STATEMENT OF CHAIRMAN RUTH Y. GOLDWAY, POSTAL REGULATORY COMMISSION
DECISION OF THE COMMISSION IN DOCKET R2010-4
"RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES"
SEPTEMBER 30, 2010

This is the first request for an exigent rate increase the Postal Regulatory Commission has considered. From the moment the Service announced its intention to file on March 2nd, 2010, my fellow Commissioners and I have been aware that this process is unprecedented and whatever decision we make will be controversial.

From the outset, we devoted ourselves to a careful study of the law. The Commission and our staff have worked to determine the law's intent, to clearly understand its provisions and to define our responsibilities in order to apply it fairly. Notwithstanding the complexity and difficulty of the issues before us, the Commissioners' deliberations have been collegial. The decision we have come to is a consensus and is unanimous. We concluded we must deny the request.

The Price Cap is the centerpiece of the law; it had strong bipartisan support when enacted. The Cap was seen as essential for promoting efficiency and creating an environment of rate stability that would encourage mailers to stay in the mail and use it more, while providing the Postal Service with incentives to reduce its costs.

The Exigent rate provision is a carefully crafted exception to the Price Cap. Congress made the terms for the exception very narrow. To be valid, an exigent rate adjustment must be shown to be:

1. Due to either extraordinary or exceptional circumstances;
2. Reasonable, equitable, and necessary under best practices of honest, efficient, and economical management; and,
3. Necessary to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.

All of these three provisions must be met.

The Commission responded to the Postal Service's July 6th request by initiating an expedited review process to last no more than ninety days. The Commission heard the Postal Service testimony and evidence that identified exigent circumstances and requested rate relief. A wide variety of parties submitted extensive arguments that were very helpful to the development of the record. In addition, the Commission received and reviewed more than 500 public comments.

The Postal Service has asked the Commission to find that volume declines resulting from the recent recession are an extraordinary or exceptional circumstance. The Postal Service also supported its request with a statement from its Chief Financial Officer that it is facing a cash flow crisis, and that without some assistance it will be unable to make Congressionally-required payments in September and October of 2011.

The documentation provided by the Postal Service demonstrated that the primary cause of the liquidity crisis was structural and related to an overly ambitious requirement for the Postal Service to prefund its future retiree health benefit premiums.

USPS CASH FLOWS WITHOUT RHBF PAYMENTS

This chart shows how the Postal Service would have fared without the mandated RHBF payments.

Table 5: Forecasted USPS Cash Flow Without RHBF Payments

($ in Millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011BR
Net Income/(Loss)	(5,142)	(2,806)	(7,794)	(6,440)	(6,999)
Less: Statutory RHBF Payments	8,358	5,600	5,400	5,500	5,500
Adj. Net Income/(Loss)	3,216	2,794	(2,394)	(940)	(1,499)
Non-Cash items and Other Cash Flows	2,539	2,367	5,367	2,183	1,146
Cash Flows from Investing Activities	(2,458)	(1,938)	(1,806)	(1,439)	(1,493)
Cash Flows from Financing Activities:					
Increase (decrease) in debt	2,100	0	0	0	0
Payments for Capital Leases	(19)	(29)	(46)	(47)	(49)
U.S. government appropriations - expensed	(76)	(61)	(64)	(63)	(63)
Net Cash (Used) provided by financing activities	2,005	(90)	(110)	(110)	(112)
Net Increase/(Decrease) in Cash	5,302	3,133	1,057	(306)	(1,958)
Cash Balance BOY	997	6,299	9,432	10,489	10,183
Cash Balance EOY	**6,299**	**9,432**	**10,489**	**10,183**	**8,225**
Debt Outstanding	4,200	4,200	4,200	4,200	4,200

Source: Cash flow activities from Statement of Stephen J. Masse, Attachment 4 Revised, August 4, 2010.

