

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

NOTICE OF PRICE ADJUSTMENT AND
CLASSIFICATION CHANGES RELATED TO
MOVE UPDATE ASSESSMENTS

Docket No. R2010-1

UNITED STATES POSTAL SERVICE NOTICE OF
MARKET DOMINANT PRICE ADJUSTMENT AND CLASSIFICATION CHANGES
(October 15, 2009)

Pursuant to section 3622 of title 39 and 39 C.F.R. part 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to add a price for its market dominant products. This adjustment will take effect at 12:01 AM on January 4, 2010. This change establishes a specific Move Update assessment charge for First-Class Mail, and includes classification language concerning how the charge will be applied. Classification changes revising the way the Standard Mail assessment charge will be applied also are included herein.

In this Notice, the Postal Service provides the information required by Rule 3010.14, including the price and classification changes in the Mail Classification Schedule, which are provided in Appendix A.

The Postal Service certifies that it will inform customers of these changes, as required by Rule 3010.14(a)(3). In addition to this Notice, the Postal Service will shortly be publishing notice of the changes on USPS.com, the Postal Explorer website, the *DMM Advisory*, and the *P&C Weekly*. Further, details of the verification procedure are

posted on the RIBBS website at:

http://ribbs.usps.gov/move_update/documents/tech_guides/Move_Update_Advisement_Policy.pdf. Thus, widespread notice of these changes is being given more than 45 days prior to their planned implementation date.

The Postal Service, pursuant to Rule 3010.14(a)(4), identifies Mr. Don O'Hara as the official who will be available to respond to queries from the Commission. Mr.

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The remainder of this Notice is structured as follows. In Part I, the Postal Service provides a description of the price and classification changes. In Part II, the Postal Service discusses its compliance with the price cap. In Part III, the Postal Service discusses how the price and classification changes are consistent with the objectives and factors of section 3622, and the preferential pricing requirements of section 3626.

I. DESCRIPTION OF PRICE AND CLASSIFICATION CHANGES

In this filing, the Postal Service provides notice of its plans to revise Move Update assessments at acceptance.¹ In its notice of a market dominant price change filed with

¹ This assessment is not designed to permit customers to substitute payment of the Move Update Assessment Charge for the implementation of appropriate processes that meet the requirements of the Move Update standard. It is designed to facilitate the acceptance of mail in the event that a Performance Based Verification process determines that a sample of the mailing has an error rate above a tolerance specified by the Postal Service. If customers do not certify that they meet the Move Update requirement or are determined not to have met this requirement, then they are subject to single-piece First-Class Mail prices on all pieces in the mailing.

the Commission in February 2009, the Postal Service provided notice that, at acceptance, Standard Mail mailings that failed a Move Update verification (based on an examination of the address quality within a sample of the mailing) would be assessed 7 cents per piece additional postage for each piece in the mailing. Docket No. R2009-2, Notice of Market Dominant Price Adjustment, at 18 (Feb. 10, 2009). If a First-Class Mail mailing failed a Move Update verification (based on an examination of the address quality within a sample of the mailing), the single-piece rate would apply to all pieces in the mailing. In March 2009, the Postal Service notified the Commission of its decision to delay the implementation of the Standard Mail Move Update assessment until January 2010.² This was subsequently approved by the Commission on April 9, 2009.³

The proposed changes limit the application of both the First-Class Mail and Standard Mail Move Update assessments to a smaller percentage of the mailing above a tolerance established by the Postal Service. Moreover, the 7-cent assessment would be extended to First-Class Mail. At acceptance, in sites where Performance Based Verification procedures are used, a sample of a mailing would be used to calculate the ratio of the addresses that the mailer failed to update based on customer-supplied Change of Address orders, to the number of addresses with Change of Address orders on record.⁴ If this ratio is greater than the tolerance, an assessment would be applied based on the percentage of the sample above the tolerance.⁵ Initially, the Postal

² Docket No. R2009-2, Notice of the United States Postal Service of Filing Amended Notice of Market Dominant Price Adjustment at 2 (March 26, 2009).

