

Overview of U.S. Postal Reform and the Role of the U.S. Postal Regulatory Commission

Prepared by U.S. Postal Regulatory Commission

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- The Postal Accountability and Enhancement Act (PAEA) of 2006 was the first significant postal reform legislation in the United States (U.S.) since 1970. It was the culmination of over ten years of debate within the U.S. Congress. The Act is founded in the principles of transparency, accountability, flexibility and predictability.
- The PAEA gave the Postal Service new tools to meet the challenges of the postal environment, including more flexible pricing authority, while balancing those tools with the creation of more formal postal regulator, the Postal Regulatory Commission (PRC). The PRC is an independent federal agency of the U.S. Government. Previously the Postal Rate Commission, whose role was to recommend changes in rates and classifications after public rate hearings, the Postal Regulatory Commission now has much broader authority.
- The Postal Regulatory Commission regulates the U.S. Postal Service only. It does not regulate private sector delivery operators. Its mission is “to foster a vital and efficient universal mail system in the 21st century”.
- Under the PAEA, for the first time, the Postal Service can earn and retain profits. The only government funding it receives is for free matter for the blind and overseas voting ballots.
- One of the key provisions of the PAEA is the separation of the Postal Service’s products into market dominant and competitive categories: The market dominant category of products consists of “each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” The competitive category consists of all other products.
- Market dominant products include First-Class domestic and international letters and cards, advertising mail, periodicals and single-piece domestic parcels. Competitive products include domestic and international Express Mail Service (EMS), Priority Mail (two-day service to most domestic locations for documents and parcels), domestic bulk parcels, international air parcels, and negotiated service agreements with individual customers. Products may be transferred between categories.
- The PRC issued rules for regulating rates for market dominant and competitive products in October 2007, eight months ahead of our statutory deadline. The Commission did this to enable the Postal Service to use the flexibility given it under the PAEA as quickly as possible.

- Under the PAEA, U.S. Customs and Border Protection must apply the customs laws of the United State and other laws relating to the importation and exportation of shipments in the same manner to competitive products imported or exported by the U.S. Postal Service and similar shipments imported or exported by private companies.”
- In contrast to previous rates cases that could take ten months, the Commission now has 45 days to decide on rate adjustments for market dominant products. Rate adjustments for market dominant products are subject to a rate cap which limits increases for each mail class, as a whole, at or below increases in consumer inflation. The Postal Service may bank unused rate authority for a period of up to five years.
- The Commission must review rate changes for competitive products within 30 days. Competitive products are not subject to the rate cap. Each competitive product must cover its attributable costs and, as a group, competitive products must contribute at least 5.5% of the Postal Service’s overhead costs, and may not be cross-subsidized by market dominant products.
- The PAEA also gave the Postal Regulatory Commission authorities that go well beyond rate setting and costing. These include:
 - Consulting with the Postal Service to establish quality of service measurement systems, standards and targets;
 - Developing procedures for hearing and adjudicating complaints;
 - Subpoena power and ability to issue fines for non-compliance with the law;
 - Conducting a comprehensive review of the universal service obligation (issued December 2009);
 - Developing rules for periodic reporting of data from the Postal Service and confidentiality rules for that data;
 - Providing the Department of State (Foreign Ministry) with the Commission’s views on international agreements that include rates and classifications and working closely within the Universal Postal Union.
- In December 2008, the Commission issued a determination on all non-postal products and services offered by the Postal Service and whether each should continue. As legislated in the PAEA, this determination was based on an assessment of the public need for the service and the private sector’s ability to meet any such need. Our Congress clearly believed that the Postal Service should focus on its core mission of mail delivery and should not divert that focus into new non-postal areas.
- During this current economic crisis, the U.S. Postal Service is facing the greatest volume declines since the Great Depression. It lost \$2.8 billion in fiscal year 2008 and \$2.3 billion in the first two quarters of fiscal year 2009. The Postal Regulatory Commission serves as a window of transparency for the public and all interested stakeholders into the Postal Service’s finances and operations.

Links to Documents of Interest on Postal Regulatory Commission Website

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The mission of the Postal Regulatory Commission (PRC) is “to foster a vital and efficient universal mail system in the 21st century”. We do this by promoting greater transparency, accountability, flexibility and predictability in the United States postal system. In the spirit of transparency, all filings with the Commissioner are publicly available on the Commission’s website, along with studies, reports, congressional testimonies and other documents of interest. The URL is www.prc.gov.

Below is a list of links to documents that may be of interest:

Text of the 2006 Postal Accountability and Enhancement Act

<http://www.prc.gov/prc-docs/aboutprc/paea/PL109-435PAEA.pdf>

Final Rules Establishing Ratemaking Regulations on Market Dominant and Competitive Products (Order Number 43)

<http://www.prc.gov/prc-docs/home/PAEA/FinalRulesWeb.pdf>

PRC Strategic and Operational Report

http://www.prc.gov/PRC-DOCS/home/main_nav/StrategicPlan.pdf

2008 Annual Report

<http://www.prc.gov/Docs/61/61654/Annual%20Report%20FY%202008.pdf>

Universal Service Study

<http://www.prc.gov/Docs/61/61628/USO%20Report.pdf>

Determination on Postal and non-Postal Services

http://www.prc.gov/Docs/61/61647/Order_No_154.pdf

Order Establishing Accounting Practices and Tax Rules for Competitive Products (Order Number 151)

<http://www.prc.gov/Docs/61/61630/Order151.pdf>

Rulemaking to Establish a Procedure for According Appropriate Confidentiality (Order Number 194)

http://www.prc.gov/Docs/62/62745/Order_No_194.pdf

Order Establishing Rules for Complaints and Rate or Service Inquiries (Order Number 195)

<http://www.prc.gov/Docs/62/62762/Order195.pdf>

2008 Annual Compliance Determination

http://www.prc.gov/Docs/62/62784/ACD%20Report_2008_FINAL.pdf