



Postal Regulatory Commission
Annual Report
to the President and Congress



FISCAL YEAR 2009

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CHAIRMAN'S MESSAGE

December 2009

On behalf of the Postal Regulatory Commission, I am pleased to submit the Commission's 2009 Annual Report. This report details the major activities of the Commission in Fiscal Year 2009 and is a testament to the hard work and dedication of Commission staff who endeavor to fulfill the Commission's regulatory responsibilities and to implement the vision of the Postal Accountability and Enhancement Act (PAEA). Special recognition goes to Commissioner Dan Blair who served very effectively as Chairman for most of the fiscal year and provided highly appreciated support during and after the transition to new leadership.

As this document makes evident, the Commission has successfully implemented the regulatory framework required by the PAEA and the framework is functioning well. Pricing and oversight reforms have been translated into Commission rules and practices that operate routinely and effectively. In addition, the Commission continued to fine-tune its oversight capabilities during the year with the addition of final rules for complaints and confidentiality and for the accounting practices and tax treatment related to Postal Service competitive products. We also issued our report on Universal Postal Service and the Postal Monopoly, rendered a determination on postal and nonpostal products, conducted an analysis of the Postal Service's retiree health benefit liability, and initiated hearings to develop an Advisory Opinion on a Postal Service proposal to review several thousand retail offices for possible closure.

With price increases for 99 percent of mail volume capped at the rate of inflation, the Commission is supportive of Postal Service efforts to produce new revenue in a very difficult economic environment that saw this year's mail volume decline by a record 25.6 billion pieces. Under its new expedited processes, the Commission verified and approved rate adjustments for both market-dominant and competitive products this year, as well as numerous specialized contract agreements and initiatives, including 63 Negotiated Service Agreements, a three-fold increase over fiscal year 2008. With Commission oversight, the Postal Service was able to leverage its pricing flexibilities to improve overall margins on its competitive products.

The Commission also authorized the Postal Service to test a number of pricing and market innovations designed to stimulate mail demand and grow new revenue. These initiatives included the first "experimental" product, involving less-than-truck-load freight services, approved on May 7, 2009; a volume incentive pricing program on standard mail that ran from July through September, and a First-Class Mail Incentive Pricing Program, approved on September 16, 2009, that will run from October through December of this year. These revenue initiatives were not enough, however, to offset historic, recession-driven declines in mail volume and revenue. While the Postal Service intensified its

focus on cost reductions to counter the declines, the Commission carefully monitored the impact of the cuts on postal customers and service. This included an ongoing comprehensive review of Postal Service plans to review more than 3000 postal retail offices for possible closure.

Utilizing its statutory Advisory Opinion powers, the Commission initiated public hearings – including field hearings in the Bronx, New York and Independence, Ohio – to ensure the transparency and accountability of the Postal Service’s actions. The strong support voiced by citizens on behalf of their post offices reaffirmed the importance of the Postal Service to local communities. At this writing, the Postal Service has continued to reduce the number of retail offices under consideration for closure.

Early in the fiscal year, the Commission released the findings of its year-long study on Universal Postal Service and the Postal Monopoly. The American people expressed their satisfaction with the current reach and delivery of universal service. And they emphasized the critical role of the mail in American life – underpinning commerce, social progress, and the political system, and serving as a universal safeguard for those without Internet access or expertise.

Increasingly, however, the Postal Service’s need to reduce costs is placing the Nation’s universal service framework under stress. To date, Congress has identified six-day mail delivery as an essential part of that framework. In the coming year, the Commission expects to review, through the Advisory Opinion process, a Postal Service proposal to eliminate one day of delivery per week. The Commission looks forward to providing a public forum for the American people to weigh in on this issue and on the relevance of universal postal service to their lives and businesses.

As Chairman of the Commission, I also have encouraged a national conversation on the future of mail and hardcopy communications in the United States. The Commissioners and Commission staff look forward to advancing this conversation and to working with the Congress and all stakeholders to address the problems that face the Postal Service. We know that there is much work to be done to ensure a vital and efficient universal mail system for the nation. We look forward to building on the successes of the past year, to build a brighter future for the mail and the American people.

Sincerely,

A handwritten signature in black ink that reads "Ruth Y. Goldway". The signature is written in a cursive, flowing style.

Ruth Y. Goldway
Chairman

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FISCAL YEAR 2009 AT A GLANCE

- The Commission implemented the regulatory framework required by the PAEA by applying rules and regulations designed to achieve the objectives of sections 3622 and 3633 of Title 39. In particular, the rules:
 - Ensure compliance with the inflation-based cap required by the PAEA;
 - Increase pricing flexibility by providing several avenues for rate changes including volume incentive pricing programs, experimental products, and negotiated service agreements, and
 - Enhance transparency by prescribing the data the Postal Service needs to file with the Commission, providing procedures for obtaining data from the Postal Service, and increasing the amount of financial data reported by the Postal Service.
- The Commission improved its oversight capabilities by publishing final rules for complaints and confidentiality and for the accounting practices and tax treatment related to Postal Service competitive products.
- The Commission issued its report on Universal Postal Service and the Postal Monopoly and determined that the cost of universal service obligations, updated for FY 2009, is \$5.90 billion and the value of the monopoly is \$2.96 billion.
- The Commission rendered a determination on postal and nonpostal products, conducted an analysis of the Postal Service's retiree health benefit liability, and initiated hearings to develop an Advisory Opinion on a Postal Service proposal to review several thousand retail offices for possible closure.
- The Commission engaged in extensive public outreach efforts including hearings, letters soliciting public input, presentations at postal functions, and an easily accessible, interactive website.
- The Commission played an increasingly active international role, both fulfilling its statutory responsibilities under the PAEA and proactively building a solid framework for communication and cooperation on postal regulatory issues with postal regulators from other countries as well as other stakeholders.
- The Commission had an operating budget of \$13.3 million and a staff of 74.
- Chairmanship transitioned from Dan G. Blair to Ruth Y. Goldway on August 6, 2009.

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The Commission's Offices are located at 901 New York Avenue NW, Suite 200, Washington, DC 20268.

CHAPTER I – ABOUT THE COMMISSION

The Commission is an independent agency that has exercised regulatory oversight over the U.S. Postal Service since its creation by the Postal Reorganization Act of 1970 (PRA). The Commission is composed of five Commissioners, each of whom is appointed by the President, with the advice and by consent of the U.S. Senate, for a term of six years. The Chairman is designated by the President and serves as the head of the agency. A Commissioner may continue to serve after the expiration of his or her term for up to one year. No more than three members of the Commission may be from the same political party.

COMMISSIONERS



Ruth Y. Goldway, Chairman

First appointed on April 7, 1998. Designated Chairman by Barack Obama on August 6, 2009. Term expires November 22, 2014. Former Manager of Public Affairs for the Getty Trust. Former Director of Public Affairs,

California State University, Los Angeles. Former Council Member and Mayor, City of Santa Monica. Founder and Former Chairperson, Santa Monica Pier Restoration Corporation. Former Assistant Director of California's Department of Consumer Affairs. Co-founder of Women in Logistics and Delivery Services.



Tony Hammond, Vice-Chairman

Appointed on August 15, 2002. Elected Vice-Chairman October 20, 2009. Term expires October 14, 2010. Former owner and managing member, T. Hammond Company,

LLC. Former Senior Consultant to Forbes 2000, Incorporated. Former Senior Vice President of the direct marketing firm, FL&S. Served as Director of Campaign Operations for the Republican National Committee for the 1998 election cycle. Former Executive Director and Finance Director, Missouri Republican Party. Staff to former U.S. Representative Gene Taylor (R-MO).



Mark Acton

Appointed August 3, 2006. Term expires October 14, 2010. Served as Vice-Chairman from November 22, 2007, to October 15, 2008. Served as Special Assistant to former Postal Rate Commission Chairman George Omas. Former

Staff Director, Republican National Committee (RNC)

Counsel's Office. Former Deputy to the Chairman of the 2004 Republican National Convention. Served as Special Assistant to the RNC Chief Counsel as well as RNC Counsel's Office Government Relations Officer and Redistricting Coordinator. Formerly served as both Executive Director, Republican National Convention, Committee on Permanent Organization and Deputy Executive Director, Committee on Rules. Former Executive Director of the RNC Redistricting Task Force.



Dan G. Blair

Appointed as a Commissioner and designated Chairman on December 15, 2006. Served as Chairman until August 6, 2009. Term expires October 14, 2012. Formerly served as both Acting Director and Deputy Director,

U.S. Office of Personnel Management. Former Senior Counsel to Senator Fred Thompson (R-TN) on the Senate Committee on Governmental Affairs. Former Staff Director, U.S. House of Representatives Subcommittee on the Postal Service. Former Minority General Counsel, U.S. House of Representatives Committee on Post Office and Civil Service.



Nanci E. Langley

Appointed June 6, 2008. Served as Vice-Chairman from October 16, 2008, to October 9, 2009. Term expires November 22, 2012. Former Director of Public Affairs and Government Relations, Postal

Regulatory Commission. Former Deputy Staff Director to Senator Daniel K. Akaka (D-HI), U.S. Senate Committee on Homeland Security and Governmental Affairs' Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia. Communications Director to former U.S. Senator Spark M. Matsunaga (D-HI).

COMMISSION STAFF

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

- Accountability and Compliance;
- General Counsel;
- Public Affairs and Government Relations, and
- Secretary and Administration.

The Commission maintains an independent office for its Inspector General.

MISSION STATEMENT

Ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system.

GUIDING PRINCIPLES

The Commission is committed to and operates by the principles of:

- Openness;
- Stakeholder (public) participation;
- Collegiality and multi-disciplinary approaches;
- Timely and rigorous analysis;
- Fairness and impartiality;
- Integrity;
- Commitment to excellence, and
- Merit.

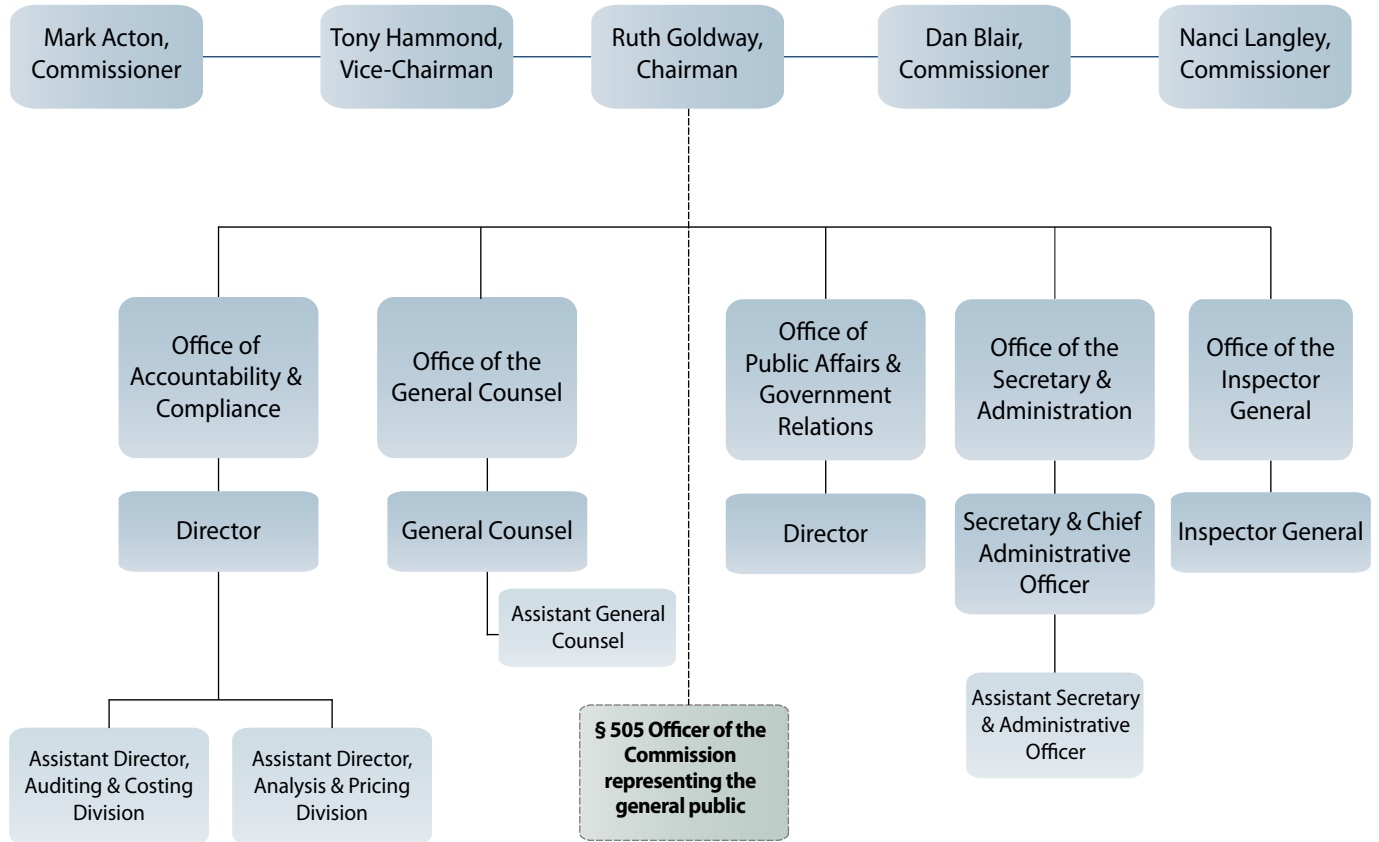
COMMISSION'S STRATEGIC PLAN

One of the Commission's first acts as the Postal Regulatory Commission was to organize and assign the existing operational framework to meet the challenges of the PAEA. Efforts began immediately to develop the Postal Regulatory Commission's first Strategic and Operational Plan for Fiscal Years 2008 through 2012. This Plan outlines the Commission's core Mission and Vision for the first five years, the key Strategic Goals to help the Commission fulfill its Mission and Vision, and the Operational Strategies to meet statutory requirements of the Act. These strategies help ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system.

