POSTCOM'S SUMMARY OF THE STATUTORY REVIEW OF THE SYSTEM FOR REGULATING RATES AND CLASSES FOR MARKET DOMINANT PRODUCTS

The first phase of the Postal Regulatory Commission's (PRC) Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products (RM2017-3) – more generally known as the ten-year review – is complete. In a lengthy ruling issued on December 1, nearly a year after the beginning of the proceeding, the PRC has determined that the existing regulatory system established in the Postal Accountability and Enhancement Act (PAEA) is ***not*** meeting the objectives of PAEA and must therefore be modified. In an accompanying notice, the PRC has initiated a proposed rulemaking (NOPR) to consider a new regulatory system that would operate for the next five years. The following summary is intended to provide a brief encapsulation of the PRC's work. In addressing the review the PRC – by necessity – had to address how various commenters addressed the interplay between PAEA's nine objectives and fourteen factors; this summary largely glosses over those summaries and instead focuses on the analysis used to arrive at the PRC's ruling and the resulting proposed changes to the current system. Those interested in the PRC's complete analysis are directed here.

Order 4257: Order On The Findings And Determination Of The 39 U.S.C. § 3622 Review Procedural History And Legal Authority

As is customary, the ruling begins with a review of the procedural history of the case and an explanation of the legal authority that undergirds the PRC action in the instant case. R2017-3 began with an advanced notice of proposed rulemaking (ANOPR), which provided a suggested framework for considering whether the current system is achieving the nine explicit objectives of PAEA when the fourteen separate PAEA "factors" are taken into account. Accordingly, the scope of the Commission's review (phase 1) included an examination of "all aspects of the ratemaking system provided within section 3622, including the annual limitation on the percentage changes in rates, the schedule for rate changes, the 45-day notice before the implementation of rate adjustments, expedited rate changes due to extraordinary or exceptional circumstances, class-level application for the annual limitation, the rounding of rates and fees, the use of unused rate authority, and workshare discounts." Again, the primary focus of phase one was to determine whether the current system is meeting the objectives of PAEA, which are:

> Objective 1: to maximize incentives to reduce costs and increase efficiency.
> Objective 2: to create predictability and stability in rates.
> Objective 3: to maintain high quality service standards established under section 3691.
> Objective 4: to allow the Postal Service pricing flexibility.
> Objective 5: to assure adequate revenues, including retained earnings, to maintain financial stability.
> Objective 6: to reduce the administrative burden and increase the transparency of the ratemaking process.
> Objective 7: to enhance mail security and deter terrorism.
> Objective 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.
> Objective 9: to allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

To do so, in the ANOPR, the Commission set forth definitions and key measurable concepts it proposed using in this review to determine whether the objectives of section 3622(b) have been met. Specifically, the Commission presented "preliminary definitions for the objectives as well as potential methods that may be used to evaluate whether the objectives, taking into account the factors, are being achieved." Further complicating this task, PAEA states that the system "shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others." A number of commenters offered suggestions for how the PRC might do this with most focusing on the fact that all nine of the objectives should be given equal weight.

To untangle this knot, the PRC focused their analysis on three principle areas of PAEA as set forth in its objectives: (1) the structure of the ratemaking system; (2) financial health; and (3) service. According to the PRC, these objectives, when viewed topically under the three principal areas, operate together to form the goals of the ratemaking system that the PAEA was designed to achieve. Of course, PAEA provides 14 factors that must be taken into account when considering the achievement of the nine objectives. Those fourteen factors are:

> Factor 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;
> Factor 2: the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;

