

RECEIVED
MAY 22 10 38 AM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

OCA-T-7
Docket No. R2000-1

DIRECT TESTIMONY
OF
GAIL WILLETTE
ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

TABLE OF CONTENTS

Page

I.	STATEMENT OF QUALIFICATIONS	1
II.	PURPOSE AND SCOPE OF TESTIMONY	3
III.	HISTORY OF CEM INITIATIVES	4
IV.	COURTESY ENVELOPE MAIL PROPOSAL	5
A.	Why the Postal Service Needs CEM.....	5
B.	Definition of the Proposed Classification.....	8
C.	The CEM Rate	8
D.	How CEM Would Work	11
E.	Potential CEM Participants and Revenue Impact	13
1.	Volumes	13
2.	Revenue Consequences	14
F.	Advancement of Postal Service Objectives and Consistency with 39 U.S.C. §3623(c) and §3622(b)	15
V.	CONCLUSIONS.....	22
VI.	PROPOSED DMCS LANGUAGE	23
A.	Docket No. R87-1 CEM Proposal	1
B.	Docket No. R90-1 Courtesy Envelope Mail Proposal.....	3
C.	Docket No. MC95-1 Courtesy Envelope Mail Proposal.....	4

APPENDIX A

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

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

DIRECT TESTIMONY
OF
GAIL WILLETTE

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Gail Willette. I have been employed by Office of the Consumer
3 Advocate (OCA) since May 1980. I served as Director of the OCA from March 1995 to
4 February 1999. I have testified before this Commission on numerous occasions,
5 beginning with Docket No. R80-1. My testimony in that proceeding concerned the
6 application of peak-load costing methodology to mail processing. In Docket No. R90-1,
7 I presented testimony quantifying the cost avoidance estimates for two proposed First-
8 Class rate categories, Courtesy Envelope Mail ("CEM") and Automation Compatible
9 Envelopes. My testimony in Docket No. MC91-1 concerned the attributable cost
10 difference between prebarcoded flats and nonprebarcoded flats. In Docket No. MC93-
11 1, I presented an analysis of the parcel market. As an adjunct to that testimony, I co-
12 authored a paper entitled "Regulation of Unregulated Firms: The Postal Service and
13 UPS," which was presented at the Workshop in Postal and Delivery Economics, in
14 Hakone, Japan, in June 1994. In Docket No. R94-1, I recommended cost coverages
15 for classes of mail. And in Docket No. MC95-1, I presented an analysis of the costs of

1 First-Class CEM. My testimony in Docket No. R97-1 was a proposal for the adoption of
2 CEM.

3 I am an Economist. In 1971, I received a BA degree from the University of
4 Texas at Austin. In 1978, I obtained an MS degree from the University of Rhode Island,
5 where I specialized in resource economics. My course work included the areas of
6 micro-economic theory, econometrics, operations research, computer science, and
7 statistics.

8 From 1979 to 1980, I was employed by the U.S. Department of Agriculture in the
9 Natural Resource Economics Division. My work included the analysis of economic
10 impacts on agriculture associated with the regulation of chemical pesticides. In this
11 capacity, I presented an invited talk entitled "Costs of Pesticides in Agricultural
12 Production" at the 1980 annual meeting of the American Association for the
13 Advancement of Science.

14 From 1978 to 1979, I worked for the U.S. Department of Commerce, National
15 Oceanic and Atmospheric Administration. My work included the analysis of economic
16 impacts resulting from the regulation of U.S. Territorial Fisheries. In this capacity, I co-
17 authored a paper entitled "Bioeconomic Simulation of the Atlantic Sea Scallop Fishery,"
18 which was presented at the NATO Symposium on Applied Operations Research in
19 Fishing in 1979.

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of this testimony is to propose again the adoption of Courtesy
3 Envelope Mail ("CEM"). CEM consists of preprinted, self-addressed business
4 envelopes provided by mailers as a courtesy to their customers.¹ In order to qualify for
5 the CEM rate, CEM mail must: bear a facing identification mark; bear a proper barcode;
6 bear a proper ZIP code; bear indicia signifying that the piece is eligible for the discount;
7 meet automation compatibility standards as prescribed by the Postal Service; and be
8 preapproved by the Postal Service. CEM would receive the same discount proposed
9 by the Postal Service for Qualified Business Reply Mail ("QBRM"). No fees would be
10 associated with CEM.

¹ This is a proposal to establish CEM as a rate category within the existing First-Class letters subclass; the proposal does not extend to cards.

1 III. HISTORY OF CEM INITIATIVES

2 A summary of the history of CEM proposals is included as Appendix A. The
3 material in Appendix A provides background and a context for the CEM proposal. This
4 material was also included with my Docket No. R97-1 testimony. In Docket No. R97-1,
5 the Commission again recommended CEM as a shell classification. The Commission
6 stated that its recommendations were “based primarily on the Commission’s agreement
7 with and support of the Service’s interest in expanding the availability of benefits from
8 prebarcoding savings.”² The Postal Service Governors again rejected CEM, stating in
9 part “the substantial questions raised on the record regarding discrete rate treatment for
10 prebarcoded CEM lead us to reject the recommended classification change.”³

² PRC Op. R97-1 ¶5169.

³ Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Prepaid Reply Mail and Courtesy Envelope Mail, Docket No. R97-1 at 5.

