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EXHIBIT 1

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Postal Reform Bills: A Side-by-Side Comparison of H.R. 22 and S. 662

Updated August 4, 2005

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Postal Reform Bills: A Side-by-Side Comparison of H.R. 22 and S. 662

Summary

The 109th Congress is considering two bipartisan bills that would reform the U.S. Postal Service (USPS) — H.R. 22 and S. 662. H.R. 22 was introduced and referred to the House Government Reform Committee on the first day of the 109th Congress (January 4, 2005). On April 14, the Government Reform Committee marked up H.R. 22 and approved it by a vote of 39-0. Thereafter, H.R. 22 was referred to the House Committee on the Judiciary on April 28, discharged therefrom May 27, and placed on Union Calendar No. 55 that same day. The House passed H.R. 22 on July 26, 2005, by a vote of 420 to 10 and it was placed on the Senate Legislative Calendar (Calendar No. 176). S. 662 was introduced into the Senate on March 17, 2005, and referred to the Committee on Homeland Security and Governmental Affairs. On June 22, S. 662 was amended and reported by a vote of 15-1.

H.R. 22 and S. 662 are similar to two bills from the 108th Congress — H.R. 4341 and S. 2468 — which cleared committee by unanimous votes but were not brought to the floor. Like these previous bills, H.R. 22 and S. 662 would attempt to make the Postal Service focus on its core mission (universal delivery of the mail) by defining the term "postal services." The bills would define the categories of postal services and products as "competitive" or "market-dominant" and prohibit the Postal Service from subsidizing competitive products with revenues from market-dominant products.

H.R. 22 and S. 662 are more alike than H.R. 4341 and S. 2468. For example, previously the House and Senate differed over USPS's right to invest excess monies from the Competitive Products Fund in private sector securities and obligations. H.R. 22 and S. 662 both propose limiting USPS purchases to U.S. Treasury investments. The bills have also reconciled formerly divergent approaches to limits on "worksharing" discounts for barcoding and mail sorting.

That said, H.R. 22 and S. 662 possess significant differences. These include:

— the definition of "market-dominant" postal products and services;
— the components and goals of the new ratemaking system for market-dominant products and services;
— disability payments and retirement;
— retiree health benefits funding;
— the establishment of "modern service standards"; and
— the governance of the Postal Service.

This report will be updated to reflect significant legislative developments.

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Postal Reform Bills: A Side-by-Side Comparison of H.R. 22 and S. 662

Overview

The 109th Congress is considering two bipartisan bills that would reform the U.S. Postal Service (USPS) — H.R. 22 and S. 662. Both bills were sponsored by the chairpersons and ranking minority members of the committees of jurisdiction. H.R. 22 was introduced and referred to the House Government Reform Committee on the first day of the 109th Congress (January 4, 2005). On April 14, the Government Reform Committee marked up H.R. 22 and approved it by a vote of 39-0. Thereafter, H.R. 22 was referred to the House Committee on the Judiciary on April 28, discharged therefrom May 27, and placed on Union Calendar No. 55 that same day. S. 662 was introduced into the Senate on March 17, 2005, and referred to the Committee on Homeland Security and Governmental Affairs. On June 22, S. 662 was amended and reported by a vote of 15-1. (This report draws upon the manager's amendment version of S. 662; the bill as reported was unavailable at the time of publication of this report.)

H.R. 22 and S. 662 share many features — more so than the postal reform bills of the 108th Congress.[1] To take three prominent examples, both bills would require increased financial transparency at USPS by requiring USPS to prepare quarterly and annual reports that contain the same information that publicly traded corporations file with the Securities and Exchange Commission. H.R. 22 and S. 662 also now share identical language regulating USPS discretion to enter into work-sharing agreements with the private sector, a matter of concern to large mailers and postal employee unions. Finally, the bills share identical language on the operation of the proposed Postal Service Competitive Products Fund. Previously, the House and Senate differed over USPS's right to invest excess funds in private sector securities and obligations. Now, H.R. 22 and S. 662 agree that any excess funds may be invested only in U.S. Treasury investments, a concession to the Treasury Department.

Both bills propose changes that would have significant effects on the financial condition of the Postal Service. H.R. 22 and S. 662 would transfer back to the Treasury the responsibility to fund pension benefits arising from former military service of postal workers. This would reverse a provision of the Postal Civil Service Retirement System Reform Act of 2003 (P.L. 108-18) that could cost USPS (and its

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[1] For a similar comparison of postal reform legislation in the 108th Congress, see CRS Report RL32402, *Postal Reform Bills: A Side-by-Side Comparison of H.R. 4341 and S. 2468*, by Kevin R. Kosar.

customers) $27 billion. H.R. 22 and S. 662 would abolish the escrow account provided for in P.L. 108-18.[2]

H.R. 22 and S. 662 also propose incremental reforms that would attempt to make the Postal Service operate more openly and predictably. Both bills would require USPS to focus on its core mission (the delivery of mail) by defining the term "postal services." H.R. 22 and S. 662 also would define various postal products and services as "competitive" or "market-dominant" and prohibit USPS from subsidizing competitive products with revenues from market-dominant products. Additionally, the bills would transform the Postal Rate Commission into a broader regulatory body with subpoena powers (the new Postal Regulatory Commission, hereafter PRC). H.R. 22 and S. 662 would also replace the present adversarial postage ratemaking process, which typically takes 10 to 14 months, with a rate-cap system that would permit USPS to raise postage rates on market-dominant products at the rate of inflation. The Board of Governors (BOG) of USPS would establish rates and classes for competitive products.

While very similar, H.R. 22 and S. 662 do possess substantive differences, which are described below.

The Definition of Market-Dominant Postal Products and Services. H.R. 22 and S. 662 differ over the definition of market-dominant products. Both bills would include first class, library, and media mail, as well as postcards, in their definitions. However, H.R. 22, Section 201, would include single piece first-class letters and cards while S. 662, Section 201, would include first-class letters and cards. S. 662 would include sealed parcels and single piece parcel post; H.R. 22 would not. The inclusion or non-inclusion of a product in this classification is of concern to mailers and competitors of the Postal Service (such as UPS and FedEx) because of the possible effects on product prices. Critics have long complained that USPS keeps the prices for some products (such as parcels) artificially low, thereby garnering a larger market share. USPS is accused of doing this by failing to attribute the full cost of providing such a product; these products are said to be "cross-subsidized" by the large earnings USPS earns on first-class mail. Under both H.R. 22 and S. 662, products that are not defined as market-dominant would fall into the "competitive products" category and would have to fully attribute the costs of providing them. Some believe that including, for example, parcels in the competitive products category would lead to increased prices for parcel delivery service (which competitors would likely favor and large mailers would likely disfavor).