As the Commission carries out its responsibilities and duties, and evaluates its progress and performance based on the strategic goals outlined in this Plan, it will make appropriate modifications as new challenges arise.

The Strategic Plan can be viewed in its entirety on the Commission's website at www.prc.gov.

PRC WITH OFFICE HEADS AND ASSISTANT POSITIONS





CHAPTER II – EFFECTIVENESS OF THE COMMISSION’S RULES IN ACHIEVING OBJECTIVES OF THE PAEA

On December 20, 2006 President George W. Bush signed into law the Postal Accountability and Enhancement Act (PAEA) Public Law 109–435. The Act is founded on the principles of flexibility, transparency, accountability and predictability. Its purpose is to ensure a robust, affordable and quality universal mail service in the United States. The Act gives the Postal Service tools to meet the challenges of the changing postal environment, including greater pricing flexibility, while balancing these tools with oversight by a more formal regulator.

The PAEA transformed the Postal Rate Commission into the Postal Regulatory Commission and assigned significant new responsibilities to

the agency. Among other things, it required the Commission to develop and maintain regulations for a modern system of rate regulation that included an inflation-based price cap, prevent cross-subsidization (or other anticompetitive postal practices), promote transparency and accountability, and adjudicate complaints.

The Act directed the Commission to categorize all postal products and services as either market dominant or competitive. Market dominant products include First-Class letters and cards, advertising mail, Periodicals and single-piece parcels. Competitive products include Priority Mail, Express Mail, and bulk Parcel Post.

The Act stipulates that the Commission must annually assess the effectiveness of its rules and regulations in achieving the objectives under sections 3622 (modern rate regulation) and 3633 (provisions applicable to rates for competitive products) of Title 39. The objectives of section 3622 are to:

1. Maximize incentives to reduce costs;
2. Create predictability and stability in 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 enhance transparency of ratemaking process;
7. Enhance mail security;
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 the market dominant and competitive products.

In addition to these objectives, section 3622 sets limits on discounts related to mail preparation (worksharing). The Rules for a Modern System of Ratemaking, issued on October 29, 2007, eight months ahead of the statutory deadline, were designed to achieve the pricing objectives. Rules related to periodic reporting, treatment of confidential material, and complaint procedures, finalized in FY 2009, are designed to enhance transparency and accountability, maintain just and reasonable rates, and increase efficiency of postal operations.

The objectives of section 3633 are to:

1. Prohibit the subsidization of competitive products by market dominant products;
2. Ensure that each competitive product covers its costs attributable, and
3. Ensure that all competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service.

In FY 2009, the Commission promulgated rules in the areas of accounting for competitive products. These rules, in conjunction with the aforementioned rules, were designed to meet the objectives outlined in section 3633.

The efficacy of the Commission's rules in meeting the objectives is discussed below.

EFFECTIVENESS OF RULES RELATED TO PRICING

Commission Order No. 43 established rules for changing rates for both market dominant and competitive products. These rules incorporated the statutory requirement that changes in rates for market dominant products may not exceed the annual rate of inflation and encompassed the objectives of sections 3622 and 3633. One of the key features of the price cap as outlined in Order No. 43 is the significantly reduced time required for regulatory review. The rules allow 45 days for review of the Postal Service's proposed rates. This condensed timeframe reduces the administrative burden of the ratemaking process, one of the objectives of section 3622.

The rules are designed to allow the Postal Service pricing flexibility by applying the CPI cap at the class level rather than at the rate category level. Under the law, this flexibility is tempered somewhat by the separate worksharing requirements of section 3622(e)(3) and consideration of competing objectives such as maintaining just and reasonable rates.

Order No. 43 also established rules for expeditiously processing negotiated service agreements (NSA) between the Postal Service and individual mailers. For market dominant NSAs, the rules direct the Postal Service to provide details demonstrating compliance with statutory requirements of 39 U.S.C. 3622(c)(10), that such NSA results in either financial or operational benefits to the Postal Service and does not cause undue harm to the market. The Commission directs the Postal Service to provide data within 60 days of the anniversary date of implementation of each agreement to allow the Commission to test compliance with the above stated goals. The rules minimize the administrative and economic burden of implementing agreements but at the same time, require the signatories of negotiated service agreements to submit copies of the agreement, as well as specific data related to cost, revenue, volume, operational enhancements, and marketplace impacts. The rules strike a reasonable balance to foster pricing flexibility, transparency, and accountability.

The Postal Service has further flexibility in providing experimental products. If a product is deemed to be experimental it is excluded from the requirements of the ratemaking rules. Specific limitations on experimental products are outlined in the PAEA.

Section 3622(d)(1)(E) of the PAEA directs the Commission to provide for procedures whereby rates may be adjusted beyond the inflation-based cap due to exceptional or extraordinary circumstances provided that the Commission determines, after notice and opportunity for a public hearing and comment, that such adjustment is reasonable and equitable and necessary to enable the Postal Service to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States. The Commission rules refer to rate filings of this type as exigent. The rules

establish a functional and flexible framework for exigent cases, and forgo attempting to identify with specificity qualifying circumstances. Thus, the rules not only exclude definitions of “triggering events” for exigent filings, but also do not define, in advance, circumstances that would not qualify. The rules outline streamlined proceedings for exigent adjustments, consistent with the 90-day review period and due process considerations.

The Postal Service has even greater flexibility to price competitive products. The rules allow the Commission 30 days to determine whether the Postal Service’s proposed rates for competitive products are meeting the objectives of section 3633. The Commission specified that it would use an incremental cost test to validate compliance with the cross subsidy requirement that revenue generated from competitive products equals or exceeds the incremental costs of such products. The Commission determined that the appropriate share of institutional costs to be borne by competitive products is 5.5 percent, subject to revision as needed.

For competitive NSAs, the rules, in accordance with the law, allow for not less than a 15-day review of all agreements. Competitive NSAs are evaluated for compliance with the statutory requirements for competitive products.

The rules can be viewed at www.prc.gov/prc-docs/home/PAEA/FinalRulesWeb.pdf.

TECHNICAL DESCRIPTION OF PRICE CAP

Under the PAEA, increases for each market dominant class are generally capped by the Consumer Price Index. The price cap is set by the percent change in the level of the seasonally unadjusted Consumer Price Index for All Urban Consumers (CPI-U), between the most recent average 12-month period from the date the Postal Service files its notice of rate adjustment and the

average of the immediately preceding 12-month period. The following example illustrates the computation of the price cap.

The use of a 12-month average corresponds to the U.S. Bureau of Labor Statistics method for calculating annual changes in CPI and provides greater stability and predictability. This method was proposed by the Commission and endorsed by the mailing community.

The difference between the annual price cap and the percentage change proposed by the Postal Service is known as the “unused rate authority.” Because the cap is applied at the class level, the unused rate authority may differ by class. Cumulative unused rate authority can be reserved for use for up to five years. This banked rate authority, which is a feature of the PAEA, can be used to increase rates beyond the annual price cap, with a limitation of 2 percent in each class in a given year. The banked authority provides the Postal Service with greater pricing flexibility.

Alternate rules are available to calculate the appropriate cap for rate increases other than one year apart.

The Commission publishes the 12-month average change in CPI on its website at <http://www.prc.gov/PRC-DOCS/home/CPI.pdf>.

EFFECTIVENESS OF RULES IN ALLOWING PRICING FLEXIBILITY

The Commission’s rules related to ratemaking afford the Postal Service substantial pricing flexibility. As explained below, in the two years since these rules have been finalized, the Postal Service has exercised that pricing flexibility in several ways and the Commission has approved all of the Postal Service’s requests.

Market Dominant Rate Changes of General Applicability

Under these rules, the Postal Service has filed two notices of rate adjustments for market dominant products. As seen in Table 2, these filings included several instances of differential rate increases below the class level.

The Commission review of these notices found that the Postal Service’s planned rate adjustments did not exceed the statutory CPI price cap.

In FY 2009, separate filings related to competitive products, two incentive-based rate adjustments, an experimental product offering, and 63 competitive negotiated service agreements (NSAs) were made by the Postal Service and approved by the Commission.

Table 1
Illustration of Price Cap

Computation	Example
Sum of CPI-U values for most recent 12 month period divided by 12 (Recent Average)	2583.63/12=215.303
Sum of CPI-U values for the 12 month period immediately preceding the recent 12 month period divided by 12 (Base Average)	2488.109/12= 207.342
Percent Change equals Recent Average divided by Base Average minus 1 expressed as a percent	(215.303/207.342)-1=3.8%

Table 2
Percentage Rate Increases by Product for First-Class and Standard Mail

Class	Percentage Rate Changes FY 2008	Percentage Rate Changes FY 2009
First-Class Mail	2.89	3.77
Single-Piece Letters/Postcards	2.50	4.62
Presorted Letters/Postcards	3.55	3.08
Flats	1.93	3.88
Parcels	2.18	2.57
Single-Piece International Mail	3.09	4.14
Standard Mail	2.88	3.78
Letters	3.39	3.83
Flats	0.86	2.31
Parcels NFM	9.66	16.43
High Density/Saturation Letters	1.66	1.25
High Density/Saturation Flats and Parcels	2.09	2.23
Carrier Route Letters, Flats and Parcels	2.99	4.31

Standard Mail Incentive Program

On May 1, 2009, the Postal Service filed with the Commission a notice announcing its intention to adjust prices for Standard Mail letters and flats pursuant to 39 U.S.C. 3622 and 39 CFR Part 3010. The proposed adjustment was in the form of a Standard Mail Volume Incentive Pricing Program with a planned implementation date of July 1, 2009, and a planned expiration date of September 30, 2009. The Commission determined that the volume incentive pricing program represented a reasoned approach by the Postal Service to exercise its flexibility in market dominant pricing under the PAEA.

Mailers eligible for the program were mailers who were permit holders with a demonstrable volume of at least one million Standard Mail letters and flats between October 1, 2007, and March 31, 2008, for one or more permit imprint advance

deposit accounts, pre-canceled stamp permits, or postage meter permits.

The Commission approved the Postal Service's treatment of the volume incentive pricing program as an NSA for purposes of the price cap. Mailers received their discounts in the form of rebates following the conclusion of the sale period and the Commission required the Postal Service to provide relevant revenue and cost data within 15 days after crediting the rebates.

The Postal Service has indicated that it is still crediting the rebates. Consequently, data to assess the success of this incentive pricing program is not yet available.

