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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
ROY GORDON
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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I. PURPOSE OF TESTIMONY

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The first purpose of my testimony is to provide a brief history of the Information Based Indicia Program. The second purpose is to report actual aggregate FY2000 to-date PC Postage customer and revenue data which the Commission can use in evaluating the FY 2000 estimates of PC Postage revenue presented in the testimony of E-Stamp & Stamps.com witness Boggs. Finally, I respond to the testimonies of E-Stamp witness Jones and Stamps.com witness Kuhr which imply that there would be no significant barriers to implementation of PC-Postage based rate discounts before the conclusion of the test year (FY 2001) in this case.

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II. HISTORY OF PROGRAM

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It may be helpful to review why the Information Based Indicia Program (IBIP) was initially pursued by the Postal Service. Advances in technology readily available to the average consumer such as scanners, color printers and desktop publishing software were making the Postal Service increasingly susceptible to revenue losses from counterfeit meter impressions.

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In response to these threats, the Postal Service began to explore the feasibility of infusing technology into the traditional postage meter industry. These efforts led to the formation of IBIP in 1995. Consequently, IBIP is primarily related to revenue security. It seeks to encourage the development and

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2 evaluation of new, more secure forms of postage evidencing systems that
3 produce IBI such as PC Postage products.

4 Unlike the traditional meter impression, each IBI is unique. An IBI
5 incorporates a two-dimensional barcode containing, among other information,
6 certain "security critical" data elements. These security critical data elements --
7 the device identification, ascending and descending register values, postage
8 amount and digital signature -- ensure the uniqueness of each indicia.

9 In addition to providing an enhanced ability to detect counterfeit postage, the
10 postage evidencing systems that produce IBI, such as PC Postage products, are
11 required to achieve a much higher level of security against tampering than
12 traditional postage meters. The performance criteria for these systems require
13 them to be "tamper resistant" as opposed to "tamper evident;" thus eliminating the
14 need for physical inspection of systems.

15 From this brief history of the program, it is evident that our focus to-date
16 has been on security. We have developed processes and procedures to ensure
17 that products developed by private companies, such as E-Stamp and
18 Stamps.com, meet our security requirements. Any changes to these products,
19 such as incorporation of the proposed IBI discounts, would be subject to these
20 processes and procedures.

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4 **III. PC POSTAGE USE PROJECTIONS SHOULD BE EVALUATED**
5 **IN LIGHT OF ACTUAL USE**
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7 The testimony of E-Stamp & Stamps.com witness Boggs (at Tr. 29/13849)
8 includes PC Postage revenue projections for FY 2000 and beyond. Witness
9 Boggs estimates that total PC Postage spending will be \$292.8 million for
10 calendar year 2000. The rebuttal testimony of Postal Service witness Staisey
11 (USPS-RT-16) critiques the manner in which those estimates were developed. It
12 is not the purpose of my testimony to offer an opinion about the manner in which
13 witness Boggs' estimates were derived or their credibility. However, I think that
14 whatever conclusions the Commission may draw about his estimates should be
15 informed by reference to actual year-to-date PC Postage revenue.

16 As part of IBIP, the Postal Service maintains a database which measures
17 postage revenue of PC Postage users. The latest data show that a total of nearly
18 321,000 Postage customers, using PC Postage products developed by six
19 different vendors, have generated \$29.8 million in postage revenue, cumulatively
20 for Fiscal Year 2000 to-date (through Accounting Period 11). I estimate that
21 approximately 57.3 percent of this is First-Class Mail revenue.
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23 **IV. IBI DISCOUNT RATE IMPLEMENTATION CONCERNS**

24 Determining whether to support the establishment of new mail
25 classifications and rates for new categories of mail is a matter beyond the scope
26 of the responsibility of those of us who manage IBIP. Accordingly, we defer to
27 others within the Postal Service on that question. However, if a determination
28 were made internally to pursue IBI-based discounts, the IBIP team would be

1 consulted on technical implementation issues. Implementing an IBI discount
2 would be a fairly complex process. IBI software is complex and is not designed
3 for a single class of mail or rate category. All modifications designed to affect a
4 single category of mail have to be scrutinized to ensure that there are no
5 unintended consequences which affect other classes or categories. Because of
6 the unique character of each PC Postage vendor's software, modifications are not
7 uniform, either in substance or in the time it takes for them to be developed. Our
8 experience informs us that if, hypothetically, an affirmative decision were made by
9 the Governors in response to a recommendation by the Commission in this case
10 -- it would most likely require a period of six to twelve months beyond the
11 Governors' decision to implement. To ensure the discount is appropriately
12 implemented the Postal Service would need to develop the necessary
13 performance criteria, allow for provider software development, test and evaluate
14 products submitted by the providers, and conduct an employee awareness
15 campaign. These are areas that I am directly responsible for and can speak to
16 from experience. I do not believe that the intervenor testimonies filed in this
17 proceeding adequately address what would be required to implement any
18 discount.

19 As discussed in the testimony of Witness Kuhr (Tr. 23/10301-02), "the
20 primary document defining the parameters of the [IBI] program is called the
21 *Performance Criteria for Information-Based Indicia and Security Architecture for*
22 *Open IBI Evidencing Systems, (PCIBI-O).*" The PCIBI-O is a document published

1 by the Postal Service that details the criteria for development of PC Postage
2 products to ensure their security and inter-operability with Postal Service
3 infrastructure.

4 This document is written to provide guidance on “what” the products must
5 do, but not “how” the providers go about doing it. Let us assume that a discount
6 as proposed by E-Stamp witness Jones was approved. Software would need to
7 be modified to reflect a new rate category and it would be necessary to modify
8 IBI transaction log files. In addition, the PCIBI-O would include a statement like
9 the following:

10 PC Postage products may allow customers to produce postage at a
11 discount rate when the IBI is printed directly onto an envelope with a FIM D
12 and POSTNET barcode that meets the automation processing
13 requirements defined in the Domestic Mail Manual.

14 The controls to be placed in the software, the “how,” would vary based on each PC
15 Postage vendor’s product. The approaches will vary due to software design as
16 well as intellectual property rights.

17 Changes to the PCIBI-O are normally made through the Federal Register
18 process to provide the opportunity for public comment. To allow sufficient time to
19 receive and respond to public comments, an update to this document may take up
20 to three months to complete.

21 E-Stamp witness Jones casually discusses the features that could be
22 incorporated into their PC Postage software to implement an IBI discount rate. He
23 testifies:
24

1 Because of the nature of the PC Postage Open Systems products,
2 discounts for this category can be enforced through the product
3 software and customers will not have the ability to apply the
4 discount indiscriminately.
5

6 Tr. 29/13652, at lines 2-4. Further down the same page at lines 8-10, he states:

7 Existing and future software products can programmatically
8 determine that all of the automation capability selections have been
9 made in the user interface and that the address has been matched
10 against the database.
11

12 Finally, at Tr. 13653, lines 12-15, he claims:

13 All of the above can be done with only minor modifications to what is
14 already in place with the Postal Service and with each vendor. The
15 necessary level of effort would be inconsequential compared to the
16 benefit to all parties if these discounts are approved.
17

18 Although I believe that the software could be modified to enforce the application of
19 any discount, I do not believe these changes represent only "minor modifications."

20 Witness Jones' testimony makes it seem that PC Postage software can be quickly
21 modified to incorporate the necessary features to adequately control the
22 application of an IBI discount by the customer. Based on our experience with
23 current PC Postage providers, software modifications can take anywhere from
24 three to nine months. A recent example of a change in our performance criteria
25 made at the request of the providers helps illustrate this time frame.

26 PC Postage providers and customers have expressed concerns about the
27 completeness and accuracy of the Address Matching System (AMS) CD ROM.

28 Witness Jones summarizes these concerns in his testimony as follows:

29 Another difficulty with address cleansing, and a source of numerous
30 customer complaints against the USPS address-matching CD-ROM,
31 is that it is not current or completely accurate. Because Open

1 System PC Postage products will not allow a mail piece to be
2 created unless an exact match against the Postal Service database
3 can be made, customers find that they can no longer create mail
4 pieces to every address on their current mailing lists, even if they
5 know with certainty that some of those addresses are correct. This
6 is also creating a barrier to customer acceptance.
7

8 Tr. 29/13647, lines 6-12. In response to these concerns, the Postal Service issued
9 a new Address Matching System (AMS) Application Programming Interface (API)
10 User Guide in March 2000. Witness Kuhr described this new version in his
11 testimony:

12 The latest version of the AMS programming tools (APIs) provided by
13 the Postal Service gives Stamps.com the ability to recognize unique
14 ZIP codes (e.g., a ZIP assigned to a single building or campus). If
15 an address contains a unique ZIP code, the AMS will ignore the
16 street address if one was not submitted. The city, state and ZIP will
17 be verified and the verified address is returned to the customer.
18 This is an added convenience to our customers because many
19 government agencies and private companies do not use street
20 addresses, and thus cannot be found in the AMS database.
21 However, it also ensures that the mailpiece is still automation
22 compatible because of cleansing of the city, state and ZIP.
23

24 Tr. 23/10321, lines 8-16. The feature described by witness Kuhr provides
25 the customer with the ability to produce postage even if there is not an
26 exact match against the AMS CD ROM. All that is required is that the city,
27 state and ZIP Code match. This feature provides a solution for the
28 customer complaints noted by witness Jones.

29 Although witness Jones claimed that the difficulty with the AMS CD ROM
30 was "creating a barrier to customer acceptance" of PC Postage, it is noteworthy
31 that, to-date, only one of the authorized PC Postage product service providers has
32 submitted software that incorporates the API modification. That software was

1 submitted for testing to the Postal Service in early June 2000 (approximately 3
2 months after the issuance of the new version of the AMS API). After two
3 subsequent submissions due to problems with the prior submissions, the software
4 was approved by the Postal Service in mid-July.

5 On average the Postal Service required six business days to test each
6 submission. I believe this time frame is fairly representative of our experience with
7 software modifications by the current PC Postage produce service providers.
8 After development by the provider, a new product is submitted to the Postal
9 Service for test and evaluation. The product is tested by the Postal Service to
10 ensure it meets the security requirements presented in the PCIBI-O. Subsequent
11 modifications to the product are subject to the same test and evaluation
12 procedures to ensure they continue to meet our security requirements. The test
13 process is normally completed in less than ten business days.

14 E-Stamp witness Jones claims:

15 Because of the nature of PC Postage Open System products, discounts for
16 this category can be enforced through the product software and customers
17 will not have the ability to apply the discount indiscriminately.
18

19 Tr. 29/13652, lines 2-4. This statement implies that the enforcement and
20 administration of the proposed discount could be completely controlled through
21 technology. However, it has already been confirmed that the use of a scale is
22 not mandatory with PC Postage and the IBI is usually applied to an empty
23 envelope or onto a label. Tr. 23/10344-45; Tr. 29/13686. Given these factors, IBI
24 postage (discounted or otherwise) could be applied to a mail piece that exceeds

1 the shape, size, weight and thickness parameters which determine application of
2 different rates. This is a matter that cannot be controlled through software.

3 Enforcement and administration of any proposed IBI discount would be
4 performed like any other form of postage evidencing. Unless it were determined
5 that extraordinary measures needed to be implemented, I assume that
6 underpayment of postage on IBIP mail (discounted or otherwise) would continue
7 to be monitored like it is today for stamped mail. With the present rate schedule,
8 the Postal Service primarily relies on its carriers to identify mail pieces with
9 insufficient postage. Therefore, a critical element for effective implementation of
10 a proposed IBI discount would likely be a Postal Service employee awareness
11 program. Such a program could not be effectively initiated until PC Postage
12 vendor software modifications were either completed or substantially completed.
13 This is because much of the technical information and detailed mailpiece
14 characteristics descriptions communicated to employees would depend on the
15 outcome of those modifications. With hundreds of thousands of mail processing
16 and delivery employees nationwide, it would be a tremendous undertaking to train
17 employees to distinguish between "regular" and "discount-eligible" IBI mail, given
18 their general unfamiliarity with IBI mail today. The use of Postal Service
19 publications such as the Postal Bulletin and stand-up talks by supervisors would
20 need to be utilized. In order to keep the message from getting lost in a blizzard of
21 other information and to ensure that it was most effectively delivered, the

1 communications would need to be timed with the introduction of discount IBI mail
2 pieces in the mail stream.

3
4 **V. CONCLUSION**

5 I raise these issues not to discourage further examination of the question
6 of IBI-based postage rates, but to point out that implementation of changes in
7 software is not a simple matter. Meanwhile, I look forward to working with all of
8 our PC Postage vendors to develop the technology to its fullest potential.