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Postal Regulatory Commission
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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

April 6, 2007

The Honorable Dan C. Blair
Chairman
Postal Regulatory Commission
901 New York Avenue, NW
Suite 200
Washington, D.C. 20268

Dear Chairman Blair:

We write as the co-authors in the Senate of the Postal Accountability and Enhancement Act (Public Law 109-435, the Act) to provide comments on the ratemaking portion of that bill in response to the Advanced Notice of Rulemaking that the Postal Regulatory Commission (the Commission) issued on January 30, 2007.

In hearings and in discussions with postal management, postal employees, the mailing community, and other stakeholders, we learned that the current rigid and overly litigious rate-setting process limits the Postal Service's ability to adjust rates as needed and to adapt postal prices and products to a changing marketplace. We also heard from the mailing industry about the importance of predictability and stability in pricing. Predictability and stability, we were told, allows mailers to better plan their mailing and could allow them to increase the amount of business they do with the Postal Service. It was of primary importance to us in drafting the Senate version of the Postal Accountability and Enhancement Act and negotiating the final bill that the President ultimately signed that the new rate system offer the Postal Service maximum pricing flexibility while requiring, for Market-Dominant products, that they live within a tight, inflation-based rate cap.

The section of the Act calling for the creation of a new system for regulating the Postal Service's Market Dominant products lays out the nine major objectives of the new system. It also lists fourteen factors that the Commission should consider when developing the new system. The primary requirement, however, is the requirement that, for at least ten years, the system "include an annual limitation on the percentage changes in rates to be set by the Postal Regulatory Commission that will be equal to the change in the Consumer Price Index for All Urban Consumers." We intended the objectives to supersede the factors in issues affecting the system's design.

In drafting the rate-setting section of the bill, we did choose to allow the Postal Service to carry unused rate authority over into future years, even if using such authority may result in a breach of the Consumer Price Index cap. We also chose to call for the development of a mechanism whereby the Postal Service may raise rates above the cap under "extraordinary or exceptional circumstances" that may hinder the Postal Service's ability to fulfill its universal service obligation or its ability to provide high quality service standards. We intended for this mechanism to be used sparingly, however.

In our view, the "extraordinary or exceptional circumstances" referenced in the language may include terrorist attacks, natural disasters, and other events that may cause significant and substantial declines in mail volume or increases in operating costs that the Postal Service cannot reasonably be expected to adjust to in the normal course of business. We expect that, in accordance with the requirement written into the bill, the Commission will closely examine any request from the Postal Service for permission to raise rates above the cap and hold public hearings in which the public may comment.

So long as a rate change put forward by the Postal Service is within the Consumer Price Index cap, it was our intention that the Postal Service should have significant flexibility to price their products in the manner they deem most appropriate to meet their needs and the needs of the mailing public. The 45-day period that the Act gives the Commission to review rate filing is largely intended to be used to determine whether or not a rate filing is within the rate cap.

Sincerely,



Susan M. Collins
Ranking Member



Thomas R. Carper
Chairman
Subcommittee on Federal Financial
Management, Government
Information, Federal Services,
and International Security