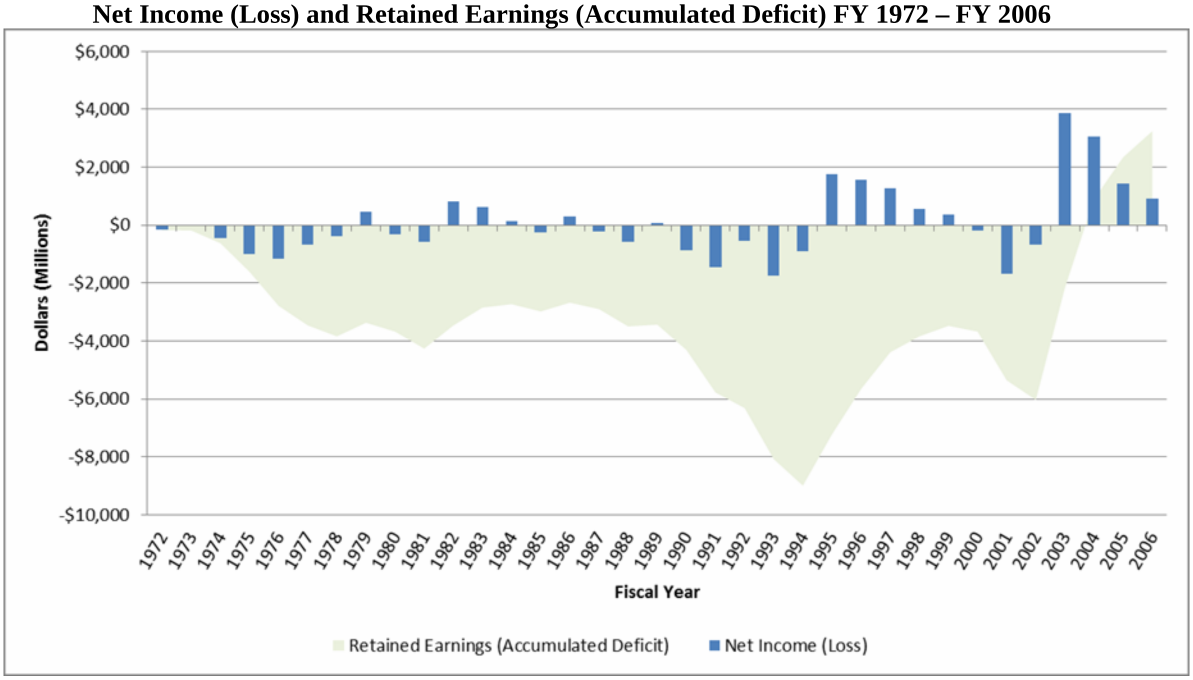
Factor 3: the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
Factor 4: the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
Factor 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;
Factor 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;
Factor 7: the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
Factor 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;
Factor 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;
Factor 10: the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that— (A) either— (i) 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 (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and (B) do not cause unreasonable harm to the marketplace;
Factor 11: the educational, cultural, scientific, and informational value to the recipient of mail matter;
Factor 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;
Factor 13: the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and
Factor 14: the policies of this title as well as such other factors as the Commission determines appropriate.

As PAEA doesn't require that the factors be achieved, a lower standard is applied and the PRC's focus is on the dictionary definition of the phrase "taken into account".

The Review

In its actual review of the nine factors, the PRC begins with a moderately detailed account of the evolution of postal ratemaking; in particular the transition from the cost of service regulation that obtained under the Postal Reorganization Act (PRA) to the current cap-based system. The account provides necessary context given that PAEA was designed to make the ratemaking system more efficient. The PRC rightly describes the shortcomings of the PRA system, which was time consuming, costly, produced large and unpredictable price increases and created volatile postal financial results.

Net Income (Loss) and Retained Earnings (Accumulated Deficit) FY 1972 – FY 2006



After describing the PRA system, the PRC details the development of the PAEA system, which developed in the years immediately following the passage of legislation in late 2016. As the PRC notes, The PAEA significantly altered postal law with respect to the system of ratemaking. Ostensibly, it provided for increased transparency and accountability and enhanced the authority and responsibilities of the PRC. The PAEA also ended the break-even mandate and encouraged the Postal Service to generate retained earnings as an objective.