The Components and Goals of the New Ratemaking System for Market-Dominant Products and Services. While H.R. 22, Section 201, and S. 662, Section 201, are similar on the components and goals of the new ratemaking system, significant differences remain. Both would require USPS to cap the prices of market-dominant products at the Consumer Price Index for All Urban Consumers, but S. 662 would require the new ratemaking system to permit USPS to exceed the rate cap under "extraordinary" circumstances and allow USPS to raise rates for a

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[2] On pension and escrow issues, see CRS Report RL32346, *Pension Issues Cloud Postal Reform Debate*, by Nye Stevens.

class or service above the CPI by the amount that rate increases in the previous year were less than the CPI. (This provision was added June 22, 2005.) H.R. 22 would allow USPS to exceed the rate cap if PRC held a public hearing and determined that breaking the rate cap "is reasonable and equitable and necessary." (The Postal Service would like to have this rate-cap escape clause because it believes that staying below the CPI will be "extremely challenging" due to falling revenues, the growing number of delivery points, and USPS's limited control over its costs.)[3] H.R. 22 would prohibit USPS from raising the postage rate of any subclass of mail more than the CPI with permission from PRC. S. 662 would apply this restriction at the class level — a provision the Postal Service prefers because it gives USPS greater flexibility to adjust rates. Finally, H.R. 22 would require the new ratemaking system to establish a "fair and equitable" schedule for rates and the classification system; S. 662 would not, and instead would require that the new system "allocate the total institutional costs of the Postal Service equitably between market-dominant and competitive products."

Disability Payments and Retirement. S. 662, Section 902, would encourage injured workers of retirement age to retire rather than go on disability leave. Under current law, an employee suffering total disability from a workplace injury is entitled to compensation of 66⅔% of monthly pay. S. 662 would reduce this to 50%. H.R. 22 does not carry this provision, and is favored by USPS unions.

Retiree Health Benefits Funding. Both H.R. 22, Secs. 901-904, and S. 662, Secs. 802-804, would return the obligation for postal worker benefits attributable to military service to the Treasury and establish a Postal Service Retiree Health Benefits Fund for the purpose of pre-funding retiree health benefits. The two bills, however, have different approaches to the unfunded retiree health benefits liability. H.R. 22 would require USPS to make annual payments into the fund consisting of a contribution to cover predicted retirement health care costs of current postal workers and interest on the contribution owed for both current and future annuitants. The House bill also would require that two-thirds of the annual escrow "savings" be devoted to the fund. S. 662 would also require an annual contribution to the fund, but it would consist of a contribution to cover predicted retirement health care costs of current postal workers and an installment payment on an amortization schedule to reduce the unfunded liability. The Postal Service has expressed a preference for S. 662 because it does not include the two-thirds provision (which limits USPS discretion). USPS also has said that having a predictable annual amortization payment would make operating under a rate cap easier.

The Establishment of Modern Service Standards. S. 662, Title III, would require USPS and PRC to establish service standards designed to achieve four objectives (provided they are consistent with USPS's universal service obligation):

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[3] Testimony of John E. Potter, Postmaster General/CEO, United States Postal Service, before U.S. Senate, Committee on Homeland Security and Governmental Affairs, *U.S. Postal Service: What is Needed to Ensure its Future Viability?*, hearings, 109th Cong., 1st sess., Apr. 14, 2005, available at [http://hsgac.senate.gov/_files/PMGTESTIMONY FINAL412.pdf], pp. 15-17.

	H.R. 22		S. 662
	— Not included.		— The importance of pricing flexibility to encourage increased mail volume and operational efficiency. (This provision was added June 22, 2005.)
	Would permit the rates and classes regulation system for market-dominant products to include one or more of the following characteristics:		Would require the new rate system to:
	— price caps, revenue targets, or other forms of incentive regulation;		— "include an annual limitation on the percentage changes in rates ... that will be equal to the change in the Consumer Price Index for All Urban Consumers..."
	— cost-of-service regulation;		— Not included.
	— such other forms of regulation as the Commission considers appropriate to achieve."		— Not included.
	Not included.		Would require the ratemaking system to include "procedures whereby rates may be adjusted on an expedited basis due to unexpected and extraordinary circumstances."
	Not included.		Would allow USPS to "bank" unused pricing authority for any class or service. Thus, USPS could exceed CPI for a class or service by the amount that rate increases for that class or service in the previous year were less than the CPI. (This provision was added June 22, 2005.)
	See Sec. 206 below on workshare discounts.		Would define and establish rules on workshare discounts (identical to H.R. 22, Sec. 206).

EXHIBIT 2

BOARD OF GOVERNORS

UNITED STATES
POSTAL SERVICE

September 13, 2005

Honorable Tom Davis
Chairman
Committee on Government Reform
House of Representatives
Washington, DC 20515-6143

Dear Mr. Chairman:

The United States Postal Service has sought postal reform legislation for more than a decade for one simple reason: to assure affordable, universal mail service to the American public long into the future. Over that period, it has become increasingly clear that new communications technology and robust growth in the package and document delivery market would require changes to our operating charter – providing increased flexibility and accountability – to support our important mission.

We are pleased that you share this viewpoint and are grateful for your untiring efforts to advance necessary reform. We also understand that the legislative process, by its very nature, involves balancing the needs and concerns of a wide range of interests. As Governors of the organization that will be charged with the overall implementation of reform legislation, however, we feel it would be beneficial to once again clarify our position on several issues that bear further consideration.

The Postal Service has made extraordinary efforts, and experienced extraordinary success, in operating within the confines of current law. We continue to achieve new heights of service performance and customer satisfaction. We have reduced debt dramatically and virtually eliminated interest payments. We have achieved an unprecedented five consecutive years of growth in total factor productivity – resulting in cost savings of more than $1 billion each year. We have reduced career staffing from its peak in 1999 to pre-1985 levels, without layoffs. In short, we are doing everything we can to manage as effectively as possible within the constraints of an obsolete business model.

UNITED STATES POSTAL SERVICE
475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-1000
www.usps.com

Our recent success should not be perceived as an indication that we do not face significant and increasing challenges that call for difficult and stringent solutions. Since 2000, First-Class Mail volume, which provides the highest contribution to our system overhead, has declined by 5.4 percent, almost 5.6 billion pieces. Over the same period, advertising mail volume has grown 6.1 percent. There is not a simple piece-to-piece correspondence as First-Class Mail declines and advertising mail grows, however. It takes nearly three pieces of advertising mail to generate the same contribution as one piece of First-Class Mail. As a financial proposition, we simply do not believe that growth in advertising mail will offset the decline in First-Class Mail. At the same time, we are facing steadily growing network expansion costs to accommodate the growth in deliveries by about 1.8 million new addresses a year. From our perspective, it is clear that we are facing a growing gap between revenue and costs.

Our greatest fear is that, unchecked by appropriate legislative change, this will result in a cycle of rising rates that drive even greater – and quicker – volume erosion, adversely affecting service levels and the long-term viability of an affordable postal system in the United States. This would create the risk of turning back the clock by returning to the days of subsidized postal operations, placing an unwanted and unneeded burden on every American taxpayer. Our concerns about reform legislation are offered in a cooperative spirit with the intention of improving the legislation to maintain a self-sufficient, universal, and affordable national postal system.