³ Order No. 201.

⁴ The relevant Change of Address orders would be those older than 95 days.

⁵ To address potential anomalies, including samples which include a very small number of errors, the Postal Service has included several exceptions to this process. These are described in detail in the Move Update advisement policy posted online at:

http://ribbs.usps.gov/move_update/documents/tech_guides/Move_Update_Advisement_Policy.pdf

Service will use a tolerance of 30 percent.⁶ We intend to reduce this tolerance as necessary to ensure that address quality improves (after providing the appropriate public notice).

For example, using the currently-envisioned tolerance of 30 percent, if the error ratio within the verification sample were measured at 40 percent, the 7-cent per piece Move Update assessment at acceptance would be applied to 10 percent (40 percent measured error rate less 30 percent tolerance) of the total volume in the mailing.

In the Postal Service's February 2009 notice of the May 2009 market dominant price change, we estimated that the new Move Update assessment would apply to 0.1 percent of the Standard Mail volume and result in additional revenue of \$7 million annually. USPS-R2009-2/2 (Standard Mail Cap Compliance)(Feb. 10, 2009). This volume estimate was judgmental because measurable data on address quality within verification samples was not available at that time. However, with the roll-out of the Performance Based Verification procedures, five months of Move Update verification data are now available. Using these data, we estimate that 0.096% would be subject to the assessment. See Appendix B1. This would result in an estimated \$4.6 million additional Standard Mail revenue (which is less than the \$7 million estimated in Docket No. R2009-2). See Appendix B3.

For presorted First-Class Mail, Move Update verification data demonstrate that about 0.136% percent of the volume would be subject to a Move Update assessment at acceptance. This would result in an estimated \$4.4 million additional revenue for the Postal Service. See Appendices B1 and B2. The estimated additional revenue is less

⁶ A "tolerance" of 30 percent is equivalent to a "threshold" of 70 percent.

that the total assessment that would have been paid absent this change, because the assessment will be limited to 7 cents, rather than the entire difference between First-Class Mail presort prices and the single-piece rate, and will apply to a smaller percentage of the mailing. However, the Postal Service has no historical data from which to calculate the volume of mail that could have been subject to this type of assessment prior to the roll-out of Performance Based Verification.

The Postal Service hereby submits to the Commission conforming changes in the Mail Classification Schedule (MCS). The first change is to add the 7-cent assessment charge to the appropriate First-Class Mail price sections. The Postal Service also changes the name of the charge from “Move Update Noncompliance Charge” to “Move Update Assessment Charge.” This terminology change reflects the fact that Performance Based Verification does not by itself establish compliance or noncompliance with the Move Update standards. Finally, the changes limit the application of the assessment by incorporating the term “assessed” pieces within the MCS. This reflects the Postal Service’s new approach for a mailing that fails a Move Update verification, under which only a percentage of the pieces within a mailing would be assessed additional postage, rather than the entire mailing. The Postal Service believes that these changes are consistent with 39 U.S.C. § 3642, and should be incorporated by the Commission into the MCS.

II. PRICE CAP COMPLIANCE

The proposed First-Class Mail price adjustment creates a new price. The new price would be applied only when a mailing fails a Performance Based Verification at

acceptance. Thus, the price is not intended as a source of revenue or mail preparation option, but instead is designed to encourage compliance with rules for cleaner addresses. Furthermore, as noted above, the creation of this new assessment leads to a decrease in the postage that First-Class Mail customers who fail a Performance Based Verification must pay. The Postal Service therefore does not believe that cap compliance calculations are needed in this docket.

The Postal Service recognizes that, in Docket No. R2009-2, a similar change in Standard Mail was treated as having a cap compliance effect as part of the annual market dominant price change. But it makes sense to include all price changes (both increases and decreases) in the cap compliance calculation for the annual price change. Today's filing is an interim case that does not include any price increases.

