

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2013-11

**REPORT OF THE UNITED STATES POSTAL SERVICE IN RESPONSE TO
ORDER NO. 1926 REGARDING SURCHARGE REMOVAL PLAN**
(June 2, 2014)

In Order No. 1926, the Commission sought a report “providing a proposed plan for removing the surcharge for postage rates with a complete explanation of how the plan will operate.” Order No. 1926 (Dec. 24, 2013) at 193.

Subsequently, Order No. 2075 (May 2, 2014) set June 2, 2014 as the revised deadline for submission of this report. The Postal Service hereby responds.

In its motion seeking to stay its obligation to submit the exigent surcharge removal plan required by Order No. 1926, the Postal Service noted that the timing and nature of the rescission, if that requirement is upheld on appeal, would be dependent on a number of factors, like secular volume trends and the rate of inflation, that are beyond the control of the Postal Service, speculative, and difficult to predict. The Commission nevertheless denied the Postal Service’s motion, largely on the grounds that the public interest would be best served if interested persons were provided “an opportunity to comment before the Commission approves or modifies the proposed plan.” Order No. 2075 at p. 10.

As originally stated in its motion, and as explained in greater detail below, the Postal Service is not in a position to present a definitive “plan” at this time,

irrespective of whether the requirement to implement such a plan withstands appellate scrutiny. The timing and nature of any required rescission is not only a function of the factors previously identified, but will also be influenced by future price adjustments that are uniquely within the authority of the Governors to decide, based on, among other things, the finances of the Postal Service and prevailing market conditions at the time those pricing decisions need to be made. Accordingly, the Postal Service believes it can best comply with the Commission's order, and provide any necessary transparency, by discussing options that it is preparing for the Governors to consider at the appropriate time. Although the specifics of the eventual plan will emerge at a later date, the options discussed below will allow the Commission, mailers, and other interested persons to better appreciate the challenges inherent in the task of producing a plan that involves a myriad of moving parts. Those challenges are further complicated because the exact nature of some of those moving parts will only emerge from decisions yet to be made.

As a starting point, it is useful to bear in mind that because removal of the exigent surcharge under the Commission's Order is triggered upon reaching a specific revenue target, achievement of that target will depend on the actual mail volumes that are realized. A critical determinant of volumes, of course, is the state of the economy as a whole. If the recent overall economic contraction in the first calendar quarter of 2014 is not, as is widely assumed, the result of a particularly harsh winter, but instead evidences a fundamental weakness in the economy, then it would be reasonable to expect that realizing an additional \$3.2

billion in revenue from the exigent surcharge would take longer than the eighteen months the Commission estimated. Pricing decisions may have a similar delaying effect. At present, the next annual price adjustment under the Postal Service's "schedule of regular rate changes" would occur in January of 2015. If that happens, it might be expected that volumes would decline as a result of any increases in prices, thereby resulting in the exigent surcharge being in place for a somewhat longer period of time.

A further complication affecting the point at which \$3.2 billion in revenue is achieved is mail mix. Even if overall volume is at the currently forecasted level, an unanticipated one-for-one substitution of Standard Mail letters for First-Class Mail letters, for example, could result in more time elapsing before the target revenue is realized.

Regardless of when the \$3.2 billion revenue target is reached, there are multiple ways in which to remove the exigent surcharge, if it becomes necessary to do so. The most obvious method would be to simply file a notice with the Commission rescinding the surcharge shortly before the point at which the Postal Service believes it has generated the \$3.2 billion in revenue allowed under the Commission's order.

Another possible approach would require altering the schedule of regular rate changes. That is, the Postal Service could delay the next rate adjustment so as to coincide with the rescission of the exigent surcharge. If the available percentage of rate authority attributable to inflation were 4.3 percent or greater, then the surcharge could simply be absorbed as part of the scheduled rate

change. Even if inflation were less than 4.3 percent, the Postal Service could, notwithstanding, use available pricing authority to fold in the exigent surcharge into the basic rate structure of some products, while adjusting the prices of other products so as to come out at the cap.

Quite obviously, the two approaches discussed above are not mutually exclusive. The Governors of the Postal Service could decide to proceed with a January price adjustment for one class of mail—say, Periodicals—while delaying it for other classes. Or, the January schedule could be maintained for all classes, but less than all of the available pricing authority could be used for one or more classes with the rest banked, to be used in a subsequent, altered schedule of regular rate changes that would coincide with the rescission of the exigent surcharge. As part of that scheduled rate change, decisions would be made as to which products to fold in the surcharge as part of the basic rate schedule, consistent with the cap.

In short, the Governors have a number of options available to them in planning for the rescission of the exigent surcharge, so that the exigent surcharge can be timely rescinded if it becomes necessary to do so. As decisions are made, the Postal Service will report to the Commission as to how they influence the development of the final plan for eliminating the surcharge. Further, if and when that plan is finalized, the Postal Service will convey its details sufficiently in advance so as to allow any necessary discussion to occur. The Postal Service is hopeful, however, that, by sharing its current thinking with all interested stakeholders, any concerns can be identified and addressed in the

detailed plan it submits to the Commission if a final plan ultimately becomes necessary, so as to minimize the need for any last minute adjustments.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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