



Released December 5, 2017

PRC Issues Findings regarding 10-Year Ratemaking Review

On Friday, December 1, 2017, the Postal Regulatory Commission (PRC) issued its findings (190 page report) related to the 10-year review of the system for regulating rates and classes for **Market Dominant** products. Postal law also known as PAEA (Postal Accountability and Enhancement Act), which was enacted in December 2006, provided for this 10-year review.

Accordingly, back on December 20, 2016, the PRC announced to the Postal Service and industry that it was formally beginning this comprehensive process to determine if the current System for regulating Rates and Classes for Market Dominant Products – was achieving the PAEA's original objectives. Based on the PRC's analysis and relevant information obtained through this proceeding, the PRC will then determine if the objectives are being achieved by the current system. If the PRC finds that the objectives are **not being achieved**, the PRC may **propose modifications to the system** or **propose to adopt an alternative system as necessary** to achieve the objectives.

In its findings order, the PRC identifies three principal areas that it used in evaluating the current system. They included; **(1) the structure of the ratemaking system**; **(2) the financial health of the Postal Service**; and **(3) service**. After extensive review, the Commission concluded that the current system achieved some of the goals of these areas, but overall the system has failed on the following items:

- The current system was largely successful in achieving the goals related to the structure of the ratemaking system. However, the PRC concluded that the ratemaking system has **not increased pricing efficiency**;
- The current system **has not maintained the financial health of the Postal Service** as intended by the PAEA. While the Postal Service has generally achieved short-term financial stability, both medium-term and long-term financial stability measures have not been achieved;
- The current system **has not allowed the setting of rates to cover costs for some classes**;
- High quality service standards **have not been maintained** during the past 10 years under the PAEA.

As a result of these findings, the PRC also issued a **Notice of Proposed Rulemaking** to address the shortcomings. Listed below is a brief summary of the major recommended changes:

1. The price cap per class of mail will go from just CPI-U to CPI-U + 2% for the next five years. After five years, the PRC will reevaluate the financial health of the USPS and recommend appropriate changes.
2. There is a provision for an additional 1% Performance Based price increase that the USPS will be eligible for such that
 - ✓ 0.75% of the amount can be used if the USPS demonstrates certain operational efficiencies.
 - ✓ 0.25% of the amount can be used if the USPS demonstrates improved service quality.
3. The USPS will be required to raise prices for underwater products (Periodicals and Standard non-C/R Flats for example) a minimum of an additional 2% above the price change authority to move prices towards full-cost coverage over time.
4. The USPS will have new restrictions on worksharing passthroughs:
 - ✓ For Periodicals, they will be limited to 75% - 125% of avoided costs.
 - ✓ For all other classes, they will be limited to 85% - 115% of avoided costs.

Note: Non-compliant passthroughs would be subject to a 3-year grace period.

There will be a **90-day comment period** (comments due by March 1, 2018) and one additional month for reply comments. The PRC will then issue a final rule.

RR Donnelley will continue to provide you with important updates as they become available.