 Barranca, USPS VP for Product Development, states (p. 7):

23 Confirm is a product that presented several challenges to the traditional
24 USPS and Commission approach when pricing services. Like many other
25 electronic products, Confirm's costs were/are mostly fixed. In contrast the
26 per-usage costs were extraordinarily small, so small that they approached
27 zero. In addition to these technical issues, Confirm presented some novel

1 and interesting policy concerns that needed to be addressed when pricing
2 the product. Confirm was a service that would benefit not only postal
3 customers, but also present the USPS with a novel view of its operations
4 that may lead to important performance measurement benefits. While
5 customer benefits begin to accrue at almost any level of usage, USPS
6 greatest benefits were expected to flow from widespread usage of the
7 product. This attribute, it was determined, justified a pricing stance that
8 promoted product usage.

9
10 In his presentation, addressed to an international audience shortly after the filing
11 of R2006-1, Barranca very concisely sums up the reasons why the pricing approach
12 that was correct in 2002 remains pertinent in 2006, providing that the numbers are
13 adjusted to achieve the necessary revenue. Barranca is clearly aware of the issues
14 concerning Confirm pricing, and mentions in his presentation that “new pricing changes
15 are currently under consideration for 2007” (p. 9).

16 VII. THE GOAL OF ROBUST SERVICE PERFORMANCE MEASUREMENT FOR
17 ALL MAIL CLASSES IS BEST SERVED BY MAINTAINING A COMMITMENT TO
18 STARTING THE CLOCK AND BY EXPANDED USE OF MAILPIECE
19 BARCODING

20 A. Preserve DMCS Language On Notice Of Submitting Confirm Mailings
21 Prior To Or Contemporaneous With Mail Entry

22 Confirm subscribers entering mail for Destination Confirm, but not for Origin
23 Confirm, are required to provide an electronic notification for every mailing, “either prior
24 to or contemporaneous with mail entry”, according to the Domestic Mail Classification
25 Schedule (DMCS at 991.31). If the notification is prior to mail entry, it is properly called
26 a pre-shipment notification. This notification has been the commonly used way to meet
27 the DMCS requirement, which was proposed by the Postal Service to make sure that
28 “start the clock” information would be available. Otherwise the mailers, who generally

1 are in a position to know when mail is entered, would have a better knowledge of the
2 delivery performance than the USPS could easily gather from various internal sources.

3 Very recently the Postal Service has sought to portray Confirm as unsuited to
4 meet all the requirements of a robust service performance measurement system. For
5 example, in the reply to OCA/USPS-T40-35a, Mitchum states "Confirm service itself
6 was not and is not intended to be a performance measurement tool." This statement is
7 at best misleading, and may even be disingenuous, if the intent is to suggest that
8 Confirm will not constitute an integral part of any performance measurement tool for
9 barcoded mail that may soon be developed. GHS is concerned that the Postal Service
10 seeks to withdraw a program requirement that was put in place precisely in order to
11 ensure that Confirm could be a major component of a comprehensive effort to measure
12 mail service for all classes.

13 Although this requirement has not been easy for mailers to meet, and there may
14 be cases where specific exceptions to it should be granted, GHS believes that the
15 overwhelming importance of developing a service performance measurement system
16 should be recognized, and that the DMCS requirement should be retained. This will
17 secure the ties between Confirm and service performance measurement that have
18 become frayed. GHS is reluctant to draw the conclusion that the Postal Service may
19 find inconvenient in 2006 what it found essential in 2002, but something like that may be
20 the case, when a sudden new institutional direction is decreed on this sort of
21 controversial and challenging issue.

22 GHS also thinks that the best route to starting the clock may be to use the other
23 alternative provided in the DMCS language, i.e., contemporaneous notification. By

1 combining increasingly affordable RFID technology with already existing electronic
2 manifesting, the Postal Service could work with industry to ensure that every pallet or
3 other similar container of mail entered into the system generates a passive notification
4 when it goes through dock doors. This approach has already been successful in many
5 industries, including retailers and logistics companies, and it should be part of the USPS
6 responsibility to be an adept follower in adopting technology, when it cannot be an
7 innovator.

8 B. Certify More Confirm Service Providers With More Flexible Alternatives
9 and Better Technical Approaches

10 Nick Barranca, in his ICPA presentation, discusses the effort in 2005 by the
11 Postal Service to certify Confirm service providers. As Barranca explains, only two
12 providers out of six candidates were able to become certified at the time. GHS was not
13 one of the two, partly because certification requires unique PLANET codes, while GHS
14 in some cases achieves uniqueness through a combination of POSTNET and PLANET
15 codes. Of course, some applications of Confirm have no particular need for unique
16 codes, such as tracking applications for which one piece in a container is as good a
17 source of information as any other. But GHS believes that it is commendable that some
18 providers have been certified, and thinks that these efforts should continue.

19 GHS suggests that certification could be achieved in more situations if a reseller
20 could be certified in its relationship with particular parties using particular ID codes, and
21 not necessarily be certified in relation to other parties using other ID codes. Further, the
22 definition of uniqueness could be modified to allow the combination of POSTNET and
23 PLANET to be unique. In addition, the additional start the clock options would be useful
24 for those seeking certification. It is to be hoped that the Postal Service will work with the

1 service providers so that more can be certified, and make that a foundation for service
2 performance measurement that is fair to both mailers and the Postal Service.

3 C. Ally With USPS To Meet GAO Expectations For a Robust Service
4 Performance Measurement System For All Mail Classes

5 The urgent need for improved delivery performance measurement was
6 highlighted in the recent General Accountability Office (GAO) report "U.S. Postal
7 Service: Delivery Performance Standards, Measurement, and Reporting Need
8 Improvement". This report calls for the expansion of existing service performance
9 measurement programs to additional areas including bulk First-Class, Standard mail,
10 and Periodicals. GHS strongly believes that Confirm will be an important part of such
11 measurement systems, and pledges to work together with the Postal Service to make
12 service performance measurement a reality for all mail classes. The current effort by
13 the Postal Service to suggest that there is no relation between Confirm and service
14 performance measurement is disappointing, and can only result in delaying further what
15 the industry and the GAO have called for, which is also in the best interest of the Postal
16 Service, at least in the long term. An early end to such tactical retreats as are implied
17 by divorcing Confirm from service performance measurement is to be hoped for.

18 VIII. CONCLUSION

19 The further development of Confirm is too important to the industry, to postal
20 consumers, and to the Postal Service itself to be solely determined according to the
21 shifting priorities within the USPS pricing department. Key mailer associations and the
22 Office of Consumer Advocate have recognized this by coming together around an
23 alternate Confirm pricing proposal that builds on the 2002 model rather than tearing it

- 1 down in favor of what turns out to be a much more problematic approach. GHS strongly
- 2 supports the OCA proposal on Confirm pricing, and urges the Commission to come to a
- 3 similar conclusion after hearing from all sides on the matter.