First-Class Mail Incentive Program

On August 11, 2009, the Postal Service filed with the Commission a notice announcing its intention to adjust prices for certain First-Class

Mail presorted letters, flats and cards sent by qualifying mailers. The Postal Service characterized the planned adjustment as a temporary First-Class Mail Incentive Program (Program) to spur volume growth during the current recession. The stated intent of the Program was to provide an incentive for customers to increase presorted, non-parcel First-Class Mail volume above the volume they otherwise would have mailed. The Postal Service included provisions to address the possibility of

Review of Competitive Product Cases and Negotiated Service Agreements

The Commission reviewed 63 competitive product cases and one Market Dominant negotiated service agreement filed by the Postal Service during this fiscal year. As seen in table 3, the number of cases reviewed in FY 2009 increased substantially from FY 2008. These cases were all reviewed and approved by the Commission in a timely manner.

Table 3
Negotiated Service Agreements Approved by the Commission

Type of NSA	FY 2008 Requested*	FY 2009 Requested*
Total Competitive Domestic	2	31
Total Competitive International	19	32
Total Competitive NSAs	21	63
Total Market Dominant Domestic	0	0
Total Market Dominant International	0	1
Total Market Dominant NSAs	0	1

*All requested contracts have been approved by the Commission.

strategic shifting or withholding of volume. Key elements of the Program include a 20-percent rebate on qualifying incremental volume, certain volume thresholds, and a three-month duration, extending from October 1, 2009, through December 31, 2009.

The Commission approved the Program on September 16, 2009, and required the Postal Service to file relevant revenue and cost data within 15 days of crediting rebates to qualifying mailers.

This pricing initiative is still in effect. Consequently, data to assess the success of this incentive pricing program is not yet available.

Review of Experimental Products

On April 1, 2009, the Postal Service filed notice with the Commission of a proposed market test of an experimental competitive product, Collaborative Logistics, under 39 U.S.C. 3641. The experiment represents the initial market test conducted by the Postal Service under the Postal Accountability and Enhancement Act (PAEA). Section 3641 authorizes the Postal Service to “conduct market tests of experimental products in accordance with this section.” A product may not be tested, however, unless it satisfies each of the following conditions: (1) the product is significantly different from all products offered by the Postal Service within the 2-year period

preceding the start of the test (section 3641(b)(1)); (2) the product will not result in undue market disruption, especially for small business concerns (section 3641(b)(2)), and (3) the product is correctly characterized as either market dominant or competitive (section 3641(b)(3)).

The Collaborative Logistics market test involves the Postal Service selling available space within its transportation network. The Postal Service compares this market test to LTL (less-than-truckload) shipping services provided in the private sector.

The Commission approved the Postal Service's Collaborative Logistics market test on May 7, 2009. However, the Commission also noted that future market tests should be accompanied by more compelling presentations to satisfy section 3641. The approval order contained a quarterly data collection plan. On October 28, 2009, the Postal Service provided its first quarterly report. The report showed Collaborative Logistics generated \$20,385 during quarter 3 and \$32,891 in quarter 4. In addition, the quarterly report provided information on range of rates, deviations, loss and damage, safety issues, and effects on operations.

EFFECTIVENESS OF RULES IN ACHIEVING WORKSHARING LIMITATIONS

To date, the Commission's rules have been effective in balancing the Postal Service's pricing flexibility with the statutory requirements related to workshare discounts. This has been accomplished either through adjusting discounts or reviewing Postal Service justification of exceptions. The Commission notes that basing discounts on historical cost avoidance calculations may be problematic because the costs will change during the time the discounts are in place.

Section 3622 of the PAEA imposes limitations on workshare discounts, i.e., reduced rates based

on costs avoided by the Postal Service when mailers undertake certain mail preparation and processing tasks. Section 3622(e)(2) directs the Commission to ensure that workshare discounts do not exceed the costs avoided by the Postal Service as a result of the workshare activity, unless certain exceptions are met. This provision effectively limits the Postal Service's ability to set workshare discounts that exceed 100 percent of avoided costs. Accordingly, Commission rules require the Postal Service to justify any proposed workshare discounts that exceed 100 percent of avoided costs by explaining how they meet one of four exceptions under the PAEA.

In FY 2008, the Commission approved rates for market dominant products that were implemented in May 2008. These rates were designed to comply with the workshare requirements set forth above. In its approval, the Commission noted that one proposed First-Class discount exceeded 100 percent pass-through of avoided cost. In Standard Mail, five of the proposed discounts exceeded 100 percent pass-through of avoided costs, and in Package Services, three of the proposed discounts exceeded 100 percent pass-through. The Commission found that these proposed discounts complied with statutory exceptions. During the Commission's FY 2008 Annual Compliance Determination (ACD), in which the Postal Service's compliance with rules and regulations for a given year are reviewed, the Commission found that the number of pass-throughs that actually exceeded 100 percent in FY 2008 was substantially higher than had been proposed in the notice of rate adjustment. This is due in large part to the fact that proposed rates are set based on historical costs rather than costs that have been inflated to estimate the costs in the year the rates will be in effect. Consequently, the relationship between the discounts and the actual cost avoided at the end of the fiscal year can be tenuous.

In the Postal Service's presentation of worksharing discounts in its notice of market dominant rate changes for FY 2009, some of the pass-throughs that exceeded 100 percent in the FY 2008 ACD were brought below 100 percent, while others were not. Standard Mail, in particular, had a substantial number of pass-throughs—17—that exceeded 100 percent. The Commission found on a four to one vote (with then-Commissioner Goldway dissenting) that in light of the Postal Service's significant volume declines and the pricing flexibility afforded the Postal Service, the Postal Service's justifications for these exceptions were adequate. These pass-throughs will be examined again in the FY 2009 ACD.

The Postal Service's FY 2009 Notice also incorporated significant modifications in the methodology used to calculate worksharing avoided costs. The changes were based on the Postal Service's interpretation of the definition of worksharing under 3622(e), and were not approved in advance by the Commission. To provide an opportunity to consider the Postal Service's methodological changes in a more appropriate forum, the Commission initiated a rulemaking docket (RM2009-3) on the same day as the Order reviewing the price changes. Separately, final rules on the form and content of periodic reports were established in Order No. 203 (April 16, 2009), including a requirement that methodological changes be reviewed by the Commission prior to incorporation into reports to the Commission.

EFFECTIVENESS OF RULES IN MAINTAINING JUST AND REASONABLE RATE SCHEDULE

In FY 2009, in the Special Services class, the Postal Service proposed an increase of 963.8 percent for Platinum-tier Confirm service purchased by mailing agents. Several commenters raised objections, including that this price change

was unreasonably discriminatory in violation of 39 U.S.C. section 403(b), and was contrary to both the "reasonable and equitable" rate requirement of section 404(b) and the "just and reasonable" objective of 3622(b)(2). Based on a review of the Postal Service's initial justification and its responses to Commission inquiries, the Commission concluded the Postal Service failed to meaningfully address the relevant statutory objectives and factors. It instructed the Postal Service to provide adequate justification or modify its proposal.

As required by the Commission's rules, the Postal Service subsequently filed an amended notice of market dominant rate adjustment addressing the Commission's concerns by proposing to apply to all Confirm subscribers the prices that were proposed for mail owners.

On April 9, 2009, the Commission completed its review of the amended notice and found the planned rates for Confirm consistent with applicable law. The Commission's 14-day review of the Postal Service's amended notice permitted Postal Service implementation of the rate changes for market dominant products on May 11, 2009, as planned.

Rules for Complaints and Rate of Service Inquiries

In FY 2009, the Commission finalized rules outlining a complaint mechanism. These rules are designed, in part, to facilitate the maintenance of a just and reasonable rate schedule by enabling the Commission to hear and resolve complaints in a streamlined and efficient manner while providing appropriate due process for all participants. These rules establish a rate or service inquiry procedure for dealing with issues that do not appear to require more formalized procedures applicable to complaints.

Active Complaints During FY 2009

There were two active complaints before the Commission during FY 2009. Capital One Services, Inc. (Capital One) filed its Complaint against the Postal Service on June 19, 2008, alleging, *inter alia*, undue discrimination relating to the Bank of America negotiated service agreement and violations of 39 U.S.C. 403(c) and 39 U.S.C. 3622(c) (10). On August 1, 2008, the Commission denied a Postal Service motion to dismiss the Complaint, and issued a finding that the Complaint raised material issues of fact and law. Subsequently, Capital One and the Postal Service, both independently and with Commission assistance, worked to resolve the many difficult discovery issues presented by this docket. In addition, the parties also engaged in settlement discussions.

On May 21, 2009, Capital One filed a motion seeking to withdraw its Complaint with prejudice, as a result of a private settlement with the Postal Service. On June 2, 2009, the motion to withdraw the Complaint with prejudice was granted by the Presiding Officer for the Commission.

The Complaint of GameFly, Inc. (GameFly) was filed on April 23, 2009. The Complaint asserts several claims that concern unreasonable discrimination and other undue preferences allowed by the Postal Service in violation of the law. In support of its Complaint, GameFly alleges that the Postal Service extended preferential services and inequitable rates to certain high volume rival mailers who similarly use First-Class Mail to send and receive DVDs.

GameFly specifically contends its pieces are being processed through automated letter mail processing equipment that continues to cause damage, and that the favored high volume DVD mailers are not suffering the high level of broken DVDs. It further alleges that even though it switched to higher cost flat rates and inserts to

reduce breakage, it is still suffering more damage than these other mailers.

The Postal Service responded to the Complaint on May 26, 2009, together with a motion for partial dismissal of the Complaint.

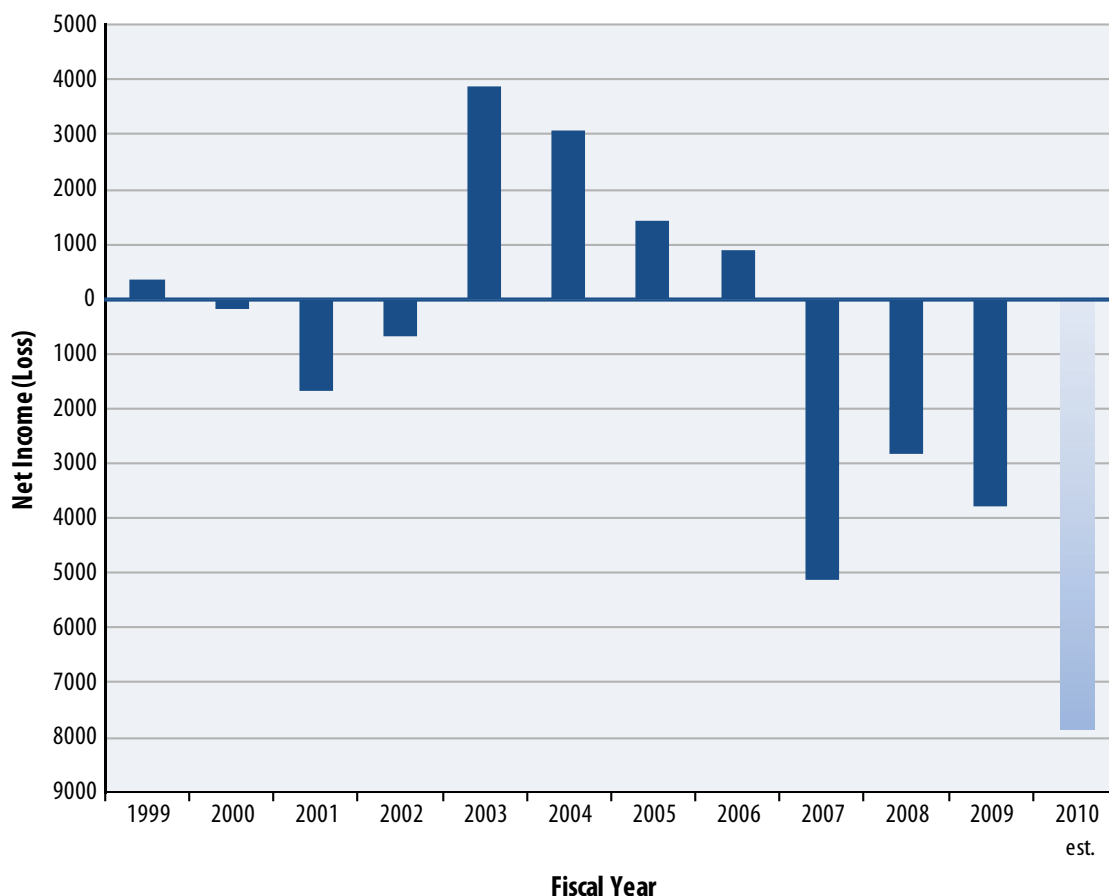
The Commission concluded that it has jurisdiction over the dispute and the Complaint raises material issues of fact and law, and initiated proceedings to hear the issues involved.

