

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Mark Acton, Vice Chairman;  
Tony Hammond; and  
Nanci E. Langley

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

Docket No. R2017-7

ORDER APPROVING PRICE ADJUSTMENT AND CLASSIFICATION  
CHANGES RELATED TO MOVE UPDATE ASSESSMENT

(Issued August 23, 2017)

I. INTRODUCTION

On June 30, 2017, the Postal Service filed a notice pursuant to 39 U.S.C. § 3622 and 39 C.F.R. part 3010 that it intends to amend prices and classification language for its market dominant products.<sup>1</sup> Specifically, the Postal Service plans to increase the Move Update assessment charge from \$0.07 to \$0.08, amend the Move Update classification language to reflect a new enforcement mechanism and assessment calculation, delete a reference to the Move Update assessment charge in the Mail Classification Schedule (MCS) section for USPS Marketing Mail Parcels, and extend the Full-Service Address Correction Service (ACS) fee to non-Full-Service Mailpieces for

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

mailers that meet specific criteria. Notice at 1. The Postal Service plans to implement these changes on January 21, 2018 at 12:01 AM. *Id.* The Commission approves this proposal, with revisions to the Postal Service's workpapers accounting for the price cap impact, for the reasons stated below.

## II. PROCEDURAL HISTORY

On June 30, 2017, the Postal Service filed its Notice and accompanying workpapers with the Commission. On July 3, 2017, the Commission issued a notice and order initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.<sup>2</sup>

On July 5, 2017, Chairman's Information Request No. 1 was issued requesting updated workpapers.<sup>3</sup> On July 7, 2017, Chairman's Information Request No. 2 was issued requesting additional information on census-eligible mailings.<sup>4</sup> On July 11, 2017, the Postal Service responded to question 3 of CHIR No. 1 and filed an errata with revised workpapers.<sup>5</sup> On July 12, 2017, the Postal Service filed its response to question 1 of CHIR No. 1 and an errata adjusting its workpapers.<sup>6</sup> On July 13, 2017, Chairman's Information Request No. 3 was issued.<sup>7</sup> On July 14, 2017, the Postal Service responded to questions 1(a)-(b) and 2(a)-(b) of CHIR No. 2.<sup>8</sup> On July 17, 2017,

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

<sup>3</sup> Chairman's Information Request No. 1, July 5, 2017 (CHIR No. 1).

<sup>4</sup> Chairman's Information Request No. 2, July 7, 2017 (CHIR No. 2).

<sup>5</sup> Response of United States Postal Service to Chairman's Information Request No. 1, Question 3, July 11, 2017 (July 11, 2017 Response to CHIR No. 1); Notice of the United States Postal Service of Filing Revised Versions of USPS-LR-R2017-7/3 – Errata, July 11, 2017.

<sup>6</sup> Response of United States Postal Service to Chairman's Information Request No. 1, Question 1, July 12, 2017 (July 12, 2017 Response to CHIR No. 1); Notice of the United States Postal Service of Filing Revised Version of USPS-LR-R2017-7/1 – Errata, July 12, 2017.

<sup>7</sup> Chairman's Information Request No. 3, July 13, 2017 (CHIR No. 3).

<sup>8</sup> 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 (July 14, 2017 Response to CHIR No. 2).

the Postal Service responded to question 2 of CHIR No. 1 and filed an errata.<sup>9</sup> On July 19, 2017, the Postal Service responded to questions 1(c) and 2(c) of CHIR No. 2.<sup>10</sup> On July 20, 2017, the Postal Service responded to CHIR No. 3 and Chairman's Information Request No. 4 was issued.<sup>11</sup> On July 25, 2017, the Postal Service filed an errata to update and revise its Notice.<sup>12</sup> On July 26, 2017, the Postal Service responded to CHIR No. 4.<sup>13</sup> On July 27, 2017, Chairman's Information Request No. 5 was issued to clarify the Postal Service's proposed MCS language, and the Commission issued an order tolling the filing time to allow commenters to consider the CHIR responses that were not submitted by the July 20, 2017, comment deadline.<sup>14</sup> On August 1, 2017, the Postal Service responded to CHIR No. 5.<sup>15</sup>

On July 20, 2017, the Public Representative, the National Postal Policy Council (NPPC), and the Association for Postal Commerce (PostCom) each filed comments.<sup>16</sup>

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<sup>9</sup> Response of United States Postal Service to Chairman's Information Request No. 1, Question 2, July 17, 2017 (July 17, 2017 Response to CHIR No. 1); Notice of the United States Postal Service of Filing Revised Version of USPS-LR-R2017-7/2 – Errata, July 17, 2017. The Postal Service also filed a motion for late acceptance to CHIR No.1, question 2. Motion for Late Acceptance of Response of the United States Postal Service to Question 2 of Chairman's Information Request No. 1, July 17, 2017 (CHIR No. 1 Motion). The CHIR No. 1 Motion is granted.

