

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Market-Dominant Price
Adjustment and Classification Changes
Related to Move Update Assessment

Docket No. R2017-7

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO
UNITED STATES POSTAL SERVICE NOTICE OF
PRICE ADJUSTMENT AND CLASSIFICATION CHANGES

(July 20, 2017)

On June 30, 2017, the Postal Service filed a Notice of Market Dominant Price Adjustment and Classification Changes.¹ On July 3, 2017, the Commission issued a notice of the filing and provided the opportunity for comments by interested persons on whether the filing is consistent with statutory and regulatory requirements.²

On July 5, 2017, Chairman's Information Request No. 1 (CHIR No. 1) was issued.³

On July 7, 2017, Chairman's Information Request No. 2 issued with responses due on July 14, 2017 (CHIR No. 2).⁴

¹ United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, June 30, 2017 (Notice).

² Notice and Order on Price Adjustment for Move Update, July 3, 2017 (Order No. 3990).

³ Chairman's Information Request No. 1, July 5, 2017 (CHIR No.1).. Responses were received from the Postal Service: Response of United States Postal Service to Chairman's Information Request No. 1, Question 3, July 11, 2017; Response of United States Postal Service to Chairman's Information Request No. 1, Question No. 1, July 12, 2017; and Response of United States Postal Service to Chairman's Information Request No. 1, Question No. 2, July 17,2017.. .

⁴ Responses to Questions 1(a)-(b) were filed on July 14, 2017. Responses to Question 1(c) and 2(c) were not received until July 19, 2017. Response of the United States Postal Service to Questions 1(a-b) and 2(a-b) of Chairman's Information Request No. 2, July 14, 2017; Response of the United States Postal Service to Questions 1(c) and 2(c) of Chairman's Information Request No. 2, July 19, 2017.

Chairman's Information Request No. 3 issued July 13, 2017 (CHIR No. 3). Responses due July 20, 2017 have not been received.

Chairman's Information Request No. 4 issued July 20, 2017 with responses due July 27, 2017 (CHIR No. 4).

I. BACKGROUND

The Postal Service proposes to implement a new method of Move Update verification for market dominant products to take effect on January 21, 2018. It proposes to amend the Move Update assessment charge from \$0.07 to \$0.08 and to modify the tolerance threshold for the assessment to 0.5 percent. Proposed amended classification language is attached to the Notice. The Notice also deletes an erroneous reference to the Move Update assessment charge for Marketing Mail Parcels and extends the Full-Service Address Correction Service fee to certain non-Full-Service mailpieces. Notice at 1.

II. COMMENTS

The Public Representative respectfully submits the following comments.

Price Cap Compliance. The Postal Service claims that it will not utilize any of its unused price adjustment authority in this docket. Notice at 11.-13. CHIR No. 2, Question 1(c) and 2(c) requested the Postal Service to provide the number of mailings and pieces, disaggregated by product. This would permit a calculation of the total amount of fees that would have been assessed if the Census method had been in effect during the hybrid year. There is the possibility that, in such case, revenue would have increased under the Postal Service's proposal. The Postal Service responded that it does not know how many pieces would have been assessed to pay the assessment charge. It concludes "the historical data do not provide a basis for reasonable

djustments to billing determinants beyond what the Postal Service has already provided.” Response to CHIR No. 2, Questions 1(c), 2(c)(ii).⁵

The Postal Service also points out in its response to CHIR No. 2,⁶ that there is no way to predict the behavior of mailers once the new fee price and compliance method goes into effect. If no change in mailer behavior is assumed, then the Postal Service would likely gain revenue due on a larger population base, but if the new price and method changes behavior, and reduces the number of fees assessed, then the Postal Service will likely lose revenue.

Under Commission rules and precedent, volume is always backward looking and does not incorporate changes in mailer behavior due to the rate changes under consideration. In this docket, the point of contention is the volume of mail to be considered. The Postal service uses the MERLIN population to determine fee volume under the MERLIN method and the Census method.⁷ CHIR No. 2 suggests the usage of the Census population to determine fee volume under the MERLIN method and the Census method.⁸ The problem with this assumption is that the volume index is no longer backward looking because the Census population would show much higher current revenue than what was actually received. Past mailings that should have been assessed the fee under the Census population were not actually assessed the fee.

In Docket No. R2010-1, the Postal Service introduced the Move Update Assessment Fee for First Class Mail and correctly identified it as a price decrease since mailers that were previously non-compliant paid the difference between the Single-Piece rate and the Presort rate which was an amount greater than the \$0.07 Move Update Assessment Fee.⁹ Even though that was a price decrease, the Postal Service

⁵ In addition, the Postal Service asserts that even if data were available, it would be inappropriate to use such a piece count to amend the price cap calculations. CHIR No. 2, Question 2(c)(iii).

