



Postal Regulatory Commission

MEDIA KIT

Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products

DOCKET NO. RM2017-3

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ABOUT THE POSTAL REGULATORY COMMISSION

The Commission is an independent agency that has exercised regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970, with expanded responsibilities under the Postal Accountability and Enhancement Act of 2006. The Commission is composed of five Commissioners, each of whom is appointed by the President, by and with the advice and consent of the Senate, for a term of six years. A Commissioner may continue to serve after the expiration of his or her term until a successor is confirmed, except that a Commissioner may not continue to serve for more than 1 year after the date on which his or her term would have otherwise expired. Not more than 3 of the Commissioners may be adherents of the same political party.

Current Commissioners	Term Expiration
Chairman Robert G. Taub (R)	Oct. 14, 2022
Vice Chairman Mark Acton (R)	Oct. 14, 2022
Commissioner Tony Hammond (R)	Oct. 14, 2018
Commissioner Nanci Langley (D)	Nov. 22, 2018
Vacant	Nov. 22, 2018

Assisting the Commission is a staff with expertise in law, economics, finance, statistics, and cost accounting. The Commission is organized into four operating offices:

- Accountability and Compliance
- General Counsel
- Public Affairs and Government Relations
- Secretary

The Commission maintains an independent office for its Inspector General. The Office of Accountability & Compliance is responsible for technical analysis and formulation of policy recommendations for the Commission in both domestic and international matters. It provides the analytic support for Commission review of rate changes, negotiated service agreements, classifications of new products, post office closings, amendments to international postal treaties and conventions, as well as other issues.

The Office of General Counsel provides legal assistance on matters involving the Commission's responsibilities, defends Commission decisions before the courts, and manages the formal complaint process.

The Office of Public Affairs & Government Relations facilitates prompt and responsive communications for the Commission with the public, Congress and federal agencies, the Postal Service, and information media.

The Office of Secretary & Administration records the official actions of the Commission; preserves Commission documents; maintains personnel records; and provides other support services including managing the Commission's library, docket room, and computers.

The Office of Inspector General conducts, supervises, and coordinates audits and investigations relating to the programs and operations of the Commission, and identifies and reports fraud and abuse in Commission programs and operations.



Robert G. Taub
CHAIRMAN

Chairman Robert G. Taub is serving a second term on the Commission, having been twice confirmed by the United States Senate, following his respective nominations by the President. His current term expires on October 14, 2022. Before his designation by the President as Chairman, he was Acting Chairman from December 2014 to December 2016, and Vice Chairman for 2013. Chairman Taub has more than 30 years of experience in public service. When first appointed as a Commissioner in October 2011, Mr. Taub was the Special Assistant to Secretary of the Army John M. McHugh. As an Army senior executive, he was one of the principal civilian advisors to Secretary McHugh, helping him lead a workforce of more than 1.2 million people, and manage an annual budget exceeding \$200 billion. He was awarded the Army's Decoration for Distinguished Civilian Service.

Before his appointment to the Army, Mr. Taub served as Chief of Staff to U.S. Representative John M. McHugh (R-NY) for the preceding decade. As Chief of Staff, he oversaw the day-to-day operations of Representative McHugh's staff and offices in Washington, D.C. and Northern New York State. In a variety of leadership roles on the U.S. House Oversight & Government Reform Committee for 12 years, Mr. Taub also worked closely with Congressman McHugh on matters relating to the nation's postal and delivery sector. He crafted Representative McHugh's legislation for modernizing America's postal laws for the first time since 1970, culminating in passage of the Postal Accountability and Enhancement Act in 2006. Mr. Taub also helped Representative McHugh conduct hearings and investigations into postal operations that ultimately led to the enactment of a dozen other postal laws.

During his tenure in public office, Mr. Taub has addressed numerous national and regional conventions of postal employee organizations, mailing industry groups, and government and academic conferences both in the U.S. and abroad, on issues confronting the postal sector. The Inspector General of the U.S. Postal Service, postal employee unions, and mailing industry associations and nonprofits have all recognized Mr. Taub with several awards and honors.

Prior to his time with the House of Representatives, Mr. Taub worked for eight years at the U.S. Government Accountability Office (GAO), the investigative arm of Congress. As a senior policy analyst, Mr. Taub planned and directed evaluations for the Congress on environmental, banking, energy, and defense issues. Previous to his position with the GAO, Mr. Taub worked as a staff member for three different Members of Congress, a Member of the British Parliament, and state and county officials in upstate New York.

A native of Gloversville, New York, Mr. Taub earned an M.A. in Political Science, with a concentration in American politics, and a B.S. in Political Science with Honors, both from American University in Washington, D.C. He is a Fellow of the National Academy of Public Administration.



