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

**Postal Rate and Fee Changes**

**Docket No. R2006-1**

**REBUTTAL TESTIMONY OF  
  
DAVID GORHAM  
  
ON BEHALF OF  
  
MAJOR MAILERS ASSOCIATION**

**November 20, 2006**

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1 **Direct Testimony of David Gorham**  
2 **On Behalf of**  
3 **Major Mailers Association**

4 **I. INTRODUCTION**

5 **A. Statement of Qualifications**

6 My name is David Gorham. I am the Manager, Postal Services for CSG  
7 Systems, Inc. I have held my current position since 1996, and have been  
8 employed by CSG, working in the postal industry, for more than 25 years.

9 My job responsibilities include acting as CSG's primary liaison for all  
10 matters that concern the Postal Service (USPS). Generally, this entails  
11 communicating all regulatory changes to our internal operations and working with  
12 the Postal Service when service or quality issues arise. I am also charged with  
13 understanding all of the many, complex postal requirements that are applicable  
14 to our business and training appropriate CSG personnel to insure that CSG  
15 remains compliant in all areas to maximize the postal discounts we earn for our  
16 clients.

17 As part of my duties, I am an Executive Board Member of Major Mailers  
18 Association, a group of high volume First Class Mailers, with members in the  
19 Telecommunications, Utilities, Insurance, Financial Services, and Mailing  
20 Services industries. MMA members are interested in all issues that concern  
21 postal rates and regulations that impact First-Class workshared mailers. I am  
22 also a member of the Mailer's Technical Advisory Committee and a member (and  
23 former member of the Executive Board) of the Association for Mail Electronic  
24 Enhancement (AMEE).<sup>1</sup>

25 I attended the University of Kentucky from 1977 – 1979 where I majored in  
26 Business.

27 I have not previously testified before the Postal Rate Commission.

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<sup>1</sup> AMEE was established to promote electronic enhancements of the mail to increase its value and utility by working in partnership with the Postal Service, postal service organizations and other trade associations with similar interests.

1           **B. Purpose Of My Testimony**

2           The primary purpose of my testimony is to provide qualitative reasons why  
3 the Commission should recommend the First Class workshare discounts  
4 proposed by the Postal Service and reject the discounts proposed by the  
5 American Postal Workers Union (APWU) and the Office of Consumer Advocate  
6 (OCA). I will also explain the worksharing functions that CSG and other high  
7 volume mailers perform in preparing mail for the Postal Service. CSG spends a  
8 tremendous amount of time and resources to make it possible for its mail to  
9 bypass many activities that USPS personnel would otherwise have to perform in  
10 order to deliver the mail.

11           There are no supporting documents associated with my testimony.

12           **II. BACKGROUND: FIRST-CLASS MAIL AND CSG’S CORE BUSINESS**

13           CSG is a leading provider of outsourced billing, customer care, and print  
14 and mail solutions and services supporting the North American converged  
15 broadband and direct broadcast satellite (“DBS”) markets. Our solutions support  
16 some of the world’s largest and most innovative providers of bundled multi-  
17 channel video, Internet, and IP-based services. Our unique combination of  
18 solutions, services and expertise ensure that cable and satellite operators can  
19 continue to rapidly launch new service offerings, improve operational efficiencies  
20 and deliver a high-quality customer experience in an intensively competitive and  
21 ever-changing marketplace.<sup>2</sup>

22           CSG utilizes First-Class Mail on a large scale to send tens of millions of  
23 monthly statements to the end users served by our clients. Often, the monthly  
24 billing statement, which includes a Courtesy Reply Mail envelope, is the only  
25 regular “touch-point” our clients have with their customers. Consistency, quality  
26 and timely delivery of CSG’s mailings are very important to our clients because

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<sup>2</sup> CSG’s customer care and billing systems coordinate many aspects of the customer’s interaction with our service provider clients, from the initial set-up and activation of customer accounts, to the support of various service activities, through the monitoring of customer invoicing and accounts receivable management, and the presentment of customer invoices. These systems enable our service provider clients to manage the lifecycle of their customer interactions.

1 these factors directly impact the relationship our clients have with their  
2 customers.