EFFECTIVENESS OF RULES IN ASSURING ADEQUATE REVENUES

The Postal Service has been generating revenue under the PAEA for only two years. In FY 2008 the Commission approved an average rate increase for market dominant products of 2.9 percent based on the 12-month change in CPI at the time the notice of change was filed. The resulting rates were in effect from May 12, 2008 to May 10, 2009. During this period actual inflation was 1.9 percent. In FY 2009 the Commission approved an average rate increase for market dominant products of 3.9 percent, again based on the 12-month change in CPI at the time the notice of change was filed. These rates are still in effect. The annual rate of inflation in FY 2009 was -0.3 percent.

Consistent with the PAEA, the ratemaking rules do not require an estimate of volume declines, cost increases or mail mix changes for the fiscal year covered by new rates. Thus, the rates are not designed to generate enough revenue to cover estimated future costs, as was the case under cost of service ratemaking. Despite rate increases that were greater than the actual level of inflation for the period the rates were in effect, the Postal Service experienced net losses in both FY 2008 and FY 2009. In FY 2009 the loss was \$3.8 billion, the second largest financial loss in Postal Service history. The Postal Service has indicated that it expects to lose an additional \$7.8 billion in FY 2010.

Figure 1 – Postal Service Net Income (Loss) in Millions



The reasons for the Postal Service’s net losses are complex. The Postal Service cites the recession, diversion to electronic media, and the statutory requirement that the Postal Service prefund its retiree health benefits as the major reasons for its financial difficulties.

Total volumes declined 12.7 percent in FY 2009. In its Comprehensive Statement, the Postal Service attributes most of this decline to the downturn in the economy, particularly the housing and financial sectors. This volume decline, along with changes in the mail mix, caused revenues to drop over 9 percent, or \$6.8 billion.

The Postal Service’s projected loss for FY 2010 reflects an expectation of continued weakness in volume, mandated payments for retiree health benefits, and the Postal Service’s announced intention not to raise rates for market dominant

products in the coming year. As of November 30, 2009, the 12 month rate of inflation was -0.57 percent. Consequently, the Postal Service could not increase rates under the price cap. However, the PAEA and Commission rules allow the Postal Service to file an exigent rate case. Neither the law nor the rules specify what triggering events are necessary for approval of an exigency case so it is not clear the extent to which this option would have resulted in more revenue for the Postal Service. The Postal Service chose not to explore this opportunity. Nor does the PAEA require the Postal Service to break even. The Commission will review this issue in the coming year.

Analysis of Volume and Revenue Declines

The Postal Service experienced the largest year-over-year declines in mail volumes since the 1930’s Depression era. First-Class and Standard Mail

**Table 4
Mail Volumes**

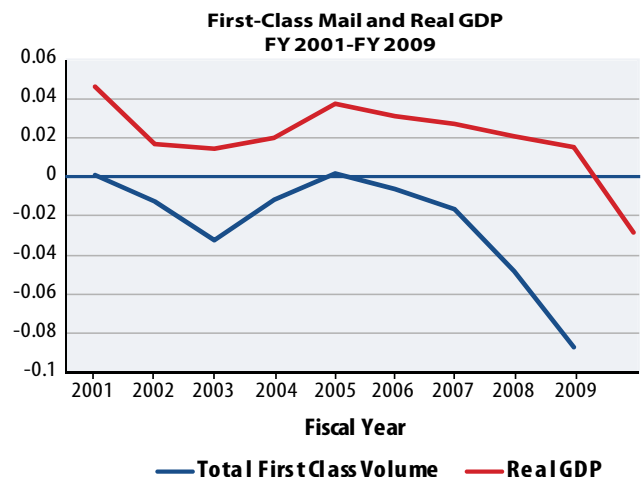
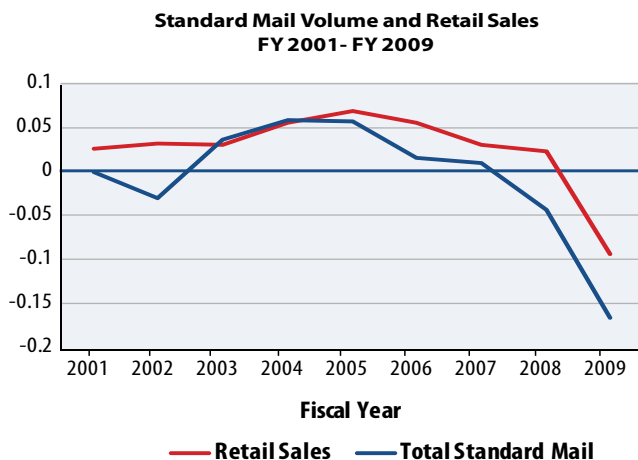
	FY 2009 (in millions)	FY 2008 (in millions)	Increase or Decrease (in millions)	% Change
First-Class	83,770	91,697	-7,927	-8.6%
Periodicals	7,954	8,605	-651	-7.6%
Standard Mail	82,706	99,084	-16,378	-16.5%
Package Services	730	846	-116	-13.7%
Other	517	896	-379	-42.3%
Total Mailing Services	175,677	201,128	-25,451	-12.7%
Total Shipping Services	1,381	1,575	-194	-12.3%
Total Mail	177,058	202,703	-25,645	-12.7%

experienced the steepest volume declines. As seen in table 4, every class of mail showed declines in volume during FY 2009.

Total First-Class volumes have long been adversely affected by the trend toward electronic bill payment and presentment. With the collapse of the financial markets during 2008 and 2009,

much of the First-Class advertising mail from mortgage banks and credit cards disappeared. As the recession took hold among the retail markets Standard Mail volumes also began a steep decline. Figure 2 compares mail volumes and measures of economic activity.

Figure 2 – Volumes and Economic Indicators



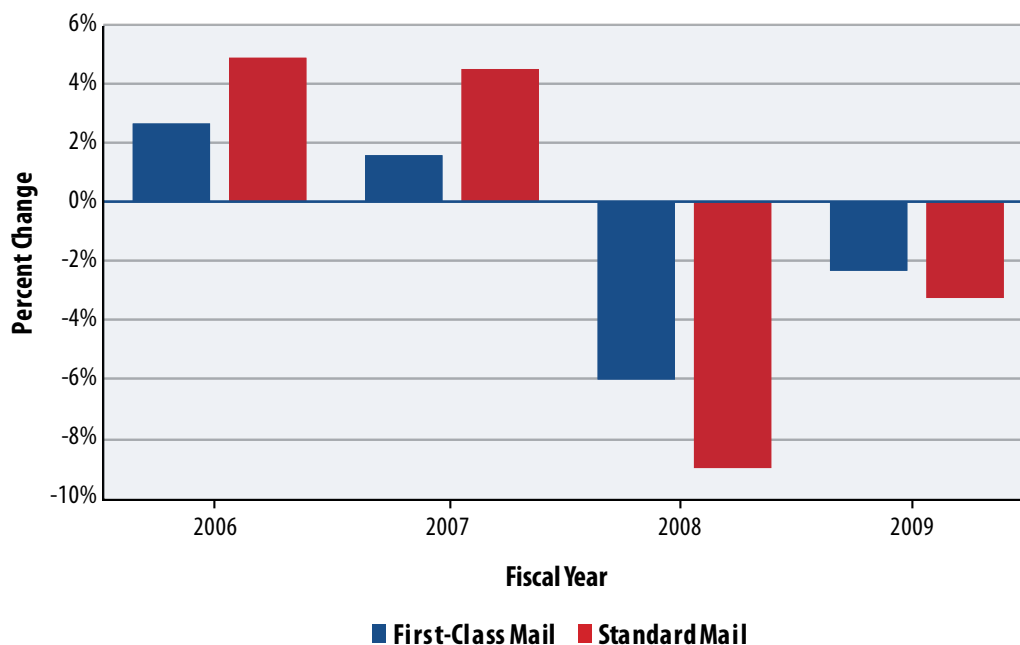
As volume declined, revenue also declined.
As with volume, all classes and categories of mail experienced revenue declines.

	FY 2009 (in millions)	FY 2008 (in millions)	Increase or Decrease (in millions)	% Change
First-Class	35,873	38,179	-2,306	-6.0%
Periodicals	2,038	2,295	-257	-11.2%
Standard Mail	17,364	20,586	-3,222	-15.7%
Package Services	1,683	1,845	-162	-8.8%
Other	3,000	3,645	-645	-17.7%
Total Mailing Services	59,958	66,550	-6,592	-9.9%
Total Shipping Services	8,132	8,382	-250	-3.0%
Total Mail	68,090	74,932	-6,842	-9.1%

First-Class and Standard Mail accounted for \$5.5 billion of the total \$6.8 billion revenue decline.

This is the second consecutive year of revenue declines for the two largest classes of mail.

Figure 3 – Revenue Growth for First-Class and Standard Mail



EFFECTIVENESS OF RULES IN MAXIMIZING INCENTIVES TO REDUCE COSTS

The PAEA places an inflation-based cap on market dominant rate increases while simultaneously setting forth the objective that the Postal Service must maintain financial stability. This puts pressure on the Postal Service to reduce costs and increase efficiency. Roughly 60 percent of Postal Service costs vary directly with volume while the other 40 percent are fixed, at least in the short term. When mail volume is increasing this leads to total lower unit costs because there are more pieces to share the burden of the fixed costs. Conversely, when mail volume declines, total unit cost increases. The Postal Service’s total operating expenses have been trending downward at a faster pace than the rate of inflation. However, much of this decline is due to volume loss. On a unit basis, the Postal Service has not been able to

keep operating costs in line with CPI. As seen in figure 4, total operating costs have trended down faster than CPI since FY 2006, while unit operating costs have not.

The operating expenses include payments to the Postal Service’s Retiree Health Benefits Fund (PSRHBF). These payments, which are approximately \$5.5 billion a year until 2016, were stipulated in the PAEA.¹ The Postal Service chose not to include these payments in its revenue requirement during the last omnibus rate case in 2006. As seen in figure 5, since that time, unit operating expenses have grown higher than unit revenue.

¹ In FY 2009 Congress granted the Postal Service a one-time exception relieving it of \$4 billion in Postal Service Retiree Health Benefit Fund payment. The measure was included in Public Law No. 111-68.