<sup>10</sup> Response of the United States Postal Service to Questions 1(c) and 2(c) of Chairman's Information Request No. 2, July 19, 2017 (July 19, 2017 Response CHIR No. 2). The Postal Service also filed a motion for late acceptance to CHIR No.2, questions 1(c) and 2(c). Motion for Late Acceptance of Response of the United States Postal Service to Questions 1(c) and 2(c) of Chairman's Information Request No. 2, July 19, 2017 (CHIR No. 2 Motion). The CHIR No. 2 Motion is granted.

<sup>11</sup> Response of the United States Postal Service to Chairman's Information Request No. 3, July 20, 2017 (Response to CHIR No. 3); Chairman's Information Request No. 4, July 20, 2017 (CHIR No. 4).

<sup>12</sup> Notice of Revisions to United States Postal Service Notice of Market-Dominant Price Adjustment – Errata, July 25, 2017 (July 25, 2017 Errata).

<sup>13</sup> Response of the United States Postal Service to Chairman's Information Request No. 4, July 26, 2017 (Response to CHIR No. 4).

<sup>14</sup> Chairman's Information Request No. 5, July 27, 2017 (CHIR No. 5); Order Tolling Filing Time, July, 27, 2017 (Order No. 4018).

<sup>15</sup> Response of the United States Postal Service to Chairman's Information Request No. 5, August 1, 2017 (Response to CHIR No. 5).

<sup>16</sup> Public Representative Comments in Response to United States Postal Service Notice of Price Adjustment and Classification Changes, July 20, 2017 (PR Comments); Comments of the National Postal Policy Council, July 20, 2017 (NPPC Comments); Comments of the Association for Postal Commerce, July 20, 2017 (PostCom Comments).

On July 21, 2017, the National Association of Presort Mailers, Association of Mail Electronic Enhancement and IDEAlliance filed comments.<sup>17</sup> On August 9, 2017, PostCom filed supplemental comments.<sup>18</sup>

### III. BACKGROUND

The Postal Service requires mailers submitting First-Class Mail and USPS Marketing Mail letters and flats to ensure that their addresses reflect Change of Address orders (COAs).<sup>19</sup> This requirement, termed the Move Update standard, is a basic eligibility requirement for mailers of USPS Marketing Mail and of First-Class Mail using commercial automation and presort rates. To comply with the standard, mailers must update addresses within 95 days before the mailing date. *Id.* § 602.5.1. The Postal Service considers any addresses that are not updated within that timeframe as COA errors. Mailings with COA errors above the Postal Service's threshold are charged a Move Update assessment fee.<sup>20</sup>

The Postal Service currently uses Performance Based Verification (PBV) for its Move Update enforcement mechanism. The PBV enforcement mechanism has three components: (1) the sampling of eligible mailings, (2) the sampling of pieces within sampled mailings, and (3) the testing of sampled pieces. Notice at 4. The current enforcement mechanism can only be applied at Postal Service sites that contain a Mail Evaluation Readability Lookup INstrument (MERLIN) machine. *Id.* The PBV enforcement mechanism tests the sampled pieces from sampled mailings on the MERLIN machine to determine the COA error rate. *Id.* at 4-5.

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<sup>17</sup> Comments of the National Association of Presort Mailers, Association of Mail Electronic Enhancement and IDEAlliance, July 21, 2017 (Joint Commenters).

<sup>18</sup> Supplemental Comments of the Association for Postal Commerce, August 9, 2017 (PostCom Supplemental Comments).

<sup>19</sup> See Mailing Standards of the United States Postal Service, Domestic Mail Manual (DMM) § 602.5.1; § 233.3.3(f)(1); § 233.3.4; § 243.3.9.

<sup>20</sup> See Docket No. R2010-1, Order No. 348, Order Reviewing Price Adjustment and Classification Changes Related to Move Update Assessments, November 25, 2009.

Using the information from the MERLIN test, the Postal Service determines if an assessment is required and performs the assessment calculation. Under the current assessment rules, the Postal Service calculates a COA error rate, which equals the COA errors in the sample divided by the number of COA orders<sup>21</sup> in the sample. If the COA error rate exceeds the threshold, an assessment is applied to the mailing. The current threshold is 30 percent. *Id.* at 5. As explained by the Postal Service “if 1,000 pieces are sampled, 15 of those pieces have a COA order, and 6 of those 15 pieces have a COA error, the mailer has exceeded the threshold by 10.0 percent (40.0 percent of sampled COA pieces are in error).” *Id.* at 10. The percentage by which the error rate of the sample exceeds the threshold is applied to the entire mailing to determine the total number of pieces within the mailing that are subject to the fee. *See id.* In the hypothetical sampled mailing discussed by the Postal Service “the mailer would be assessed the \$0.07 charge on 10,000 mailpieces (10 percent of the 100,000 piece mailing), generating an assessment of \$700.” *Id.* Therefore, under the current assessment rules pieces with and without COA errors are subject to the assessment fee.