3 As an integral part of mailing services, CSG also offers a software solution  
4 that enables our clients to mail billing stuffers along with monthly invoices. This  
5 “extra” service that CSG provides is an extraordinary benefit for our clients since  
6 it provides an extremely low-cost opportunity to market additional products and  
7 services. This service, which sometimes is called “fill the ounce,” permits our  
8 clients to automatically put one or more inserts into a billing envelope only when  
9 doing so would not exceed the weight that would trigger an additional ounce  
10 charge.

11 CSG goes to great lengths to insure that mail remains a viable, cost  
12 effective option for our clients and their customers. To meet this goal, we work  
13 closely with the Postal Service to provide the highest quality workshared mail.  
14 Worksharing begins with mail piece design. Each new mailing application must  
15 be approved in advance by the Postal Service’s Mail Piece Design Analyst  
16 (MPDA) to ensure all automation requirements are met. This entails providing an  
17 actual pre-production sample of the proposed mail (piece including the insert) to  
18 the MPDA. The MPDA examines the sample to be sure that it meets all USPS  
19 requirements for mail piece design, including “reflectance,” paper and ink color,  
20 print quality, paper stock, and placement of the address and prebarcode. If the  
21 sample mail piece is approved by the MPDA, we then proceed with full  
22 production and mailing of the new mail piece. If our sample mail piece is not  
23 approved, we must re-design the mail piece and re-apply to the MPDA until  
24 approval is obtained.

25 On any given day, CSG sends out over one million First Class workshared  
26 letters for its clients. To maximize the efficiency of mail preparation and  
27 acceptance, CSG has made special capital investments in equipment to  
28 automate these processes wherever possible. Such equipment includes  
29 automatic tray sleeving devices, tray banding systems, tray sorting conveyors,  
30 automatic scales, and high capacity equipment to shrinkwrap pallets of mail trays

1 and load pallets onto large Postal Service trucks. All of these items require CSG  
2 to incur additional costs for maintenance and related supplies.

3 To facilitate mail entry, CSG has worked with the Postal Service to  
4 establish a Detached Mail Unit (DMU) at each of our two operating centers.  
5 Having a DMU at CSG's plants allows the USPS to conduct mail verification and  
6 acceptance on site, rather than the local Postal Service plant. Accordingly,  
7 DMUs and related plant load arrangements we have put in place make it possible  
8 for many truckloads of mail to bypass the local postal facility entirely, thereby  
9 avoiding time consuming and expensive processing by the Postal Service.

10 CSG also employs PostalOne! for transportation management. The  
11 PostalOne! transportation system allows us to schedule, **in advance**, the lowest  
12 cost transportation for each tray in our production line while the tray is still being  
13 processed in CSG's facility.<sup>3</sup> With PostalOne!, the Postal Service has access to  
14 data on the volume and destination of our outgoing workshared mail several  
15 hours in advance. In addition, it allows us to "presort" truckloads of mail so that  
16 every day several truckloads of CSG's mail can be routed so as to bypass one or  
17 more intermediate hubs or HASPS, at which cross docking would otherwise have  
18 to be performed by the Postal Service. This practice of loading trucks with mail  
19 destined to the same delivery area is fairly new and has increased substantially  
20 over the past few years as we and the Postal Service have become more attuned  
21 to PostalOne!'s capabilities.

22 PostalOne! is a good example of the cooperative and mutually beneficial  
23 relationship that exists between high volume mailers such as CSG and the Postal  
24 Service. By leveraging new technologies and thinking "smart," the Postal Service  
25 and high volume mailers routinely save significant transportation and related mail  
26 processing costs that the Postal Service must incur when much lower, less  
27 regular, volumes of mail are accepted at a local postal facility. With the advent of  
28 PostalOne! there can be no doubt that the Postal Service saves transportation

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<sup>3</sup> In practice, the USPS defines the transportation they want CSG to assign, and CSG assigns the transportation to each tray by affixing the D&R tags to the trays, and separating the mail trays according to the transportation defined by the USPS from each operating center.