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Press Release

December 20, 2016

PRC COMMENCES FIRST BROAD REVIEW OF POSTAL RATEMAKING SYSTEM

Washington, DC – Today, the Postal Regulatory Commission (Commission) begins its review of the system for regulating rates and classes for Market Dominant products that was first established in 2006. The law requires that the Commission begin its review of the current rate system ten years after the date of enactment of the Postal Accountability and Enhancement Act, to determine whether it's achieving the objectives established by Congress. If the Commission finds that the objectives, taking into account the factors, are not being met, it has the authority to either propose rules that modify the system or adopt an alternative system to achieve the objectives. [Order No. 3673](#) outlines the parameters and timing by which the Commission will complete its review.

The Commission's review will engage in a comprehensive evaluation of all aspects of the ratemaking system provided within 39 U.S.C. 3622, including:

- The annual limitation on the percentage changes in rates
- The schedule for rate changes
- The 45-day notice before the implementation of rate adjustments
- Expedited rate changes due to extraordinary or exceptional circumstances
- Class level application of the annual limitation
- The rounding of rates and fees
- The use of unused rate authority
- Worksharing discounts

Comments are due no later than March 20, 2017. Reply comments will not be accepted. The Commission has placed a link entitled, "*10 Year Rate System Review*" on the homepage of its website, www.prc.gov, to simplify comment filing for members of the general public.

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 Nanci Langley and Commissioners Mark Acton and Tony Hammond. Follow the PRC on Twitter: @PostalRegulator



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Press Release

December 1, 2017

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.

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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.

ORDER NO. 4257

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Mark Acton, Vice Chairman;
Tony Hammond; and
Nanci E. Langley

Statutory Review of the System
for Regulating Rates and Classes
for Market Dominant Products

Docket No. RM2017-3

ORDER ON THE FINDINGS AND DETERMINATION OF THE
39 U.S.C. § 3622 REVIEW

(Issued December 1, 2017)

EXECUTIVE SUMMARY

In accordance with the statutory mandate set forth in 39 U.S.C. § 3622(d)(3), the Commission is required to review the past 10 years of the existing market dominant rate and classification system to determine if the system has achieved the objectives of 39 U.S.C. § 3622(b), taking into account the factors enumerated in 39 U.S.C. § 3622(c). On December 20, 2016, the Commission initiated its review of the system by issuing an Advance Notice of Proposed Rulemaking (ANPR) that provided notice and an opportunity for comments. In response, it received 82 comments from interested parties.

The Commission disposes of initial concerns challenging the scope of its review authority under section 3622(d)(3). With respect to the scope of the Postal Accountability and Enhancement Act (PAEA) system under review, the Commission determines that all aspects of the system of ratemaking and classification of market dominant products outlined in section 3622, including workshare discounts, are appropriately incorporated into its review. The Commission finds that the plain language of section 3622(d)(3) necessitates that the review include section 3622 in its entirety. To exclude some components of the system would forsake the comprehensive review of the system that Congress intended.

Congress designed the PAEA system to achieve nine objectives: (1) maximize incentives to reduce costs and increase efficiency; (2) create predictable and stable rates; (3) maintain high quality service standards; (4) allow the Postal Service pricing flexibility; (5) assure adequate revenues, including retained earnings, to maintain financial stability; (6) reduce administrative burden and increase transparency of ratemaking process; (7) enhance mail security and deter terrorism; (8) establish and maintain a just and reasonable schedule for rates and classifications; and (9) allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products. These 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 (in significant part through rate adjustments, cost reductions, and increased efficiency) and maintains high quality service standards and performance.

In conducting its review, the Commission considers the evolution of the current ratemaking system. The PAEA reformed the system of setting postal rates and classifications. This marked the end of the Postal Reorganization Act (PRA) system, a cost-of-service pricing system marked by a break-even mandate where rates were set so that the total estimated revenues would equal as nearly as practicable the total

estimated costs. Lengthy document and witness-laden hearings were abandoned in favor of a more streamlined rate-setting process centered on a consumer price index for all urban consumers (CPI-U) price cap as the primary limit on rate-setting. Changes were also made to service standard performance measurement and reporting. The PAEA required the Postal Service to establish service standards and report publicly on its achievement of those standards and gave the Commission additional service performance monitoring and enforcement authority.

At the time it created the new PAEA system, Congress anticipated that the CPI-U price cap would enable the Postal Service to achieve sufficient revenues to cover all of its operating costs and statutorily mandated obligations while at the same time motivate the Postal Service to cut costs and become more efficient. The CPI-U price cap under the PAEA system was intended to allow the Postal Service to fund network expansion and necessary capital improvements because it removed the break-even restriction and allowed the Postal Service to generate retained earnings.