Moreover, the Standard Mail assessment charge could be viewed as a price increase, if the analysis were limited to Standard Mail alone. Prior to the establishment of the assessment, Standard Mail failing an acceptance verification would have been assessed at the First-Class Mail single-piece rates. But the assessment charge was in addition to the existing Standard Mail prices, and thus could be viewed as a Standard Mail price increase. Accordingly, even though the effect of the assessment noticed in that docket was actually a price decrease for assessed mail (compared to the single-piece rates), calculating cap compliance seemed prudent.

When this assessment charge is applied to First-Class Mail, in this docket, the assessment lowers the price, within the class, for a mailing that fails during verification, to 7 cents instead of the difference between pre-existing First-Class Mail prices. The assessment charge would reduce the postage assessment associated with

Performance Based Verification, since it would apply instead of the greater difference between First-Class Mail presort prices and the single-piece rate. Thus, even if the Move Update assessment charge is considered a price change, rather than a new price, the change would be a price decrease,

If the price is considered a price decrease, outside of the annual CPI-cap price change, the Postal Service believes this price adjustment to be outside the current Commission's Rules, which do not specifically address this situation.⁷ This is similar to another recently identified situation, a mid-year price decrease for Standard Mail High Density flat pieces, filed by the Postal Service on June 1, 2009 and approved in Order No. 236. Interim price decreases do not appear to fit clearly within the Commission's rules, and the Commission has stated its plan to "initiate a rulemaking to solicit public comment on how a rate decrease should affect the cap calculation. . . . Order No. 236, at 8 (July 1, 2009).⁸ The Commission also noted that no parties opposed the Postal Service's suggested cap compliance approach. *Id.* Thus, even if this pricing proposal is considered a price decrease, a cap compliance calculation would not be called for pending this rulemaking.

For all these reasons, the Postal Service asserts that the proposed adjustments in this docket have no impact on price cap issues. Therefore, the Postal Service has made no calculation of cap changes described in Rule 3010.14(b)(1) through (4).

⁷ The Postal Service is proposing classification changes, but no price change, in Standard Mail, so a Standard Mail cap compliance calculation would be even less appropriate than one for First-Class Mail. This is especially true because the effect of the classification change is to lower the amount of postage that mailers subject to the assessment must pay, as the assessment charge would only apply to a percentage of the Standard Mail mailing, rather than to the entire mailing.

⁸ The Commission accepted another price decrease without imposing a cap compliance impact, in the recent First-Class Mail Incentive Pricing Program docket (Docket No. R2009-5). Order No. 299 at 9 (September 16, 2009)

III. OBJECTIVES AND FACTORS, WORKSHARE DISCOUNTS, AND PREFERRED RATES

In compliance with Rules 3010.14(b)(5) through (8), the Postal Service in this section discusses how the planned program “help[s] achieve” the objectives of section 3622(b) and “properly take[s] into account” the factors of section 3622(c); how the program impacts workshare discounts, and how it is consistent with section 3626.

A. Objectives and Factors

The objectives of section 3622(b) are as follows:

- (b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:
- (1) To maximize incentives to reduce costs and increase efficiency.
 - (2) To create predictability and stability in rates.
 - (3) To maintain high quality service standards established under section 3691.
 - (4) To allow the Postal Service pricing flexibility.
 - (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
 - (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
 - (7) To enhance mail security and deter terrorism.
 - (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be

construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

- (9) To allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products.

This price adjustment and classification changes do not substantially alter the degree to which First-Class Mail and Standard Mail prices already address these objectives, or how they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9). In addition, the mitigation of assessments in response to mailer concerns presents a positive use of the increased pricing flexibility provided to the Postal Service under PAEA (Objective 4). The proposed changes will cause, at most, only a slight decrease in Postal Service revenues, but are still expected to provide an incentive for mailers to satisfy the Move Update standards and contribute to the financial stability of the Postal Service (Objective 5). The Postal Service's high quality service standards will be further improved through faster delivery to recipients who have recently moved but whose addresses may not have been updated in the absence of a Move Update assessment charge (Objective 3). Further, a parallel assessment of 7 cents per piece for both First-Class Mail and Standard Mail keeps administration simple, while discussions on the assessment approach with mailers have been well publicized through a transparent process (Objective 6).

