



Postal Regulatory Commission

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Press Release

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PRC Adopts Final Rules to Modify the Rate System for Classes of Market Dominant Products

Washington, DC – Today the Postal Regulatory Commission (Commission) issued [Order No. 5763](#) adopting rules to modify the system for regulating rates and classes for Market Dominant products. The Postal Accountability and Enhancement Act of 2006 (PAEA) required the Commission to review the existing Market Dominant rate and classification system 10 years after the enactment of the PAEA to determine if the system achieved the PAEA's nine objectives, considering the 14 factors established by Congress. The objectives reflect the goals of the PAEA to create a flexible, stable, predictable, and streamlined ratemaking system that ensures the Postal Service's financial health and maintains high-quality service standards and performance. As adopted, these rules are necessary to enable the Market Dominant ratemaking system to achieve the statutory objectives set forth in 39 U.S.C. 3622(b).

In [Order No. 4257](#), which examined the current ratemaking system, the Commission identified three principal areas of the PAEA system that encapsulate the nine objectives: (1) the structure of the ratemaking system; (2) the financial health of the Postal Service; and (3) service. The Commission concluded that the system had achieved some of the goals of these areas, but the overall system had not achieved the objectives taking into account the factors of the PAEA.

In brief, the Commission's findings were as follows:

- The system was largely successful in achieving the goals related to the structure of the ratemaking system. However, the Commission concluded that the ratemaking system had not increased pricing efficiency.
- The system had not maintained the financial health of the Postal Service as intended by the PAEA. While the Postal Service had generally achieved short-term financial

stability, both medium-term and long-term financial stability measures had not been achieved.

- High-quality service standards had not been maintained during the 10 years following the enactment of the PAEA.

Issuance of the final rules has been the Commission's top priority. Throughout the process to modify the ratemaking system, the Commission has operated under the [guiding principles](#) of openness and integrity, and has worked to develop consensus on significant technical complexities and to carefully consider numerous comments that reflected widely divergent views on all aspects of the modifications to the ratemaking system.

After a Notice of Proposed Rulemaking (NPR), revised NPR, and extensive review of public comments, the Commission is putting final rules in place that amend several parts of title 39 of the Code of Federal Regulations to achieve the objectives of 39 U.S.C. 3622(b). To address the shortfalls in the ratemaking system, the Commission implements the following measures while maintaining a CPI-based price cap system.

- To address the Postal Service's financial health and target primary drivers of net losses, the Commission implements two mechanisms designed to permit the Postal Service to generate additional revenue to cover costs outside of its control.
 - 1) The first mechanism, designed to address consequences of mail density declines, modifies the price cap to provide additional rate adjustment authority equal to the uncontrollable density-driven portion of increases in average cost-per-piece, as calculated under the Commission's formula.
 - 2) The second mechanism, designed to address the Postal Service's retirement amortization payments that are outside of its control, modifies the price cap to provide additional Market Dominant rate adjustment authority equal to the percentage by which total revenue would need to increase (necessarily assuming an equal increase levied on Competitive products) to provide sufficient revenue for the Postal Service to meet its required retirement obligation payments, as calculated under the Commission's formula.

Pricing decisions under the modified regulatory system will be made at the discretion of the Governors of the Postal Service.

- To provide more transparency with regard to operational efficiency and the maintenance of high-quality service standards, the Commission adopts several additional reporting requirements. When the Postal Service files its *Annual Compliance Report* (ACR), it must provide the input data and calculations used to produce the annual Total Factor Productivity estimates, and provide a description and explanation of any changes to the service standards (including relevant business rules), or certify that no changes have occurred.

- To address the system’s failure to maintain reasonable rates and promote pricing efficiency, the Commission adopts rules relating to non-compensatory classes and products.
 - For non-compensatory classes of mail, the Commission provides an additional rate authority of 2 percentage points per class, per fiscal year that the Postal Service may use with an aim to narrow the cost coverage gap of those classes over time. This additional rate authority is optional.
 - For non-compensatory products, the Postal Service is restricted from reducing rates for those products and will be required to enact minimum product-level price increases for each non-compensatory product. The Postal Service is required to propose rate increases for all such products that are at least 2 percentage points higher than the class average.
- The Commission adopts additional rules to improve pricing efficiency and to phase out two practices impeding pricing efficiency: workshare discounts that are either set substantially below avoided costs or substantially above avoided costs. With its “do no harm principle,” the Postal Service is restricted from changing workshare discounts set equal to avoided costs, from reducing workshare discounts set below avoided costs, and from increasing workshare discounts set above avoided costs. A low workshare discount or an excessive workshare discount would be permitted if it were new, if it would represent an improvement of 20 percent over the existing workshare discount passthrough, or if it were set in accordance with a prior Commission order (via the proposed waiver process). A low workshare discount would also be permitted if the proposed workshare discount would produce a passthrough of at least 85 percent. Additionally, an excessive workshare discount would be permitted if it would be provided in connection with a subclass of mail (product), consisting exclusively of mail matter of educational, cultural, scientific, or informational value (39 U.S.C. § 3622(e)(2)(C)) and was accompanied by certain information to ensure transparency.
- The Commission implements new annual reporting requirements intended to facilitate the tracking of costs and monitoring of the Postal Service’s efforts to reduce costs. The final rules require the Postal Service to provide information consisting of three separate components: (1) a consolidated cost analysis; (2) detailed information regarding planned and active large-scale cost-reduction initiatives; and (3) summary information pertaining to approved Decision Analysis Reports, which are internal Postal Service documents used to justify and obtain approval for certain proposed capital spending projects.
- The Commission modifies the schedule for regular and predictable rate adjustments by requiring the Postal Service to update it annually and provide certain information designed to increase transparency for mailers concerning the Postal Service’s planned price changes. It will also extend the minimum notice period

between the date the Postal Service files a notice of proposed rate adjustment and the date the proposed rates could go into effect from 45 days to 90 days. The final rules discontinue the practice that the Commission addresses the objectives and factors of 39 U.S.C. 3622(b) and (c) in individual rate adjustment proceedings.

As implemented, the final rules provide a 5-year review period for a holistic assessment of the effects of the Commission's rule changes. The Commission retains the flexibility to adjust certain components of the system sooner than that if necessary.

The Commission's final rulemaking for the System for Regulating Rates and Classes for Market Dominant Products will be effective 30 days after publication in the *Federal Register*.

A media kit including Frequently Asked Questions and a detailed timeline of the Commission's review process is available at the Commission's website, www.prc.gov.

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight over the Postal Service to ensure the transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The President designates the Chairman. In addition to Chairman Robert G. Taub, the other commissioners are Vice Chairman Michael Kubayanda, and Commissioners Mark Acton, Ann Fisher, and Ashley Poling. Follow the PRC on Twitter: @PostalRegulator and LinkedIn.