Shortly after the PAEA was enacted, however, the Great Recession occurred which, in concert with emergent technological trends, had a substantial negative impact on Postal Service volumes and revenues. In the aftermath of the Great Recession, there was also a rare period of deflation which constrained the Postal Service's ability to raise rates given the CPI-U price cap. The section 3622 review requirement in the PAEA allows the Commission to examine the system to determine whether, despite these changes and impacts, the system has achieved the nine objectives that formed the basis for its creation.

In its review 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, and organizes its ultimate findings and order around these three topical areas. 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.

First, with respect to the structure of the ratemaking system, the Commission concludes that the system was largely successful in achieving the goals related to the structure of the ratemaking system. The system has 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 concludes that the ratemaking system has not increased pricing efficiency.

Second, with respect to finances, the Commission finds that 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. For the medium-term measure, the total revenue was not sufficient to cover total costs. For the long-term measure, the Postal Service has not been able to generate retained earnings during the PAEA era. In its review of the financial health of the Postal Service, the Commission also finds that while some cost reductions and efficiency gains occurred during the PAEA era, 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 PAEA era because certain products and classes failed to cover their attributable costs, further threatening the financial health of the Postal Service.

Third, the Commission determines that high quality service standards have not been maintained during the past 10 years under the PAEA. While the Commission has

the ability to review service performance routinely during the Annual Compliance Determination (ACD), the current system does not effectively encourage the Postal Service to maintain service standards quality.

Taken together, the Commission's analysis of each of the three principal areas of the PAEA era system leads it to conclude that while some aspects of the system of regulating rates and classes for market dominant products have worked as planned, overall, the system has not achieved the objectives of the PAEA. As a result, the Commission concurrently issues a Notice of Proposed Rulemaking (NOPR) to address the shortcomings identified by the Commission in its review.



FREQUENTLY ASKED QUESTIONS

Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products - Docket No. RM2017-3

Q. Does this proposed rulemaking require USPS or Congressional approval?

A. No. The Commission has the standing authority to revise the existing system for regulating rates and classes as necessary. 39 U.S.C 3622(a). Additionally, the Commission has general authority to promulgate rules and regulations, establish procedures, and take any other action deemed necessary and proper to carry out its functions and obligations, as prescribed under title 39 of the United States Code 39 U.S.C. 503.

Q. How will this proposal affect the Postal Service's bottom line/financial position?

A. The Postal Service's future financial position will be affected by a multitude of influences such as changes in inflation, the cost of inputs, changes in operational efficiency, secular volume trends, and mailers' responses to price changes. As a result, it is not possible to precisely calculate the additional amount of pricing authority that will achieve financial stability for the Postal Service in future years. The proposed supplemental rate authority is designed to provide the opportunity to generate additional revenue that is sufficient, when combined with cost reductions and operational efficiency gains, to improve the financial stability of the Postal Service.

Q. What are the next steps?

A. The Commission will accept comments from the general public regarding this proposed rulemaking.

Q. Will the public have a chance to provide comments on the proposal and how do I do this?

A. Yes. Commission rules require that comments (including reply comments) be filed online according to the process outlined at 39 CFR 3001.9(a), unless a waiver is obtained. Additional information regarding how to submit comments online can be found at: <http://www.prc.gov/how-to-participate>.

Q. When are comments on this proposed rulemaking due?

A. Comments are due no later than March 1, 2018. Reply comments are due no later than March 30, 2018.

Q. Will comments be made available to the public?

A. Yes. All comments accepted through the Commission's online filing system will be made available on the Commission's website under Docket No. RM2017-3.



Q. When will the Commission issue a final rulemaking?

A. The Commission expects to issue a final rulemaking in the calendar year 2018.

Q. Was consideration given to moving away from a price cap system?

A. The Commission determined that it would be inappropriate to design a system that lacks a mechanism to limit the magnitude of price adjustments. Such a mechanism is necessary to create predictability and stability. The Commission seeks to complement, rather than replace, the CPI-U price cap by providing discrete, clearly defined amounts of additional rate authority. This additional rate adjustment authority is designed to put the Postal Service on the path toward generating positive net income and retained earnings.

Q. Will this proposal impact service standards or performance?

A. The Commission determined that high quality service standards have not been maintained during the past 10 years. Therefore the proposal provides incentives to increase operational efficiency and encourage the Postal service to maintain quality service standards. The Commission proposes 1 percentage point of performance-based rate authority, per calendar year. However, this authority would only be available contingent upon the Postal Service meeting other efficiency and service measures.

Q. Are there examples of other postal systems that link rate authority to performance? If so, has it been successful?

A. The Commission reviewed many different systems, and there are some examples of systems that are linked to performance. The results are mixed and dependent on many different factors.