1 IV. COURTESY ENVELOPE MAIL PROPOSAL

2 A. Why the Postal Service Needs CEM

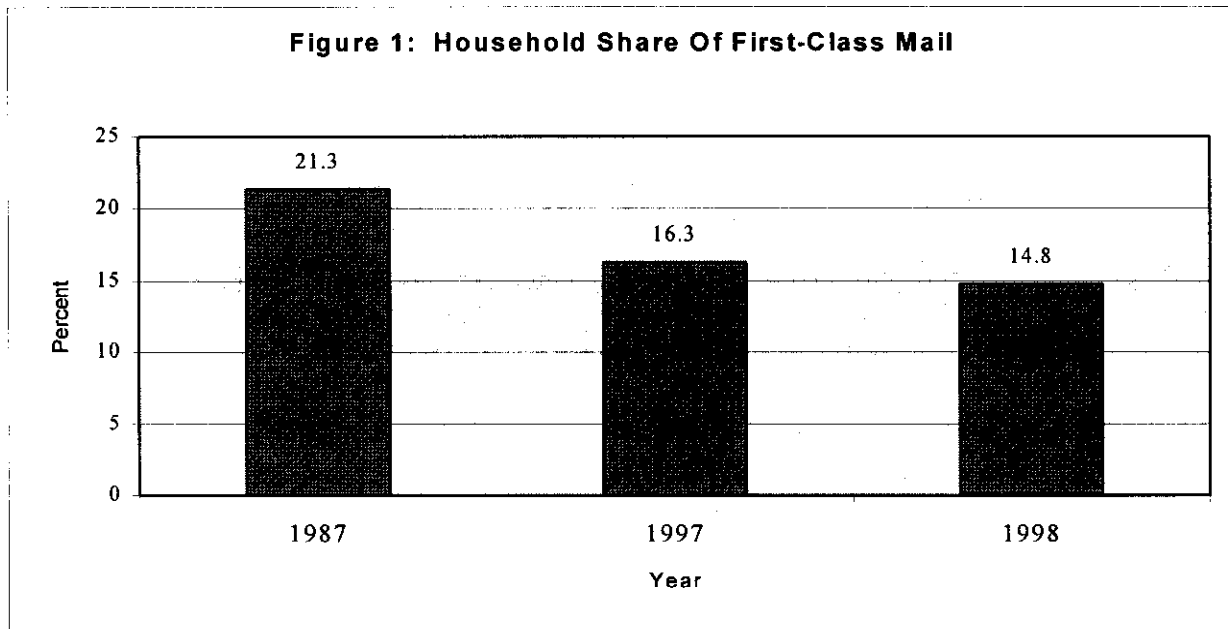
3 The diversion of transactions mail to electronic media has been a concern of the
4 Postal Service for some time. Postmaster General Henderson has testified that the
5 decline in transactions mail coupled with competitive pressures can put \$17 billion in
6 First-Class Mail revenue at risk.⁴ Although no elasticity for First-Class Mail was used in
7 the study cited by Postmaster General Henderson, recent data indicates that between
8 1987 and 1998 virtually no growth in First-Class Mail occurred in the household sector.⁵
9 In addition, the Postal Service has postulated that there may be a greater response to
10 price in single-piece First-Class Mail generated by households than had been
11 previously observed.⁶

12 Figure 1 shows the decline in household mail's share of total First-Class Mail. In
13 1987 household-generated mail made up 21.3 percent of total First-Class Mail. By
14 1998, however, only 14.8 percent of First-Class Mail was generated by households.

⁴ Assumes diversion of 18.3 percent of the 1997 First-Class volume. Docket No. R2000-1. USPS-LR-I-179.

⁵ See Postal Service response to OCA/USPS-1.

⁶ Docket No. MC2000-2, Reply Brief of the United States Postal Service at 35.



1 This mail is being diverted to other media or leaving the mailstream for other
2 reasons. The focus of the Postal Service in attempting to retain transactions mail
3 appears to be better service.⁷ While service clearly is important, it does not appear to
4 be the solution to stemming the decline in household use of mail.

5 CEM provides an opportunity to slow the diversion of mail by providing
6 consumers with a lower cost alternative for bill payments. Each piece of household-
7 generated mail provides a needed \$0.18 contribution to defray Postal Service
8 institutional costs.⁸ In addition, each CEM piece generates cost savings at least equal
9 to those of a QBRM mailpiece.

⁷ Reisner, Bob, *Understanding the Business Environment*, Leadership, Vol. 1, No. 3, Sept. 1999, page 4.

⁸ Response of USPS to OCA/USPS-121.

1 It has recently been pointed out that consumers are willing to interact with
2 government using information technology if there is a cost savings associated with that
3 use. This seems to happen even if consumers are unfamiliar with the technology.⁹

4 The Postal Service enjoys a reputation for processing, transporting and
5 delivering mail in a secure environment. Consumers who may be concerned about the
6 security of electronic bill payments, or who are otherwise undecided about electronic bill
7 payment, could be induced to choose First-Class Mail if a discount is offered. The
8 resulting opportunity for the Postal Service to further build good will with its customers
9 can be valuable and dovetail nicely with new services such as *eBillPay*. The Postal
10 Service can position itself to continue to be the bill payment medium of choice even
11 when customers switch to electronic forms of payment.

12 Still another reason for supporting CEM is the direct benefit which would accrue
13 to individual and small business mailers from the Postal Service's advances in
14 automation. CEM is fair and sends a message to small-volume mailers that their
15 business is as important to the Postal Service as that of large-volume mailers. Since
16 underpayment of postage does not appear to be a problem, there is little financial risk
17 associated with CEM.¹⁰

18 CEM is less complicated to administer than a program in which creditors and
19 other business correspondents provide postage paid envelopes for customers.

⁹ Robert D. Atkinson and Jacob Ulevich, *Digital Government: The Next Step to Reengineering the Federal Government*, Progressive Policy Institute, March, 2000, page 11, and 25, note 7.

¹⁰ The over paid revenue is greater than short paid revenue by \$204.6 million. See response of USPS to OCA/USPS-69 (Revised 4/7/2000).

1 Administrative costs and difficulty recouping the postage costs prompted many large
2 mailers to oppose Prepaid Reply Mail ("PRM") in Docket No. R97-1. CEM is a simpler
3 and more straightforward product, but still puts the Postal Service in control of its
4 automation compatibility and thus its low cost features.

5 B. Definition of the Proposed Classification

6 The definition of CEM remains the same as its Docket No. R97-1 delineation. In
7 that docket CEM was defined as follows.

8 CEM would employ a Postal Service preapproved reply envelope. CEM
9 would be preprinted, bear an appropriate ZIP Code and corresponding
10 barcode, a FIM marking as designated by the Postal Service, and an
11 indicia identifying the mail piece as qualified for the CEM discount. The
12 upper right hand corner of the mail piece would bear a postage affixation
13 block informing consumers that a First-Class discount stamp may be
14 used.¹¹

15 C. The CEM Rate

16 I propose that the CEM rate be the same as rate approved for QBRM. The cost
17 study sponsored by Postal Service witness Campbell for QBRM, showing a cost
18 avoidance of 3.38 cents for QBRM letters, is applicable to CEM.¹² I support the
19 Campbell testimony in this regard, and also support the decision of Postal Service
20 witness Fronk to pass through 3 cents of the cost avoidance.¹³ Under the Postal
21 Service request, QBRM postage would be 31 cents, three cents lower than the single-

¹¹ Docket No. R97-1, OCA-T-400 at 5.

¹² USPS-T-29 at 40.

¹³ USPS-T-33 at 22. Not passing through the full amount of the estimated cost savings is consistent with past practice involving new discounts, and provides a hedge against the product attracting more volume than anticipated.

1 piece rate of 34 cents. In the event the Commission recommends no change in the
2 single-piece First Class rate, the CEM (and QBRM) rate would be 30 cents.

3 It was demonstrated in Docket No. R97-1 that the cost avoidance of courtesy
4 reply mail ("CRM")¹⁴ and QBRM letters is the same. This continues to be the case
5 today. Other than the accounting function for QBRM, the processing of these two mail
6 types is identical.¹⁵ Further, CRM envelopes will be transformed into CEM mail with
7 only one minor alteration – the addition of a CEM indicator on the envelope informing
8 consumers that they may use a discounted CEM stamp.