1 costs because of the manner in which we pack its trucks, compared to just eight  
2 years ago.<sup>4</sup>

3 The requirements that CSG must meet to qualify its mail for workshare  
4 discounts are numerous and complex. Moreover, these requirements are not  
5 static. For example, in recent years, the Postal Service has imposed increasingly  
6 complex and costly address hygiene and Move Update requirements on  
7 workshare mailers. Whenever a new requirement is imposed, CSG and other  
8 mailers must incur significant costs to upgrade and/or expand the CPU and  
9 storage capacity of their computer systems and modify existing mail processing  
10 procedures to accommodate these changes. The Postal Service's unilateral  
11 decision to engraft a new Delivery Point Validation (DPV) requirement at about  
12 the same time new rates from this case will be implemented serves as a timely  
13 example of difficulties workshare mailers face. Early indications are that  
14 compliance with the new DPV requirements will result in several adverse  
15 impacts, including (1) a material reduction in workshare mailers' discount eligible  
16 mail, (2) a dramatic negative effect on system performance, due to increased  
17 processing time caused by the additional DPV matching, and (3) a general  
18 slowing of mailers' production of mail. These additional costs coupled with the  
19 general rate hike amount to a double increase that will occur at just about the  
20 same time. Needless to say, CSG is quite concerned about the long term  
21 outlook for discounts, especially in light of the largely hidden cost demands put  
22 upon us by the Postal Service in order to qualify for workshared discounts.

23 **III. ADVENT AND GROWTH IN USE OF ELECTRONIC ALTERNATIVES**  
24 **TO MAIL**

25 CSG has invested hundreds of millions of dollars in facilities, equipment,  
26 and employee training to establish, maintain, and improve its high volume mailing  
27 operation. Notwithstanding this enormous financial commitment, most of our  
28 clients expect and require CSG to provide them with alternative electronic bill

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<sup>4</sup> Even with our full commitment to provide the most efficient mail possible to the Postal Service, not all of our letters will qualify for automation rates. Therefore, we utilize the services of local presort houses to co-mingle our residual letters with their mail. Consequently, only a very small portion of our mail pays the First-Class Single Piece rate.

1 presentment and payment solutions. Accordingly, in 1999, CSG began offering  
2 its clients the Electronic Bill Presentment and Payment (EBPP) service.

3 EBPP is a natural outgrowth of greater customer acceptance of electronic  
4 alternatives to paper mail, including the Internet and email. At the end of the day,  
5 CSG cannot remain wedded to paper mail bill presentment and payment. In the  
6 last analysis, CSG's clients are in the business of providing customers with  
7 choices and delivering the highest level of customer satisfaction as part of the  
8 core broadband and satellite services they offer. CSG is in the business of  
9 facilitating the customer care choices of its clients and insuring wherever possible  
10 that its clients are satisfied. As such, CSG's use of the Postal Service and  
11 available electronic alternatives reflects the choices that are made by its clients  
12 and the customers they serve.

13 While EBPP is a growing segment of our business, we believe that for  
14 many of our clients, monthly paper statements are still the preferred method of  
15 customer communication. CSG is committed to using First-Class service as long  
16 as we, and our clients, believe they are paying a fair price for reliable delivery  
17 service.

#### 18 **IV. OVERVIEW OF FCM WORKSHARE DISCOUNTS**

19 My testimony supports the specific First Class workshare discounts that  
20 the Postal Service has proposed in this case. The resulting workshare rates  
21 represent a significant increase over current rates. Moreover, this will be the  
22 second such increase in two years. Frequent rate increases of such magnitude,  
23 coupled with a relentless expansion of ever more complex regulations make it a  
24 challenge for mailers like CSG just to keep up. Add to this environment the  
25 repeated requests from local postal officials that have to be met and it is easy to  
26 understand why our company has to devote such vast resources to achieve our  
27 goal of maximizing the volume of our clients' mail that qualifies for workshared  
28 discounts.

29 It is my understanding that MMA witness Bentley has submitted a cost  
30 savings analysis that supports the Postal Service's proposed workshare

1 discounts. These proposals send the correct signal to workshared mailers  
2 whose business decisions today impact their ability to workshare in the future.

3 In contrast, American Postal Workers Union (APWU) witness Kobe's  
4 proposed discounts for First Class workshared mail would be 17% - 20% lower  
5 than the discounts proposed by the Postal Service and supported by MMA.<sup>5</sup> I  
6 also understand that APWU's proposal to lower the discounts in this case is just  
7 phase one of a two-step proposal to lower discounts even further. The table  
8 below shows just how much lower the APWU and OCA proposed discounts are  
9 as compared to the Postal Service's proposed discounts.