Figure 4 – Trend in Operating Expenses and CPI

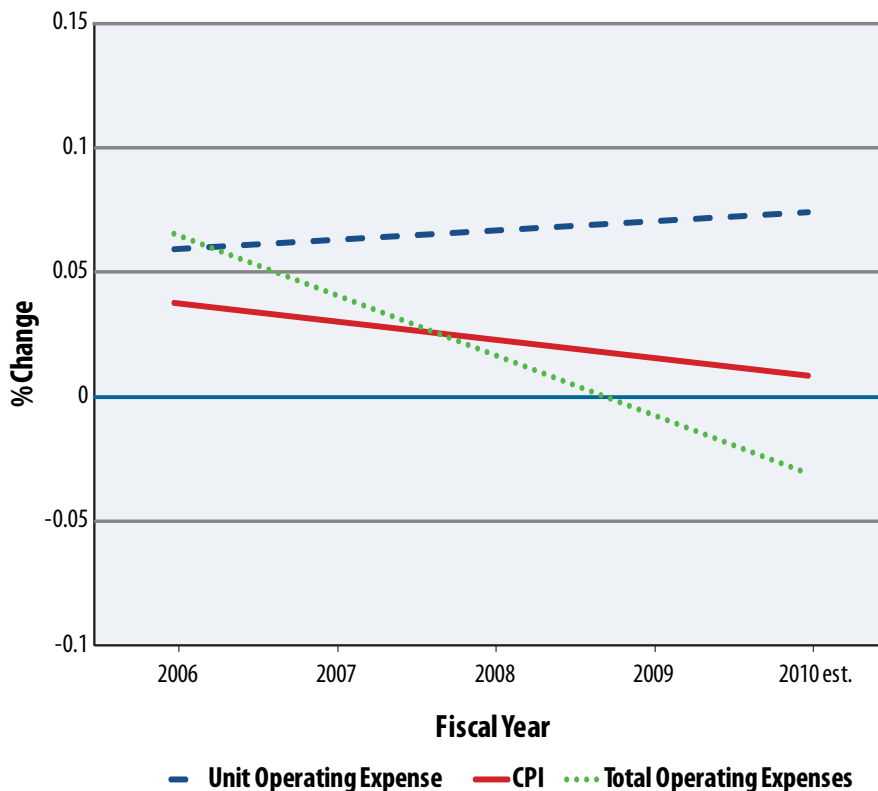
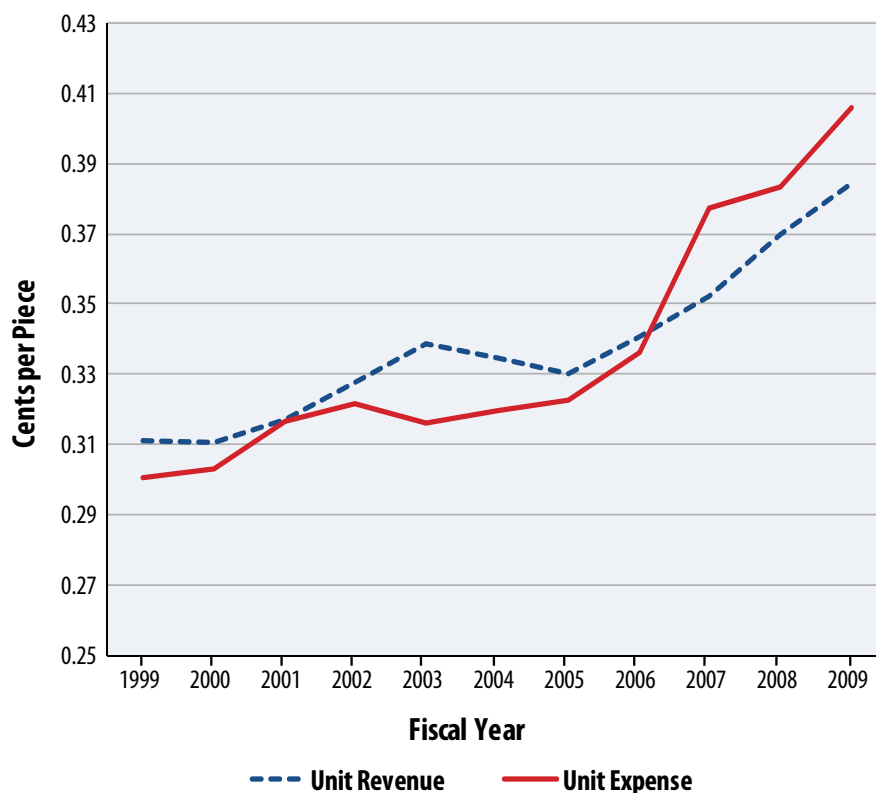


Figure 5 – Unit Operating Expense and Revenue



EFFECTIVENESS OF RULES IN ENHANCING TRANSPARENCY

A key tool for achieving transparency in Postal Service operations is the annual review of information provided by the Postal Service to the Commission, in accordance with regulations adopted by the Commission. The Postal Service has 90 days to collect, audit, and submit data the Commission determines necessary. The Commission has an additional 90 days to solicit comments from the public, evaluate the data, and provide a written determination of Postal Service compliance with applicable statutory policies.

In addition to producing the FY 2008 Annual Compliance Determination, the Commission finalized or proposed rules in the areas of accounting for competitive products, periodic reporting, treatment of confidential material, and complaint procedures in FY 2009. These rules are designed to enhance transparency and

accountability, and increase efficiency of postal operations.

Annual Compliance Determination

On March 30, 2009, the Commission issued its second Annual Compliance Determination. The report assessed the Postal Service's FY 2008 performance. It focused on three main areas: financial condition, strategic goals, and pricing policies. The PAEA identifies multiple policy considerations that apply to these three areas. To the extent possible, the Commission identified the most relevant statutory objectives and factors, and, where necessary, balanced the importance of each. In a number of areas the policy requirements, objectives and factors of the PAEA were not fully satisfied in 2008. However, the Commission found that in many cases the Postal Service had initiated actions to address these problems. Consequently, the Commission did not take any immediate actions but identified several issues that needed to

be addressed in the near term. The Postal Service's progress in these areas will be assessed in the FY 2009 Annual Compliance Determination.

Rules on Confidential Materials Filed by the Postal Service

To balance the need for transparency with the desire to protect sensitive information, the Commission issued a notice and order of proposed rulemaking to establish rules governing the treatment of non-public materials on August 13, 2008. These rules were proposed to meet the statutory standards for according confidentiality to Postal Service materials. The proposed rules only applied to materials filed by the Postal Service and claimed to be non-public. The rules used one test applicable to discovery requests and requests to publicly disclose Postal Service non-public materials.

The Commission received eight comments and five reply comments on the proposed rules. Comments identified two main shortcomings in the proposed rules. Several commenters requested a mechanism to protect third-party non-public materials. Several comments also addressed the Commission's departure from the test articulated in 39 U.S.C. 504(g)(3)(A), which is designed to balance the Postal Service's interest in avoiding commercial injury against the public's interest in financial transparency of a government agency competing in commercial markets. On March 20, 2009, the Commission issued and solicited comments on a second notice of proposed rulemaking based upon comments received from its initial notice and order.

On June 19, 2009, in Order No. 225, the Commission adopted final rules that establish a procedure for according appropriate confidentiality for non-public materials filed with the Commission. Essentially, "non-public materials" means any document, information, or thing filed with the Commission and claimed exempt from

disclosure under applicable sections of the United States Code by the Postal Service or protected from disclosure under Federal Rule of Civil Procedure 26(c) by a third party with a proprietary interest in the materials.

These rules lay a foundation for the Commission's treatment of non-public materials filed by the Postal Service and other parties.

Postal Service Cost Methodology Rules

The Commission has proposed various rules in several dockets related to costing methodology changes made by the Postal Service to produce data filed before the Commission. The rules describe the scope of reporting and level of detail needed to conform to the goals of the PAEA with respect to the transparency and accountability of Postal Service operations. The public and interested parties have been provided an opportunity to comment on each of the Postal Service proposed changes to cost methodology.

Periodic Reporting Rules on Service Performance Measurement and Customer Satisfaction

On September 2, 2009, the Commission issued proposed rules on Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11. These rules initiate the process for establishing reporting requirements for the level of service and degree of customer satisfaction afforded by the Postal Service in connection with each market dominant product. In the coming year, the Commission will consider all comments from the public and stakeholders and issue final rules for periodic reporting of service performance.

Obtaining Information from the Postal Service

In FY 2009, the Commission proposed rules in compliance with PAEA subsection 504(f) which, among other things, authorizes: (a) the issuance of

subpoenas requiring officers, employees, agents, or contractors of the Postal Service to appear and present testimony or to produce documentary or other evidence, and (b) the issuance of orders that require the taking of depositions and responses to written interrogatories by any of those same persons. Section 504(f) further authorizes the enforcement of subpoenas by appropriate district courts of the United States. The matter is pending before the Commission.

Financial Reporting

In addition to promulgating rules related to transparency, the Commission worked with the Postal Service to enhance transparency of financial data. For many years prior to FY 2007, the Postal Service published monthly financial and operating reports. Subsequently, the Postal Service ceased publication of the monthly reports and substituted them with quarterly financial reports required under PAEA. As the Postal Service's financial situation worsened over the next two years, there was concern among stakeholders that the quarterly reports did not provide sufficient timely information and that more frequent financial reporting was necessary.

The Commission agreed and asked the Postal Service for monthly reporting of financial results. The Service claimed that the monthly results were only produced for management and that the data was not audited and subject to change making the information potentially misleading to the public.

The Commission found that the benefits of transparency to stakeholders outweighed the Postal Service's concerns and began negotiations with senior postal officials to develop a workable format for reporting financial and operating results. After several consultations, a format was agreed upon and the Postal Service filed the initial reports beginning in January of 2009. The Commission subsequently incorporated the format into its data reporting rules and required

the reports to be submitted within 24 days of the end of each month.

As required by PAEA, the Commission has also been monitoring the Postal Service's progress towards compliance with section 404 of the Sarbanes-Oxley Act (SOX). Section 404 requires establishment of internal controls for financial reporting. The Postal Service must be fully compliant in FY 2010. The Postal Service has updated the Commission on its progress in this area several times throughout FY 2009.

EFFECTIVENESS OF RULES IN ACHIEVING THE OBJECTIVES OF SECTION 3633

Competitive Rate Change

The Commission's review of rate adjustments for competitive products is governed by section 3633(a) of the PAEA. As noted above, section 3633(a) establishes three statutory standards, incorporated into the Commission's rules, applicable to competitive products. First, each competitive product must cover its attributable cost. Second, competitive products must collectively cover their appropriate share of the Postal Service's institutional costs, which the Commission has determined to be, at a minimum, 5.5 percent of the Postal Service's total institutional costs. Third, competitive products may not be cross-subsidized by market dominant products.

In FY 2009 the Postal Service submitted two notices of changes in rates of general applicability for competitive products on separate dates. The first notice was filed on November 13, 2008, and set forth price adjustments for domestic Priority Mail, Domestic Express Mail, selected categories within Parcel Select, Parcel Return Service, International Expedited Services, and International Direct M-Bags. On December 11, 2008, the Commission completed its review. The

Postal Service implemented its price adjustments for competitive prices on January 19, 2009.

The second notice was filed on February 10, 2009, and contained price adjustments for the other categories in Parcel Select, Premium Forwarding Service, International Priority Air Service, International Surface Airlift, and international Ancillary Services such as International Certificates of Mailing, International Registered Mail, and International Return Receipt. The Commission completed its review of the second notice on March 11, 2009, for prices that became effective on May 11, 2009.

Both reviews were completed within 30 days and ensured that the rate changes met statutory requirements that each competitive product cover its direct costs and pay an appropriate share of institutional costs, and that market dominant products do not cross-subsidize competitive products.

Although the Commission was able to complete the reviews on time, the process was hampered by limited explanations and information presented in the initial Postal Service filings. The Commission expects future Postal Service filings for competitive product rate adjustments to contain more comprehensive information on, and a more detailed and clearer demonstration that, with the planned changes, rates will satisfy the applicable statutory criteria of section 3633(a).

Accounting and Periodic Rules

To further ensure that the objectives of section 3633 are met, on December 18, 2008, the Commission issued Order No. 151 concerning accounting practices and principles to be used by the Postal Service. The Commission has developed Accounting and Periodic Reporting Rules applicable to competitive products for the establishment and application of: (a) the accounting practices and principles to be followed by the Postal Service, and (b) the substantive and procedural rules for determining the assumed Federal income tax on competitive products income. The funds generated by this assumed tax are to be put in the Postal Service's General Fund to further contribute to offsetting overhead expenses.

As a result of this Order the Commission directed the Postal Service to develop the assets and liabilities of the theoretical competitive products enterprise by identifying all asset and liability accounts within its Chart of Accounts used solely for the provision of: (a) competitive products or (b) market dominant products, and for those not identified with either, to submit for Commission approval a proposed methodology detailing how each asset and liability account identified in the Chart of Accounts shall be allocated to the theoretical competitive products enterprise. In satisfaction of that requirement, on July 23, 2009, the Postal Service filed a proposed methodology for the allocation of assets and liabilities to the theoretical competitive products enterprise.

On August 24, 2009, the Commission filed Docket No. RM2009-9, invited comment on the Postal Service's proposed methodology and offered commenters the opportunity to propose alternative methodologies.

The Commission has received comments on the proposed rules and will issue final rules early in 2010.

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Mail delivery in Bayfield, Wisconsin.

CHAPTER III – REPORTS ON THE UNIVERSAL SERVICE OBLIGATION AND MAIL MONOPOLY

The Commission issued its Report on Universal Postal Service and the Postal Monopoly early in FY 2009 as required by the PAEA. The law asks the Commission to include in its report several relevant items such as: (1) a comprehensive review of the history of universal service and the postal monopoly; (2) the scope and standards of universal service and the postal monopoly under current law; (3) a description of geographic areas, populations, communities, and other groups not receiving service or receiving deficient service; (4) the scope and standards of universal service and the postal monopoly likely to be needed in the future, and (5) Commission recommended changes to universal service and the postal monopoly. The law also requests the Commission

to solicit written comments from the Postal Service and to consult with the Postal Service, other federal agencies, users of the mails, enterprises in the private sector engaged in the delivery of mail, and the general public.

