

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

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1  
(November 3, 2009)

Chairman's Information Request (CHIR) No. 1 was issued on October 28, 2009. The request sought answers no later than November 3, 2009. Attached is the Postal Service's response to CHIR No. 1. As noted in the response to question 1, one spreadsheet associated with that response will be filed early next week.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please refer to the calculations of the revenue effects of the assessment charge for First-Class Mail (in Appendix B2) and Standard Mail (in Appendix B3).<sup>1</sup> The calculations imply that the charge will apply to all shapes of Standard Mail, but only letter-shaped First-Class Mail.
  - a. Please confirm that the assessment charge will apply to all shapes of Standard Mail, but only to letter-shaped First-Class Mail. If not confirmed, please explain and revise the Appendices to reflect the intended application of the assessment charge.
  - b. Please also confirm that the “Assessed Pieces as % of RPW Volume” percentages calculated in Appendix B1 utilize letter-shaped volumes in the numerator (from MERLIN tests) and denominator (from RPW) for First-Class Mail, and volumes for all shapes in the numerator and denominator for Standard Mail. If not confirmed, please explain and revise Appendix B1 as necessary.

**RESPONSE:**

- (a) Not confirmed. In both First-Class Mail and Standard Mail, all shapes are subject to assessment. However, MERLIN tests included letters, flats, and cards (not parcels); therefore, parcels were not included in the numerator of the calculations in Appendix B1. For consistency, a revised version of Appendix B1 is provided, with parcels deleted from the denominator. A revised version of Appendix B2, reflecting the addition of flats, is also provided, and a revised version of Appendix B3, deleting Standard Mail parcels and NFMs from the calculations, will be filed early next week, when the analyst returns from leave. These changes are being provided for methodological consistency and are not material.

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<sup>1</sup> See United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, October 15, 2009 (Notice).

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- (b) Not confirmed. In Appendix B1, the First-Class Mail RPW volume is the sum of three lines: "Total Presort Letters and Cards," "Flats," and "Parcels." As noted above in part a., Appendix B1 is being revised to omit "Parcels." The Standard Mail RPW volume is "Total Standard Mail" less both "High Density and Saturation Letters" and "High Density and Saturation Flats & Parcels," as noted in the Preface to Appendix B1, and is being revised as noted above in part a.

The revised versions of Appendices B1, B2, and B3 all use the same RPW categories. The April – August MERLIN percentages can then be applied to corresponding RPW volume categories for the most recent four quarters to project full-year assessment revenues.

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2. Has the Postal Service evaluated the potential for mailers to respond to the proposal by using an exceptional address format (e.g., "or current occupant") as a means of avoiding the assessment charge? If so, please describe the evaluation, provide the results and conclusions, and explain the effect of this on the cost and revenue impact of the proposal.

**RESPONSE:**

The use of "or current occupant" on Standard Mail satisfies the Move Update requirement, and the MERLIN test results reflect the current usage level of this address format. While more customers could switch to "or current resident," the Postal Service has no reason to expect much change, or a significant impact on the cost and revenue impact of the Move Update assessment approach discussed in the Notice. Many business considerations affect a given mailer's decision on whether to use "or current resident," and customers with test results above the 30% tolerance level will probably find it preferable to find and fix deficiencies in their Move Update processes than to reverse the decision not to use "or current resident."

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3. The Postal Service asserts that the assessment charge will encourage compliance with rules for cleaner addresses, thus reducing the Postal Service's costs. See *id.* at 12.
  - a. Please provide an estimate of the additional costs associated with mailings that do not satisfy the allowable 30 percent tolerance. Please show all calculations, identify all sources, and explain all assumptions.
  - b. Please explain the rationale for the relationship between the level of the charge (7 cents) and these additional costs.
  - c. Does the Postal Service have any plans or intention to implement rate incentives to ensure compliance with other rules for cleaner addresses (*e.g.*, CASS certification)? Please explain.

**RESPONSE:**

First, it should be noted that the Postal Service does not view the assessment as a price for not updating an address within the 95-day period.

(a) The additional per-piece costs for UAA mail have been estimated at 5.2 cents per piece for Standard Mail and 26.9 cents per piece for non-single-piece First-Class Mail. FY 2008 UAA Model, Tables 4.31 (Standard Mail) and 4.11 (First-Class Mail). The UAA costs for a mailing depend on the number of UAA pieces in the mailing. See the response to part (b).

(b) The 7-cent charge, which was included in the May 2009 price changes for Standard Mail, was not designed with explicit reference to the UAA costs for mail pieces or mailings that exceed the tolerance. The Postal Service is planning on applying the same 7-cent charge to First-Class Mail for simplicity, and because the same charge for both classes is

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expected to be adequate to encourage mailers who are not already correcting their addresses to do so.