Our primary concern is the issue of governance -- that is, the role of the regulator versus that of the Board of Governors. We believe the appropriate focus of the regulator should be oversight of Postal rates (to make sure they are not too high, too low, or discriminatory). The Board's role should be to oversee the business of the Postal Service.

While the legislation was intended to avoid extended rate litigation, both bills create a process that would permit the regulator to hear complaints at any time and on virtually any aspect of postal operations. The Postal Service would be required to take action as directed by the regulator as a result of those complaints. We are concerned that this would have the practical effect of undermining the authority of the Board and, at the same time, create the potential for constant litigation over rates and other issues. We believe that clarity in the roles of the two bodies would assure accountability and success. In the interests of efficiency and a clear separation of roles, the complaint process should be consistent with current law and be limited to rates and service issues. This would reduce regulation and red tape, and support our shared interest in providing efficient Postal services for the American people.

The Board's responsibilities include operational and financial performance. To exercise that responsibility, the Board must have authority over capital investments, purchasing, accounting, cost attribution, compensation, and the setting of goals.

There are significant public policy issues implicit in any changes in the definition of universal service, including any potential changes in the frequency of delivery. For this reason, consistent with current law, we believe that the Board, in conjunction with Congress as the elected representatives of the people, should have the final authority regarding service standards.

The Board currently has the final authority on rates. The legislation shifts that authority to the regulator. Assuming that the other governance issues raised in this letter are addressed, it is proper that the regulator would assure compliance with any rate cap and with the correct application of any rate exigency provisions. Similarly, the regulator should have the authority to prevent rate predation. The Board, of course, is vigilant and will remain vigilant in this respect. The regulator, too, should be granted subpoena authority to guarantee transparency and compliance with appropriate and applicable SEC requirements.

The actions of the regulator, growing from the powers it is given and the powers it will exercise, can have a significant and positive influence on the effective operation of the Postal Service. Yet, we are concerned that as currently constructed, the bills could lead to unintended consequences with just the opposite effect. For example, there is broad understanding that the continued efficiencies will require the Postal Service to streamline its network and facility infrastructure. As we adjust our networks, there will inevitably be minor adjustments to service standards. Our analysis of the bills suggests that the regulator would have great latitude in overseeing service standards and, potentially, intervene in decisions regarding the network. This additional layer of decision making could slow down or delay needed network innovation. The Board should retain the authority to manage these areas. The President's Commission understood these issues and recommended that the Postal Service have significant discretion to modernize the network without the need to seek regulator permission. We strongly agree with the President's Commission in this area.

Beyond the issues of governance, it is critical that reform produce a streamlined ratemaking process that ensures customers rates that are both predictable and at the lowest possible level. A key provision in both reform bills is a rate cap tied to the Consumer Price Index. The Postal Service's commitment to a CPI rate cap, applied at the class level, was made with the understanding that the exigent rate case standard would be "reasonable and necessary," rather than "unexpected and extraordinary." With that understanding, we would certainly accept a "hard" rate cap, but with the caveat that the Postal Service be given significantly greater ability to control its infrastructure and growing labor costs.

The Postal Service is already challenged to meet cost increases that exceed the rate of inflation – at a time when high-contribution First-Class Mail is declining. These increases include health benefits for current and retired employees, escalating fuel costs, and the additional resources necessary to serve a delivery base that expands by almost two million new addresses each year. If the exigency standard is established as beyond "reasonable and necessary," the implementation of a hard rate cap could result in extensive downsizing of our operations and services.

As we consider proposed changes to the ratemaking process, it is also our belief that the Postal Service should initiate a final, omnibus rate case under the current rules of the Postal Rate Commission, with metrics similar to the case now pending. If the Postal Service is unable to recover certain increases in costs experienced since the last omnibus case, it would be at a significant deficit when moving into a price-cap regime.

It has been suggested that the Postal Service borrow funds to mitigate or preclude rate increases before a price-cap system is implemented. We do not believe this serves our ratepayers in the long term. Over the past several years, we have virtually eliminated debt. The Postal Service and, more importantly, our customers are reaping the financial benefits of significantly reduced interest expenses. Our forecasts assume that a CPI rate cap would see borrowing increase indefinitely, placing us on a slippery slope which would best be avoided.

In another area of rates, we believe the "fair and equitable" language governing rate relationships should remain a factor and not be elevated to an objective. This would prevent the unfortunate consequence of "freezing" all rate relationships, regardless of differences that could emerge in the structure of costs for different products and services.

We believe that the Postal Service should have the authority to enter into negotiated service agreements, with an after-the-fact review by the regulator. This would provide the Postal Service with the ability to expeditiously to assist its customers, while supporting our efforts to increase volume and revenue.

We also believe that the reform legislation should contain provisions that specifically authorize the Postal Service to offer volume discounts in the competitive products area. While we believe that the Postal Service already has this authority, the inclusion of specific authorization would ensure regulator approval and avoid protracted litigation.

As one of the largest employers in the United States, compensation and benefit issues are critical to the success of reform legislation. In this regard, we are grateful for your action in including workers' compensation reform provisions in S. 662. As you know, this is supported by the Administration and is notably absent from H.R. 22. This is an important step in helping us to control growth in costs.

We believe it would be beneficial to continue moving in this direction by adding language that incorporates the recommendation of the President's Commission that Title 39 be amended to eliminate 1005(f), which provides that no change to benefits should result in benefits that are less than those in effect on July 1, 1971. We believe that relief in this area is critical to the Postal Service's ability to better control its costs, since some 80 percent of our costs are directly attributable to compensation and benefits.

Since 2003, a new issue has taken center stage in the reform debate: the need to resolve the issue of Civil Service Retirement System (CSRS) funding related to military service of postal employees and the release of the escrow funds resulting from Public Law 108-18. The Postal Service, the entire mailing industry, and our customers, the American people, remain grateful to you and other members of the Senate and House of Representatives for your support of that legislation. It contributed greatly to our ability to extend rate stability and reduce debt. As specified in H.R. 22 and S. 662, we believe it is essential that the postal CSRS military service retirement obligation be returned to the Treasury, that the escrow requirement be abolished, and that some portion of the CSRS overcharges be used to mitigate future rate increases for our customers.

We are, of course, aware that the Statement of Administration Policy issued prior to the passage of H.R. 22 communicated that the President's Senior Advisors would recommend that he veto any enrolled bill that was not budget neutral. It is our understanding that you share our position that if budget neutrality were a key determining factor in the outcome of the legislation, the Postal Service's ability to maintain universal service at reasonable rates could well be jeopardized. If budget neutrality, along with the current deficiencies in governing flexibility, were the outcome, we have serious reservations about the continued ability of the Postal Service to maintain the level of universal service at reasonable rates currently enjoyed by the American public.

In closing, we would like to reiterate our major concerns. Both reform bills provide much needed – and appreciated – financial relief through their escrow and CSRS military provisions. However, these provisions are threatened by the Statement of Administration Policy. It is our firm belief that continued Postal Service success in an increasingly competitive market requires both increased flexibility and authority in the areas of pricing, infrastructure, and labor in order to manage our business.