9 The Postal Service has ensured that CRM envelopes meet automation
10 compatibility standards. The Domestic Mail Manual requires courtesy reply, business
11 reply and meter reply mail to be automation compatible when they are mailed as
12 enclosures in letter-size pieces that are mailed at an automation postage rate.¹⁶

13 As I pointed out in my Docket No. R97-1 testimony, the Postal Service also
14 informs individual mailers of barcoding problems. Mail piece Design Analysts located
15 around the country provide a significant amount of technical assistance to mailers in
16 order to help them make their mail automation-compatible.¹⁷ Further, the Postal
17 Service provides publications designed to help mailers prepare automation compatible

¹⁴ Courtesy reply mail is a preprinted return envelope (or card) provided as a courtesy to customers. The customer pays the postage.

¹⁵ Witness Campbell's responses to OCA/USPS-T29-1 and OCA/USPS-T29-5 indicate that except for the accounting function, these mailpieces are virtually identical. Since no accounting function is involved, there is no need for a fee to be associated with CEM mail.

¹⁶ C810.8.0.

¹⁷ Docket No. R97-1, Tr. 19D/9350-52.

1 mail (including in electronic format) and it provides technical consultation at public
2 forums. It even provides plastic templates and gauges free of charge so mailers can
3 properly prepare their mail.¹⁸ By extension, the Postal Service should have no problem
4 educating providers about new CEM requirements and ensuring that CEM mailpieces
5 are as automation compatible as CRM pieces are now.

6 The Postal Service also can educate consumers directly in the same way it
7 informs them about basic single-piece First-Class postage requirements, and variations
8 thereof (such as the additional ounce rate, the nonstandard surcharge, and the single-
9 piece card rate).¹⁹ The additional costs of a mailing to inform the public about the
10 existence of and proper use of CEM could be \$ 9.2 million. This is the amount
11 estimated for preparing and delivering a mailing to every address informing Postal
12 Service customers of potential telemarketing fraud.²⁰

13 The Postal Service also has argued that consumers prefer using only one stamp.
14 Testimony presented by Postal Service witness Ellard in Docket No. R97-1 presented
15 consumer research in support of retaining the “one-stamp” system for First-Class Mail.
16 In evaluating witness Ellard’s study the Commission stated:

17 The Commission notes that witness Ellard acknowledges that “user
18 preference” is a “complex area to pursue.” This alone, may be sufficient
19 reason to consider the responses less than definitive on the issue of
20 CEM’s appeal.²¹

¹⁸ *Id.*

¹⁹ Docket No. R97-1, Tr. 19D/9333.

²⁰ Response of USPS to OCA/USPS-8 (revised), 10, and 73. The response to OCA/USPS-63 estimates domestic delivery addresses to be 132,152,777. Multiplying 132,152,777 by \$0.051, the postage cost would be \$6.7 million. The total would then be \$9.2 million.

²¹ PRC Op. R97-1, ¶5189.

1 Another argument advanced against CEM is that mail processing technology has
2 changed since CEM was first introduced and that CEM was no longer feasible.²² This
3 objection seems unreasonable, given the nearly identical QBRM. The Commission
4 agreed, saying:

5 The Commission finds it disappointing that witness Sheehan, after years
6 of Postal Service resistance to the CEM concept. Now claims CEM's time
7 may have "come and gone." While processing changes undoubtedly have
8 occurred since CEM was initially raised on this record, Miller's data show
9 that a prebarcoded piece generates savings over a handwritten piece.²³

10 CEM remains a workable classification for the Postal Service. Consumers
11 appreciate saving money and will change mailing habits when presented with a product
12 like CEM.

13 D. How CEM Would Work

14 CEM has been and remains a very simple concept. Providers of courtesy reply
15 mail envelopes who now take advantage of automation discounts already must ensure
16 that the CRM envelope is automation compatible. It is this automation-compatible CRM
17 envelope that would be transformed into a CEM envelope, and upon which the
18 consumer could affix a reduced-price postage stamp.

19 As I testified in Docket No. R97-1, the "transformation" of a CRM piece into a
20 CEM piece would be simple. CRM providers would only need to signify on the piece
21 that the consumer could choose to apply a CEM stamp. This could be imprinted in the
22 same area now used for the postage block and current message contained therein

²² *Id.*, ¶5191.

²³ *Id.*, ¶5195.

1 (e.g., "Post Office will not deliver without postage"). The Postal Service could
2 standardize the CEM-message to be imprinted as part of its overall educational
3 efforts.²⁴

4 The current CRM system has proved workable and would not need more than
5 the *de minimis* changes noted. In Docket No. R97-1 Postal Service witness Fronk was
6 asked whether the Postal Service has surveyed or analyzed the automation
7 compatibility of courtesy reply envelopes. Postal Service witness Moden (answering on
8 redirect) stated: "No. Generally, courtesy reply envelopes meet the automation
9 compatibility requirements, so there has not been a need for formal survey or
10 analysis."²⁵

11 Witness Fronk noted that CRM ensures that bill payments are sent to the correct
12 address through the use of standardized preprinted addresses and through the use of
13 accurate, readable barcodes.²⁶ He acknowledged that certified CEM envelopes also
14 would have these characteristics.²⁷

15 The characteristics of CRM envelopes have not changed since this issue was
16 visited in Docket No. R97-1. The transition for CRM providers to CEM providers is
17 straightforward. For current CRM providers, printing costs for new CEM envelopes
18 should be the same or substantially the same as currently exist. The same general

²⁴ There still does not appear to be any requirement that the message inside the postage block be standardized.

²⁵ Docket No. R97-1, Tr. 11/5900.

²⁶ Docket No. R97-1, Tr. 4/1544.

²⁷ *Id.*

1 formatting would be used; the minor change in wording in the postage block is unlikely
2 to add costs.

3 Some CRM providers may have large inventories of CRM envelopes with the
4 current format. The Postal Service can ease the transition to CEM by providing a
5 period during which it educates the public about CEM and prints CEM stamps. This
6 time should allow most CRM providers to exhaust current envelope supplies and begin
7 to print CEM envelopes as prescribed by the Postal Service. If CRM providers have
8 unused stock remaining at the time CEM is implemented, those envelopes could be
9 changed into CEM envelopes merely by printing an additional Postal Service approved
10 message to the left of the postage block informing consumers that a discount stamp
11 may be applied. Postal Service implementing regulations could specify that remaining
12 stocks of CRM envelopes could be thus "amended." Mailers wishing to let their
13 customers take advantage of the new CEM rate could have existing stock sent back to
14 the printer for the amendment.²⁸

15 E. Potential CEM Participants and Revenue Impact

16 1. Volumes

17 As in Docket No. R97-1, the OCA projects that nearly all CEM volume would
18 come from CRM mailers. As CEM is defined above, the qualifications for the two
19 services are almost identical.