The relationship between the 7-cent charge and the per-piece UAA costs for mailings that exceed the tolerance is complicated, because the 7-cent charge is expected to be applied to a different number of pieces than the number of UAA pieces. The assessment is not applied to the non-updated pieces in the mailing (as projected from the MERLIN sample), but to a percentage of the entire mailing as elaborated in the following example. Consider a mailing of 100,000 pieces, a MERLIN sample of 1000 pieces, and, within the sample, 30 pieces that match old or new addresses on Changes of Address orders (COAs) at least 95 days old, of which 10 (or 33.3% of 30) have not been updated. Based on these results, the entire 100,000 piece mailing would be projected to have 3000 COAs, of which 1000 were not updated. With a 30% tolerance level, a \$0.07 assessment would be applied to 3.3% ( $= 33.3\% - 30\%$ ) of the mailing, or 3333 pieces, generating \$233 in assessment revenue.

Now consider a second mailing of 100,000 pieces with a 1000-piece MERLIN sample, but 60 COAs of which 20 (or 33.3% of 60) had not been updated. The same assessment would apply, since the same percent of the sample was not updated. But the UAA costs for the entire mailing would be twice as much, since 2000 COAs would be projected to

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not be updated (33.3% of 6000 COAs), twice the number in the first mailing.

At an estimated additional cost per UAA piece of 5.2 cents in Standard Mail and 26.9 cents in First-Class Mail presort, \$233 in assessment revenue easily covers the cost of the projected 1000 or 2000 UAA pieces (in the above examples) if they are Standard Mail (\$52 and \$104 respectively), and comes close to covering the cost of 1000 UAA pieces if they are First-Class Mail presort (\$269).

However, the primary goal is not to cover the costs of UAA pieces, but instead to provide an adequate incentive for mailers to take action to eliminate the UAA pieces from their mailings. There is no fixed relationship between the assessment charge and UAA costs.

(c) The Postal Service does not anticipate any need to establish additional price incentives to encourage cleaner addresses beyond those already present in the prices themselves.

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4. Please refer to Appendix A, which contains proposed changes to the Mail Classification Schedule (MCS).
- a. The MCS is being developed as a stand-alone document with either limited or no reference to other documents or parties (e.g., the DMM, IMM, or "as specified by X"). So that the pertinent parameters of the service or product can be fully described in the MCS, please explain what is meant by each use of the phrase "as specified by the Postal Service" in the proposed MCS language.
  - b. Please confirm that the Postal Service does not intend to apply the Move Update Assessment Charge to single-piece First-Class Mail. If not confirmed, please explain.

**RESPONSE:**

- (a) The phrase "as specified by the Postal Service" means the same thing in each section of the MCS listed in Appendix A to the Postal Service's Notice. The following language would be better suited to a stand-alone MCS:

Add \$0.07 per assessed piece, for mailings that fail a Performance Based Verification at acceptance.

The Performance Based Verification process is described in more detail in the Postal Service's October 15 Notice, at pages 3-5, and in the Move Update advisement policy posted online at:

[http://ribbs.usps.gov/move\\_update/documents/tech\\_guides/Move\\_Update\\_Advisement\\_Policy.pdf](http://ribbs.usps.gov/move_update/documents/tech_guides/Move_Update_Advisement_Policy.pdf).

- (b) Confirmed. No changes should be made to section 1105 (Single-Piece Letters/Postcards) in the MCS.

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5. The Postal Service states that "Performance Based Verification does not by itself establish compliance or noncompliance with the Move Update standards." *Id.* at 5. It also states that mailings that do not meet the Move Update requirement will be subject to single-piece First-Class Mail prices. *Id.* at 2, n.1. Please describe all other measures and procedures, in addition to Performance Based Verification, that the Postal Service will employ to establish compliance or noncompliance with Move Update standards. Please explain how a final determination of compliance or noncompliance will be made.

**RESPONSE:**

The Postal Service requires mailers to sign a statement when they enter mailings, certifying that the mail and the supporting documentation comply with all postal standards, including Move Update standards. If the certification is later found to be questionable (for example, because of large volumes of UAA mail being returned to the sender), further review might show that the mailings did not comply with Move Update standards. In such cases, revenue deficiencies can result. The process for revenue deficiency assessments and appeals is described in Domestic Mail Manual (DMM) §604.10.0.

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6. The Postal Service states that it intends to reduce the 30 percent tolerance "as necessary to ensure that address quality improves." *Id.* at 4. Does the Postal Service intend to eventually phase out the tolerance? Please explain.

**RESPONSE:**

The Postal Service intends to reduce the tolerance as necessary to ensure that address quality improves, but not to completely phase out the tolerance. The tolerance will be adjusted if the current tolerance fails to encourage enough mailers to move toward Move Update compliance. A lower tolerance will be adopted to fulfill the objective of the Move Update assessment, which is not to generate revenue, but to encourage cleaner addresses and less UAA mail.