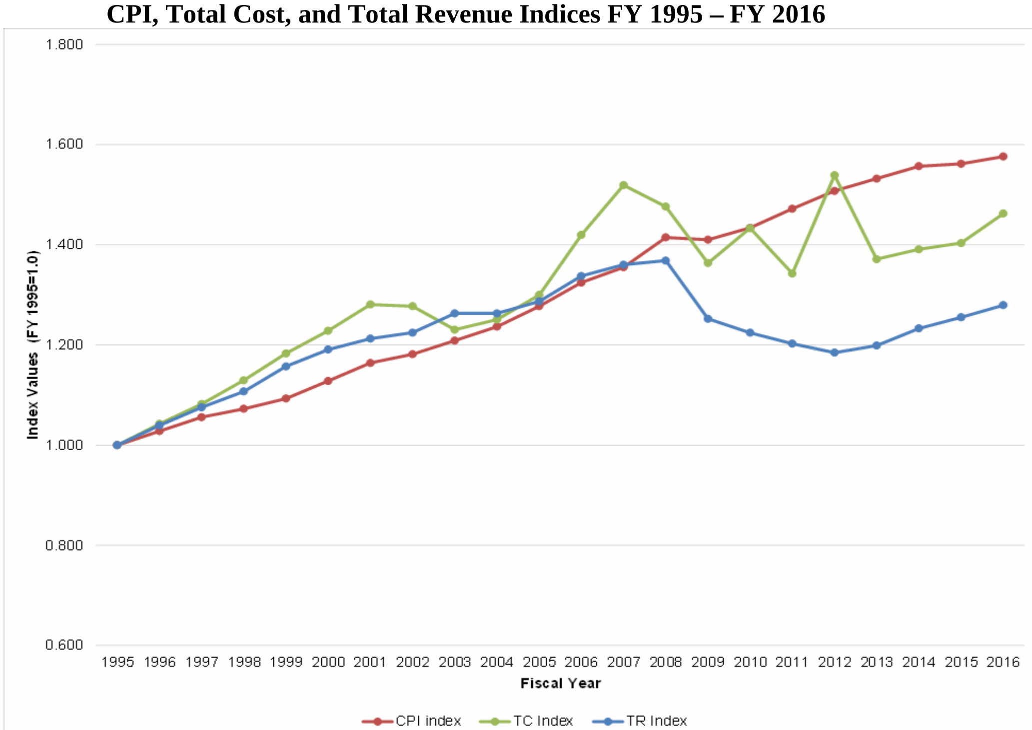
In contrast to the PRA cost-of-service model for setting rates, the PAEA employed a price cap system as the primary limit on rate-setting. This system employs "an annual limitation on the percentage changes in rates to be set by the Postal Regulatory Commission that [would] be equal to the change in the consumer price index for all urban consumers [CPI-U] 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." A critical motivation for the PAEA's ***requirement*** of the inclusion of the CPI-U price cap in the new system of ratemaking was to provide the incentive for the Postal Service to reduce costs and increase efficiency. The market dominant ratemaking system, including the CPI-U price cap, established by the PAEA was intended to incentivize the Postal Service to reduce its costs as a way to achieve retained earnings.

The PAEA also provided for an exception to the price cap if the Commission determined that such an increase was "due to either extraordinary or exceptional circumstances" and such adjustment was "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."

Importantly, under the PAEA, the ratemaking process was changed so that "[m]arket dominant rates are limited by a price cap, not by policy considerations." The prices set in Docket No. R2006-1 (the final prices set under the PRA) were the starting point for the PAEA prices that were then adjusted consistent with the price cap. As a result, a certain amount of contribution was already built into the market dominant prices at the beginning of the PAEA era. The PAEA contained a transition rule, which would have allowed the Postal Service to modify market dominant rates in accordance with the provisions in effect before the date of enactment of the PAEA. This would have permitted changes to the amount of contribution built into the market dominant rates. However, the Postal Service did not avail itself of this rule.

The PRC also reviews the changes in the USPS' financial condition – and the legislative and marketplace changes that influenced those conditions during the transitional period. As the PRC notes, in 2006, when PAEA was, the USPS was on relatively sound financial footing in large part due to the passage of the Civil Service Retirement System Funding Reform Act in 2003 which greatly reduced USPS' debt. Moreover, historically USPS total expenses had generally tracked CPI over time (see below). In fact prior to the passage of PAEA, USPS revenues had exceeded CPI leading Congress to conclude that a price cap based system would provide sufficient revenues for the USPS to operate efficiently.