²⁸ This is consistent with my previous recommendation on the transition to CEM. See Docket No. R97-1, Tr. 21/10690-1.

1 The Postal Service has provided ODIS volume information for single-piece First-
2 Class Mail.²⁹ For fiscal year 1999, the volume of single-piece FIM-tagged letters is
3 reported as 9.2 billion pieces. Except government, metered, and permit mail, all of the
4 9.2 billion FIM-tagged letters would be candidates for conversion to CEM. RPW
5 adjusted FIM-tagged letter volume for fiscal year 1999 is given as 9 billion pieces. Total
6 First-Class single-piece letter volume is reported as 48.2 billion pieces.³⁰ It is
7 reasonable to assume that a similar portion of First-Class single-piece letters would be
8 FIM-tagged in the test year. Witness Tolley forecasts 52.9 billion pieces of First-Class
9 single-piece mail for the test year.³¹ If the test year volume of FIM-tagged mail is the
10 same percent of the total as in fiscal year 1999, there will be 10 billion potential CEM
11 pieces.³²

12 2. Revenue Consequences

13 If every FIM-tagged mailpiece converted, a highly unlikely event in the near term,
14 the impact could reach \$300 million ($\0.03×10 billion pieces). Every piece that does
15 not convert contributes more revenue. In addition, to the extent that offering CEM
16 attracts new volume, or retains volume that otherwise would be lost to electronic
17 diversion, the revenue impact would be reduced.

²⁹ Response of USPS to OCA/USPS-42. Response of USPS to OCA/USPS-39 reported single-piece FIM-tagged volume of 9.0 billion pieces for First-Class Mail.

³⁰ Response of USPS to OCA/USPS-42.

³¹ USPS-T-6 at 59.

³² $9 / 48.2 = 0.18672$. Applying this ratio to test year volume of 52.9 yields about 10 billion pieces.

1 Underpayment of postage does not appear to be a problem for the Postal
2 Service; consumers appear to err on the conservative side when applying postage. It is
3 reasonable to expect that many customers will continue to use undiscounted postage
4 on CEM-qualified envelopes. It also seems likely that some consumers will not want to
5 keep two denominations of stamps handy. In addition, it will take some time for
6 consumers to become familiar with the discounted rate and change their stamp
7 purchasing habits accordingly.

8 As noted earlier, the cost of informing the public through a nationwide mailing
9 about the new service, and under what circumstances it can be used could be \$9.2
10 million. This cost would be lower if the Postal Service included this information in the
11 materials provided employees and customers to explain the basis for new rates as an
12 alternative to a nationwide mailing.³³ The approximately \$6.6 million in postage could
13 be avoided as could some of the \$2.5 million in preparation costs. This method of
14 letting customers know about CEM could be effective in countering customer
15 complaints about the increase in the First-Class rate.

16 F. Advancement of Postal Service Objectives and Consistency with
17 39 U.S.C. §3623(c) and §3622(b)

18 CEM will advance the Postal Service's stated objectives in this case, and the
19 CEM proposal is consistent with the Postal Reorganization Act. The Commission has
20 recommended CEM as a means of extending automation benefits directly to
21 consumers.

³³ See attachment to USPS response to OCA/USPS-50.

1 Historically, consumers have paid their bills through the mail or in person.
2 Recently, however, consumers have taken advantage of technological developments
3 and increasingly have been paying their bills by telephone, automatic debit payment
4 devices, and by personal computer.³⁴ CEM addresses the threat of electronic diversion
5 by providing consumers a convenient and less expensive way to return bill payments by
6 mail.

7 A goal of both the Postal Service and the Commission has been to encourage
8 the use of automation-compatible mail. In Docket No. R97-1 the Postal Service agreed
9 cost avoidance for courtesy reply mail pieces (which are for all practical purposes
10 identical to the proposed CEM reply pieces) is essentially the same as the cost
11 avoidance for the PRM pieces in its Docket No.R97-1 proposal. As Postal Service
12 witness Miller stated, “[b]y recognizing some of the cost savings associated with this
13 mail, the Postal Service is able to permit the general public to more directly share in the
14 benefits of automation”³⁵ Likewise, consumers who return CEM mail will be able
15 to share directly in the benefits of automation by paying a discounted rate.

16 Operational feasibility is another consideration in the establishment of CEM. The
17 Postal Service has stated that it wants to develop a processing and accounting
18 approach that is workable for both mailers and the Postal Service. Operationally,
19 mailers who now enjoy a prebarcode discount will have to do almost nothing to comply
20 with CEM regulations. Under current Postal Service regulations, the CRM return

³⁴ Xenakis, Spyros S., *Trends in First-Class Mail Volumes with Emphasis on Bill/Payment and Advertising Mail*, July, 1999 at 11.

³⁵ Docket No. R97-1, USPS-T-32 at 36-37.

1 envelope also must be automation-compatible.³⁶ To take advantage of CEM, such
2 mailers will only have to ensure additionally that the CEM return envelope bears an
3 appropriate stamp indicator.

4 CEM also is consistent with statutory goals. 39 U.S.C. §3623(c) requires that
5 classification schedule changes be made in accordance with these factors:

- 6 (1) the establishment and maintenance of a fair and equitable classification system
7 for all mail;
- 8
- 9 (2) the relative value to the people of the kinds of mail matter entered into the postal
10 system and the desirability and justification for special classifications and service of
11 mail;
- 12
- 13 (3) the importance of providing classifications with extremely high degrees of
14 reliability and speed of delivery;
- 15
- 16 (4) the importance of providing classifications which do not require an extremely
17 high degree of reliability and speed of delivery;
- 18
- 19 (5) the desirability of special classifications from the point of view of both the user
20 and of the Postal Service; and
- 21
- 22 (6) such other factors as the Commission may deem appropriate.
- 23
- 24

25 In addition to the factors listed above, the 39 U.S.C. §3622(b) factors also apply
26 to CEM. Some are nearly the same as those of 39 U.S.C. §3623(c). Two, however,
27 are particularly relevant to CEM:

- 28 (6) the degree of preparation of the mail for delivery into the postal system
29 performed by the mailer and its effect upon reducing costs to the Postal Service;
- 30
- 31 (7) simplicity of structure for the entire schedule and simple, identifiable relationships
32 between the rates or fees charged the various classes of mail for postal services.
- 33

³⁶ DMM §§ C810.8.0 through C810.8.2.