10 **Table I**  
11 **Comparison of USPS, APWU and OCA Proposed Workshared Discounts**  
12 **(Cents)**

<b>First-Class Letter Category</b>	<b>USPS Proposed Discounts</b>	<b>APWU Proposed Discounts (Step 1)</b>	<b>OCA Proposed Discounts</b>	<b>APWU Proposed Discounts % Change</b>	<b>OCA Proposed Discounts % Change</b>
Mixed AADC	7.4	5.9	5.8	-20%	-28%
AADC	8.5	7.0	7.0	-18%	-21%
3 Digit	8.9	7.4	7.5	-17%	-19%
5 Digit	10.8	8.9	8.9	-18%	-21%

13  
14 Adoption of the discounts proposed by APWU would be counter  
15 productive. It simply will not serve the best interests of the Postal Service or  
16 workshare mailers. Ultimately, it could have an unnecessary adverse impact not  
17 only on workshare mailers, but all other mailers as well.

18 The discounts proposed by the Postal Service essentially maintain rate  
19 relationships that have existed for some time. In contrast, APWU's proposed  
20 discounts would disrupt these existing rate relationships and severely strain the  
21 equilibrium that both the Postal Service and workshared mailers have worked so  
22 hard to attain. APWU's rates send entirely the wrong signal to First Class  
23 workshare mailers such as CSG about the value of their worksharing efforts.

<sup>5</sup> My conclusions about the adverse consequences of adopting APWU's proposed discounts also apply to the OCA's proposal in this case.

1 More importantly, CSG's clients and mailers like them would be forced to re-think  
2 their opinion as to the value of using direct mail as their "touch point" for reaching  
3 out to their customers. A sharp reduction in discounts in this case and the  
4 prospect of further reductions in the next case would enhance the relative value  
5 of CSG's EBPP service and accelerate conversion of our clients' customers to  
6 less costly electronic bill presentment and payment options.<sup>6</sup>

7 **V. IMPACT OF FIRST-CLASS WORKSHARED DISCOUNTS ON LARGE**  
8 **MAILERS**

9 There is no doubt that it will take time for mailers such as CSG to react to  
10 any change in workshare discounts. We have already made very large, long-  
11 term commitments in terms of space, equipment, and employee training to  
12 cement our existing relationship with the Postal Service.

13 The costs involved for a company like CSG to build and support a high  
14 quality mailing operation are huge. To begin with, CSG has invested hundreds of  
15 millions of dollars in very large facilities in which high volumes of outgoing mail  
16 can be processed and properly presented to the Postal Service. CSG has also  
17 made significant investments to build, maintain, and upgrade frequently a state-  
18 of-the-art computer (hardware and software, including postal related software)  
19 and mail processing equipment, such as extremely accurate high speed laser  
20 printers,<sup>7</sup> mail inserters, automated systems for sleeving, banding, and conveying  
21 full trays of letters and, finally, large capacity pallet handling equipment such as  
22 automatic shrink wrapping equipment and heavy fork lifts systems that CSG uses  
23 to load and routinely presort full tractor trailer trucks for the Postal Service.

24 Workshare mailers like CSG also devote substantial time and resources to  
25 ensure the addresses they use are as accurate and current as possible. We

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<sup>6</sup> I do not mean to imply that our clients would, **or could**, stop using the Postal Service overnight. In my judgment, CSG's clients could achieve some of their cost containment goals by moving more of their bread and butter bill presentment and payment business to available electronic alternatives such as EBPP. At the same time, they could maintain the touch-point with their customers through less frequent, more targeted First Class workshare mailings for marketing or other purposes. Once CSG's clients make decisions to switch their customer invoices from mail to EBPP, there will be no turning back.

<sup>7</sup> CSG typically spends \$ 600,000 to over \$1 million to purchase a high-speed laser printer. CSG, which uses 14 such printers, must plan to replace each printer after 6-8 years of service.

1 share an important goal with the Postal Service — to keep Undeliverable-as-  
2 addressed (UAA) mail to an absolute minimum. Accomplishing this involves  
3 regular use of Coding Accuracy Support System (CASS) software<sup>8</sup> as well as  
4 either National Change Of Address (NCOA<sup>Link</sup>) or Address Change Service (ACS)  
5 to ensure mailers are using the most recent move update information. Use of  
6 these software systems involves additional mainframe computer time and other  
7 resources to retrieve new address information, and update databases to ensure  
8 they are using the most current, accurate customer address data. These efforts  
9 will be enhanced even more when DPV becomes mandatory next year.