CPI, Total Cost, and Total Revenue Indices FY 1995 – FY 2016



As the graph above illustrates, in 2007, due in large part to retiree health benefit prefunding requirements (RHBF) built into PAEA, USPS costs began to diverge dramatically from a relatively stable historical trend. This condition was exacerbated due to the Great Recession, which led to unprecedented declines in volume and revenue.

Before turning to the explicit PAEA requirements, the PRC also addresses the changes in service regulation wrought by PAEA. Under the PRA – when the R in PRC stood for 'rate' – there was no explicit role for the Commission to regulate service; though service was considered as a factor when determining rates. The PAEA mandated that the Postal Service, in consultation with the Commission, promulgate an initial set of service standards for market dominant products to take effect within 1 year after the PAEA was enacted. The PAEA required the Postal Service to measure service performance relative to the service standards in place and report this information to the Commission each year as part of the Postal Service's Annual Compliance Report (ACR). Finally, the PAEA also carried forward the requirement from the PRA that USPS must seek an advisory opinion from the Commission before implementing any changes in the nature of service that have at least a substantially nationwide effect, which include changes to service standards.

In undertaking an evaluation of the structure of the ratemaking system, the PRC employs a complicated process that focuses on two "subtopics": the ratemaking process and pricing. In considering the process the PRC focuses on whether the system creates predictability with regard to the magnitude and timing of price changes. With respect to pricing, the emphasis is on the creation – or lack thereof – of pricing flexibility. The PRC then seeks to determine whether the resulting prices have been "just" (defined as being not excessive from the perspective of the mailer) and "reasonable". Reasonable in this instance is equated with not threatening the USPS' financial integrity.

On the whole, the PRC concluded that "the structure of the ratemaking process created by PAEA has worked as intended to create predictably and stably timed price adjustments, reduce the administrative burden by reducing the complexity of rate proceedings, and increase the transparency of the ratemaking process due to the availability of comprehensive and understandable material. With respect to pricing, the Commission concludes that the system has allowed the Postal Service pricing flexibility and achieved rates that are just and predictable and stable in magnitude. However, the Commission finds the system has not resulted in increased pricing efficiency."

The Ratemaking Process

Noting that the PAEA was intended to achieve a streamlined ratemaking process by ensuring predictably and stably timed prices, while reducing administrative burden and increasing transparency, the PRC then considers whether the system has fulfilled those goals of the PAEA. This consists of an analysis of objectives 2 and 6 (see above) that includes summaries of comments received from participants.

Not surprisingly, most commenters agree that the process under PAEA was a significant improvement over the PRA; a position that the PRC attempts to measure and quantify by looking at the relative magnitude of – and duration between – price adjustments before and after the enactment of PAEA. Thus, the PAEA system would be deemed a success if it "fosters prices for all market dominant products that, with regard to both timing and magnitude, are capable of being consistently forecast and do not include sudden or extreme fluctuations". With limited exceptions – for instance when USPS elected to forgo a price increase due to limited cap availability – the PRC determined that changes occurred at intervals that improved predictability for mailers.

Similarly, commenters in general found PAEA to be less administratively burdensome than PRA, though opinions differed on whether transparency improved with some commenters noting that the lengthy litigation that existed under PRA forced greater disclosure by the USPS. Overall, the PRC determines that administrative burden is decreased where the complexity of price adjustment proceedings is at a level where they are readily adjudicated within an appropriate period, *i.e.*, the 90-day benchmark between notice and planned implementation that was the norm throughout the PAEA era, and where other qualitative indicators, such as participants' views, reflect a reduction in administrative burden. During the PAEA era, large-scale price adjustments, excluding exigent cases, lasted an average of 62 days with only one not meeting the PRC's 90-day benchmark. Accordingly, even when issues arose, the duration of the Commission's review of large-scale market dominant price adjustments during the PAEA era was nearly always less than the 90-day benchmark. This indicates that the complexity of rate adjustment proceedings in the PRA era has been accommodated within 90 days. This finding is buttressed by PRC analysis comparing the number of filings and the duration of review for omnibus rate cases (PRA) and the different kinds of price adjustments filed under PAEA.