1 The use of CEM will lower postage costs for consumers. CEM will not cause
2 businesses to incur more than very small additional costs. Businesses wishing to offer
3 consumers the benefit of using a discounted First-Class Stamp (and gain good will from
4 so doing) need only supply automation-compatible reply envelopes, something many
5 are now doing anyway. These businesses will only have to make one modification to
6 their existing reply envelopes, adding the Postal Service approved CEM postage
7 indicator. With more widespread use of CEM, the goal of more closely aligning rates
8 and costs will be achieved in substantially greater measure as household mailers pay a
9 rate that accurately reflects costs.

10 It is useful to address the specific statutory classification factors and how they
11 would be promoted by adoption of CEM. The first pertinent factor is "the establishment
12 and maintenance of a fair and equitable classification system for all mail." The CEM
13 proposal will promote a fair and equitable classification system because it more closely
14 aligns rates with costs for household mailers. CEM envelopes avoid precisely the same
15 costs as described in Docket No. R97-1 by Postal Service witness Miller for PRM. In
16 addition, CEM is fairer to those mailers who wish to offer their customers the advantage
17 of reduced rates.

18 The second factor is "the relative value to the people of the kinds of mail matter
19 entered into the postal system and the desirability and justification for special
20 classifications and service of mail." Consumers highly value the mail system as a
21 means for returning bill payments. Also consumers trust the Postal Service. The
22 desirability and justification for the CEM classification is that it more closely aligns rates

1 with costs for household mailers and gives consumers a secure, low-cost method of
2 paying bills.

3 The next pertinent criterion is “the importance of providing classifications with
4 extremely high degrees of reliability and speed of delivery.” CEM mail is “clean” mail,
5 the type most easily and economically processed by the Postal Service. Because CEM
6 (like CRM) is prebarcoded and screened for accuracy, the “reliability . . . of delivery” is
7 greater than for much of First-Class mail.³⁷

8 The next criterion is “the importance of providing classifications which do not
9 require an extremely high degree of reliability and speed of delivery.” The proposal to
10 add CEM to the consumer choice list does not reduce such existing classifications.
11 This criterion is neutral in effect.

12 The fifth criterion is “the desirability of special classifications from the point of
13 view of both the user and of the Postal Service.” From the point of view of the
14 consumer, CEM is a realistic way to ensure that they will be paying a fair, equitable,
15 cost-based First-Class rate for prebarcoded envelopes. From the point of view of
16 business mailers, as noted above, CEM offers a more practical and less expensive way
17 for them to gain good will by providing their customers with the opportunity to use
18 discounted postage. While the Postal Service has long objected to CEM on such bases

³⁷ A bill payer may be induced by a CEM discount to use the accurate, clean, prebarcoded envelope provided, rather than choosing a blank envelope. The latter may result in hand addressing, with its added processing and delivery problems.

1 as the "two-stamp" problem, I would observe that the Commission dismissed such
2 operational objections to CEM in Docket No. MC95-1, as well it should here.³⁸

3 The final criterion is "such other factors as the Commission may deem
4 appropriate." There are several pertinent points that the Commission ought to consider
5 when evaluating the CEM proposal. First, as noted above, CEM proposals have been
6 around for some years. One can easily infer that the Postal Service has resisted such
7 proposals because its First-Class Mail monopoly makes consumers a largely captive
8 market. For example, paying bills by walking payments to offices is inconvenient and
9 costly for most consumers. Many businesses are national companies and do not have
10 local payment offices. Local utilities generally have one or more local offices (or have
11 arrangements with local banks) so payments may be walked in. However, relatively
12 few consumers avail themselves of this opportunity under the current system, most
13 likely because of location inconvenience and the costs associated with spending time to
14 make such payments. Automatic debit and computer payment systems are still in their
15 infancy, and many question their reliability; we are still largely a society which needs or
16 desires a paper record of transactions, which payment by mail facilitates.

17 It is clear that the Postal Service cannot assume that consumers will continue to
18 use First-Class Mail at the full rate in the future. The Postal Service has acknowledged
19 the trend toward migration of payments from the mailstream. CEM provides a tool to
20 retain these payments in the mailstream.

³⁸ PRC Op. MC95-1 ¶5050 *et seq.*

1 Turning to the two particularly relevant factors from §3622(b), the effect of the
2 degree of preparation of the mail on reducing costs to the Postal Service is important in
3 evaluating CEM because the CRM mailpieces are required to be compatible with the
4 Postal Service's automation environment. This characteristic ensures that the mail will
5 be clean and that processing costs will be avoided.

6 Finally, simplicity of structure will be maintained with the establishment of CEM
7 because its rate will be identical to that of QBRM. For ratemaking purposes, the key
8 difference between these two mail types is that QBRM postage is paid by the recipient
9 while CEM postage is paid by the sender.

1 V. CONCLUSIONS

2 The concept of CEM is not new to this Commission. It has evolved over a period
3 of years as has mail processing technology. Electronic options for transporting the
4 contents of reply mail are increasing in availability and attractiveness to consumers.
5 Diversion of transactions mail is a concern of the Postal Service. The adoption of CEM
6 would send a message to consumers and give them an opportunity to share in the cost
7 reductions brought about by technological advances within the Postal Service. With a
8 three-cent discount, CEM mail will travel under a rate that is more closely aligned with
9 costs than consumers' current alternative, the First Class single-piece rate. CEM is
10 operationally simple to accomplish. Adoption of CEM will not engender a substantial
11 revenue loss even under the most liberal volume estimates. As I testified in Docket No.
12 R97-1, CEM promotes "the establishment and maintenance of a fair and equitable
13 classification system."³⁹

³⁹ 39 U.S.C. §3623(c)(1).

1 VI. PROPOSED DMCS LANGUAGE

2 I propose specific DMCS language that defines CEM. The proposed DMCS
3 language is as follows:

4 100.020X Courtesy Envelope Mail (CEM)

5 CEM consists of mailable matter in envelopes that must bear a facing identification
6 mark as prescribed by the Postal Service. CEM must also meet the following eligibility
7 requirements:

8 a. Be a preaddressed, preprinted reply envelope, whose design is approved by the
9 Postal Service.

10 b. Bear a proper Zip Code.

11 c. Bear a proper barcode corresponding to the proper Zip Code, as prescribed by
12 the Postal Service.

13 d. Bear an indication that the envelope is eligible for the CEM discount, as
14 prescribed by the Postal Service.

15 e. Meet automation compatibility criteria as prescribed by the Postal Service.

1 APPENDIX A

2 HISTORY OF CEM INITIATIVES IN

3 DOCKET NOS. R87-1, R90-1, AND MC95-1

4 A. Docket No. R87-1 CEM Proposal

5 In Docket No. R87-1, OCA proposed a five-cent discount for CEM. CEM was
6 defined as a preprinted single-piece First-Class envelope bearing a nine-digit ZIP Code
7 with a corresponding barcode and a Facing Identification Mark (FIM).¹ Each proposed
8 CEM characteristic was designed to make the envelope more compatible with the
9 Postal Service's automation equipment, and, ultimately, to facilitate the Postal Service's
10 processing of single-piece First-Class letter mail.² Examples of the most frequently
11 used CEM mail pieces were self-addressed return envelopes provided and used for bill
12 payments, merchandise order forms, and communications with government agencies.