#### IV. THE PROPOSED CHANGES

##### A. Move Update Changes

The Postal Service proposes three changes to the Move Update standard: (1) a revised enforcement mechanism; (2) a revised assessment calculation, including a different error threshold; and (3) a higher assessment fee. *See Notice at 1.*

The Postal Service plans to replace the PBV enforcement mechanism, which relies on the MERLIN machine, with the Address Quality Census Assessment and Measurement Process (Census method) as the mechanism for evaluating compliance with the Move Update standard. *Id.* at 5. This enforcement mechanism uses census data to evaluate whether all eligible mailpieces comply with the Move Update standard,

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<sup>21</sup> COA orders are addresses with a Change of Address in the Postal Service’s records.

instead of the PBV enforcement mechanism's sampling method. *Id.* Instead of enforcing compliance with the Move Update standard on a per-mailing basis with the PBV enforcement mechanism, the Postal Service intends to evaluate compliance with the Census method on a calendar month basis. *Id.*

Because the Postal Service is able to enforce compliance for all eligible mailpieces on a monthly basis, the assessment calculation is continuously revised to incorporate new information as it becomes available. Instead of calculating the assessment fee using the ratio of COA errors to COA orders from a sample and applying that to the mailing, the Postal Service proposes to calculate a monthly assessment fee using the number of total COA errors contained in all mailings for a mailer in a given month.<sup>22</sup> The proposed error threshold is 0.5 percent. *Id.* Thus, for a given month, a mailer will be assessed a fee if its COA errors exceed 0.5 percent of all pieces mailed. *Id.* at 6. The revised assessment calculation also changes the volume that will be assessed a fee. The assessment fee will be applied to the pieces with COA errors above the 0.5 percent threshold for the entire month. *Id.* As described by the Postal Service "if six of the 1,000 mailpieces contain COA errors, one mailpiece would be assessed the Move Update assessment charge." *Id.*

The change to the Move Update standard is to increase the Move Update assessment charge from \$0.07 to \$0.08 per assessed piece. *Id.* at 9.

The Postal Service states that these changes "are appropriate to encourage mailers to improve their address quality by reducing COA mail, a subset of Undeliverable as Addressed (UAA) mail." *Id.* at 6. The Postal Service comments that "[t]he purpose of the charge is to alter mailer behavior before mailings are submitted to the Postal Service . . . [and] not to recoup the cost of handling UAA mailpieces." *Id.* at 6-7.

In conjunction with these changes, the Postal Service expects that the Mailer Scorecard feature of the Census method will help ensure compliance. *Id.* at 7. The

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<sup>22</sup> *Id.* at 5-6. This has the effect of removing the number of COA orders in a mailing from the assessment calculation.

Postal Service states that the Mailer Scorecard will provide “summary and detailed information on their mail quality over the calendar month” and COA error rates, even if the error rate is below the threshold. *Id.* The Mailer Scorecard will be updated every 24 hours. *Id.*

The Postal Service also provides calculations that show that 98.5 percent of mailers would have paid less under the proposed change. *Id.* at 10. The Postal Service states that the 1.5 percent of mailers that would have paid more under the proposed change are likely due to “instances in which the Census evaluation yielded a greater rate of errors during the observed period than MERLIN samples indicated.” *Id.*

#### B. Other Changes

The Postal Service also intends to extend no-fee ACS qualifying non-Full-Service mailpieces for mailers that meet specific criteria. Mailers who enter qualifying Basic automation and non-automation mailpieces that meet the criteria of the Census method and a Full-Service volume above the threshold of 95 percent, along with several other requirements, will be extended ACS. *Id.* at 8-9. The Postal Service believes that this change will encourage the adoption of Full-Service and increase the number of mailers receiving address quality information. *Id.* at 8.

The Postal Service also proposes to remove references to the Move Update assessment charge from the USPS Marketing Mail Parcels section of the MCS.<sup>23</sup> Removal of the references from section 1230.6 of the MCS will clarify that the Move Update assessment charge does not apply to that product.<sup>24</sup>

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<sup>23</sup> The Postal Service notes in its July 25, 2017 Errata that the Notice incorrectly stated that the Move Update Standard does not apply to USPS Marketing Parcels. The July 25, 2017 Errata clarified that the assessment charge has not been applied to the product under the MERLIN method and will not be applied under the proposed Census method. July 25, 2017 Errata at 1.

<sup>24</sup> A copy of the MCS (MCSRedline06232017.docx) can be found on the Commission’s website at: <https://www.prc.gov/mail-classification-schedule>.