Primary Commission findings were:

- The universal service obligation has seven attributes: (1) Geographic Scope; (2) Range of Products; (3) Access to Postal Facilities; (4) Delivery Frequency; (5) Prices/Affordability; (6) Quality of Service, and (7) Users' Rights.
- The current obligation to provide service to all persons in all parts of the Nation, its territories, and possessions, is paramount, and should not be altered.

- Current law makes the universal service obligation applicable to both market dominant and competitive products.
- The recommendations set forth in this report were:
 - Congress consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service.
 - The Postal Service be directed to develop information on the probable impact on mail usage by large volume mailers in reaction to potential alternative changes in the seven features of universal service.
 - Before any decisions to adjust or eliminate universal service or the monopoly are made, the resulting impact on the societal benefits of a Federal postal service should be carefully assessed.

In preparing its report the Commission initiated Docket No. PI2008-3 to solicit comments from all interested parties. The Commission sent letters to federal agencies considered stakeholders in the postal system to ensure their participation. A national survey was also conducted, on the needs and expectations of household single-piece mailers. Further, to capture the needs and expectations of communities, the Commission held field hearings in Flagstaff, Arizona; St. Paul, Minnesota, and Portsmouth, New Hampshire. The Commission also held a workshop to engage mailers and others in a dialogue concerning universal service and the postal monopoly. Lastly, the Commission held a hearing in Washington, DC to solicit comments from the postal unions, management associations and others. It is important to note that the analysis for this report was completed before the economic downturn and subsequent recession. Commission findings and recommendations must be considered in light of the serious financial difficulties the Postal Service is currently facing. The complete

report can be viewed at http://www.prc.gov/DOCS/61/61628/USO_Report.pdf.

ESTIMATED COST OF THE UNIVERSAL SERVICE OBLIGATION

The PAEA requires the Commission to provide annual updates on the estimated cost to the Postal Service of providing universal service. The following estimates update the estimates provided in the initial USO report discussed above.

The law requests three separate estimates: (1) the cost of providing service to areas of the Nation that would not receive service but for the universal service obligation; (2) the revenue foregone by providing free or reduced rates for postal services as required by 39 U.S.C., and (3) other public services or activities related to the universal service obligation. Table 6 provides the estimate for the first and third components. Table 7 provides the estimate for the second component. At this writing, the data necessary to compute the costs for FY 2009 were not available. Therefore, the cost estimates compare FY 2007 and FY 2008 data. Most of the increase in the cost of six day delivery between FY 2007 and FY 2008 is due to refinement of the method used to calculate the indirect costs of delivery.

The Postal Service provides statutory discounted rates for the nonprofit rate categories in Periodicals, Standard Regular, and Standard Enhanced Carrier Route (ECR). Additionally, statutory discounts are given to Periodicals Classroom and Science of Agriculture and to Library Rate. Table 6 presents the Commission's estimates of revenue forgone by the Postal Service in providing discounted rates to preferred categories of mail in FY 2008.

ESTIMATED VALUE OF THE MONOPOLY

While not required by law, the Commission updated its combined and mailbox monopoly

Table 6
FY 2008 Cost of Universal Service
(\$ in Billions)

Mandate	FY 2008	FY 2007
Six Day Delivery Instead of Five Day Delivery	2.160	1.930
Impact of Nonprofit Mail Discounts Net of Costs	1.223	1.150
Unzoned Media/Library Rates	0.094	0.063
Losses on Market Dominant Products	0.437	0.448
Maintaining Small Post Offices	0.549	0.586
Alaska Air Subsidy	0.124	0.107
Uniform Rates for First-Class Mail	0.212	0.130
Total Cost of Universal Service Obligations	\$4.799	\$4.414

Table 7
Revenue Not Received from Free and
Reduced Price Mail for FY 2008
(\$ in Billions)

Mail Class	Estimated Revenue Not Received	
	2008	2007
Standard Mail		
Nonprofit	0.969	0.757
Nonprofit - ECR	0.072	0.150
Total Standard Mail	1.041	0.907
Periodicals		
Nonprofit	0.011	0.013
Classroom	0.001	0.001
Total Periodicals	0.012	0.014
*Library Rate	(0.001)	0.000
Free-for-the-Blind Mail	0.052	0.061
Total	1.104	0.982

*Library rate mail has an own price elasticity greater than one in absolute terms. When discounts are given, mail volume and revenue increase. Therefore, the revenue not received is negative.

values for the present year using the base case assumptions and methodology outlined in its report. The updated and previous year values are shown below.

Table 8
Value of the Monopoly
(\$ in Billions)

	FY 2008	FY 2007
Mailbox Monopoly	1.07	1.33
Combined Monopoly	2.96	3.48

The value of the monopoly estimates the lost profit to the Postal Service if potential competitors were allowed to enter and compete in the Postal Service's letter and mailbox monopolies. In other words, if the Postal Service's combined monopoly (letter monopoly and mailbox monopoly) and, separately, the mailbox monopoly were eliminated, the value of the monopoly estimates how much the Postal Service would lose. The updated base case monopoly values reported below are lower than last year's values due to the reduction in volume this year and higher fixed network costs. Due to both factors, the Commission concludes that potential competitors would find entry into previously monopolized areas less profitable and thus less attractive. As a result, the Commission's estimates reflect a lower lost profit to the Postal Service because of a lower incidence of entry by competitors when eliminating either monopoly. The Commission estimates entry on 41 percent of total routes under the base case combined monopoly. This figure is considerably lower than the 48 percent value estimated for FY 2007. Similarly, for the mailbox monopoly, the percentage of profitable routes decreases from 51 percent to 44.7 percent.

The base case assumptions applying to competitors in the present analysis include: (1) full diversion of local contestable mail when discounting existing Postal Service rates by at least 10 percent; (2) competitors incur only delivery costs, and deliver three times a week under the combined monopoly, and once a week under the mailbox monopoly, and (3) competitors are ten percent more cost efficient than the Postal Service. Besides differences in delivery frequency, mail subject to diversion under the mailbox monopoly is much more restricted in scope compared to the combined monopoly, as explained in detail in last year's Commission report.

The method employed to estimate both monopoly values is also the same as in last year's approach. The Commission's model estimates competitor profits for all routes based on contestable volumes, discounted rates and adjusted delivery costs. Entry occurs only on routes with positive profits. System level monopoly values are estimated as the route sums of the lost contributions to the Postal Service from volume diversion to competitors.

The Commission's estimates should be viewed as upper bounds for several reasons. As described in last year's report, it is entirely possible that entry would only occur on profitable routes that are co-located. Because the Commission's model evaluates entry for each route regardless of the extent of route clustering, monopoly values are likely overstated. Second, the Commission's model ignores any carrier route sorting required by potential entrants for five digit sorted letter mail entering the system at the SCF or DDU level. Inclusion of these costs would also lower the extent of entry to some degree.

On the price side, the model does not address the added pricing flexibility that the Postal Service would be granted, if either monopoly were lifted. Presumably, either lifting the mailbox monopoly or eliminating the private express statutes or both would mean that affected mail could no longer be classified as market dominant. Further, exclusion of such mail from the price cap would mean that the Postal Service could freely price the newly competitive products without affecting rates for the remaining market dominant products, if any. Under such circumstances, the Postal Service can be expected to respond to competitive entry by lowering its own rates and/or changing delivery frequencies where and when these changes are still expected to generate positive contributions. Although such contributions from contestable products are likely lower than under existing market dominant values, they are likely higher than if volumes are fully diverted to competitors because of inflexible rates or delivery frequencies. The Commission will be addressing these and other issues in the future by improving capabilities to estimate monopoly values under more realistic conditions.

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James A. Farley Post Office in New York City

CHAPTER IV – OTHER LEGAL PROCEEDINGS

ADVISORY OPINION ON STATION AND BRANCH OPTIMIZATION DOCKET NO. N2009-1

The Postal Service filed a request with the Commission on July 2, 2009, to determine whether a plan to optimize the postal retail network by consolidating the operations of some retail stations and branches into nearby facilities constitutes a change in the nature of postal services, specifically on a nationwide basis, within the meaning of 39 U.S.C. 3661(c). The Commission established Docket N2009-1 to hold a public hearing and issue an advisory opinion in response to the Postal Service's request. As part of this process, the Commission held public hearings

in Washington, DC, Cleveland, Ohio and Bronx, New York, to maximize the opportunity for public comment on the Postal Service's proposal. The Commission's website also lists the latest group of Postal Service closings and consolidations. In these proceedings, the Commission will advise on whether the proposed service changes reflect the policies in Title 39 of the United States Code. The matter is pending before the Commission.

REVIEW OF NONPOSTAL SERVICES DOCKET NOS. MC2008-1 PHASE I AND PHASE II

In accordance with 39 U.S.C. 404(e)(3), the Commission is to determine which nonpostal services, defined as any service that is not a postal service, should continue and which should be terminated. The PAEA limits the Postal Service's authority to provide nonpostal services to those it offered on January 1, 2006.

Any nonpostal service the Commission concludes should not continue shall be terminated. Any nonpostal service that the Commission authorizes to be continued is to be regulated under the title as a market dominant product, a competitive product or an experimental product.

On December 18, 2008, in Docket No. MC2008-1 Phase I the Commission found that 26 of 47 revenue-generating activities were not subject to review under 39 U.S.C. Additionally, the Commission found that six revenue-generating activities met the definition of postal services and the Postal Service was directed to make the appropriate filing to add these products to the Mail Classification Schedule (MCS). In Docket No. MC2009-19 the Commission established a docket in response to the Postal Service request to add the six products to the MCS.

The Commission also found that fifteen revenue-generating activities meet the definition of non-postal services. Of the fifteen, one, stored value cards, was not offered on January 1, 2006 and may not continue. The Commission authorized the fourteen remaining nonpostal services to continue. Of these, two are market dominant and twelve are competitive. The Commission found the record insufficient in certain respects and deferred ruling on three issues involving licensing, a warranty repair program, and sale of music compact discs.

On January 9, 2009, the Commission established Phase II of MC2008-9 to allow the Postal Service to address these issues followed by an opportunity for interested persons to respond. The matter is pending before the Commission.

MAIL CLASSIFICATION SCHEDULE

The Mail Classification Schedule, codified at 39 CFR Appendix A to Subpart A of Part 3020, includes the Market Dominant Product List and the Competitive Product List. The products appearing on these lists are the products that the Postal Service currently is authorized to offer. In the near future, a formal rulemaking will be initiated to augment the Mail Classification Schedule to include descriptions of all products. The Commission and the Postal Service have cooperated on developing draft language for the product descriptions and have been using this draft language to communicate various classification changes that have been reviewed by the Commission over the past two years.



CHAPTER V – INTERNATIONAL ACTIVITIES

In FY 2009, the Postal Regulatory Commission played an increasingly active international role, both fulfilling its statutory responsibilities under the PAEA and proactively building a solid framework for communication and cooperation on postal regulatory issues with postal regulators from other countries and other stakeholders. The Commission has supported a broader U.S. Government agenda to promote a level playing field for postal and express delivery products and services.

In FY 2009, the Commission analyzed over 30 filings by the Postal Service to introduce new international products or amend rates or classifications for existing international products.

These filings represented an approximate 50 percent increase over FY 2008.

The Commission continued as an active member of the U.S. delegation to the Universal Postal Union (UPU), an international treaty organization and specialized agency of the United Nations headquartered in Bern, Switzerland whose mission is to promote an affordable, quality universal service among all 191 member countries. The Commission coordinated closely with the U.S. Department of State, which has lead responsibility for international postal policy, along with the U.S. Postal Service, Department of Commerce, Office of the U.S. Trade Representative, and U.S. Customs and Border Protection to implement

the decisions adopted at the quadrennial UPU Congress in Geneva in 2008 and develop a U.S. Government Strategic Plan for the UPU. For the first time, the Commission is co-lead with the Postal Service for U.S. participation in the UPU Terminal Dues Working Group, which sets the levels of remuneration among 191 postal administrations for letter mail delivery. The work of this group is critical to improving cost coverage for inbound international letter mail. Within the UPU, the Commission also participated in working groups on universal service, parcels, quality of service, reform of the Union, strategic planning and Customs.

At the multilateral level, the Commission was also a member of the U.S. delegation to the Congress of the Postal Union of the Americas, Spain and Portugal, which took place in Chile in August 2009, to ensure regional consistency with the work of the UPU. The Commission has

contributed to the Union's work on postal regulation and terminal dues, and seeks to lend its expertise to help promote postal reform and modernization in the Americas region.