Regrettably, despite the intentions of all parties, it is our considered opinion that the bills provide neither the requisite flexibility nor the authority to accomplish our mission. While the bills would certainly provide needed financial relief, if reform legislation does not provide the Postal Service with real flexibility and authority in these areas, we would be better positioned to build on our recent progress in generating revenue and controlling costs under current law.

Again, we are most appreciative of your leadership on postal reform and we look forward to continuing our work with you on this critical issue.

Sincerely yours,

James C. Miller III
Chairman

Alan C. Kessler
Vice Chairman

LeGree S. Daniels
Governor

Carolyn Lewis Gallagher
Governor

Louis J. Giuliano
Governor

Robert F. Rider
Governor

John E. Potter
Postmaster General
and Chief Executive Officer

Patrick R. Donahoe
Deputy Postmaster General
and Chief Operating Officer

EXHIBIT 3

March 16, 2006

Honorable Susan M. Collins
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, DC

Dear Chairman Collins:

Our organizations represent over 700,000 employees of the United States Postal Service. Together, our members manage, process, and deliver more than 200 billion pieces of mail annually for the busiest, most efficient postal service in the world. Our organizations also represent hundreds of thousands of Postal Service retirees.

We recognize the significant responsibilities that rest with you and the managers of the conference to reconcile the House and Senate postal reform measures. In light of the critical impact this legislation will have upon our members, your constituents, and the American economy, we commit ourselves and our cooperation toward achievement of a healthy, viable postal system that serves every citizen and business throughout the United States.

While we have differed on specifics, our goal is to ensure a financially sound, operationally healthy Postal Service that provides high quality universal service for its customers at affordable rates. With this in mind, we jointly take the following views with respect to matters under consideration by the conference managers:

- **Repeal of the CSRS Escrow Fund.** The CSRS escrow fund created by P.L. 108-18 was intended by Congress to be only a temporary measure related to the overfunding of the Civil Service Retirement Trust Fund. The need for creation of the escrow fund was not the fault of the U.S. Postal Service. Therefore, all money segregated by the escrow fund, which is solely derived from Postal Service revenues, needs to remain available to satisfy USPS needs. Both the Senate and House bills, in repealing the escrow fund, continue to make the escrow-related monies available to the Postal Service, in payment of future USPS retiree health benefits and other operational costs. We strongly urge the conferees to embrace

the unified House and Senate position repealing the escrow fund and assuring that escrow-related monies are made entirely available to satisfy critical Postal Service needs.

- **CSRS Military Pension Obligation.** The CSRS military pension issue is also a product of P.L. 108-18. It is unfair to place the burden of military service credit on postal customers, as it is our entire nation that has benefited from the service of our veterans. That portion of postal employee pensions attributed to military service performed before they became postal employees should be paid for by general revenues, not postal revenues. Postal revenues should go only to support the operation of the Postal Service. No other major federal agency is saddled with the obligation to pay for these military service pension credits. Nor is any private sector company or any postal competitor directly obligated to address these costs. We strongly urge the conferees to maintain the unified House and Senate-approved position, restoring the U.S. Treasury's obligation to fund the military service credit for CSRS postal retiree participants. Military service should not become a pawn in budgetary politics.

- **Rate Setting Exigency Flexibility.** Both the House and Senate bills permit the Postal Service to periodically raise postal rates in line with inflation, consistent with changes in the Consumer Price Index, with the approval of the Postal Regulatory Commission. Both bills also grant the PRC, as part of its rate-making authority, the expedited power to approve higher rates under emergency circumstances. We have consistently expressed our strong preference for the House approach to PRC exigency authority over the approach taken by the Senate bill. Under H.R. 22, the USPS would be permitted to raise rates above the CPI cap only in rare occasions when it could prove in an open PRC proceeding that greater increases are "reasonable and equitable and necessary" to maintain quality, universal postal services. The Senate approach to PRC exigency authority is far too narrow, limited only to "unexpected and extraordinary circumstances," such as a biological or chemical attack on the postal system. It would lead to unnecessary and counterproductive service cuts in the face of serious external shocks that fall short of national emergencies. The impact of a rate cap-driven system upon postal employee wages and benefits demands sufficient flexibility to permit sensible, flexible response on the part of the Postal Service to significant and unforeseen economic events, like a significant spike in fuel prices. We strongly support the exigency provision in the House bill.

- **Banking Authority.** Our organizations, the business mailing community, and the Postal Service have worked together to design moderate flexibility in the implementation of the rate cap over periods typically greater than one rate cycle. We strongly support the "banking authority" contained in the Senate bill, which authorizes the Postal Service to save any "unused" price-hiking authority under the CPI cap for use over a period of up to five years, subject to annual limitation (of two percentage points). This gives the USPS greater flexibility to take business and economic conditions into account when setting its prices and avoids

a "use it or lose it" approach to pricing decisions. The House bill does not contain such banking authority.

- **Market Dominant Placement of Single-piece Parcels.** Single-piece parcels are the packages that individuals and small businesses send at local post offices or via rural letter carriers. We firmly believe that single-piece parcels properly belong in the "market dominant" category, as defined by the Senate bill, not in the "competitive" category, as relegated by the House bill. Assigning these packages to a "competitive" category will cause a significant price increase that could mean the discontinuation of neighborhood delivery service by the Postal Service. No private carrier is capable of – or inclined to -- deliver packages to all addresses throughout the United States, from Hawaii and Alaska and Maine to California, including rural and exurban sites, six days a week, at a uniform rate without a surcharge. We urge adoption of the Senate approach toward single-piece parcels.

While individual organizations may have other concerns, we are in unanimous agreement on the matters addressed by this letter. One of the U.S. Postal Service's greatest strengths is its highly-skilled, dedicated workforce. Only a financially stable, vibrant, competitive Postal Service can continue to meet the needs of the American public. We look forward to continuing to work with you in crafting postal reform legislation that responds to those needs. Thank you for your attention to these matters.

Sincerely,

William Burrus
President
American Postal Workers Union

William H. Young
President
National Association of Letter Carriers

Ted Keating
President
National Association of Postal Supervisors

Dale Goff
President
National Association of Postmasters of the United States

Steve LeNoir
President
National League of Postmasters

John F. Hegarty
President
National Postal Mail Handlers Union

Donnie Pitts
President
National Rural Letter Carriers' Association

EXHIBIT 4

July 12, 2006

The Honorable Tom Davis
Chairman, Committee on Government Reform
Room 2157, Rayburn House Office Building
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman,

Thank your for your continued efforts to enact comprehensive postal reform legislation that will ensure high-quality and affordable postal services for our country. No group of Americans is more committed to the continued health of the U.S. Postal Service than the hundreds of thousands of workers and managers represented by the organizations listed below.

We write to urge you to resist the pressure from certain mailing industry interests to accept the exigency language in the Senate postal reform bill. A price indexing system will only work in the postal industry if there is sufficient flexibility for the Postal Service to seek the revenues it needs to serve an ever-expanding network of households and businesses when conditions warrant it. The exigency language in Section 3622(e) of your bill, H.R. 22, provides that flexibility. The language in the Senate bill does not.