13 OCA's five-cent discount was premised on the fact that a preaddressed return
14 envelope was not delivered by a carrier; rather, the envelope was delivered to a post
15 office box or by firm holdout. Further, the OCA argued that implementation of the CEM
16 proposal would make use of the Postal Service more attractive to the public and
17 thereby reduce the potential loss of mail volume to computer networks and telephone
18 for the delivery and payment of bills.³

¹ Docket No. R87-1, Tr. 20/15011.

² *Id.* at 14970.

³ PRC Op. R87-1, ¶15036.

1 The Commission did not recommend implementation of OCA's CEM proposal. It
2 sought to preserve the "attributable costs foundation for the proposed 25 cent
3 nonpresorted First-Class rate."⁴ However, the Commission did recommend adoption of
4 a CEM classification change. It stated that the Postal Service would be able to
5 recognize any cost differential and propose rates for both CEM and single-piece First-
6 Class letter mail during the next omnibus proceeding.

7 To qualify for the Commission's proposed CEM category, a mail piece had to be
8 a prebarcoded reply envelope or a business reply mail piece. CEM requirements
9 included a preprinted envelope with a ZIP+4 Code and corresponding barcode, an
10 indication on the reply envelope that the envelope qualified for the CEM rate, and a
11 post office box delivery address.

12 In response to several arguments raised during the hearings, the Commission
13 quoted the following from Docket No, MC78-2:

14 [[I]t is our view that in the exercise of our classification responsibilities
15 pursuant to § 3623, the requirement of a 'fair and equitable classification
16 system for all mail' compels us to strive for a classification structure which
17 permits the establishment of cost-based rates. In further amplification, the
18 rate for each rate category should not only reflect the average costs of a
19 piece of mail within the rate category, but also the actual unit cost for each
20 piece of mail within the rate category should not vary significantly from
21 each other piece. The cost characteristics of the pieces of mail within the
22 rate category should be homogeneous within reasonable parameters so
23 as to minimize cross-subsidization.⁵

⁴ *Id.*, ¶15038.

⁵ *Id.*, ¶15043.

1 The Commission also noted that:

2 [u]nder the Act, we are required to consider the other factors enumerated
3 in §3623(c). The preceding paragraph addresses the requirement of
4 §3623(c)(1) that the classification schedule be fair and equitable. The
5 other classification criteria relevant to the CEM proposal is §3623(c)(5)
6 which requires the Commission to consider the desirability of the CEM
7 rate from the 'point of view of both the user and of the Postal Service.'
8 The CEM user, whether it be business or household mailers, will find a
9 special CEM classification desirable because of the resulting rate
10 reduction. Businesses and other mailers who mail nonpresorted mail
11 which will not qualify for the CEM rate will find this classification
12 undesirable as their rates will be higher. The Postal Service will benefit
13 because establishment of a CEM category will provide an inducement to
14 mailers to place bar codes and FIM marks on the mail thereby reducing
15 postal costing leading to increased efficiency. See Tr. 20/14970-71. This
16 fact weighs the minor additional effort the Service faces to administer an
17 additional rate category.⁶

18 B. Docket No. R90-1 Courtesy Envelope Mail Proposal

19 In Docket No. R90-1, OCA proposed a three-cent discount for CEM. CEM was
20 defined as a preprinted single-piece First-Class envelope, machinable, marked with a
21 FIM, identified as a courtesy envelope as prescribed by the Postal Service, addressed
22 to a post office box, bearing a nine-digit ZIP Code and the corresponding barcode.⁷
23 Each mail piece characteristic was designed to make CEM mail automation
24 compatible.⁸ The CEM proposal allowed those unable to take advantage of bulk
25 automation discounts, e.g., small businesses and individual mailers, the opportunity to
26 pay a rate commensurate with the cost of their automation compatible mail. OCA took
27 the position that limiting automation discounts to bulk mailings was not justified because

⁶ *Id.*, ¶15056.

⁷ Docket No. R90-1, Tr. 30/15676.

⁸ *Id.* at 15634.

1 automated processing of a single piece of First-Class Mail was shown to reduce costs
2 on a per piece basis.⁹ With the increase in First-Class rates, OCA thought that a First-
3 Class single-piece automation discount would reduce the migration of bill payments
4 from the Postal Service mailstream to alternate bill-payment media.¹⁰

5 In its opinion, the Commission stated that if cost savings from automation could
6 be achieved by individual mail pieces and if the bulk mailing requirements needlessly
7 barred small mailers from participating in automation discounts, then the time had come
8 to eliminate bulk mailing requirements.¹¹ However, the Commission rejected the OCA's
9 three-cent CEM discount proposal on the grounds that the cost savings identified were
10 not distributed to all users.¹²

11 C. Docket No. MC95-1 Courtesy Envelope Mail Proposal

12 In Docket No. MC95-1, under the Postal Service's proposal, automation
13 discounts would have been available only to mailers who mailed in bulk. The minimum
14 piece requirement to qualify for the automation basic category under the Postal
15 Service's proposal was 500. Individuals and small business mailers who mailed
16 automation compatible pieces would have received no discount.

⁹ *Id.* at 15534.

¹⁰ PRC Op. R90-1, ¶5164.

¹¹ *Id.*, ¶5177.

¹² *Id.*

1 OCA argued that this violated the Postal Reorganization Act's classification goal
2 of fair and equitable classifications for all mailers. Moreover, by not considering the
3 needs of single piece automation mailers, OCA argued, the Postal Service was violating
4 its own stated goal of adding classifications where significant operational or market
5 considerations existed.¹³ To remedy this perceived inequity, the OCA proposed a 12-
6 cent discount for CEM.¹⁴

7 CEM was defined as preprinted, self-addressed business envelopes provided by
8 mailers as a courtesy to their customers.¹⁵ In order to qualify for OCA's proposed CEM
9 rate, CEM mail would have had to: bear a facing identification mark; bear a proper
10 barcode; bear a proper ZIP code; bear indicia signifying that the piece is eligible for the
11 discount; meet automation compatibility standards as prescribed by the Postal Service;
12 and be preapproved by the Postal Service.¹⁶

13 In Docket No. MC95-1, I provided (OCA-T-100) the cost basis for the CEM
14 proposal, while OCA witness Thompson (OCA-T-200) provided the policy basis, rate
15 proposal and volume projection.

16 Witness Thompson argued that CEM met the reclassification criteria that the
17 Postal Service had used to define subclasses in its proposal.¹⁷ Specifically, courtesy

¹³ Docket No. MC95-1, Tr. 23/10420.