		PRA (1997- 2006)			
		Omnibus Rate Cases	Changes in Analytical Principles	Large-Scale Rate Cases	Small-Scale Rate Cases
Number of Filings (per docket)		3,836	15	114	19
Postal Service Initial Filing (pages)		244	15	155	26
Postal Service Initial Library References (filed per case)		156	2	6	1
Participant input and information collection	Hearing /Technical Conference (days)	16	0.4	1	0.13
	Number of Briefs (filed per case)	67	-	-	-
	CHIRs/CIRs/POIRs (per case)	18[149]	2	8	1.2
Commission Final Order (pages)		798	18	118	19
Duration of Review (days)		253	129	62[150]	37

On the issue of transparency, the PRC reviews the necessary interaction between stakeholders and the Postal Service/PRC by taking into account participants' views on the transparency of the ratemaking process, and provides a supplementary analysis of the number of motions for additional information (motions to compel and motions for issuance of information requests), and the number and frequency of Postal Service and PRC reports to support its determinative analysis. The PRC also reviews the number and frequency of Postal Service and PRC reports as a measure of transparency during the PAEA era. Under the PAEA, the Postal Service has been required to file annual reports to the PRC related to costs, revenues, rates, service, work share discounts, and market tests, as well as performance reports and performance plans. Overall, the Commission found that transparency was increased because the reports provided by the Postal Service and the Commission during the PAEA era provided comprehensive, understandable material regarding rate proceedings.

Pricing

Regarding pricing, the PRC looks at objectives 4, 2, 8, and 1 in that order. In reviewing pricing, these objectives express four goals of pricing during the PAEA era: (1) pricing flexibility; and maintaining rates that are (2) predictable and stable in magnitude; (3) just; and (4) efficient.

Commenters were divided on the issue of flexibility. While a majority argued that PAEA increased pricing flexibility, the USPS, public representative and employee unions argued the opposite; that the cap restricted USPS' flexibility. Other commenters – including PostCom - contended that the USPS has not adequately used its pricing flexibility under the PAEA. Interestingly, upon consideration the PRC determined that ""comparisons to other systems, such as the pricing flexibility afforded to and/or exercised by foreign posts, utilities . . . and private carriers" are not appropriate because the unique nature of the Postal Service makes it difficult to compare to other entities."

Ultimately, the PRC considered flexibility to consist of two components. First, it determined that the system created under PAEA has successfully conferred upon the USPS the flexibility to set prices; citing not just the numerous large scale rate cases USPS has filed but also its use of promotional prices and its use of the exigency provision. Second, with respect to flexibility on timing, although the time it took for approval of proposed prices varied, the PAEA generally provided the Postal Service flexibility with regard to the timing and frequency of price adjustments subject to statutory limitations.

Predictability and stability were also generally considered to have improved by most of the commenters in the ten-year review as the price cap limits changes at the class level. Due to the existence of a cap based on publicly available data that the PRC routinely published, the PRC concluded that predictability and stability had improved. In support of this view the PRC analyzed the magnitude of specific price changes with overall averages and found that in each docket during the PAEA era, most classes received average total price increases relatively close to the annual CPI-U limitation. .

Docket No.	R2008-1	R2009-2	R2011-2	R2012-3	R2013-1	R2013-10	R2015-4	R2017-1	Total Adjustment under PAEA
First-Class Mail	2.886%	3.770%	1.741%	2.133%	2.570%	1.587%	1.956%	0.778%	17.421%
Standard Mail	2.875%	3.759%	1.739%	2.041%	2.569%	1.642%	1.926%	0.900%	17.451%
Periodicals	2.724%	3.961%	1.741%	2.133%	2.549%	1.664%	1.966%	0.832%	17.570%
Package Services	2.875%	3.800%	1.740%	2.115%	2.567%	1.453%	1.787%	0.973%	17.310%
Special Services	2.848%	3.825%	1.739%	-0.699%	2.850%	2.500%	0.255%	2.514%	15.832%
Annual CPI-U Limitation at Filing	**2.900%**	**3.800%**	**1.741%**	**2.426%**	**2.570%**	**1.696%**	**1.685%**	**0.804%**	**17.622%**