Under S. 662 the burden of adjusting to exigent circumstances would fall on postal employees alone. We believe such a burden should be shared by all postal stakeholders. We sought to work with many of the mailers now urging you to adopt the Senate exigency language, but our suggestions were rejected and no counter-proposals were offered in return.

Although the Consumer Price Index serves as a workable index and target for the USPS under normal conditions, the CPI is no more than a statistical average of price trends affecting American consumers and may not always capture the business conditions facing the USPS. Other businesses sometimes need to raise prices by more than the growth rate in the CPI for perfectly legitimate reasons. The Postal Service should have the ability to do the same, provided it demonstrates the need and earns the approval of the Postal Regulatory Commission.

Thank you again for your tireless efforts to find reasonable compromises on this issue as well as other outstanding issues related to postal reform.

National Association of Letter Carriers
National Association of Rural Letter Carriers
National Postal Mail Handlers Union
National League of Postmasters
National Association of Postal Supervisors
National Association of Postmasters of the United States

Cc: Rep. Henry A. Waxman
Rep. Danny K. Davis
Rep. John McHugh
Chairman Susan M. Collins
Sen. Joseph I. Lieberman
Sen. Thomas R. Carper
Sen. Daniel K. Akaka

EXHIBIT 5

April 26, 2006

The Honorable Susan Collins
Chairman, Senate Committee on
Homeland Security and Governmental Affairs
Room SD 340
Washington, DC 20510

Dear Chairman Collins,

The Coalition for a 21st Century Postal Service has worked diligently with you and your staff over the past months to develop comprehensive postal reform legislation. Now that the legislation has passed both the House and the Senate, we are eager to see the differences in the bills resolved in conference to produce a reform proposal that can be signed by the President. Our coalition representing a wide range of businesses, associations and others concerned about the future of the Postal Service, has developed a list of priority issues which we support as part of a conference agreement.

We recognize that there are many issues yet to be resolved. There are also issues that many in our community would desire to see strengthened or amended; however, we also recognize that any legislation is the product of compromise. To that end, we applaud your efforts and those of your colleagues in passing this important legislation.

Conference Priorities

1. Both the House and Senate versions transfer the responsibility for retirement obligations due to military service, and therefore the issue should not be subject to the Conference. In any event the transfer is indispensable to our support of reform.

2. Funds that are required to be escrowed under current law should be made available in a manner that maximizes the benefits to both the Postal Service and its customers.

3. We support the Senate provision on the price index for rate setting for market dominant classes of mail, including the creation of the index, the application of the index at the class level and the exigency clause for exceeding the index.

4. We support the Senate provision on single piece parcels.

5. We support the House provision on the rate treatment of contribution to institutional costs made by competitive classes of mail.

6. We support the House provision establishing cost attribution as a factor to be considered in the same manner as all other factors, but modified to incorporate language from the Senate provisions defining attribution in terms of a reliably identifiable causal relationship. Similarly use the Senate definition of "attributable costs" in terms of a reliably identifiable causal

relationship as defined in proposed 39 U.S.C. 3631(b)(Senate Amendment page 17). See also cross reference in Senate Amendment proposed section 39 U.S.C. 2011(a)(1), page 50).

7. We support the Senate "Objective" providing that the modern system of rate regulation be designed "To establish and maintain a just and reasonable schedule for rates..."

As always, we are available to discuss any of these issues in greater detail.

Thank you again for your extraordinary leadership in passing Postal Reform legislation and providing an opportunity for the Congress to send the President a reform bill for the first time in 36 years.

Sincerely,

Benjamin Y. Cooper
on behalf of the
Coalition for a 21st Century Postal Service

A list of companies and associations supporting this letter is attached

Cc: The Honorable Ted Stevens
The Honorable George V. Voinovich
The Honorable Norm Coleman
The Honorable Robert Bennett
The Honorable Joseph I. Lieberman
The Honorable Daniel K. Akaka
The Honorable Thomas R. Carper

Aegon USA
American Forest & Paper Association
American Express Company
Arandell
Association for Postal Commerce
Bank of America
Banta
Capital One
Citigroup
CUNA Mutual Group
Direct Marketing Association
DMIA
Domtar
Dynacolor Graphics
Envelope Manufacturers Association
FedEx
Financial Publishers Association
The Financial Services Roundtable
IDEAlliance
International Paper
JPMorgan Chase & Co
Kodak
Magazine Publishers of America
Mailers Council
Mailing & Fulfillment Service Association
Maine Pulp and Paper Association
MeadWestvaco
NAPL
National Association of Manufacturers
National Newspaper Association
National Postal Policy Council
National Retail Federation
National Federation of Independent Business
NPES
Paramount Cards
Parcel Shippers Association
Printing industries of America
Pitney Bowes
Publishers Press
Quad Graphics
Quebecor World
R. R. Donnelley
Small Business Legislative Council
Solar Communications
Stora Enso
Time Inc.
Time Warner
USAA
Vertis Direct Marketing Services
Weyerhaeuser
Williamson Printing
Wisconsin Paper Council

EXHIBIT 6

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 26, 2005
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 22 - Postal Accountability and Enhancement Act
(Rep. McHugh (R) New York and 163 cosponsors)

The Administration strongly supports efforts to enact comprehensive postal reform legislation, and appreciates the progress toward that goal made in drafting H.R. 22. The Administration appreciates the opportunity to work with Congress toward a solution that will enable the United States Postal Service (USPS) to respond not only to today's known needs, but also to unforeseen future issues, in a responsible manner that is fair to taxpayers, ratepayers, and USPS employees.

In December 2003, the President established five principles to guide comprehensive postal reform: best practices of corporate governance; transparency; flexibility; accountability; and self-financing. The Administration appreciates the House Government Reform Committee's efforts to address many of the Administration's concerns by including a number of provisions in H.R. 22 that are based on the President's reform principles. Specifically, the Administration supports the House provisions that will increase transparency at USPS, most notably through Securities and Exchange Commission (SEC)-like reporting standards, and provisions that will give USPS greater flexibility in the areas of executive compensation, network optimization, and worksharing. However, the Administration remains concerned that several important reforms have not been addressed completely or at all. The Administration looks forward to working with Congress to ensure that a final, comprehensive postal reform bill includes these additional provisions.

Specific Issues

The Administration strongly believes that the final legislation must adopt the Senate's postal reform proposals in S. 662 regarding the following issues:

> Pricing flexibility within a firm annual Consumer Price Index (CPI) rate cap with a strict exigency requirement. A hard annual cap at the CPI rate applied at the class level provides a good balance between new pricing flexibility for USPS and reasonable and predictable prices for ratepayers. By strictly limiting the circumstances in which rate increases can exceed the CPI rate, ratepayers can be assured that USPS management will work hard to keep costs under control.
>
> Reform of the workers' compensation system. The Administration supports the intent of the reforms contained in S. 662 that require a three-day waiting period before benefits begin and that require retirement-age beneficiaries to transition from workers' compensation benefits to a retirement-level benefit. The Administration, however, has proposed comprehensive reform of the Federal Employees' Compensation Act and urges Congress to act on its legislative proposal, which will be transmitted in the coming weeks and would supersede any USPS-specific changes.