### C. Price Cap Effect

The Postal Service uses available PBV data and Census method data to adjust First-Class Mail and USPS Marketing Mail billing determinants to reflect the proposed changes. The Postal Service starts with a database of mailings assessed under the PBV enforcement method and current assessment calculation. The Postal Service determines the volume that would be assessed under the Census method enforcement mechanism and the proposed assessment calculation, using those mailings that were both assessed under the MERLIN test<sup>25</sup> and were reported in the Census method dataset.<sup>26</sup> The Postal Service calculates that the proposed changes would result in the number of assessed mailpieces decreasing for First-Class Mail from 1,618,122 pieces to 145,312 pieces, and for USPS Marketing Mail decreasing from 889,243 pieces to 16,116 pieces.<sup>27</sup> The Postal Service calculations show that within the MERLIN-assessed mailings, the proposed changes would decrease the number of assessed pieces. However, the Postal Service does not show how the change from the PBV sample to the Census method would impact mailings that were not sampled by the PBV, mailings sampled by the PBV but not assessed, or mailings which were assessed for which no census data were available.

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<sup>25</sup> Of the 934 mailings assessed under the MERLIN method, only 428 were used to calculate volume under the Census method, because of differences in mailing eligibility and sampling under the MERLIN method. Library Reference USPS-LR-R2017-7/4, June 30, 2017, file "Census Data Preface" at 3.

<sup>26</sup> "The output tab contains a mailer-level summary comparing the performance of Move Update assessment-paying mailings under the MERLIN method, using the current Move Update assessment charge of \$0.07, against the performance of those same mailings evaluated by the proposed Census methodology [for which census data are available], using the proposed Move Update assessment charge of \$0.08." *Id.* at 5.

<sup>27</sup> See Library Reference USPS-LR-R2017-7/4.

The Postal Service calculates that the overall price effect of its proposed changes will be 0.000 percent for both First-Class Mail and USPS Marketing Mail, and -0.043 percent for Special Services.<sup>28</sup> It calculates a resulting banked price cap authority of 1.542 percent for First-Class Mail and USPS Marketing Mail, and 1.652 for Special Services.<sup>29</sup>

## V. COMMENTS

### A. Public Representative

The Public Representative concurs with the Postal Service and “favors the move to a Census” approach for Move Update assessment fees. PR Comments at 5. He also supports the Postal Service’s proposed Move Update assessment increase, which he states show a 0.000 percent change in revenue. *Id.* He concludes that “[a]t this time, there is no reliable method” to determine the effect of the proposed changes on revenue. *Id.* For this reason, he finds that accepting the Postal Service’s calculation of a 0.000 percent change “is the most logical conclusion at this time.” *Id.* He recommends that, going forward, a year of overlapping MERLIN and Census data be collected to compare the revenues in a future rate case. *Id.*

### B. National Postal Policy Council

The NPPC opposes the Postal Service’s planned 0.5 percent tolerance threshold. NPPC Comments at 1. The NPPC argues that this threshold is

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<sup>28</sup> Library Reference USPS-LR-R2017-7/1, June 30, 2017, First-Class Mail Workpapers, FCM Preface Revised.pdf; Library Reference USPS-LR-R2017-7/2, June 30, 2017, USPS Marketing Mail Workpapers, USPS Marketing Mail Preface Final; Library Reference USPS-LR-R2017-7/3, June 30, 2017, Special Services Workpapers, Attachment to Response to CHIR No. 3, Excel file “CAPCALC-SpecServ3q16to2q17 7-20-17.xlsx.”

<sup>29</sup> The changes to Special Services are found in Library Reference USPS-LR-R2017-7/3, Excel file “CAPCALC-SpecServ 3q16 to 2q17.xlsx” on tab “G-1 Address Correction.” In their initial submission, the Postal Service claimed a rate impact of -0.044 percent. However, after a series of CHIRs, it has been determined that the actual impact is -0.043 percent, bringing their total banked authority for Special Services to 1.652 percent.

“unrealistically low for commercial First-Class Mail” and “urges the Commission to adopt a 1.0 percent error rate tolerance . . . .” *Id.* Furthermore, the NPPC states that the 0.5 percent threshold “ignores the operational constraints under which commercial First-Class mailers operate, and will inevitably result in more assessments to commercial First-Class Mailers for noncompliance despite their doing everything within their power to comply with the new Move Update rules.” *Id.* at 3.

The NPCC also asks the Commission “to affirm that it is not a just and reasonable practice for mailers to be assessed separately by the Postal Service and by its Inspection Service for the same mailpiece.” *Id.* at 1. Finally, the NPPC requests that the Commission reject the Postal Service’s proposed MCS changes that eliminate the specified error threshold. *See id.* at 9-11.