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

(c) Factors.—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;

- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
 - (A) either—
 - (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
 - (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and
 - (B) do not cause unreasonable harm to the marketplace.
- (11) the educational, cultural, scientific, and informational value to the recipient of mail matter;
- (12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

(13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate.

Again, these Move Update assessment changes do not substantially alter the degree to which First-Class Mail and Standard Mail prices address many of the Factors of section 3622(c) (Factors 1, 4, 5, 6, 8, 9, 10, 11, 12, 13, and 14). As discussed in Docket No. R2009-2, the 7-cent assessment charge provides an incentive to encourage customers to adopt Move Update processes, while still being reasonable, and takes the impact of price changes into account (Factors 3 and 7). This adjustment is a prime example of how the Postal Service can enhance operational efficiency by reducing Undeliverable As Addressed (UAA) mail through the use of customers-supplied Change of Address orders (Factors 7 and 12). Since the Postal Service will have less Undeliverable As Addressed mail because the assessment is designed to encourage compliance with rules for cleaner addresses, Postal Service costs will be reduced (Factors 5 and 12). And, as also discussed in the Objectives section, because of the limited impact of these price and classification changes, the changes should not materially affect First-Class Mail or Standard Mail's overall robust cost coverage (Factor 2).

B. Workshare Discounts

The Postal Service does not believe that the revisions to the Move Update assessments constitute a change to workshare discounts. Therefore, all of the

“passthrough” values are similar to those reviewed by the Commission in Docket No. R2009-2.

C. Preferred Rates

There is no price change affecting the preferred rates in Standard Mail. Moreover, the changes in the application of the assessment to Standard Mail is not expected to affect the 60-percent ratio between the prices for nonprofit and commercial mail.

D. Conclusion

The Move Update assessment for Standard Mail was included in the Postal Service's Docket No. R2009-2 Notice of Market Dominant Price Adjustment and originally intended for May 2009 implementation as an incentive for lowering UAA mail volumes and reducing postal costs. It was found by the Commission to be consistent with statutory requirements. The Postal Service has reconsidered the assessment charges in light of customer concerns, with respect to both First-Class Mail and Standard Mail. The changes described herein retain the principle of encouraging compliance while responding to customer concerns about how the assessment is applied. There will be no material change in revenues and no impact on the price cap under the modified assessment.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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APPENDICES

Appendix A – Move Update Mail Classification Schedule Changes

Appendix B1– Calculation of Percentage of Mail Expected to Pay a Move Update Assessment

Appendix B1.xls

Appendix B2 – Calculation of Revenue Estimate for First-Class Mail

Appendix B2.xls

Appendix B3 – Calculation of Revenue Estimate for Standard Mail

Appendix B3.zip includes:

Appendix B3 Preface.pdf

Appendix B3 SM BDs 2008Q4-2009Q3.xls

Appendix B3 STD BD-HDSatCR Crosswalk 2008Q4-2009Q3.xls

Appendix B3 STD BD-LFP Crosswalk 2008Q4-2009Q3.xls

Appendix B3 REVCALC-STD-MoveUpdate.xls

APPENDIX A

MOVE UPDATE MAIL CLASSIFICATION SCHEDULE CHANGES (Additions are underlined, and deletions are marked by strike-through)

1100 **First-Class Mail**

...

1105 Single-Piece Letters/Postcards

...

1105.3 Price Categories

The following price categories are available for the product specified in this section:

- Machinable Letters
- Nonmachinable Letters (Either have an aspect ratio that does not fall between 1 to 1.3 and 1 to 2.5 inclusive or do not meet other machinability requirements)
- Qualified Business Reply Mail (QBRM) Letters
- Postcards
- Qualified Business Reply Mail (QBRM) Postcards
- Move Update Assessment Charge

...

1105.5 Prices

...