¹⁴ *Id.* at 10425.

¹⁵ OCA proposed CEM as a rate category within the existing First-Class letters subclass; the proposal did not extend to cards. See Tr. 23/10457.

¹⁶ *Id.* at 10445.

¹⁷ See USPS-T-1 at 21-37.

1 envelope mail was said to: represent a homogeneous cost and market-based category;
2 encourage a low-cost mailstream; allow the Postal Service flexibility in establishing
3 modernized entry requirements; represent a mail category where significant market and
4 operational needs exist; and, because CEM eligibility was not dependent on the
5 contents of the mailpiece, further the Postal Service's goal of moving away from
6 content-based rates.¹⁸

7 In Docket No. MC95-1, OCA proposed a discount of 12 cents based on a cost-
8 avoidance figure of 13.4 cents that I developed.¹⁹ The cost avoidance analysis took
9 into account both mail processing and delivery operations.²⁰ OCA witness Thompson
10 estimated CEM volume of between 3.9 billion pieces²¹ and 6.5 billion pieces.²² Given
11 the range of potential CEM volume, witness Thompson estimated the revenue impact of
12 the CEM proposal for the test year to be between \$470 million and \$783 million.²³

13 Some participants and the Postal Service opposed OCA's CEM proposal.²⁴ For
14 example, Brooklyn Union Gas ("BUG") joined Reader's Digest Association and the
15 Postal Service in denouncing the CEM proposal as fundamentally unfair to the
16 businesses who provide CEM mailers with reply envelopes. BUG suggested that this

¹⁸ Tr. 23/10422.

¹⁹ Tr. 23/10425.

²⁰ For highlights of the costing methodology, see Tr. 23/10333, 10334, 10340, 10373.

²¹ Tr. 23/10450.

²² *Id.* at 10452.

²³ *Id.* at 10432.

²⁴ The Council of Public Utility Mailers suggested the Commission approve the CEM proposal but set an interim rate until the next omnibus case. CPUM Brief at 6.

1 inequity could eventually lead to a decrease in CEM volume.²⁵ Reader's Digest and the
2 Service claimed that the large corporate mailers incur the expense of preparing CEM
3 pieces, yet they will receive no financial reward. They also claimed these mailers are
4 penalized by the effects of deaveraging on the single-piece rate.²⁶

5 Postal Service witnesses Potter and Alexandrovich presented the Postal
6 Service's opposition to CEM on rebuttal. Witness Potter discussed alleged operational
7 difficulties associated with implementing the CEM proposal. Potter was concerned with
8 the certification process necessary for mailers to qualify their mail pieces as eligible for
9 the CEM rate. He claimed that this process would be costly and difficult to administer
10 and that it could lead to poor customer relations. He likened it to the process already in
11 place for BRMAS BRM, made more difficult by the fact that CEM providers would,
12 arguably, not have any financial incentive to cooperate.²⁷ He also argued that the
13 process would be ineffective because certification indicia would lend themselves to
14 duplication on personal computers.²⁸

15 Potter also argued there would be an increase in short-paid mail as a result of
16 the CEM proposal. He contended that the possibility of customers becoming confused,
17 and thereby misusing CEM, should not be underestimated.²⁹ The effect of an increase

²⁵ Brooklyn Union Brief at 8.

²⁶ RDA Brief at 5. Tr. 36/16326. CPUM disputed this argument, claiming that it is the consumer who ultimately incurs the expense of CEM because the cost of envelopes is reflected in the prices consumers pay. CPUM Brief at 5.

²⁷ Tr. 36/16212-13.

²⁸ *Id.* at 16216.

²⁹ *Id.* at 16218.

1 in the volume of short paid mail was projected to cause the Postal Service to incur
2 substantial costs. Additional hours would allegedly be needed to identify, process, and
3 deliver short paid mail, so workhours would increase. More revenue protection clerks
4 would have to be hired. Potter contended that both an increased workload and the
5 paperwork involved with "postage due" mail would contribute to possible service delays.
6 He suggested that requiring people to come to the post office to pick up their "postage
7 due" mail would strain customer relations.³⁰ Witness Alexandrovich also argued that the
8 cost of an increase in short paid mail volume would be large.

9 Witness Potter anticipated other problems. He suggested that the Postal Service
10 might need to issue a unique CEM stamp, regardless of the CEM rate, to avoid
11 combination postage obscuring the FIM.³¹ He also claimed that consignment sales
12 would suffer because retailers would not be interested in offering more than one
13 stamp.³²

14 The bulk of Alexandrovich's testimony concerns problems in Willette's costing
15 methodology and Thompson's volume estimation, although he also questioned OCA's
16 contention that a CEM rate would lead to greater volumes of prebarcoded envelope
17 pieces. He charged that "the OCA has failed to provide any basis to quantify how
18 mailers who do not currently provide prebarcoded reply envelopes would respond to a

³⁰ Tr. 36/16221-24.

³¹ *Id.* at 16225.

³² *Id.* A Postal Service survey suggested that at least some of these potential difficulties could be obviated through selection of the CEM stamp's denomination, or inclusion in booklets which mixed CEM and regular-rate stamps. USPS-MCR-LR-123, Tr. 36/16268.

1 CEM discount."³³ Without this information, he said, claims that a CEM rate would result
2 in more prebarcoded envelope pieces cannot be substantiated.³⁴

3 In its decision, the Commission commented that the CEM proposal was quite
4 familiar, since the Commission had recommended its adoption or recommended a more
5 inclusive category in two previous omnibus rate cases.³⁵ The Commission observed
6 that the Postal Service, and like-minded opponents of CEM, had revived their earlier
7 criticisms of the proposal:³⁶

8 They argue that the costs avoided by CEM are less than the OCA
9 estimates; that CEM volumes are unknown and a discount would produce
10 an adverse financial impact of uncertain but serious magnitude; that
11 administration of a CEM rate would be difficult and detrimental to the
12 efficient operation of the postal system; and that a discount to users of
13 courtesy envelopes would be an unearned windfall, particularly to the
14 affluent citizens who purportedly would be its primary beneficiaries. For the
15 most part, these criticisms remain unpersuasive.

16 The Commission noted that Postal Service witness Alexandrovich's critique of
17 my cost-avoidance estimate for CEM did not rebut the existence of significant
18 measurable cost-avoidances.³⁷

³³ *Id.* at 16307.

³⁴ Witness Alexandrovich also testified that Willette's cost avoidance figure was inaccurate. Alexandrovich also offered testimony in rebuttal of witness Thompson's volume and revenue impact estimates.

³⁵ PRC Op. MC95-1, at V-33.

³⁶ *Id.*

³⁷ *Id.* at V-34.