### C. Association for Postal Commerce

PostCom supports the Postal Service’s move to the Census method as a “positive development.” PostCom Comments at 1. However, PostCom raises five objections. First, PostCom argues that the Postal Service’s justification for the Move Update assessment charge increase is inconsistent with Commission precedent because it does not tie the increase to an increase in costs. *Id.* at 2-4. Second, PostCom objects to the Postal Service’s plan to investigate mailings that are approved under the Census method through the United States Postal Inspection Service (USPIS). *Id.* at 4-5. Third, PostCom contends that applying the Move Update assessment charge to eDoc submitters is unreasonable because the submitters are sometimes not responsible for the addresses. *Id.* at 5-8. Fourth, PostCom argues that the threshold for applying the Move Update assessment charge is “inextricably linked” to price cap compliance. *Id.* at 8-9. Fifth, PostCom notes that “[a]t some point . . . it will become inappropriate for the Postal Service to rely on [Governors’] resolutions passed in 2016 to authorize future rate changes.” *Id.* at 9.

PostCom also filed supplemental comments, objecting to the Postal Service’s position that more rigorous enforcement of its rules should not have bearing on price

cap calculations. PostCom Supplemental Comments at 1-2. PostCom takes the position that “[w]hile [the Postal Service] can enforce its rules, it cannot turn enforcement into a price cap-independent revenue stream.” *Id.* at 2. PostCom also requests that the MCS revisions specifically state that assessments for Move Update noncompliance will not be levied by the USPIS absent a showing of bad faith. *Id.* at 3.

D. National Association of Presort Mailers, Association of Mail Electronic Enhancement, and IDEAlliance

The NAPM, AMEE, and IDEAlliance commend the Postal Service’s efforts to improve address quality but raise two issues. First, the NAPM, AMEE, and IDEAlliance note that even under the Census method, the Postal Service plans to maintain its position that the verification process alone does not establish compliance or noncompliance with the Move Update standard. Joint Commenters at 2. The NAPM, AMEE, and IDEAlliance opine that this could subject mailers to “disparate compliance standards” between the Census method verification and USPIS review. *Id.* at 3. The NAPM, AMEE, and IDEAlliance also argue that the proposed method does not clarify the differences in mailer behavior that result in Move Update assessment charges versus noncompliance penalties. *Id.* Second, the NAPM, AMEE, and IDEAlliance object to the increased assessment charge. In their view, the change is not supported in the Postal Service’s Notice and complications with implementation and monitoring could cause “unintended consequences.” *Id.* at 5.

## VI. COMMISSION ANALYSIS

### A. Price Cap Compliance Standard

The Commission reviews proposed rate changes for compliance with the price cap under its applicable rules, set out in 39 C.F.R. §§ 3010.20-30. In applying these rules, the Commission uses a backwards-weighted index, employing the volumes for

the past four quarters to quantify the effect of the changes.<sup>30</sup> 39 C.F.R. § 3010.23(d)(1). In the case of classification changes, such as a mail preparation requirement, the price cap rules “require that the Postal Service identify the volume of mail sent in the previous year that would continue to pay the rate associated with the old rate category and the volume of mail sent in the previous year that would have to pay the rate associated with the new rate category if it were sent under the new mail preparation requirements.”<sup>31</sup> In other words, the relevant question is what it would cost a mailer to send last year’s mail, this year.

This process requires the Postal Service to provide the historical product volume, which is then applied to the new rate cells. Per the Commission’s rules, adjustments to these volumes must be based on known mail characteristics or historical volume data whenever possible. 39 C.F.R. § 3010.23(d)(3). Forecasts of mailer behavior are disfavored.<sup>32</sup> When historical volumes are available to evaluate a proposed change, the Postal Service must use them in lieu of speculations concerning mailer behavior. See Order No. 1890 at 35.

*Adjustments to First-Class Mail and USPS Marketing Mail Billing Determinants:* In addition to the increase in the Move Update Assessment fee for First-Class Mail and USPS Marketing Mail, the Postal Service proposes a change in its enforcement mechanism as well as a change in the assessment calculation.

*Change in Enforcement methodology.* The Postal Service proposes to replace its existing PBV sampling system with a Census method to enforce compliance with the

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<sup>30</sup> See e.g., Docket No. RM2007-1, Order No. 43, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43).

<sup>31</sup> Docket No. R2013-10R, Order No. 3047, Order Resolving Issues on Remand, January 22, 2016, at 14-15.

<sup>32</sup> *Id.*; See Docket No. R2013-10, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, November 21, 2013 (Order No. 1890). The Postal Service advocated for precisely this rule formulation to avoid “forecasts and rollforwards.” See Docket No. RM2007-1, Reply comments of the United States Postal Service on the Second Advance Notice of Proposed Rulemaking, July 3, 2007, at 4.

Move Update standard.<sup>33</sup> The Postal Service contends that its decision to expand enforcement of the Move Update standard does not affect the price cap. Notice at 11 n.16; July 19, 2017 Response to CHIR No. 2, question 2(c)(iii). In the Postal Service's view, adopting the Census method is analogous to a city installing additional traffic cameras and represents a more efficient application of an existing rule.