10 Mailers who do not workshare are not required to make any of these  
11 investments and do not make the “extra” effort to meet the Postal Service’s  
12 automation and address hygiene requirements. Obviously, the Postal Service  
13 and mailers have spent so much time and effort on reducing expensive UAA mail  
14 because the problem was serious **and** these efforts produce substantial savings.

15 Finally, CSG also makes extremely important, ongoing investments in  
16 training its employees to make sure that CSG mailings comply with all current  
17 and frequently changing postal prerequisites necessary to produce “clean”  
18 statements<sup>9</sup> for presentation to the USPS. Consequently, our mail is the most  
19 efficient mail to deliver, requiring minimal individual processing, and has a much  
20 lower probability of requiring very expensive manual processing than comparable  
21 nonworkshared letters.

22 Because high volume, quality mailing operations are so capital intensive,  
23 we need to know that First-Class rates will be relatively stable and predictable, as  
24 they have been for the past two decades. Adopting APWU’s proposed

---

<sup>8</sup> Even with all these good intentions, problems still exist. On occasion, service providers such as CSG’s clients are notified about a customer’s move before the Postal Service. If an address is updated in our database before the NCOA<sup>Link</sup> database, the correct address could be changed back to the old address resulting in an UAA letter. If that address is new, such as a recently completed house or apartment building, it may not have yet been added to the CASS database, and the mail as addressed could fail CASS certification. Under this circumstance, a valid workshared letter could be unfairly declared ineligible for workshared discounts.

<sup>9</sup> Producing “clean” customer statements begins with working diligently to purchase paper and envelopes, again ensuring that the envelope stock meets postal standards, will run efficiently on enclosing and postal sorting equipment, and clearly display the delivery point barcode in the address “block.”

1 workshare discounts would disrupt our long term planning and call into question  
2 the wisdom of continuing to participate in the Postal Service's workshare mail  
3 program.

4 In contrast, building and maintaining an electronic billing and payment  
5 remittance environment involves much lower initial and ongoing investments.  
6 For example, with electronic billing, the hardware and maintenance costs for  
7 printing, enclosing, and presenting paper invoices would all be eliminated.  
8 Similarly, in preparing and presenting electronic invoices to consumers, CSG and  
9 its clients would not be subject to the same complex and ever changing  
10 requirements imposed by the Postal Service on paper mail. EPBB certainly has  
11 several advantages over direct mail, except for the one intangible consideration  
12 of "touching" the customer that continues to be important to our clients.

13 Mailer perceptions regarding likely future changes in postal rates and rate  
14 relationships are extremely important, perhaps even more important than short  
15 run rate changes. If CSG's clients perceive that, within the foreseeable future,  
16 the cost to mail monthly statements through the postal system might become too  
17 expensive relative to electronic alternatives, I believe there will be less interest in  
18 worksharing. This is precisely the type of counter productive signal that adoption  
19 of APWU's proposed discounts would send to workshare mailers.

## 20 **VI. CONCLUSIONS**

21 Workshare mailers do not expect or want special treatment. However,  
22 they do need to know that their diligent efforts to produce quality workshared mail  
23 pieces are appreciated, and that the Postal Service **and the Commission**  
24 recognize their efforts in workshared mail rates. Mailers do not mind paying a  
25 fair rate, as long as they do not feel they are being singled out for unfair rate  
26 treatment. We know that our extraordinary efforts not only save the Postal  
27 Service untold amounts of money, but also helps them to better meet their  
28 delivery standards. There is no doubt that we can help each other, but this  
29 relationship can stay meaningful only if each party is satisfied with the

1 arrangement. The APWU's proposed rates will seriously damage the stability of  
2 that relationship.

3 In conclusion, First-Class workshared mailers work very hard to follow the  
4 rules, invest in new technologies to improve mail quality, and integrate postal  
5 products into their business strategies. CSG wants the mail to remain viable  
6 because we still feel it is the most effective vehicle for our clients to reach  
7 customers consistently. Mail offers opportunities to market other products and  
8 services through the monthly billing statements. Significantly, these activities  
9 often generate additional mail and package service business for the Postal  
10 Service. It is essential that the mail service be reliable, and fairly priced to meet  
11 the needs of our clients. Workshare mailers must believe that they receive a  
12 quality product at a good price, or they will look elsewhere for solutions.