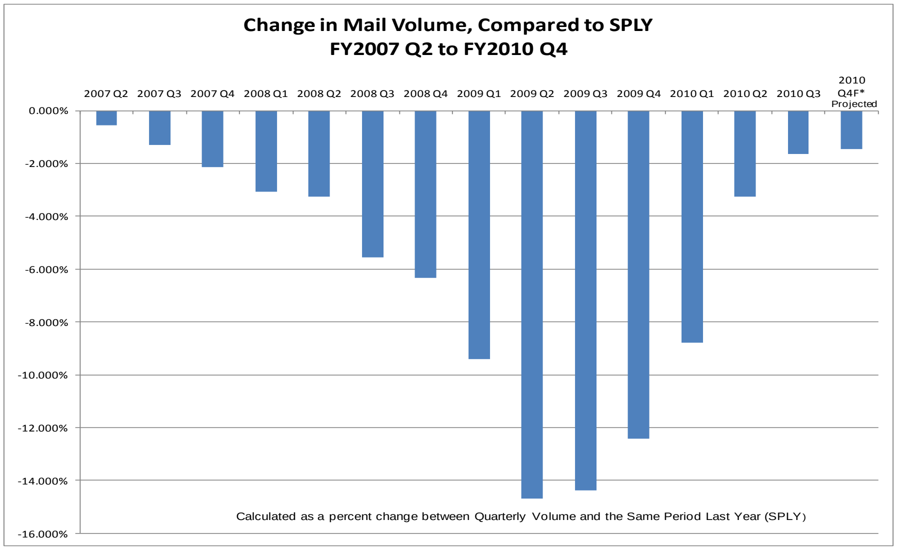
The top three lines show the effects on cash flow during FY2007 through FY2011 before any rate increases. Adding back the RHBF payments into net income produces a positive cash balance.

If you look near the bottom of the chart at the highlighted End of Year Cash Balance: you see that there is no liquidity problem. The cash balance increases each year to a total of $8.2 billion. This assumes that the Postal Service's outstanding debt remains at the FY2007 level of $4.2 billion, meaning that it will still have $10.8 billion borrowing authority available.

The record also showed that the Postal Service has made significant strides over the past few years to contain its costs in response to falling mail volumes caused by the recession and the ongoing electronic diversion of the mail. The Postal Service achieved over $6 billion in cost reductions in 2009. These results indicate that the Price Cap is working and providing the right signals for the Postal Service to reduce costs and improve efficiency.

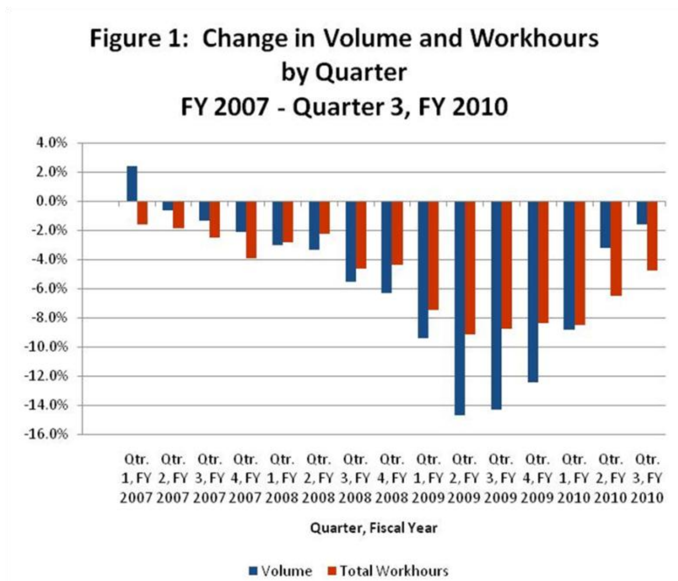
CHANGE IN MAIL VOLUME BY QUARTER

This chart follows the bell curve of the recession. As the recession fades, mail volume seems to be rebounding.



CHANGE IN VOLUME AND WORKHOURS BY QUARTER

This chart documents how successfully the Postal Service responded to the volume declines caused by the recession.



It shows changes in mail volumes and workhours by quarter, from Quarter 1, 2007 through Quarter 3, 2010. In fact, the work hour reductions were ahead of the curve in 2007, as the declines began. As the declines accelerated, so did the workhour reductions. At the depth of the recession, the Postal Service was making very large workhour reductions, but they could not keep up with the plunging mail volumes. However, as the rate of decline decreased, the

Service began to close the gap. And by now, the Postal Service is making up lost ground, reducing hours far in excess of the declines. This offers a positive outlook for the future.

After careful consideration, the Commission agreed with the Postal Service that the recent severe recession, and the decline in mail volume experienced during the recession, do qualify as an extraordinary or exceptional circumstance under the law. However, the Commission finds that the requested exigent rate adjustments are not due to the recent recession, or its impact on mail volume. Rather, they represent an attempt to address long-term structural problems not caused by the recent recession. The Commission finds, therefore, that the Postal Service has failed to meet its burden under the law and the Commission is unanimous in denying its request for an exigent rate increase.

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