The Commission agrees that the Postal Service's decision to revise its Move Update standard enforcement mechanism in a way that increases the number of pieces evaluated for compliance with mail preparation standards does not implicate the price cap. A change in the enforcement of mail preparation requirements does not, by itself, effect a change in the mail preparation requirements being enforced. This aspect of the Postal Service's proposed changes strictly concerns the enforcement of its rules and, therefore, does not implicate the Commission's price cap rules in 39 C.F.R. §§ 3010.20-30. The Postal Service's use of revenue deficiency assessments, which are not rates, to enforce its existing standards or rules is an example of such enforcement.<sup>34</sup> In this case, the Commission accounts for the rate effect of the proposed changes in the accompanying sections and determines that the Postal Service's proposed enforcement change, which amounts to modernizing its enforcement process, does not implicate the price cap.

*Change in Assessment Calculation.* In the past, the Commission has found that a change in threshold for Move Update, which is a component of the assessment calculation, constitutes a change in price.<sup>35</sup> The change in threshold from 30 percent to 0.5 percent is proposed in conjunction with substantial changes in the assessment

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<sup>33</sup> To be considered within the Census, a mailpiece must have an IMb. July 19, 2017 Response to CHIR No. 2, question 1(c).

<sup>34</sup> Although such actions do not implicate the price cap, the Postal Service's actions are reviewable in other ways. See *Southern California Edison v. U.S. Postal Serv.*, 134 F.Supp.3d 311 (D.D.C. Sept. 29, 2015).

<sup>35</sup> See Docket No. R2011-1, Order No. 606, Order Approving Market Dominant Classification and Price Changes, and Applying Price Cap Rules, December 10, 2010.

calculation method. This complicates the calculations, but the essential logic must still apply.

The change in the threshold and assessment calculation requires adjustments to the volumes used in the price cap calculation. 39 C.F.R. § 3010.23(d)(3) requires billing determinant adjustments for mail classification changes. The assessment calculation change means that a different volume would have been assessed a Move Update fee last year, had the proposed change been in place. As discussed above, the Postal Service states that 98.5 percent of mailers with enforcement actions would have paid less under the proposed assessment calculation.

*Application of Price Cap Rules.* The Postal Service's workpapers attempt to determine the change in threshold coupled with the change in enforcement mechanism. They include different volumes before and after the enforcement mechanism change, and change in threshold. The Postal Service's adjustments suggest that using the new methodology and threshold results in the volume of assessed mail decreasing from 1,618,122 pieces to 145,312 pieces for First-Class Mail and decreasing from 889,243 pieces to 16,116 pieces for USPS Marketing Mail.<sup>36</sup>

The Commission revises the Postal Service workpapers to isolate the overall change in prices resulting in the changes in the threshold, assessment calculation, and assessment fee. The Postal Service's workpapers identify the volumes of assessed pieces under the current threshold and assessment calculation method. For the proposed threshold and assessment calculation method, the Commission uses the volume that reflects the number of pieces that would have been assessed a surcharge under the proposed threshold and assessment calculation during the hybrid year. See Response to CHIR No. 4, question 2(f).

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<sup>36</sup> See Library Reference USPS-LR-R2017-7/4.

The volume used for First-Class Mail is 783,341 pieces and the volume used for USPS Marketing Mail is 127,763 pieces.<sup>37</sup> These volumes are used to measure the impact of the combined effects of the changes to the threshold, assessment calculation method, and assessment price change from \$0.07 to \$0.08. The Commission is aware that these volumes are a subset of the total pieces that would have been subject to a Move Update assessment fee under the Census method enforcement mechanism. These volumes reflect the pieces that would have been assessed a fee under the PBV enforcement mechanism but with the proposed threshold and assessment calculation. Thus, they reflect the best available historic data (based on known mail characteristics) to estimate the volumes subject to the proposed assessment fee.<sup>38</sup>

The effect of the Commission's change to the Postal Service workpapers is negligible. The Postal Service's original workpapers resulted in a 0.000 percent price change for First-Class Mail and USPS Marketing Mail, and the Commission's workpapers also result in a 0.000 percent price change for First-Class Mail and USPS Marketing Mail. The Commission does not revise the Postal Service's price change calculation of -0.043 percent for Special Services.<sup>39</sup>

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<sup>37</sup> The Postal Service expresses concerns about using this data, stating that it "does not provide a reliable basis for assessing the impact of such assistance on mailer compliance with the Move Update standard and therefore does not indicate how many pieces would pay if the Census method had been in effect at the time the data were collected." July 19, 2017 Response to CHIR No. 2, question 2(c)(ii). In other words, that the data does not reflect anticipated changes in mailer behavior. The Postal Service also asserts that the prospect of enhanced enforcement will improve address quality and reduce revenue received under the Move Update assessment fee. July 19, 2017 Response to CHIR No. 2, question 2(c)(iii). The Commission reiterates the requirement of 39 C.F.R. § 3010.23(d)(3) that the basis of adjustments "[w]henenever possible. . . shall be based on known mail characteristics or historical volume data, as opposed to forecasts of mailer behavior."