The Administration also believes that final postal reform legislation must also address the following issues:

Full compliance with all SEC reporting standards including segment reporting. The Postal Regulatory Commission should not be able to weaken SEC reporting requirements, and USPS should be required to report segments in a manner that is entirely consistent with SEC requirements.

Limitations on borrowing from the Competitive Products Fund. Total borrowings of the Competitive Products Fund should be limited to $3 billion. Without such language, the borrowing cap would be the entire $15 billion USPS debt limit.

Greater flexibility to use worksharing. USPS should continue to focus on the last-mile delivery aspect of its business and offer discounts to mailers that perform certain cost-saving tasks like pre-sorting or transportation. The current provision is highly prescriptive and places too many restrictions on these discounts.

Greater flexibility to enter into negotiated service arrangements. In addition to pricing flexibility under the Administration-proposed price cap and full use of worksharing, USPS should be given greater authority to negotiate service agreements to further increase productivity and attract volume.

Direction to the arbitrator in labor negotiations to consider the financial health of USPS. A transformed USPS with a self-financing mandate and a new price cap regime must be assured that these new limitations will be considered by a third-party arbitrator during contract negotiations.

In addition, the Administration has identified constitutional and other concerns with various provisions in the bill, including the bill's application of antitrust laws to USPS and its expansion of law enforcement authorities, which the Administration will communicate in more detail at a later date.

Self-Financing Principle

The Administration believes that comprehensive postal reform must require USPS to cover all of its financial obligations, including its on- and off-balance sheet unfunded liabilities. This approach is consistent with the statutory requirement that USPS meet its responsibilities in a business-like fashion by ensuring that revenues from the sale of products and services are sufficient to cover all operating costs. In establishing self-financing as one of the guiding principles for postal reform, the Administration intended that USPS meet all of its obligations without reliance on the General Fund of the Treasury. Accordingly, the Administration has serious concerns with two elements of the legislation that do not adhere to the self-financing principle:

Unfunded Liabilities and the Escrow Requirement. The Administration supports the elimination of the statutory escrow requirement and further supports allowing USPS to benefit fully from all of the pension savings resulting from the enactment of Public Law 108-18, the Postal Civil Service Retirement System Funding Reform Act of 2003, by placing USPS on a financing plan to ensure that it can cover its post-retirement health benefits costs.

As of September 30, 2005, it is estimated that USPS's retiree health benefits liability will

be $63.9 billion. The substantial pension savings from P.L. 108-18 provide an excellent opportunity to transition to a financially self-sufficient USPS. The President's FY 2006 Budget proposes to use the amounts that would otherwise be held in escrow to enable USPS to contribute $42.5 billion over the next 10 years toward paying down its substantial retiree health benefits liability. If these unfunded retiree health benefit liabilities are not fully addressed now, unnecessarily large spending will be needed in the future to pay these health benefits costs as they come due.

The President's Budget proposal would allow the elimination of the statutory escrow requirement to be accomplished in a manner that would have no adverse budget impact. However, H.R. 22 would allow USPS to use a portion of the escrow as a subsidy for current operations, and thus would have an adverse budget impact.

Treatment of Military Service Obligations. The Administration believes that USPS must continue to be responsible for pension costs connected with military service credits for postal employees under the Civil Service Retirement System (CSRS) and opposes provisions in the current version of H.R 22 that would grant USPS a subsidy with a net present value of $27 billion by transferring all of these military service pension credit obligations to the General Fund of the Treasury. USPS's responsibility for paying this military service pension credit obligation is a cost of doing business, and USPS should not be absolved of its responsibility to pay for these unfunded liabilities.

Requiring USPS to fund these obligations is not a hardship – it is the corollary to the massive savings USPS realized under P.L. 108-18. That Act effectively converted USPS's CSRS program to the funding system utilized for the Federal Employees' Retirement System (FERS). FERS is a fully-funded retirement system where the annual pension contributions from employees and the agencies are enough to match anticipated future pension payments and where each agency, rather than the Treasury, covers the costs of the military service pension credits of its retirees. By shifting to a FERS-like system for its entire workforce, USPS's CSRS pension obligations were reduced by $105 billion, and USPS was required to cover the cost of military service credits in its pension plan. This legislation was a $78 billion net benefit to USPS.

Additional Policy Concerns

The Administration has other concerns with various provisions of the bill, including provisions regarding the application of antitrust laws to the USPS and expanding law enforcement authorities. The Administration urges that section 401(a) and 502(a) of the bill be amended to delete the restriction that members of the USPS Board of Governors and of the Postal Regulatory Commission may be removed only for cause, so as to preserve the President's flexibility with respect to the Board and the Commission. The Administration will continue to work in the legislative process to address these and other concerns.

Constitutional Concerns

A number of provisions in the bill should be amended to conform to constitutional requirements. In particular, section 205 of the Act should be amended to preclude lawsuits in Federal court between the Postal Regulatory Commission and the USPS, as the judicial power does not extend to resolving disputes between two elements of the Executive Branch. Such disputes lie within the province of the President in supervising the unitary Executive Branch.

Section 305 of the Act, which purports to prohibit the United States from concluding treaties of a certain content and purports to regulate the conduct by the Executive Branch of negotiations with foreign governments and international bodies, would infringe upon the President's constitutional authority to conduct the Nation's foreign affairs and supervise the unitary Executive Branch. Accordingly, the new section 407 of title 39 of the U.S. Code should be amended to specify that its provisions apply "unless otherwise directed by the President."

Section 401(a) of the bill should be amended to delete the purported qualifications for members of the USPS Board of Governors, which is inconsistent with the powers vested in the President by the Appointments Clause of the Constitution. Sections 503, 702(a)(2), and 707(b) of the bill should be amended to provide for submission of such recommendations for legislation, including appropriations legislation, "as the President shall judge necessary and expedient," so as to make the provision consistent with the Constitution's commitment to the President of exclusive authority to recommend measures for the consideration of Congress and to supervise the unitary Executive Branch.

Conclusion

The Administration looks forward to the passage of postal reform legislation that the President can sign reflecting his five reform principles and to working with Congress to address these issues. However, the bill ultimately presented to the President must not contain provisions that would have an adverse impact on the Federal budget, either by releasing funds from escrow without devoting them to pre-fund liabilities or by transferring the military service obligation from USPS to taxpayers. Should the final bill have such an adverse impact on the Federal budget, the President's senior advisers would recommend that he veto the bill.

* * * * * *

EXHIBIT 7

109TH CONGRESS
2D SESSION

S. _____

IN THE SENATE OF THE UNITED STATES

Ms. COLLINS (for herself and Mr. CARPER) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To reform the postal laws of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Postal Accountability and Enhancement Act".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—DEFINITIONS; POSTAL SERVICES

Sec. 101. Definitions.
Sec. 102. Postal Services.

TITLE II—MODERN RATE REGULATION

Sec. 201. Provisions relating to market-dominant products.