⁶ Docket No. R2017-7, Response of CHIR No. 2, Questions 1(c) and 2(c) at 5.

⁷ Docket No. R2017-7, Notice at 9-11.

⁸ Docket No. R2017-7, CHIR No. 2 at 2-3.

⁹ Docket No. R2010-1, Notice at 4-5.

did not receive any additional price adjustment authority because the Commission's Rules did not address price decreases at the time, and the Postal Service lacked the data to show the actual difference in revenue.¹⁰

The Postal Service also argues the historical volumes do not provide satisfactory guidance about mailer decisions after the new Move Update assessment charge goes into effect. As the Postal Service points out, mailers have more than adequate notice to prepare for Move Update changes if they so desire.¹¹

The Move Update Assessment Charge is not designed to be a revenue generating product or mechanism. From a profit making perspective, the Postal Service should minimize the amount of revenue from the fee because the cost for an undeliverable as addressed (UAA) mail piece is greater than \$0.07 or \$0.08. The Postal Service would prefer to have no UAA mail and no revenue from Move Update Assessment Fees so that net profit on this mail for this service would be zero. As the Postal Service states, "In plain terms, the Postal Service's objective is not to assess mailers the charge; hence, the aim is not to recoup the cost of handling UAA mailpieces."¹²

Currently, net profit on UAA mail is negative because there are large total costs for UAA mail and small total revenue from Move Update Assessment Fees. Through stricter enforcement of Move Update compliance, the Postal Service may shrink the total costs of UAA mail. Stricter enforcement should also lead to less revenue from fees because more mailers will choose to comply because it will become more cost effective for them to comply instead of not complying and paying the fee. There will likely be some mailers who do not comply for any myriad of reasons, thus the cost of UAA mail can be offset with revenue from the Move Update Assessment Fee.

¹⁰ Docket No. R2010-1, Order Reviewing Price Adjustment and Classification Changes Related to Move Update Assessments, November 25, 2009 at 5.

¹¹ Docket No. R2017-7, Response to CHIR No. 2, Questions 1(c) and 2(c).

¹² Docket No. R2017-7, Notice at 6-7.

Recommendation. The Public Representative favors the move to a Census for assessing the Move Update Assessment Charge. The Public Representative also supports the current Postal Service price adjustments for First Class Mail and Marketing Mail which show a 0% change in revenue in the current docket. *Id.* at 12. At this time, there is no reliable method to determine if this is an actual revenue increase or decrease. Thus, accepting the 0% change is the most logical conclusion at this time.

In order to remain consistent with the Commission practice of administering the price cap as a revenue cap, the Public Representative suggests that a year of data be collected under the Census method to be compared to the revenue under the MERLIN method in a future rate case.

Mail Classification Schedule (MCS). Pursuant to Rule 3010.12(b)(9), the Postal Service provides *pro forma* revisions in legislative format based on the June 23, 2017 draft MCS provided by the Commission at <http://www.prc.gov/maile-classification-schedule>. The following Identical language changes are proposed for seven products:¹³

Move Update Assessment Charge

Add \$0.87 per assessed piece, for mailings that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

The current tolerance level of 70 percent is proposed to be removed. In addition to the increase from 7 cents to 8 cents per assessed piece, the Postal Service proposes to replace the 70 percent tolerance level with a new error threshold of 0.5 percent. This new threshold percent should be included in the classification language. It directly affects the total rate charged for the Move Update Assessment. The Commission

¹³ First-Class Mail -- Presorted Letters/Postcards, Flats; USPS Marketing Mail (Commercial and Nonprofit) ---High Density and Saturation Letters, High Density and Saturation Flats/Parcels, Carrier Route, Letters, and Flats. Notice, Changes to Mail Classification Schedule at 2-8.

previously rejected the Postal Service's request to omit the reference in its classification language to the threshold tolerance level in Docket No. 2010-1 where the Postal Service indicated that it intended to reduce the tolerance in the future. Some parties believed this omission implied a future unilateral reduction, arguing such a later change would constitute a rate increase. The Commission thereby incorporated the threshold eligibility requirements in the MCS in the interest of transparency and, "Moreover, codifying the tolerance in the MCS language preserves the opportunity for parties to make arguments about the applicability of the price cap to future changes in the tolerance level at the time such changes are proposed by the Postal Service."¹⁴

The Public Representative proposes the following classification language for these seven products:

Move Update Assessment Charge:

Add \$0.8 per assessed piece exceeding the assessment threshold of 0.5 percent for mailings that fail Move Update verification under the Address Quality Census Measurement and Assessment Process and which cannot demonstrate compliance with Move Update requirements.

III. CONCLUSION

The Public Representative submits the foregoing comments for the Commission's consideration.

Respectfully submitted,

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¹⁴ Docket No. R2010-1, Order No.348 at 17.