<sup>38</sup> Because the Census method is used for all mailings (with some restrictions), the number of pieces subject to a Move Update assessment charge will include those mailings which were *not* subject to a PBV test. Data on those mailings, however, are unavailable.

<sup>39</sup> See PRC-LR-R2017-7/1, PRC-LR-R2017-7/2, PRC-LR-R2017-7/3, August 23, 2017.

## B. The Threshold Level

Several commenters object to the Postal Service's revised error threshold. The NPPC argues that the threshold "is unrealistically low for commercial First-Class Mail" and advocates for a 1.0 percent threshold. NPPC Comments at 1. PostCom rejects the Postal Service's assertion that the standards for enforcement are not tied to the price cap. PostCom Comments at 8-9. The NAPM, AMEE, and IDEAlliance caution that the threshold could be too low because "there may be unintended consequences" that stem from the implementation of a new system. Joint Commenters at 5.

The Commission acknowledges these concerns. However, the Postal Service has the right, generally, to adjust the rigor with which it enforces its rules. The Commission's responsibility in this case is to evaluate whether proposed rates and classifications comport with the price cap and are consistent with title 39. While issues commenters raise are beyond the purview of this review, there remain other avenues such as the Commission's complaint process or the judicial process available to contest aspects of the Postal Service's proposal that fall outside the scope of this docket.

## C. United States Postal Inspection Service Enforcement Actions

Several commenters raise the concern that mailers might be assessed separately under the Move Update verification and USPIS. The NPPC expresses concern over this "double jeopardy" problem and requests that the Commission "affirm that it is not a just and reasonable practice for mailers to be assessed separately. . . ." NPPC Comments at 1, 11. The NAPM, AMEE, and IDEAlliance opine that mailers could be subject to "disparate compliance standards" under the two reviews. Joint Commenters at 3. PostCom requests that the Commission revise the Postal Service's proposed MCS language specifically to state that assessments for Move Update noncompliance will not be levied by the USPIS absent a showing of bad faith. PostCom Supplemental Comments at 3.

The Commission notes that the Postal Service currently does not consider Move Update verification as dispositive. The Postal Service states that "[a]s was the case

with MERLIN verification, Census verification alone does not establish compliance or noncompliance with the Move Update standard.” Notice at 6 n.6. In other words, the potential for duplicative inspection is not a product of the Postal Service’s proposed changes. Instead, this is an existing process that commenters would like to see revised. In addition, actions by the USPIS as described by PostCom, NAPM, AMEE, and IDEAlliance fall outside the scope of the Commission’s jurisdiction. Therefore, due to the jurisdiction issue and that the topic falls outside the scope of the Postal Service’s proposed changes under review in this docket, the Commission does not address this issue.

#### D. Governors’ Authorization

PostCom comments that the Governors’ resolution is over 6 months old, and will be a year old at the Postal Service’s planned implementation date. PostCom Comments at 9. PostCom does not indicate that it is inappropriate for the Postal Service to rely on the Governors’ resolution in this case, but questions continued reliance on resolutions that are stale or significantly out of date. *Id.*

The Commission notes that counsel for PostCom requested, and the Postal Service filed, the Governors’ resolution specifically authorizing the changes at issue in this docket.<sup>40</sup> The Commission notes that while 39 U.S.C. § 402 forbids the delegation of the Governors’<sup>41</sup> authority to Postal Service management, 39 U.S.C. § 404(b)<sup>42</sup> does not contain a time limit for the Postal Service to act upon a Governors’ resolution.

Governors’ Resolution No. 16-25 authorizes the Postal Service to propose the changes at issue in this docket in fulfillment of the requirements of section 404(b).

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<sup>40</sup> See United States Postal Service Notice of Filing Governors’ Resolution No. 16-25, July 12, 2017.

<sup>41</sup> As opposed to the “Board of Governors.”

<sup>42</sup> Providing the Governors’ authorization, with principles guiding them, to establish classes of mail, as well as rates and fees for postal services.

## VII. MAIL CLASSIFICATION SCHEDULE CHANGES

The Postal Service's Notice identifies several MCS changes in accordance with 39 C.F.R. § 3010.12(b)(11). These changes are discussed in depth in the appropriate subsections above. The Commission approves these corresponding changes, with the exception of the proposed change to the Move Update assessment charge definition, found in MCS section 1230.6.<sup>43</sup> That section is revised in accordance with the Postal Service's Response to CHIR No. 5.

## VIII. WORKSHARE DISCOUNTS

The Commission is required to ensure that workshare "discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity" unless the discount falls within a specified exception. 39 U.S.C. § 3622(e)(2).

Commission rules require the Postal Service to justify any proposed workshare discount that exceeds 100 percent of the avoidable costs by explaining how it meets one or more exceptions under the PAEA. 39 C.F.R. § 3010.12(b)(6). The Postal Service must also identify and explain discounts that are set substantially below avoided costs, and explain any relationship between discounts that are above and those that are below avoided costs. *Id.*

The Postal Service states that it "does not believe that the proposals impact workshare discounts." Notice at 16. The Commission agrees.