Single-Piece QBRM Postcards

MAXIMUM WEIGHT (OUNCES)	QBRM POSTCARDS (\$)
NOT APPLICABLE	0.247

Move Update Assessment Charge

Add \$0.07 per assessed piece, as specified by the Postal Service.

1110 Presorted Letters/Postcards

...

1110.3 Price Categories

The following price categories are available for the product specified in this section:

- Automation Letters
 - 5-Digit
 - 3-Digit
 - AADC
 - Mixed AADC
- Machinable Letters
- Nonmachinable Letters (Either have an aspect ratio that does not fall between 1 to 1.3 and 1 to 2.5 inclusive or do not meet other machinability requirements)
- Automation Postcards
 - 5-Digit
 - 3-Digit
 - AADC
 - Mixed AADC
- Machinable Postcards
- Move Update Assessment Charge

...

1110.5 Prices

...

Letters including a Repositionable Note

Add \$0.005 for each piece bearing a Repositionable Note.

Move Update Assessment Charge

Add \$0.07 per assessed piece, as specified by the Postal Service.

1115 Flats

...

1115.3 Price Categories

The following price categories are available for the product specified in this section:

- Automation
 - 5-Digit
 - 3-Digit
 - ADC
 - Mixed ADC
- Presorted
- Single-Piece
- Move Update Assessment Charge

...

1115.5 Prices

...

Flats including a Repositionable Note

Add \$0.005 for each piece bearing a Repositionable Note.

Move Update Assessment Charge

Add \$0.07 per assessed piece, as specified by the Postal Service.

...

1120 Parcels

...

1120.3 Price Categories

The following price categories are available for the product specified in this section:

- Presorted
 - 5-Digit
 - 3-Digit
 - ADC
- Presorted Nonbarcoded or Nonmachinable (Weighs less than 2 ounces, is not barcoded, or does not meet the machinability requirements)
 - 3-Digit
 - ADC
- Single-Piece or Mixed ADC
- Keys and Identification Devices (Payment is due on delivery unless an active business reply mail advance deposit account is used)
- Move Update Assessment Charge

...

1120.5 Prices

...

Keys and Identification Devices

MAXIMUM WEIGHT (OUNCES)	KEYS AND IDENTIFICATION DEVICES (\$)
1	1.89
2	2.06
3	2.23
4	2.40
5	2.57
6	2.74
7	2.91
8	3.08
9	3.25
10	3.42
11	3.59
12	3.76
13	3.93
1 (POUND)	5.52
2 (POUNDS)	6.32

Move Update Assessment Charge

Add \$0.07 per assessed piece, as specified by the Postal Service.

...

1200 Standard Mail (Commercial and Nonprofit)

...

1205 High Density and Saturation Letters

...

1205.5 Prices

...

Move Update ~~Noncompliance~~Assessment Charge

Add \$.07 per assessed piece in a mailing that does not comply with the Move Update standards, as specified by the Postal Service.

...

1210 High Density and Saturation Flats/Parcels

...

1210.5 Prices

...

Move Update ~~Noncompliance~~Assessment Charge

Add \$.07 per assessed piece in a mailing that does not comply with the Move Update standards, as specified by the Postal Service.

...

1215 Carrier Route

...

1215.5 Prices

...

Move Update ~~Noncompliance~~Assessment Charge

Add \$.07 per assessed piece in a mailing that does not comply with the Move Update standards, as specified by the Postal Service.

1220 Letters

...

1220.5 Prices

...

Move Update ~~Noncompliance~~Assessment Charge

Add \$.07 per assessed piece in a mailing that does not comply with the Move Update standards, as specified by the Postal Service.

1225 Flats

...

1225.5 Prices

...

Move Update ~~Noncompliance~~Assessment Charge

Add \$.07 per assessed piece in a mailing that does not comply with the ~~Move Update standards~~, as specified by the Postal Service.

...

1230 Not Flat-Machinables (NFMs)/Parcels

...

1230.5 Prices

...

Move Update ~~Noncompliance~~Assessment Charge

Add \$.07 per assessed piece in a mailing that does not comply with the ~~Move Update standards~~, as specified by the Postal Service.