1 The Commission took note of witness Potter's argument that certifying CEM mail
2 would be unduly costly and time consuming. The Commission observed, though, that
3 the Service had proposed in its own direct case a requirement that all courtesy
4 envelope mail pieces included in automation mailings meet the automation standards,
5 which requirement presumably would entail some type of review process to insure that
6 these pieces conform.³⁸ It added that there was "no evident reason why certifying a
7 piece as CEM eligible could not be done under the same contemplated review process.
8 It should not be any more costly or time consuming than what the Service has already
9 proposed."³⁹ The Commission observed that this was confirmed by witness
10 Alexandrovich:⁴⁰

11 CHAIRMAN GLEIMAN: [P]lease explain to me what additional costs
12 would be incurred and how they would be incurred simply by virtue of the
13 fact that I can put a 20-cent stamp on that envelope that has already been
14 certified as automation-compatible as opposed to putting a 32-cent stamp
15 on there?

16 THE WITNESS: Assuming the certification processes were the same in
17 both cases, there wouldn't be an additional cost of that.

18 The Commission also found it "improbable" that consumers would make the
19 effort or investment to use computers to forge indicia, as witness Potter had suggested,
20 in order to obtain a discount.⁴¹

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.* at V-34-35.

⁴¹ *Id.* at V-35.

1 The Commission also expressed the view that witness Potter seriously
2 underestimated the general public's capability to change their mail preparation habits:⁴²

3 The Postal Service has numerous means available to it to overcome
4 potential problems with consumer use of a discount stamp. Also, it is
5 probable that providers of CEM envelopes will assist in the education
6 process to ensure that courtesy envelope mail is used in an appropriate
7 fashion. Likewise, consumers faced with the possibility of a late charge
8 should a remittance be returned for postage due will be motivated to use
9 the discounted stamp only when appropriate.

10 Responding to participants who attacked the CEM proposal as unfair because
11 the mailer of the piece, not the provider, would get the discount, the Commission
12 stated:⁴³

13 As CPUM has observed, the mailer of the reply envelope ultimately pays
14 for that piece as a transaction cost. Additionally, whatever the motive of
15 the originator in providing an automation-compatible reply envelope, only
16 the decision of the recipient to use it will further the Service's goal of a
17 100-percent barcoded mailstream.

18 The Commission also stated it was reasonable to anticipate that a discounted rate will
19 be of significant benefit to lower income mailers.⁴⁴

20 The Commission concluded that Courtesy Envelope Mail remained worthy of
21 recommendation as a discounted category of First-Class Mail, and recommended
22 establishment of a CEM rate category.⁴⁵ However, it refrained from recommending a
23 specific rate for the CEM category. It noted that its " first consideration is its potential
24 financial impact, and the need to accommodate that impact in a case in which no class

⁴² *Id.*

⁴³ *Id.*

⁴⁴ *Id.* at V-36.

⁴⁵ *Id.*

1 of mail is called upon to produce more, or less, total revenue.” The Commission found
2 that while the 12-cent discount proposed by the OCA was not necessarily unreasonable
3 *per se*, “the prospective volume of discounted CEM pieces is somewhat uncertain and
4 is cause for serious concern regarding the consequent financial impact.”⁴⁶ In addition,
5 the Commission wanted to “avoid complication of the revised schedule of First-Class
6 rates recommended by the Commission in this proceeding.”⁴⁷ The Commission thus
7 recommended the CEM category purely as a mail (or so-called “shell”) classification
8 concept for the Governors’ consideration, stating it would leave recommendation of a
9 specific discount to a subsequent ratemaking proceeding.⁴⁸

10 The Postal Service’s Governors rejected the Commission’s CEM
11 recommendation.⁴⁹ The Governors opined that the amount of prebarcoding had risen to
12 the point that now a very substantial majority of CEM, estimated by market research to
13 be in excess of 80 percent, already was prebarcoded. They found this change highly
14 relevant because the potential benefits of creating any worksharing discount can be
15 closely related to the size of the available pool of candidate mailers who might be
16 induced by the discount to convert from less-desired mail preparation practices to more-
17 desired ones. Thus, potential benefits to the Postal Service which normally might
18 accrue from increased worksharing would be replaced by the prospect of deadweight

⁴⁶ *Id.* at V-36-37.

⁴⁷ *Id.* at V-37.

⁴⁸ *Id.*

⁴⁹ Decision Of The Governors Of The United States Postal Service On The Recommended Decisions Of The Postal Rate Commission On Courtesy Envelope Mail And Bulk Parcel Post, Docket No. Mc95-1, issued March 4, 1996 (“CEM Decision”).

1 revenue losses engendered by the grant of discounts with little or no offsetting cost
2 savings.⁵⁰ The Governors also posited that the envelope provider would have no direct
3 incentive to put a barcode on the envelope if not doing so currently because the
4 financial benefits would be “bestowed primarily on those individuals fortunate enough to
5 receive a high proportion of prebarcoded reply envelopes from entities desiring
6 remittance mail.”⁵¹

7 They also thought that a CEM discount could cause the Postal Service to incur
8 substantial costs.⁵²

9 The Postal Service presented testimony in this case discussing a number
10 of administrative and enforcement concerns that would arise if the mailing
11 public routinely had to choose, on a piece-by-piece basis, between two
12 letter stamp denominations. Potential problems include an increase in
13 short-paid mail, delays and increased customer dissatisfaction resulting
14 from the Postal Service’s response to the increase in short-paid mail,
15 longer lines in postal lobbies and higher window clerk costs, friction
16 between the Postal Service and the customers who currently provide
17 prebarcoded reply envelopes voluntarily, and several other potential
18 disruptions to the relationship between the Postal Service and its
19 customers.

20 It also stated that there would be a direct revenue loss in the hundreds of millions of
21 dollars, which would have to be offset by rate increases for other types of mail.⁵³

22 Its last concern addressed the general issue of fairness and equity. The
23 Governors stated that household mailers already had benefited from automation
24 because the savings realized from automated processing of household mail have been

⁵⁰ *Id.* at 3.

⁵¹ *Id.* at 4.

⁵² *Id.*

⁵³ *Id.*

1 averaged with the other costs of First-Class Mail, and used to mitigate overall First-
2 Class rate increases.⁵⁴ It stated that when households use the CEM envelope provided
3 by others, the return letter they mail has relatively low cost. "For the rest of their letters,
4 however, sent in their own envelopes, often with hand-written addresses, households
5 continue to deposit relatively high cost mail."⁵⁵ "Unless households were called upon to
6 pay higher rates which reflect the higher costs of their mail that is not sent in reply
7 envelopes (an approach advocated by no one in this case), a proposal such as CEM
8 that would nevertheless allow them to pay lower rates which reflect the lower costs of
9 their reply mail seems distinctly one-sided."⁵⁶

⁵⁴ *Id.* at 5.

⁵⁵ *Id.*

⁵⁶ *Id.*