



Postal Regulatory Commission

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PRC CONCLUDES RATE SYSTEM HAS NOT ACHIEVED NECESSARY OBJECTIVES and ISSUES PROPOSED RULEMAKING TO ADDRESS SHORTCOMINGS

Would Retain Price Cap System

Washington, D.C. - Today, the Postal Regulatory Commission (Commission) issued its findings related to the statutorily mandated review of the system for regulating rates and classes for Market Dominant products that was first established in 2006 by the Postal Accountability and Enhancement Act (PAEA). The law required the Commission to review the past 10 years of the existing market dominant rate and classification system to determine if the system achieved the nine objectives, considering the 14 factors, established by Congress. The objectives reflect the goals of the PAEA to create a flexible, stable, predictable, and streamlined ratemaking system that ensures the Postal Service's financial health and maintains high quality service standards and performance.

In its findings order, the Commission identifies three principal areas of the PAEA system which encapsulate the nine objectives: (1) the structure of the ratemaking system; (2) the financial health of the Postal Service; and (3) service. After extensive review, the Commission concludes that the system achieved some of the goals of these areas, but the overall system has not achieved the objectives taking into account the factors of the PAEA.

In brief, the Commission findings are as follows:

- The system was largely successful in achieving the goals related to the structure of the ratemaking system. However, the Commission concludes that the ratemaking system has not increased pricing efficiency.
- The system has not maintained the financial health of the Postal Service as intended by the PAEA. While the Postal Service has generally achieved short-term financial stability, both medium-term and long-term financial stability measures have not been achieved.
- High quality service standards have not been maintained during the past 10 years under the PAEA.

As a result of these findings, the Commission also issued today a Notice of Proposed Rulemaking to address the shortcomings identified by the Commission in its review. Key proposals include:

- A two-pronged approach to complement, rather than replace, the CPI-U price cap by providing discrete, clearly defined amounts of additional authority. The intent is to put the Postal Service on the path toward generating positive net income and retained earnings.
 1. 2 percentage points of rate authority per class of mail per calendar year for each of the first 5 full calendar years following the effective date of these proposed rules.
 2. Up to 1 percentage point of rate authority per class of mail per calendar year, contingent on the Postal Service meeting or exceeding an operational efficiency-based standard and adhering to service standard quality criteria.
- A required rate increase for any non-compensatory product of a minimum of 2 percentage points above the percentage increase for the class. The proposed solution does not mandate immediate full cost coverage for non-compensatory classes, but rather seeks to narrow the coverage gap and move prices towards full cost coverage over time and thereby achieve reasonable and efficient rates as envisioned by the PAEA.
- Establishment of two bands –ranges with upper and lower limits—for workshare discount passthroughs¹: (1) band range of plus or minus 25 percent for Periodicals; and (2) band range of plus or minus 15 percent for all other classes. Non-compliant passthroughs would be subject to a 3-year grace period. The intent is to promote Efficient Component Pricing (ECP)² and help the ratemaking system to maximize incentives to increase efficiency.

Both the *Commission Order on the Findings and Determination of the 39 U.S.C. 3622 Review* and the *Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products* are available on the home page of the Commission’s website, www.prc.gov. To simplify the process for the general public to provide comments on the proposed rulemaking, the Commission has placed a link on its home page entitled, “10 Year Rate System Review.” Additional information regarding how to submit comments online can be found at: <http://www.prc.gov/how-to-participate>. Commission rules require that comments (including reply comments) be filed online, unless a waiver is obtained. All comments accepted will be made available on the Commission’s website. Comments are due no later than March 1, 2018. Reply comments are due no later than March 30, 2018.

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight over the U.S. Postal Service to ensure the transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The Chairman is designated by the President. In addition to Chairman Robert G. Taub, the other commissioners are Vice Chairman Mark Acton and Commissioners Nanci Langley and Tony Hammond. Follow the PRC on Twitter: @PostalRegulator

¹ Workshare discounts are rate discounts that the Postal Service provides to mailers for presorting, prebarcoding, handling, or transporting mail. “Passthroughs” represent the relationship between the amount of the workshare discount and the avoided cost as a percentage.

² Under ECP, price differences should equal as closely as practicable cost differences.