## IX. PREFERRED RATES

The Postal Service states that none of its proposed price changes affect USPS Marketing Mail. Notice at 16-17. The Postal Service also states that the methodological changes to USPS Marketing Mail are "not expected to affect the 60-

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<sup>43</sup> A copy of the MCS (MCSRedline06232017.docx) can be found on the Commission's website at: <https://www.prc.gov/mail-classification-schedule>.

percent ratio between the prices for nonprofit and commercial mail.” *Id.* at 17. The Commission finds that the no preferred rates present issues in this case.

## X. CONCLUSION

The Commission approves the Postal Service’s proposed changes in this case, finding that the Postal Service’s proposed changes are reasonable. However, the Commission notes that its findings in this case are based on the highly discrete set of circumstances presented here and should not be considered as broadly applicable. As the Commission notes above, it has determined that some of the data problems in this case result in harmless error. If the Postal Service fails to collect and retain requisite data in future cases, as it did here, the Commission will not be able to approve those proposed changes. Finally, as it has done in the past, the Commission encourages the expanded use of census data to improve the Postal Service’s data quality.<sup>44</sup>

## XI. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission finds that the Postal Service’s planned price adjustments and classification changes relating to First-Class Mail as identified in the United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, filed June 30, 2017, are consistent with 39 U.S.C. §§ 3622(d) and 3622(e), and may take effect as planned.
2. The Commission finds that the Postal Service’s planned price adjustments and classification changes relating to USPS Marketing Mail as identified in the United States Postal Service Notice of Market Dominant Price Adjustment and

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<sup>44</sup> See e.g., Docket No. RM2009-10, Order No. 339, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Nineteen), November 13, 2009, at 38-39; see also Docket No. RM2014-4, Order No. 2101, Order on Analytical Principles Used in Periodic Reporting (Proposals One through Two, June 25, 2014, at 5, 8.

Classification Changes, filed June 30, 2017, are consistent with 39 U.S.C. §§ 3622(d) and 3622(e), and may take effect as planned.

3. The Commission finds that the Postal Service's planned price adjustments and classification changes relating to Special Services as identified in the United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, filed June 30, 2017, are consistent with 39 U.S.C. §§ 3622(d) and 3622(e), and may take effect as planned.
4. Revisions to the Mail Classification Schedule appear below the signature of this Order and are effective August 23, 2017.

By the Commission

Stacy L. Ruble  
Secretary

## CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through

**Part A—Market Dominant Products**

**1100**            **First-Class Mail**

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**1110**            **Presorted Letters/Postcards**

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1110.5          Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~ mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*First-Class Mail  
Flats*

**1115**

**Flats**

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1115.5

Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~ mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*USPS Marketing Mail (Commercial and Nonprofit)  
High Density and Saturation Letters*

**1200 USPS Marketing Mail (Commercial and Nonprofit)**

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**1205 High Density and Saturation Letters**

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1205.6 Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~ mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*USPS Marketing Mail (Commercial and Nonprofit)  
High Density and Saturation Flats/Parcels*

**1210 High Density and Saturation Flats/Parcels**

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1210.6 Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*USPS Marketing Mail (Commercial and Nonprofit)  
Carrier Route*

**1215 Carrier Route**

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1215.6 Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~ mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*USPS Marketing Mail (Commercial and Nonprofit)  
Letters*

**1220            Letters**

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1220.6        Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~ mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*USPS Marketing Mail (Commercial and Nonprofit)  
Flats*

**1225**

**Flats**

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1225.6

Prices

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*Move Update Assessment Charge*

Add \$0.087 per assessed piece, for ~~mailings~~ mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

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*USPS Marketing Mail (Commercial and Nonprofit)  
Parcels*

**1230**

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**Parcels**

1230.4

Price Categories

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

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- ~~Move Update Assessment Charge~~

\*\*\*\*\*

1230.6

Prices

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~~*Move Update Assessment Charge*~~

~~Add \$0.07 per assessed piece, for mailings with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.~~

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**1500 Special Services**

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**1505 Ancillary Services**

**1505.1 Address Correction Service**

1505.1.1 Description

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- e. Full-service Address Correction Service is only available for mailings of First-Class Mail automated letters, cards, and flats, USPS Marketing Mail automation letters and flats; USPS Marketing Mail Carrier Route, High Density, and Saturation letters; Periodicals Outside County barcoded or Carrier Route letters and flats; Periodicals In-County automation or Carrier Route letters and flats; and Bound Printed Matter barcoded Presort non-DDU flats. The mailings must comply with the requirements for the Full-service Intelligent Mail option. In addition, Full-service Address Correction Service is available for qualifying Basic IMb and non-automation First-Class Mail and USPS Marketing Mail letters and flats, submitted by qualifying Full-service mailers.

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