The Commission also took concrete steps in FY 2009 to exchange information and best practices with other postal regulators, both bilaterally and multilaterally. At the multilateral level, in March 2009, then-Chairman Dan Blair organized and hosted the first-ever global meeting of postal regulators to share information and best practices in postal regulation. This Postal Regulatory Dialogue included postal regulators representing China, Ecuador, Japan, the European Commission and Portugal, as well as officials from the Department of State, Department of Commerce, and Office of the U.S. Trade Representative. For two days, participants exchanged information and ideas on such issues as universal service, quality of service, rate setting, and international

Figure 6 – Postal Regulatory Dialogue



In March 2009, the Commission hosted the first global meeting of postal regulators.

responsibilities. There was clear consensus that this Dialogue was necessary, valuable and should continue, with China offering to host in 2010.

A key outgrowth of the Postal Regulatory Dialogue was establishing a webpage on international postal regulation which the Commission launched in FY 2009. This webpage, linked to the homepage, is intended to be a one-stop shop for information on postal regulation around the world. It contains links to other postal regulators and international organizations dealing with postal regulation, key reports and studies by the Commission and other regulators, and upcoming events related to postal regulation.

At the bilateral level, in June 2009, then-Chairman Blair led a U.S. delegation to Japan for a Symposium on Postal Reform and Express Delivery and bilateral meetings with Japanese government officials organized in cooperation with the Department of Commerce, Office of the U.S. Trade Representative and Department of State. The Commission used this opportunity to promote greater market orientation, including a clear separation of competitive products, avoidance of cross-subsidization of competitive products, and a level playing field with the private sector.

The Commission also organized a two-week program in Washington for a senior official from the Belgian postal regulator to meet one-on-one with Commission technical and legal experts and to share with the Commission the postal regulatory environment in Europe. As part of this program, the Commission also organized meetings with other public and private sector stakeholders in order to offer a broader view of the U.S. postal market. This visit served to foster ongoing communication on technical issues between the United States and Europe.

Lastly, the Commission continued its participation in the Federal Advisory Committee on International Postal and Delivery Services led by the Department of State. This Committee serves in an advisory capacity to the Department of State on international postal issues and is comprised of stakeholders from the public and private sector.

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Commission's Ohio Public Hearing, September 16, 2009.

CHAPTER VI – PUBLIC AFFAIRS AND OUTREACH EFFORTS

OVERVIEW

The Office of Public Affairs and Government Relations (PAGR) serves as the public face of the Commission. The Office is the Commission's primary resource in support of public outreach and education, media relations, and liaison with Congress, the Postal Service and other government agencies. The PAGR Director advises Commissioners and Commission staff on legislative issues and policies related to the Commission and the Postal Service in addition to coordinating the preparation of both Congressional testimony and Congressional inquiries concerning the Commission policies and activities.

CONGRESSIONAL TESTIMONY

Chairman Goldway, Commissioner Blair, and the Director of the Office of Accountability and Compliance (OAC) appeared before Congressional Committees to report on the program plans and actions of the Commission and respond to questions from Members. Then-Chairman Blair testified before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security in January 2009. Then-Chairman Blair also testified before the House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia in March 2009. The Director of OAC testified before the House Subcommittee in May

and July of 2009. Chairman Goldway testified before the Senate Subcommittee in August 2009, and before the House Subcommittee in November 2009. Congressional testimony by Commissioners and staff is available online at the Commission website.

1/28/2009 Testimony of Chairman Dan G. Blair on “The Impact of the Economic Crisis on the U.S. Postal Service” before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security. Blair spelled out the limited options available to the Postal Service for short term financial relief, and recommended that Congress require the Postal Service to provide Congress, the Commission and GAO with a comprehensive, forward-looking financial plan.

3/25/2009 Testimony of Chairman Dan G. Blair on U.S. Postal Service financial stability before the House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia. Blair stressed the need for Postal Service issuance of publicly available monthly financial reports to Congress and the Commission. Blair also suggested an adjustment to the Postal Service’s health benefit payment schedule would appear to be the most pragmatic approach to short term financial relief for the Postal Service.

5/20/2009 Testimony of OAC Director John Waller before the House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia at a hearing to evaluate the “Postal Service’s Cuts in Operations and Network”. Waller described Postal Service efforts to lower costs and improve efficiency, along with the Commission’s work with the Service to provide the accountability and transparency needed to build support for an agenda of change.

7/30/2009 Testimony of OAC Director John Waller on U.S. Postal Service consolidation initiatives before the House Subcommittee on Federal Workforce, Postal Service and the District of Columbia. Waller briefed Congress on the Commission’s legally required duty to provide an Advisory Opinion to the Postal Service on the Service’s plan to optimize the postal retail network, called the “Station and Branch Consolidation Initiative.”

8/6/2009 Testimony of Commissioner Ruth Y. Goldway on the “U.S. Postal Service in Crisis” before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security. Goldway described for the Committee a Commission report which examined the underlying assumptions and methodology used by OPM and the Postal Service OIG to determine the Service’s unfunded liability for its Retiree Health Benefit Fund. Also discussed was the Commission’s role in any Postal Service effort to reduce days of delivery from six days a week.

11/5/2009 Testimony of Chairman Ruth Y. Goldway on the potential for U.S. Postal Service revenue generation before the House Subcommittee on Federal Workforce, Postal Service and the District of Columbia. Goldway discussed Postal Service revenue efforts in terms of three basic challenges: the intent and expectations of the Postal Accountability and Enhancement Act; the ongoing financial crisis facing the Postal Service, and the Postal Service mission to provide universal service to bind the Nation together.

OUTREACH ACTIVITY

In its normal course of activities the Commission routinely hears from members of the public involved in or representing the mailing industry as well as members of Congress. The Commission has

performed a number of public outreach activities to engage citizens as well as stakeholders as a key part of its statutory responsibilities.

- In conjunction with the Commission's review of the U.S. Postal Service Station and Branch Initiative, Docket N2009-1, field hearings were held in Independence, Ohio and Bronx, New York. The goal was to promote greater public input into the Commission's deliberations as the PRC Advisory Opinion on the Initiative is formulated. In total, 19 witnesses testified and public attendees were afforded the opportunity to make comments or raise questions at the close of each hearing;
- Chairman Goldway initiated a "national conversation on the future of the mail and hard copy communications in the U.S." A letter was sent by the Chairman to 162 stakeholders, organizations and associations seeking their input on the following topics: (1) the U.S. Postal Service proposal to consider the closing of station and branch post offices throughout the nation; (2) the present and future role of mail in American society and the societal impact of the existence of the postal system, and (3) a potential proposal by the U.S. Postal Service to reduce mail delivery service by one day per week;
- The Office of Public Affairs and Government Relations sent letters to citizens who had previously contacted the Commission regarding the potential closure of a leased facility, apprising them of the Commission's investigation (Docket PI2010-1) into the Postal Service practice of suspending offices for extended periods without affording the public rights guaranteed under Title 39, U.S.C. 404(d);

- Commissioners and staff appeared before stakeholders and other interested groups such as mailer and industry organizations, postal labor unions and management associations, professional organizations, trade press, and international bodies to discuss the work of the Commission, engage in informal dialogue and respond to questions, and
- Commissioners and staff participated in technical conferences such as those administered by Rutgers University Center for Research in Regulated Industries by presenting technical papers.

The Commission solicits public comment on rulemakings, complaints, mail classification cases, public inquiries, rate cases and other matters. There is an opportunity for both formal and informal comment and both initial and reply comments.

Commenters are encouraged to use the electronic filing system to file their comments online. Comments filed electronically are published on our website under the appropriate docket number.

The Commission also maintains a public commenter file containing letters, emails and faxes for each docket. The file is available for public inspection.

CONSUMER RELATIONS

Within PAGR, a Consumer Relations Specialist responds to customer inquiries, handles complaints which do not rise to the level of formal complaints, and serves as liaison with the Office of Consumer Advocate of the Postal Service for service issues. A system was developed to manage and track public inquiries, correspondence, and informal complaints. Inquiries are tracked based on source along with the nature of the inquiry, i.e. question, comment or informal complaint. Further in-depth breakdowns relating to specific service

categories and sub-categories such as retail, delivery, rates, claims, international mail, employee behavior, wait time in line, and other factors the Commission deems of interest to the public are also tracked. This process aids the Commission in performing general analyses related to quality of service, and helps to identify concerns, trends, and potential systemic service problems as part of the PAEA’s requirement to monitor service. This inquiry log is posted on the Commission’s website on the “Consumer Interests” page and is updated on a monthly basis. The Commission received 1800 inquiries during Fiscal Year 2009: 1241 were from consumers with general requests for information, comments on open dockets, or requests for assistance with service problems.

The top consumer issues included 326 queries or comments regarding post office closings, 281 on the Standard Mail Volume Incentive Pricing Program, 101 regarding impact of price changes on Alaska bypass mail used for sending essential goods to areas without road access, and 57 on possible changes in days of delivery service. See chart with breakdown of top 9 consumer issues or concerns.

Under the Commission’s Order No. 195 which was established on March 24, 2009, rate and service inquiries are forwarded to the Office of Consumer Advocate to assist and respond to the customer and the Commission. From May, 2009, through September 30, 2009, the Commission forwarded 211 rate and service inquiries to the Postal Service. The Postal Service files a monthly narrative report summarizing the general nature of

