



# Postal Regulatory Commission

- Independent agency of the Executive Branch
- Regulator of the U.S. Postal Service only
- Postal Rate Commission until 2006
- Five Commissioners (different parties) nominated by President and confirmed by Senate for terms of six years
- Staff of approximately 75
- Mission: To ensure transparency and accountability of the U.S. Postal Service and foster a vital and efficient universal mail system



# Role of the Postal Regulatory Commission

- Develop and implement a modern system of rate regulation
- Provide annual compliance reviews on the U.S. Postal Service's finances and operations to the President, Congress, and the public
- Provide Annual Report to Congress on Commission's activities
- Consult with U.S. Postal Service on service standards
- Adjudicate complaints from mailers and the public
- Provide advisory opinions on nationwide changes to service



# Postal Regulatory Commission's Enforcement Tools

- Subpoena power
- Authority to direct the Postal Service to adjust rates and take other remedial actions
- Authority to levy fines



# Postal Accountability and Enhancement Act of 2006

- Most recent major postal reform in the U.S.
- Created more formal postal regulator
- Allowed U.S. Postal Service to earn and retain profits
- Gave U.S. Postal Service more flexibility to compete and innovate
- Provided greater transparency and accountability in the postal system
- Separate regulations for market dominant and competitive products



# 10-year Rate and Classification Review

- U.S. Congress provided 9 Objectives and 14 Factors that must be considered or taken into affect when establishing or revising the rate and classification system.
- Congress also required a 10-year review of the system, after which the PRC could: modify the existing system or adopt an alternative system.
- As part of its review, the Commission identified three topical areas which captured all nine objectives: (1) the structure of the ratemaking system; (2) the financial health of the Postal Service; and (3) service.



# 10-year Rate and Classification Review

**While the system created by the 2006 law achieved some of the goals, the overall system did not achieve the objectives taking into account the factors.**

## **Structure of the ratemaking system**

- System worked as intended to create rate adjustments that are stable and predictable with regards to both timing and magnitude; reduce the administrative burden and increase the transparency of the ratemaking system; and provide the Postal Service pricing flexibility while maintaining just prices.
- However, the Commission concluded that the ratemaking system has not increased pricing efficiency.



# 10-year Rate and Classification Review

## Finances of the Postal Service

- System had not maintained the financial health of the Postal Service as intended by the 2006 Law. While the Postal Service has generally achieved short-term financial stability, both medium-term and long-term financial stability measures have not been achieved. This includes not having total revenue sufficient to cover total costs, and not having retained earnings.
- Also, while some cost reductions and efficiency gains occurred during the past 10 years, the incentives were not maximized in a way that allowed the Postal Service to achieve financial stability.
- Although the system contained a mechanism to appropriately allocate institutional costs and was able to enhance mail security and deter terrorism, there was not an adequate mechanism to maintain reasonable rates during the past 10 years because certain products and classes failed to cover their attributable costs, further threatening the financial health of the Postal service.



# 10-year Rate and Classification Review

## Service

- High quality service standards have not been maintained during the past 10 years. While the system requires the Commission to review service performance routinely during the Annual Compliance Determination, the system does not effectively encourage the Postal Service to maintain service standard quality.





# 10-year Rate and Classification Review

Once determined that the system did not achieve the objectives, the Commission issued a Notice of Proposed Rulemaking to present its proposed solutions to address the shortcomings.

- Build upon, rather than replace, the CPI price cap by providing discrete amounts of additional rate authority.

## Supplemental Rate Authority – 5 years

- Proposes an additional 2 percentage points of supplemental rate authority, in addition to the CPI price cap, each year for a 5-year period.
- After five years, the supplemental rate authority will terminate and the Commission will review the Postal Service's financial condition.



# 10-year Rate and Classification Review

## Performance-based Rate Authority

- Proposes an additional 1 percentage point of performance-based rate authority, per calendar year; aimed at securing long-term financial stability and provide meaningful incentives for the Postal Service to increase operational efficiency and maintain high quality service standards
- 1% = 0.75 percentage points is allocated based on meeting operational efficiency-based requirements  
0.25 percentage points is allocated based on maintaining service quality.

Postal service only receives this additional performance based rate authority if it meets certain efficiency and service measures.



# 10-year Rate and Classification Review

## Non-Compensatory Products

- (Products for which attributable costs exceed revenue, otherwise referred to as underwater products.)
- Proposes rules to require that whenever the Postal Service files a request for the Commission to review a notice of rate adjustment applicable to any class of mail, it will be required to propose to increase the rate for any non-compensatory product within that class by a minimum of 2 percentage points above the percentage increase for the class.



# 10-year Rate and Classification Review

## Work-Share Discounts

- (Workshare discounts are rate discounts that the Postal Service provides to mailers for presorting, prebarcoding, handling, or transporting mail.)
- The 2006 Law tasked the Commission with ensuring that these discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity, unless certain limited exceptions are met.
- Proposed regulations are designed to achieve pricing efficiency -- known as Efficient Component Pricing – by having workshare discounts set as closely as possible to the costs avoided by the Postal Service when the mailer performs the workshare activity, thus producing what is termed “pass-through” of 100 percent.
- Workshare Pass rough Bands – one for Periodicals, and one for all other classes.
- For periodicals, pass-through must range between 75 percent and 125 percent.
- Everything else, pass-through must range between 85 percent and 115 percent.
- All pass-through that fall outside of the applicable band would be considered noncompliant but subject to a 3-year grace period commencing from the effective date of these rules or when a new workshare discount is established. After the grace period, the Commission would require the pass-through to become compliant.