Sec. 202. Provisions relating to competitive products.
Sec. 203. Provisions relating to experimental and new products.
Sec. 204. Reporting requirements and related provisions.
Sec. 205. Complaints; appellate review and enforcement.
Sec. 206. Clerical amendment.

TITLE III—MODERN SERVICE STANDARDS

Sec. 301. Establishment of modern service standards.
Sec. 302. Postal service plan.

TITLE IV—PROVISIONS RELATING TO FAIR COMPETITION

Sec. 401. Postal Service Competitive Products Fund.
Sec. 402. Assumed Federal income tax on competitive products income.
Sec. 403. Unfair competition prohibited.
Sec. 404. Suits by and against the Postal Service.
Sec. 405. International postal arrangements.

TITLE V—GENERAL PROVISIONS

Sec. 501. Qualification and term requirements for Governors.
Sec. 502. Obligations.
Sec. 503. Private carriage of letters.
Sec. 504. Rulemaking authority.
Sec. 505. Noninterference with collective bargaining agreements.
Sec. 506. Bonus authority.

TITLE VI—ENHANCED REGULATORY COMMISSION

Sec. 601. Reorganization and modification of certain provisions relating to the Postal Regulatory Commission.
Sec. 602. Authority for Postal Regulatory Commission to issue subpoenas.
Sec. 603. Authorization of appropriations from the Postal Service Fund.
Sec. 604. Redesignation of the Postal Rate Commission.

TITLE VII—EVALUATIONS

Sec. 701. Assessments of ratemaking, classification, and other provisions.
Sec. 702. Report on universal postal service and the postal monopoly.
Sec. 703. Study on equal application of laws to competitive products.
Sec. 704. Report on postal workplace safety and workplace-related injuries.
Sec. 705. Study on recycled paper.
Sec. 706. Greater diversity in Postal Service executive and administrative schedule management positions.
Sec. 707. Contracts with women, minorities, and small businesses.
Sec. 708. Rates for periodicals.
Sec. 709. Assessment of certain rate deficiencies.
Sec. 710. Assessment of future business model of the Postal Service.
Sec. 711. Provisions relating to cooperative mailings.
Sec. 712. Definition.

TITLE VIII—POSTAL SERVICE RETIREMENT AND HEALTH BENEFITS FUNDING

Sec. 801. Short title.
Sec. 802. Civil Service Retirement System.
Sec. 803. Health insurance.

Sec. 804. Repeal of disposition of savings provision.
Sec. 805. Effective dates.

TITLE IX—COMPENSATION FOR WORK INJURIES

Sec. 901. Temporary disability; continuation of pay.
Sec. 902. Disability retirement for postal employees.

TITLE X—MISCELLANEOUS

Sec. 1001. Employment of postal police officers.
Sec. 1002. Obsolete provisions.
Sec. 1003. Reduced rates.
Sec. 1004. Sense of Congress regarding Postal Service purchasing reform.
Sec. 1005. Contracts for transportation of mail by air.
Sec. 1006. Date of postmark to be treated as date of appeal in connection with the closing or consolidation of post offices.
Sec. 1007. Provisions relating to benefits under chapter 81 of title 5, United States Code, for officers and employees of the former Post Office Department.
Sec. 1008. Hazardous matter.
Sec. 1009. ZIP codes and retail hours.
Sec. 1010. Technical and conforming amendments.

TITLE I—DEFINITIONS; POSTAL SERVICES

SEC. 101. DEFINITIONS.

Section 102 of title 39, United States Code, is amended by striking "and" at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting a semicolon, and by adding at the end the following:

"(5) 'postal service' refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto;

"(6) 'product' means a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied;

"(7) 'rates', as used with respect to products, includes fees for postal services;

"(8) 'market-dominant product' or 'product in the market-dominant category of mail' means a product subject to subchapter I of chapter 36; and

"(9) 'competitive product' or 'product in the competitive category of mail' means a product subject to subchapter II of chapter 36; and

"(10) 'year', as used in chapter 36 (other than subchapters I and VI thereof), means a fiscal year.".

SEC. 102. POSTAL SERVICES.

(a) IN GENERAL.—Section 404 of title 39, United States Code, is amended—

(1) in subsection (a), by striking paragraph (6) and by redesignating paragraphs (7) through (9) as paragraphs (6) through (8), respectively; and

(2) by adding at the end the following:

"(c)(1) In this subsection, the term "nonpostal service" means any service that is not a postal service defined under section 102(5).

"(2) Nothing in this title shall be considered to permit or require that the Postal Service provide any nonpostal service. The Postal Service may not provide any nonpostal service, except that the Postal Service may—

"(A) cooperate with other Government agencies, as provided under section 411 of this title; and

"(B) provide nonpostal services which were offered as of January 1, 2006, as provided under this subsection.

"(3) Not later than 2 years after the date of enactment of the Postal Accountability and Enhancement Act, the Postal Regulatory Commission shall review each nonpostal service offered by the Postal Service on the date of enactment of that Act and determine whether that nonpostal service shall continue, taking into account—

"(A) the public need for the service; and

"(B) the ability of the private sector to meet the public need for the service.

"(4) Any nonpostal service determined not to be continued by the Postal Regulatory Commission under paragraph (3) shall terminate.

"(5) If the Postal Regulatory Commission authorizes the Postal Service to continue a nonpostal service under this subsection, the Postal Regulatory Commission shall designate whether the service shall be regulated under this title as a market dominant product, a competitive product, or an experimental product.".

(b) CONFORMING AMENDMENTS.—Section 1402(b)(1)(B)(ii) of the Victims of Crime Act of 1984 (98

Stat. 2170; 42 U.S.C. 10601(b)(1)(B)(ii)) is amended by striking "404(a)(8)" and inserting "404(a)(7)".

TITLE II—MODERN RATE REGULATION

SEC. 201. PROVISIONS RELATING TO MARKET-DOMINANT PRODUCTS.

(a) IN GENERAL.—Chapter 36 of title 39, United States Code, is amended by striking sections 3621 and 3622 and inserting the following:

"§ 3621. Applicability; definitions

"(a) APPLICABILITY.—This subchapter shall apply with respect to—

"(1) first-class mail letters and sealed parcels;

"(2) first-class mail cards;

"(3) periodicals;

"(4) standard mail;

"(5) single-piece parcel post;

"(6) media mail;

"(7) bound printed matter;

"(8) library mail;

"(9) special services; and

"(10) single-piece international mail,

subject to any changes the Postal Regulatory Commission may make under section 3642.

"(b) RULE OF CONSTRUCTION.—Mail matter referred to in subsection (a) shall, for purposes of this subchapter, be considered to have the meaning given to such mail matter under the mail classification schedule.

"§ 3622. Modern rate regulation

"(a) AUTHORITY GENERALLY.—The Postal Regulatory Commission shall, within 18 months after the date of enactment of this section, by regulation establish (and may from time to time thereafter by regulation revise) a modern system for regulating rates and classes for market-dominant products.

"(b) OBJECTIVES.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:

"(1) To maximize incentives to reduce costs and increase efficiency.