Figure 7 – Sources of PAGR Inquiries

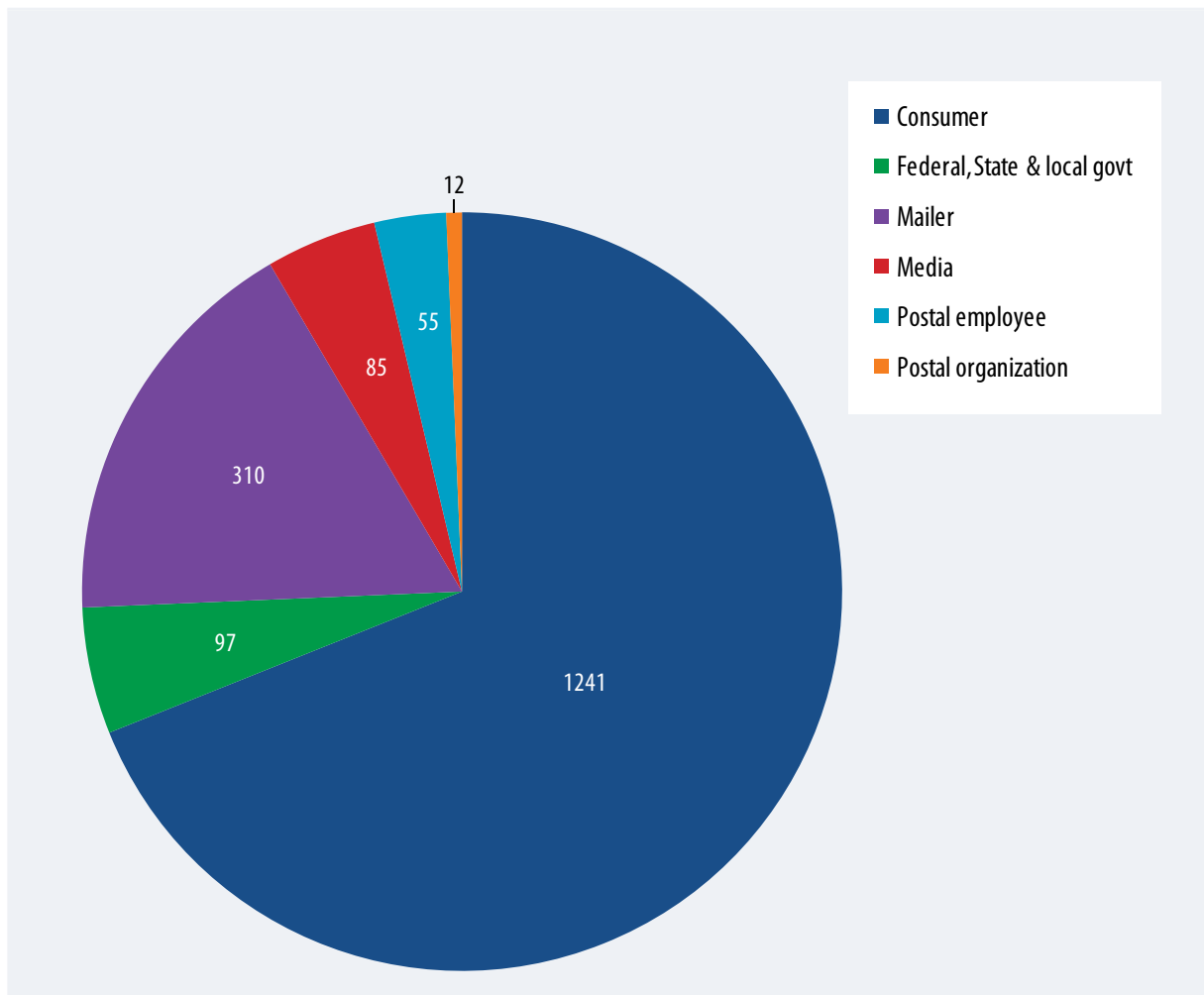
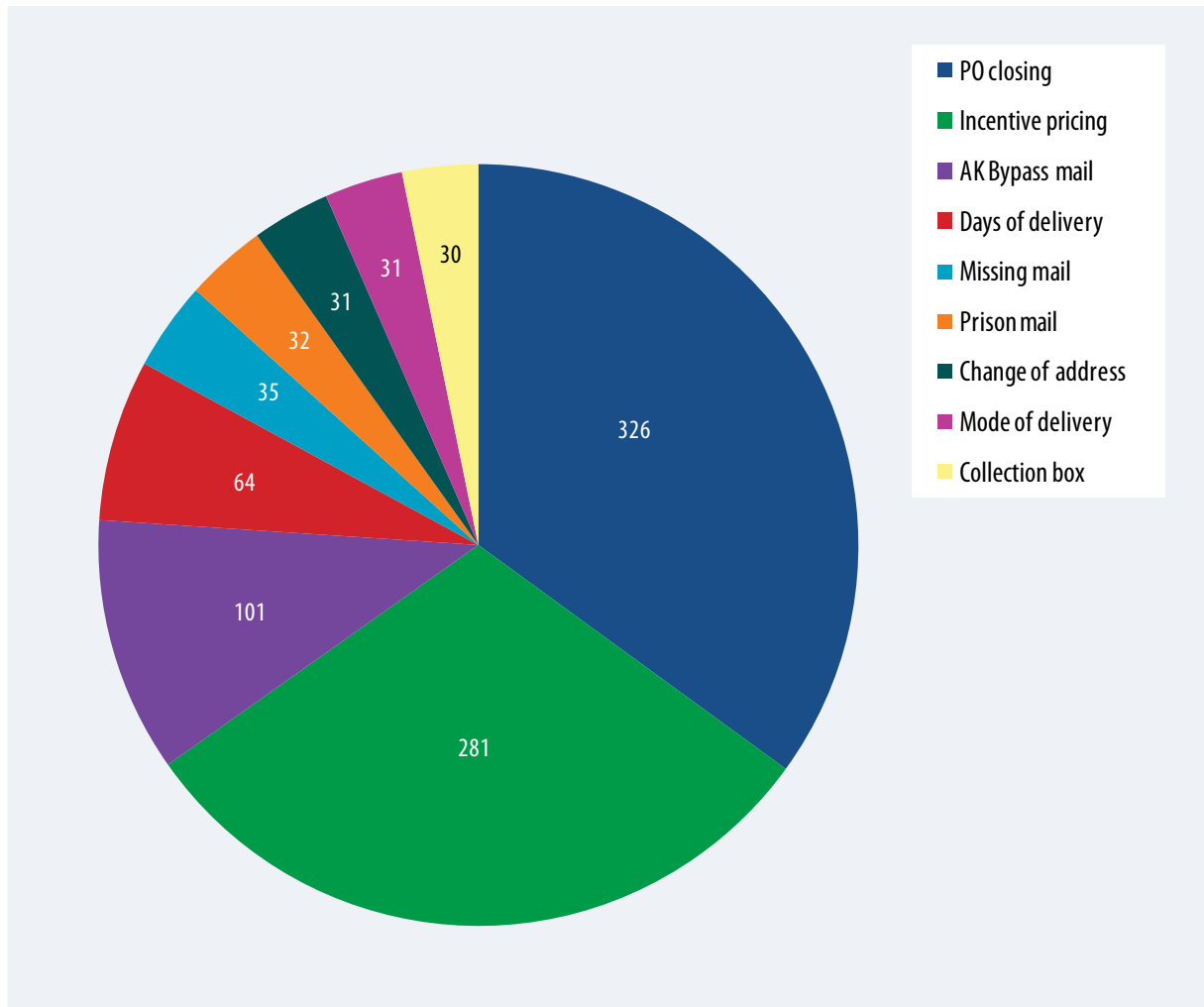


Figure 8 – Top Consumer Issues



the inquiries, which is posted on the Commission’s website homepage under “What’s New” and also filed with Postal Service Periodic Reports.

PUBLIC REPRESENTATIVE

In each matter docketed for public proceedings by the Commission, the Commission designates an “Officer of the Commission” to represent the interests of the general public under 39 U.S.C. 505. Having been designated to represent the interests of the general public, the Public Representative focuses on the interests of the general public as distinct from the interests of the other groups included in §3622(c)(3) (“business mail users, and enterprises in the private sector ...”).

The Public Representative is generally not bound by *ex parte* restrictions imposed on Commissioners and staff involved in decision-making, and may draw upon analytical and legal resources of the Commission as required. However, the Public Representative does not participate in any deliberations regarding the matter in question. By Commission rules, the Public Representative may not – except for formal comments submitted for the record – discuss the matter under consideration with Commissioners and their assistants. Anyone from outside the Commission may contact and consult with the Public Representative during the course of a case to discuss how the public interest may be affected. The name and contact information for a designated Public Representative for each active

docket is noticed in initiating order and posted on the Commission's website.

COMMISSION WEBSITE

The Commission's website, located at <http://www.prc.gov>, is a significant means of public outreach. The website enhances communications with stakeholders, incorporates security improvements, and is readily accessible to individuals with disabilities.

Consumers can contact the Commission and provide comments or questions regarding rates and service through a comment link on email via the website. Submissions are reviewed and responded to in a timely manner, with service issues referred to the Postal Service's Office of Consumer Advocate as necessary. All emails received are available for public inspection at the Commission's offices. Messages concerning postal rates and services become part of the Commission's record in the Commenter file for any pertinent active cases.

Other features of value to stakeholders include:

- A direct link to a Consumer Price Index-Urban (CPI-U) trend chart used by mailers for budget planning;
- One-click access to the PRC's Daily Listings (added at users' request);
- A personalized document alert email notification system designed to provide instant notification to stakeholders who sign up for notification when documents meeting pre-selected criteria are published on the website, and
- Additional links for postal information, including the Office of the Consumer Advocate of the Postal Service, local District Consumer Affairs Offices, the Post Office locator, USPS frequently asked questions, postal rates and fees, and other links of consumer interest.

FREEDOM OF INFORMATION ACT (FOIA)

The Commission disseminates its official orders, opinions and *Federal Register* Notices through the Library and Dockets section of its website. Any public document, including its own, which is filed with the Commission, is available the same day on the website's Daily Listing link. Subscribers can receive email notification of new postings. Accessibility of Commission information has limited the number of FOIA requests.

The Commission received 22 FOIA requests in FY 2009, many of which were redirected to the Postal Service in an average of five days. The Commission uses both written and electronic methods, depending on the initial contact, to respond to the public. The Commission recently certified its online FOIA Reading Room as meeting statutory requirements.

The Commission drafted new FOIA rules in FY 2009 and was the first federal agency to issue rules citing President Barack Obama's January 21st Memo on the Freedom of Information Act², and Attorney General Eric Holder's March 19th FOIA Guidelines³.

² Presidential Memorandum for Heads of Executive Departments and Agencies Concerning the Freedom of Information Act [President Obama's FOIA Memorandum], 74 Fed. Reg. 4683 (Jan. 21, 2009).

³ Attorney General Holder's Memorandum for Heads of Executive Departments and Agencies Concerning the Freedom of Information Act (Mar. 19, 2009), available at <http://www.usdoj.gov/ag/foia-memo-march2009.pdf>.



CHAPTER VII – OTHER COMMISSION ACTIVITIES

STUDY ON CALCULATION OF RETIREE HEALTH BENEFIT LIABILITY

The Commission undertook an analysis of the different approaches employed by the U.S. Postal Service Office of Inspector General (OIG) and the Office of Personnel Management (OPM) to calculate the present value of the Postal Service's obligations related to the Postal Service Retiree Health Benefit Fund. The analysis was requested by the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, U.S. House of Representatives.⁴

The Commission determined that the two valuations were developed for different reasons

⁴ The request was received on June 15, 2009.

and both were reasonable. The OPM estimate serves to meet an annual financial reporting requirement. In contrast, the OIG estimate is designed to estimate the funded status of the Retiree Health Benefits Fund as of year 2016.

In July 2009, the Commission determined that a graded health inflation trend rate is preferable to a static trend rate because it reflects current expectations of health care inflation while recognizing the issue of how much of the national Gross Domestic Product will be consumed by health care costs in the future. In line with the Commission's recommendation, OPM changed the static 7 percent medical inflation assumption it had used the prior two years to a graded assumption of 8 percent - 5.5 percent, in its calculation of

Table 9
PSRHBF Payments to Achieve 73 Percent Funded Status
(\$ in Billions)

	USPS OIG	OPM	PRC Alternative
Workforce Assumption	Declining	Fixed	Declining
Health Care Inflation	5%	7%	Graded: 8%–5%
Average Interest rate on assets	5.35%	6.25%	5.35%
Discount Rate on Liability	6.25%	6.25%	6.25%
FY 2016 Estimated Liabilities	\$90.5	\$147.9	\$113.2
FY 2016 Estimated Assets*	103.7	108.7	103.7
FY 2016 Estimated Unfunded Liability	(13.2)	39.2	9.5
2016 Asset Balance for 73% Funded	66.1	108.0	82.6
Fixed Annual Payment	\$1.7	\$5.5	\$3.4

*Under the USPS OIG methodology the liability is overfunded in 2016.

the Postal Service Retiree Health Benefit Fund liability for FY 2009. The use of the graded inflation assumption should result in a lower liability for retiree health benefits in the future as shown in the table above.⁵

The Commission also recommended that when the valuation is required to be revised in 2017 under the PAEA, Congress may want to request a Postal Service specific valuation that reflects use of Postal Service demographics apart from the overall Federal government population to better determine actual costs for the Postal Service.

Read the full report at http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf

PERIODICALS COST STUDY

The PAEA directs the Postal Service and the Commission to jointly study the quality of the data used to determine the attributable costs of Periodicals mail and opportunities for improving the efficiency of this mail class. The PAEA does not establish a deadline for issuance of this report. To date, the Commission and the Postal Service have:

- Developed an outline of the final report
- Analyzed data related specifically to publications
- Analyzed overall cost data
- Conducted meetings with mailers
- Conducted a webinar on cost issues related to Periodicals mail
- Visited Postal Service facilities to view how Periodicals mail is processed

The Commission anticipates publication of the final report to Congress in FY 2010.

CONSULTATION WITH THE POSTAL SERVICE

The Postal Accountability and Enhancement Act requires that the Postal Service, in consultation with the Commission, establish by regulation a set of modern service standards for market dominant products. Through a series of monthly consultations, the Commission was informed by the Postal Service of its progress toward developing such regulations which were finalized in FY 2008. The Commission has continued these monthly consultations for updates on Postal Service progress in implementing systems for measuring Postal Service performance in meeting these service standards.

⁵ Using OPM's current valuation and the scheduled payments into the fund required by the PAEA results in a funded status of 73 percent in 2016.



CHAPTER VIII – ADMINISTRATION

Injury Compensation

The Postal Regulatory Commission continues to provide a safe work environment for its employees. The Commission ended FY 2009 accident free with no on-the-job injuries or lost workdays.

Equal Employment Opportunity (EEO)

During FY 2009, the Commission had no EEO complaint filings.

Diversity

In FY 2009, the Commission continued its agency commitment to support initiatives to recruit, develop and retain a skilled, high-achieving, and diverse workforce. The Commission made measurable progress in this area, ending the year with 52 percent of its female employees in executive or professional level positions. Progress was also made with minorities representing 30 percent of the executive and professional workforce and 20 percent of the overall workforce.



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