

Postal Regulatory Commission

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Press Release

March 17, 2008

Postal Regulatory Commission Verifies Rate Cap Compliance

Washington, DC – The independent Postal Regulatory Commission today issued its first review of the U.S. Postal Service price adjustments using the ratemaking flexibility provided under the Postal Accountability and Enhancement Act of 2006 (PAEA). The PAEA allows the Postal Service to adjust rates annually for market dominant products as long as the increases for each class of mail are under the rate of inflation, as determined by the Consumer Price Index. The Commission's determination may be found on its website, www.prc.gov.

Chairman Dan G. Blair announced the Commissioners' unanimous decision that the increases for market dominant products are, on average, within the applicable 2.9 percent price cap for each class of mail. Blair noted the Commission completed its review within the compressed timeframe dictated by its regulations finalized last October.

"Enactment of the PAEA brought about a fundamental paradigm change," Blair said. "The new regulatory system replaced the lengthy, oftentimes adversarial system between the Postal Service and its customers with a 45-day review that ensures increases do not exceed inflation at the class level. Ensuring price stability and predictability within this \$900 billion sector of the economy is important, especially during these challenging economic times," Blair noted.

The Commission established its regulatory framework for the new statutory ratemaking regime by creating a 34-day review process that allows market dominant rates to increase after a 45-day public notice by the Postal Service. Rate increases for competitive products were announced last week. The Commission has 30 days to review that Postal Service filing to ensure compliance with the PAEA.

Under Commission regulations, today's findings conclude a 20-day public comment period and a 14-day review period, which verified the price adjustments scheduled to become effective May 12, 2008. The remaining time in the 45-day process could be used to work with the Postal Service on any unresolved issues.

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The attached summary includes a table demonstrating that the price adjustments planned by the Postal Service are properly below the statutory price cap. The law allows the Postal Service to “bank” the difference between the cap and its price changes. The difference between them is also shown in the attached table.

The Commission’s review focused primarily on two requirements of the PAEA related to market dominant rate adjustments: whether the proposed rates are below the rate of inflation and whether there was adequate justification for workshare discounts that exceed 100 percent of the costs avoided. The Act allows for greater than 100 percent passthroughs if the Postal Service provides justification as outlined by the law.

The Commission concludes that the Postal Service adequately justified all but one discount. In the one instance, the Commission identifies minimal price adjustments that could resolve the problem. This would allow all rate adjustments to go into effect simultaneously, but the Postal Service may choose a different way to resolve the problem.

“The Commission recognizes that this filing represents the initial Postal Service effort to seek rate adjustments under Commission rules issued last October. We expect that the Postal Service will gain experience from this filing and use it to improve its justifying rationale for greater than 100 percent passthroughs in future filings,” said Blair.

The Postal Regulatory Commission is an independent federal agency comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The Chairman is designated by the President. In addition to Chairman Blair, the other four Commissioners are Ruth Goldway, Tony Hammond, and Mark Acton.

SUMMARY

This is the first review of Postal Service price adjustments for market dominant products under the Postal Accountability and Enhancement Act, Pub L. 109-435, 120 Stat. 3198 (2006) (PAEA). The Postal Service filed a notice of price adjustment for its market dominant products on February 11, 2008. The planned adjustments are scheduled to take effect on May 12, 2008.

Based on a review of the notice and supporting materials, including public comments and updated information submitted by the Postal Service, the Commission finds that the planned price adjustments do not exceed the statutory Consumer Price Index-based price cap of 2.9 percent for the 12 months ending December 2007. Under the PAEA and the Commission's regulations, the Postal Service may "bank" the difference between the cap and its planned price changes for use within five years.

The percentage increase by class and the unused rate authority are shown in the table below.

	Rate Changes (%)	Unused Rate Authority (%)
First-Class Mail	2.886	0.014
Periodicals	2.724	0.176
Standard Mail	2.875	0.025
Package Services	2.875	0.025
Special Services	2.848	0.052

Under the PAEA, the Postal Service has extensive flexibility to vary rates within classes.

Interested persons were given the opportunity to comment on the notice of price adjustment. Most of the comments focus on planned increases for specific rate categories or products. None claims that the planned increase for any class violates the price cap.

Some comments address a separate statutory requirement that limits, subject to certain exceptions, workshare discounts to the costs avoided by the Postal Service. The Commission sought additional written justification from the Postal Service regarding 14 workshare discounts. Upon careful consideration of the justifications proffered by the Postal Service as well as relevant public comments, the Commission finds all but one of these discounts adequately supported. The lone exception is a discount of 1.4 cents for applying a barcode to certain Standard Mail letters that would save the Postal Service 0.3 cents.

To rectify this, the Postal Service will need to file, as contemplated by the Commission's rules, an amended notice of rate adjustment. Illustratively, as a convenience to the Postal Service, the Commission identifies minimal price adjustments that could resolve the problem, allowing all rate changes to go into effect as scheduled. The Postal Service may choose another solution for this problem if it prefers. Pages 33 through 37 of this Order provide a more complete discussion of this matter.

This Order comes 35 days after the Postal Service notice of price adjustment, fulfilling the intent of the PAEA for expeditious review of Postal Service market dominant rate filings while at the same time ensuring that the planned rate adjustments are consistent with the statute. The success of this inaugural market dominant price adjustment proceeding is due, in large part, to the Postal Service's efforts. Although the Commission identifies areas where additional analysis will facilitate future proceedings, it commends the Postal Service for promptly and diligently providing needed clarifications and supplementary explanations.