

ORDER NO. 246

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

Before Commissioners:

Dan G. Blair, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Tony L. Hammond

Amendment to the System of  
Ratemaking Regulations

Docket No. RM2009-8

NOTICE OF PROPOSED RULEMAKING TO AMEND  
THE CAP CALCULATION IN THE SYSTEM OF RATEMAKING

(Issued July 10, 2009)

I. INTRODUCTION

This rulemaking is an outgrowth of issues raised in Docket No. R2009-4, the most recent price adjustment filed by the Postal Service and approved by the Commission. The Postal Accountability and Enhancement Act (PAEA), Pub. L. No. 109-435, 120 Stat. 3198 (2006), affords the Postal Service significant flexibility in setting prices, provided it complies with certain objectives and factors and does not raise rates in excess of an inflation-based cap.

In Order No. 43, the Commission established ratemaking regulations for market dominant and competitive products.<sup>1</sup> In that Order, the Commission created a formula to derive a ratemaking authority limitation for the Postal Service based upon the

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<sup>1</sup> Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43).

Consumer Price Index for All Urban Consumers (CPI-U) as reported by the Bureau of Labor Statistics (BLS). *Id.* at 47-48, 121-122. The limitation is calculated as the ratio of the most recent 12 month average of the CPI-U to the preceding 12 month average of the CPI-U and subtracting 1. *Id.* As noted in Order No. 43, the BLS began reporting the CPI-U index to three decimal places (when previously it was reported to one decimal place). *Id.* at 48.

## II. BACKGROUND AND PROPOSED AMENDMENTS

The Commission elected to round the result and express the percentage change in the CPI-U using one decimal place. *Id.* This result was driven by practical considerations. Precision requires both the recent average and the base average have the same number of significant digits; at the conclusion of Docket No. RM2007-1, neither the recent average nor the base average could be calculated to three decimal places. Inflation is also commonly expressed to one decimal place, and when the percentage change is reported by BLS, it is reported to one decimal place.

Due to several developments, the Commission believes calculating the CPI-U cap to three decimal places is now appropriate. The Postal Service, in utilizing its pricing flexibility under the PAEA, has proposed small rate adjustments that require more precision than a one decimal place cap allows. Adding two decimal places to the level of precision to the adjustment authority allows the Postal Service to fully exercise that flexibility. Enough time has lapsed since the BLS began reporting CPI-U indexes to 3 digits that both the recent average and the base average (a total of 24 months) may be calculated using the 3-digit method. The consistent reporting since January of 2007 (in terms of the number of significant digits) in the CPI-U indexes allows the Commission to calculate the rate adjustment authority to three decimal places without sacrificing precision. Moreover, the Postal Service's unused rate adjustment authority is calculated to three decimal places; therefore, calculating the annual or less than annual rate adjustment authority should use the same number of significant digits.

In Docket No. R2009-4, the Postal Service proposed, and the Commission approved, a rate decrease for Standard Mail High Density flats.<sup>2</sup> Intuitively, when the Postal Service implements a rate decrease for a class of mail, the result should be an increase in the amount of rate adjustment authority at the time of the next rate adjustment. However, as the incremental change for the Standard Mail class is minus 0.037 percent, the benefit from decreasing prices mid-year, which would be included in the amount of rate adjustment authority in the next rate adjustment, may be lost due to rounding.<sup>3</sup> Changing the Commission's rules on the calculation of the CPI-U cap to use the maximum number of significant digits allows the Postal Service to make more subtle adjustments for each class of mail.

The Commission, therefore, proposes to revise the last sentence of paragraph (a) of rule 3010.21 and paragraph (b) of rule 3010.22 to read "The result is expressed as a percentage, rounded to three decimal places." Though the Commission's proposed changes are limited to these two sentences, the rules are presented in their entirety to provide useful additional context. In addition, the Commission is revising the heading of 39 CFR part 3010 to read as follows: Part 3010—Regulation of Rates for Market Dominant Products. This revision corrects an inadvertent error in the current heading, which reads, "Regulation of Rules for Market Dominant Products".

### III. PUBLIC REPRESENTATIVE

Pursuant to 39 U.S.C. 505, Emmett Rand Costich is appointed the officer of the Commission (Public Representative) to represent the interests of the general public in the captioned docket.

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<sup>2</sup> See Docket No. R2009-4, Order Approving Price Adjustment for Standard Mail High Density Flats, July 1, 2009 (Order No. 236).

<sup>3</sup> See Library Reference PRC-RM2009-8-LR-1 for a numerical example of this result.

#### IV. ORDERING PARAGRAPHS

*It is Ordered:*

1. Docket No. RM2009-8 is established for the purpose of proposing amendments to the Commission's rules governing the price cap calculation in the system of ratemaking, 39 CFR part 3010.
2. Pursuant to 39 U.S.C. 505, Emmett Rand Costich is appointed to serve as officer of the Commission (Public Representative) to represent the interests of the general public in these proceedings.
3. Interested persons may submit initial comments no later than 30 days from the date of publication of this Notice in the *Federal Register*.
4. Reply comments may be filed no later than 45 days from the date of publication of this Notice in the *Federal Register*.
5. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Judith M. Grady  
Acting Secretary

**PART 3010—REGULATION OF RATES FOR MARKET DOMINANT PRODUCTS****§ 3010.21 Calculation of annual limitation.**

(a) The calculation of an annual limitation involves three steps. First, a simple average CPI-U index is calculated by summing the most recently available 12 monthly CPI-U values from the date the Postal Service files its notice of rate adjustment and dividing the sum by 12 (Recent Average). Then, a second simple average CPI-U index is similarly calculated by summing the 12 monthly CPI-U values immediately preceding the Recent Average and dividing the sum by 12 (Base Average). Finally, the annual limitation is calculated by dividing the Recent Average by the Base Average and subtracting 1 from the quotient. The result is expressed as a percentage, rounded to three decimal places.

(b) The formula for calculating an annual limitation is as follows: Annual Limitation = (Recent Average/Base Average) - 1.

**§ 3010.22 Calculation of less than annual limitation.**

(a) If a notice of rate adjustment is filed less than 1 year after the last Type 1-A or Type 1-B notice of rate adjustment applicable to an affected class of mail, then the annual limitation will recognize the rate increases that have occurred during the preceding 12 months. When the effects of those increases are removed, the remaining partial year limitation is the applicable restriction on rate increases.

(b) The applicable partial year limitation is calculated in two steps. First, a simple average CPI-U index is calculated by summing the 12 most recently available monthly CPI-U values from the date the Postal Service files its notice of rate adjustment and dividing the sum by 12 (Recent Average). The partial year limitation is then calculated by dividing the Recent Average by the Recent Average from the most recent previous notice of rate adjustment (Previous Recent Average) and subtracting 1 from the quotient. The result is expressed as a percentage, rounded to three decimal places.

(c) The formula for calculating the partial year limitation for a notice of rate adjustment filed less than 1 year after the last notice is as follows: Partial Year Limitation = (Recent Average/Previous Recent Average) - 1.