Source: Library Reference PRC-LR-RM2017-3/1

The PRC also addressed the fact that below the class level, some prices fluctuated much more than class level averages but noted that this practice was explicitly permitted in the law and in the cases of products with cost coverages below 100 percent, mandated by the PRC. The PRC also explicitly addressed the exigency surcharge that caused prices increases to exceed CPI but ultimately found that during the PAEA era there has not been evidence of deviations that would rise to the level of being unpredictable or unstable.

Just and Reasonable Prices

As noted above, the PRC decouples the notion of just and reasonable rates into two separate prongs. According to this view "just" is considered to reflect the concerns of the USPS customers, whereas "reasonable" applies to the USPS' perspective. Overall, the PRC determines that PAEA has resulted in just prices by looking at multiple factors:

- The relationship between prices and underlying costs
- The stability of product cost coverages over time
- The relationship between a product's cost coverage and the cost coverage for market dominant products as a whole

This leads to the creation of "coverage indices" by class and selected products; computed by dividing the cost coverage of a given product by the cost coverage of market dominant products as a whole as indicated in this table.

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
First Class Mail	1.19	1.23	1.21	1.21	1.26	1.20	1.20	1.24	1.24
Single-Piece Letters and Cards	0.67	0.64	0.64	0.69	0.78	0.70	0.67	0.78	0.68
Presort Letters and Cards	1.77	1.79	1.80	1.83	1.82	1.78	1.75	1.75	1.88
Flats	0.94	1.01	0.88	0.88	0.93	0.85	0.87	0.83	0.80
Parcels	0.62	0.63	0.61	0.67	0.61	0.57	0.60	0.61	0.67
Standard Mail	0.93	0.88	0.89	0.90	0.93	0.91	0.91	0.88	0.88
High Density and Saturation Letters	1.36	1.33	1.29	1.35	1.38	1.35	1.31	1.20	1.22
High Density and Saturation Flats and Parcels	1.52	1.47	1.36	1.30	1.35	1.31	1.24	0.95	0.94
Carrier Route	0.89	0.89	0.87	0.83	0.81	0.76	0.75	0.72	0.76
Letters	1.14	1.07	1.10	1.13	1.11	1.08	1.10	1.12	1.12
Flats	0.56	0.51	0.50	0.49	0.50	0.49	0.46	0.44	0.44
Periodicals	0.50	0.47	0.46	0.46	0.45	0.43	0.42	0.41	0.41
In County	0.57	0.54	0.46	0.48	0.44	0.43	0.43	0.41	0.39
Outside County	0.50	0.46	0.46	0.46	0.45	0.43	0.42	0.41	0.41
Packages	0.60	0.59	0.54	0.58	0.61	0.58	0.62	0.57	0.57
Bound Printed Matter Flats	0.99	1.07	0.90	1.00	0.84	0.82	0.83	0.77	0.89
Bound Printed Matter Parcels	0.64	0.60	0.56	0.60	0.68	0.60	0.60	0.65	0.58
Media and Library Mail	0.52	0.52	0.49	0.47	0.53	0.49	0.51	0.42	0.42
Special Services	0.76	0.78	0.81	0.80	0.79	0.87	0.69	0.69	0.70
Total Market Dominant	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
Standard Deviation	0.274	0.292	0.298	0.295	0.312	0.298	0.298	0.314	0.317

Source: Library Reference PRC-LR-RM2017-3/1

Because cost coverages have remained relatively stable at the class-level and the coverage index has been relatively stable at the product-level, the PRC concludes that costs were linked to prices during the PAEA era, which suggests that prices have been just. The PRC supported this conclusion by comparing cost coverages over time with each product's own-price elasticity (in 2016) and observed that "extreme cost coverage increases were not imposed on products with the lowest elasticities as would be expected if the Postal Service had misused its market power.

