



# Postal Regulatory Commission

Postal Regulatory Commission  
901 New York Avenue, NW  
Suite 200  
Washington, DC 20268-0001  
[www.prc.gov](http://www.prc.gov)

Phone: 202-789-6829  
Fax: 202-789-6891

Contact: Gail Adams  
[gail.adams@prc.gov](mailto:gail.adams@prc.gov)

## Press Release

February 8, 2018

### **PRC Issues Notice of Proposed Rulemaking on Minimum Contribution of Competitive Products to Institutional Cost**

Proposal Calls for Annual Modifications to Reflect Changes in Market Conditions

**Washington, DC** – Today the Postal Regulatory Commission (Commission) issued a Notice of Proposed Rulemaking (Rulemaking) after evaluating whether the existing 5.5 percent appropriate share of the institutional cost requirement for Competitive products should be retained in its current form, modified, or eliminated. The law requires that Competitive products collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. The Commission is required to revisit the appropriate share regulation at least every 5 years.

Competitive products are those products, including Priority Mail, Priority Mail Express, and First-Class Package Service, which are not regulated by a price cap, unlike Market Dominant products. Instead, the Postal Service is given the flexibility to price these products competitively, as long as they are not subsidized by Market Dominant products, cover costs attributable to them, and contribute an appropriate share to institutional costs. In general terms, institutional costs are those costs not caused by any particular product (e.g., the Postmaster General's salary).

The appropriate share provision is key to preserving competition and ensures that the Postal Service is balancing the concerns of all groups—customers, competitors, Market Dominant mailers, shippers, and the general public—in fairly setting its Competitive product prices.

The Commission's Rulemaking proposes to modify the appropriate share based on market conditions and its analysis of all relevant conditions under the law. The proposed modification uses a formula-based approach to calculate the minimum share of the Postal Service's institutional costs that Competitive products, as a whole, are required to contribute to institutional costs annually.

The proposed formula consists of two major components that 1) capture the overall size of the competitive market in which the Postal Service operates (Competitive Market Output) and 2) measure the Postal Service's market power in that competitive market (Postal Service Lerner Index). The formula would be used annually to generate the requirement for the following year.

The Commission found that the formula-based approach adapts to changes in market conditions, mitigates risks associated with changes in the market, and is responsive to the provisions of the law that require including the prevailing competitive conditions in the market and other relevant circumstances.

Consequently, the Commission proposes that modifying the appropriate share to capture market conditions on an annual basis is the best approach at this time, and proposes revisions to the existing rule.

Parties interested in submitting comments on the Commission's Rulemaking may do so no later than 60 days from the date of publication of the Commission's notice in the *Federal Register*.

The Rulemaking in its entirety is located on the Commission's website, [www.prc.gov](http://www.prc.gov) under Docket No. RM2017-1.

*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 Tony Hammond, and Commissioners Mark Acton, and Nanci E. Langley. Follow the PRC on [Twitter: @PostalRegulator](https://twitter.com/PostalRegulator)*

---