"(2) To create predictability and stability in rates.

"(3) To maintain high quality service standards established under section 3691.

"(4) To allow the Postal Service pricing flexibility, including the ability to use pricing to promote intelligent mail.

"(5) To assure adequate revenues, including retained earnings, to maintain financial stability.

"(6) To reduce the administrative burden and increase the transparency of the ratemaking process.

"(7) To enhance mail security and deter terrorism by promoting secure, sender-identified mail.

"(8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

"(9) To allocate the total institutional costs of the Postal Service equitably between market-dominant and competitive products.

"(c) FACTORS.—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

"(1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;

"(2) the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that por-

tion of all other costs of the Postal Service reasonably assignable to such class or type;

"(3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;

"(4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;

"(5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;

"(6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;

"(7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;

"(8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

"(9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;

"(10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements or arrangements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that either—

"(A) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or

"(B) enhance the performance of mail preparation, processing, transportation, or other functions;

"(11) the educational, cultural, scientific, and informational value to the recipient of mail matter;

"(12) the need for the Postal Service to increase its efficiency and reduce its costs, including

infrastructure costs, to help maintain high quality, affordable postal services; and

"(13) the policies of this title as well as such other factors as the Commission determines appropriate.

"(d) REQUIREMENTS.—

"(1) IN GENERAL.—The system for regulating rates and classes for market-dominant products shall—

"(A) 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 unadjusted for seasonal variation over the most recent available 12-month period preceding the date the Postal Service files notice of its intention to increase rates;

"(B) establish a schedule whereby rates, when necessary and appropriate, would change at regular intervals by predictable amounts;

"(C) not later than 45 days before the implementation of any adjustment in rates under this section, including adjustments made under subsection (c)(10)—

"(i) require the Postal Service to provide public notice of the adjustment;

"(ii) provide an opportunity for review by the Postal Regulatory Commission;

"(iii) provide for the Postal Regulatory Commission to notify the Postal Service of any noncompliance of the adjustment with the limitation under subparagraph (A); and

"(iv) require the Postal Service to respond to the notice provided under clause (iii) and describe the actions to be taken to comply with the limitation under subparagraph (A);

"(D) establish procedures whereby the Postal Service may adjust rates not in excess of the annual limitations under subparagraph (A); and

"(E) notwithstanding any limitation set under subparagraphs (A) and (C), and provided there is not sufficient unused rate authority under paragraph (2)(C), establish procedures whereby rates may be adjusted on an expedited basis due to either extraordinary or exceptional circumstances, provided that the Commission

determines, after notice and opportunity for a public hearing and comment, and within 90 days after any request by the Postal Service, that such adjustment is reasonable and equitable and necessary to enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.

"(2) LIMITATIONS.—

"(A) CLASSES OF MAIL.—Except as provided under subparagraph (C), the annual limitations under paragraph (1)(A) shall apply to a class of mail, as defined in the Domestic Mail Classification Schedule as in effect on the date of enactment of the Postal Accountability and Enhancement Act.

"(B) ROUNDING OF RATES AND FEES.—Nothing in this subsection shall preclude the Postal Service from rounding rates and fees to the nearest whole integer, if the effect of such rounding does not cause the overall rate increase for any class to exceed the Consumer Price Index for All Urban Consumers.

"(C) USE OF UNUSED RATE AUTHORITY.—

"(i) DEFINITION.—In this subparagraph, the term 'unused rate adjustment authority' means the difference between—

"(I) the maximum amount of a rate adjustment that the Postal Service is authorized to make in any year subject to the annual limitation under paragraph (1); and

"(II) the amount of the rate adjustment the Postal Service actually makes in that year.

"(ii) AUTHORITY.—Subject to clause (iii), the Postal Service may use any unused rate adjustment authority for any of the 5 years following the year such authority occurred.

"(iii) LIMITATIONS.—In exercising the authority under clause (ii) in any year, the Postal Service—

"(I) may use unused rate adjustment authority from more than 1 year;

"(II) may use any part of the unused rate adjustment authority from any year;

"(III) shall use the unused rate adjustment authority from the earliest year such authority first occurred and then each following year; and

"(IV) for any class or service, may not exceed the annual limitation under paragraph (1) by more than 2 percentage points.

"(e) WORKSHARE DISCOUNTS.—

"(1) DEFINITION.—In this subsection, the term 'workshare discount' refers to rate discounts provided to mailers for the presorting, prebarcoding, handling, or transportation of mail, as further defined by the Postal Regulatory Commission under subsection (a).

"(2) SCOPE.—The Postal Regulatory Commission shall ensure that such discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity, unless—

"(A) the discount is—

"(i) associated with a new postal service, a change to an existing postal service,

or with a new work share initiative related to an existing postal service; and

"(ii) necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service and the portion of the discount in excess of the cost that the Postal Service avoids as a result of the workshare activity will be phased out over a limited period of time;

"(B) the amount of the discount above costs avoided—

"(i) is necessary to mitigate rate shock; and

"(ii) will be phased out over time; or

"(C) the discount is provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value.

"(3) LIMITATION.—Nothing in this subsection shall require that a work share discount be reduced or eliminated if the reduction or elimination of the discount would—

"(A) lead to a loss of volume in the affected category or subclass of mail or reduce the aggregate contribution to the institutional

costs of the Postal Service from the category or subclass subject to the discount below what it otherwise would have been if the discount had not been reduced or eliminated; or

"(B) result in a further increase in the rates paid by mailers not able to take advantage of the discount.

"(4) REPORT.—Whenever the Postal Service establishes a workshare discount rate, the Postal Service shall, at the time it publishes the workshare discount rate, submit to the Postal Regulatory Commission a detailed report that—

"(A) explains the Postal Service's reasons for establishing the rate;

"(B) sets forth the data, economic analyses, and other information relied on by the Postal Service to justify the rate; and

"(C) certifies that the discount will not adversely affect rates or services provided to users of postal services who do not take advantage of the discount rate.

"(f) TRANSITION RULE.—For the 1-year period beginning on the date of enactment of this section, rates and classes for market-dominant products shall remain subject

to modification in accordance with the provisions of this chapter and section 407, as such provisions were last in effect before the date of enactment of this section. Proceedings initiated to consider a request for a recommended decision filed by the Postal Service during that 1-year period shall be completed in accordance with subchapter II of chapter 36 of this title and implementing regulations, as in effect before the date of enactment of this section.".

(b) REPEALED SECTIONS.—Sections 3623, 3624, 3625, and 3628 of title 39, United States Code, are repealed.

(c) REDESIGNATION.—Chapter 36 of title 39, United States Code (as in effect after the amendment made by section 601, but before the amendment made by section 202) is amended by striking the heading for subchapter II and inserting the following:

"SUBCHAPTER I—PROVISIONS RELATING TO MARKET-DOMINANT PRODUCTS".

SEC. 202. PROVISIONS RELATING TO COMPETITIVE PRODUCTS.

Chapter 36 of title 39, United States Code, is amended by inserting after section 3629 the following: