

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF GRAYHAIR SOFTWARE
WITNESS CAMERON BELLAMY TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/GHS-T1 -1-2)
(October 2, 2006)

GrayHair Software hereby submits the responses of Cameron Bellamy to interrogatories USPS/GHS-T1-1-2, dated September 19, 2006, as revised on September 20, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

CAMERON BELLAMY
GRAYHAIR SOFTWARE

USPS/GHS-T1-1.

Please provide an estimate of how many customers use Grayhair Software as a reseller of Confirm Service? An exact number is not required.

RESPONSE TO USPS/GHS-T1-1.

GHS does not consider itself to have a large number of customers for Confirm service, and since the question calls for an estimate, will admit to the number being less than fifty. GHS is concerned that numbers such as this might be misunderstood in relation to Confirm pricing issues, so it wishes to point out that some of its clients have become, or continue to be, Confirm subscribers in their own right, for various reasons of their own. This is a practice that GHS supports and encourages.

USPS/GHS-T1-2.

On page three, lines 18-20, of your testimony you state:

What is of most importance is not the subscription fees, but avoidance of per-scan charges that will limit the market for the service.

- (a) Please provide a detailed explanation of why avoiding per-scan charges is so important.
- (b) Would you continue to make avoidance of per-scan charges the priority if it required substantially higher subscription fees than under the OCA proposal? Please explain.
- (c) Is it possible that some resellers could benefit under a pricing structure with per scan charges, compared to a pricing structure with subscription fees only? Please explain your response.

RESPONSE TO USPS/GHS-T1-2.

- (a) GHS believes that preservation of the current pricing and regulatory framework, including the unlimited option and the maintenance of the DMCS requirement to start the

clock, is in this case the more prudent as well as the more farsighted approach.

Advantages of the current approach include the following:

- 1) Development of service performance measurement in alliance with USPS based on Confirm (GHS-T-1, p. 22)
- 2) Retention of the DMCS requirement to start the clock (GHS-T-1, p. 19)
- 3) Continued efforts to certify Confirm service providers so that the data is acceptable to all parties and actionable (GHS-T-1, p. 21)
- 4) Promoting transparency of USPS operations, the “glass box” model in place of the “black box” (GHS-T-1, p.14)
- 5) Fostering of the growth of intelligent mail as a strategic goal, versus the USPS proposal based on the assumption of a decline in volume through 2008 (GHS-T-1, p. 9)
- 6) Development of advanced ancillary services as a source of information for the customer and a source of revenue for USPS that may also reduce costs of operations (GHS-T-1, p. 17)
- 7) Improvement of system-wide address quality (GHS-T-1, p. 11)
- 8) Seamless acceptance of mail, reducing transaction costs (GHS-T-1, p. 11)
- 9) Accurate payment of postage, with in-line verification (GHS-T-1, p. 11)

The deleterious effects of per-scan pricing, premised upon a reduction in Confirm volumes, would be felt in many areas, including but not limited to the following:

- 1) Expenses of administration for USPS connected with per-scan charges, including disputes over defective scans if charged for them (GHS-T-1, p. 10)
- 2) Pricing based neither on cost nor on value, with an arbitrary five-to-one ratio, and no market studies to evaluate the risk of customers in “other” mail classes deciding that use of Confirm on all pieces is no longer affordable (GHS-T-1, p. 12)
- 3) Hindering the development of a community of users built on availability of an unlimited usage option, as has been the case with Internet pricing models, providing something of value for no transaction charge, in order to build a foundation for bringing new services into the market, which may then generate revenue (GHS-T-1, p. 17)

4) Treating an ephemeral electronic observation, the scan, just the same as a mail piece: charging for every one, with declining volume blocks (GHS-T-1, p. 14), though the per-scan cost is “extremely small” (GHS-T-1, p. 9) and “approached zero” (GHS-T-1, p. 18), a method USPS itself calls “economically inefficient” (GHS-T-1, p. 10)

5) Burdening higher volume Platinum subscribers with increases far in excess of those that would apply to any subscribers under the OCA proposal (GHS-T-1, p. 16)

6) Increasing the difficulty for USPS of forecasting Confirm revenues as customers ration their use of the product (GHS-T-1, p. 10)

7) Unnecessarily discarding a fee-based model in order to fix a moderate shortfall (15% short of costs, before consideration of contribution), not taking into account the costs subscribers will have to incur to meet new barcode requirements (GHS-T-1, p. 3)

GHS wants to work with USPS toward a future in which mail service in all classes is consistent, reliable, measurable and accountable. Maintaining the unlimited pricing option and keeping the DMCS requirement to start the clock is the best way to ensure continued progress. The USPS proposal is premised upon reduced volume, makes mail tracking opportunities variable depending on the class of mail being used, and sets the stage for arguments over whether scans with defective information are billable or not.

(b) This question is hypothetical, as no such proposal exists. The OCA proposal already raises the fees by 95% on Platinum subscribers. GHS supports the OCA proposal in its current form. If the specific numbers in the OCA proposal had to change based on clear and indisputable evidence presented in the case, we would still favor the OCA pricing structure rather than the arbitrary and restrictive pricing of the new USPS proposal. After all, the OCA pricing structure is the same structure as that proposed by the USPS itself just four years ago, and recommended by the Commission, under which we

operate every day. GHS would also point out that it will still use, and pay for, additional ID codes (GHS-T-1, p. 7) that are not included as a source of revenue in the OCA proposal. If this consideration had been factored in to the OCA proposal, the subscription fees could have been lowered, but as it stands, this provides a margin of safety in terms of meeting the revenue target.

(c) It may be mathematically possible for lower volume subscribers to benefit in a narrow sense, but the market would remain underdeveloped until 2008 by USPS projections, and per-scan pricing has other disadvantages that we have tried to point out. What is needed is growth and the introduction of new services, which some mailers may not be ready to use unless they gain experience with services such as Confirm. GHS does not see particular merit in a pricing proposal that encourages subscribers to use less of the service so that they can save on Confirm charges.