Pricing Efficiency

In its decision the PRC observes that several commenters claim that prices are not efficient in that while PAEA imposes a ceiling on workshare passthroughs of 100 percent (subject to exceptions) there is no corresponding floor. Thus, USPS may – and does - offer workshare incentives that are less than the costs that would be avoided if mailers did the work. In it's ruling the PRC determined that to measure pricing efficiency, it will evaluate whether prices were set using Efficient Component Pricing (ECP) and a measure of allocative efficiency. The ECP principle asserts that worksharing incentives should equal the USPS' avoided costs, while allocative efficiency considerations demand that products cover their marginal costs. The PRC considered applying a Ramsey pricing test – that products cover their attributable costs – but declined to do so.

Ultimately the PRC found that, on balance, the ratemaking system maintained just prices. Several avenues were in place during the PAEA era that allowed mailers to allege rates were unjust and permitted the PRC to evaluate such rates, both before and after rates went into effect and that rates were not excessive to mailers during the PAEA era. Therefore, the system has maintained just rates during the PAEA era. On the other hand, the PRC found that the system has not resulted in the use of "available mechanisms, such as flexibility under the price cap, pricing differentials, and workshare discounts, to the fullest extent possible to incentivize increases in pricing efficiency."

That conclusion is based on PRC analysis of whether prices during the PAEA era reflected ECP and allocative efficiency. According to PRC, analysis workshare discounts were not set as close as practicable to their avoided costs despite USPS's ability to do so under the price cap. Consequently, the PRC concluded that the ratemaking system has not increased pricing efficiency during the PAEA era. By applying the objectives in conjunction with the others the PRC believes it has demonstrated that the system was largely successful in achieving the goals related to the structure of the ratemaking system; achieving a streamlined ratemaking process that reduced administrative burden and increased transparency, that allowed the Postal Service pricing flexibility, and achieved rates that were predictable, stable (with regard to timing and magnitude), and just. However, the Commission found that the market dominant ratemaking system has not increased pricing efficiency during the PAEA era.

USPS Financial Health

In assessing USPS financial health and stability, the PRC employs three different time horizons; short-term, medium-term, and long term and looks at different results to assess each in turn. To assess short-term stability, the PRC examines operating profit and also considers USPS' borrowing authority during the PAEA era. The PRC concluded that for the most part, USPS was able to generate and maintain a positive adjusted operating profit.

Postal Service Operating Expenses FY 2007 – FY 2016

Fiscal Year	Total Costs *($ in millions)*	Less: Statutory Accruals to RHBF *($ in millions)*	Less: Noncash Workers' Compensation *($ in millions)*	Less: Supplemental contribution to FERS annuity *($ in millions)*	Less: Interest Expense *($ in millions)*	Operating Expenses *($ in millions)*
2007	$80,115	$8,358	$0	$0	$10	$71,747
2008	$77,774	5,600	417	0	36	71,721
2009	$71,910	1,400	1,343	0	80	69,087
2010	$75,582	5,500	2,500	0	156	67,426
2011	$70,806	0	2,242	0	172	68,392
2012	$81,153	11,100	2,356	0	190	67,507
2013	$72,319	5,600	(311)	0	191	66,839
2014	$73,362	5,700	1,182	7	184	66,289
2015	$74,011	5,700	307	241	185	67,578
2016	$77,121	5,800	1,214	248	222	69,637

Source: Library Reference PRC-LR-RM2017-3/1

Operating Profit FY 2007 – FY 2016

Fiscal Year	Operating Revenue ($ in millions)	Operating Expenses ($ in millions)	Operating Profit (Loss) ($ in millions)
2007	$74,778	$71,747	$3,031
2008	$74,932	71,721	3,211
2009	$68,090	69,087	(997)
2010	$67,052	67,426	(374)
2011	$65,711	68,392	(2,681)
2012	$65,223	67,507	(2,284)
2013	$67,318	66,839	479
2014	$67,764	66,289	1,475
2015	$68,790	67,578	1,212
2016	$71,429	69,637	1,792

Source: Library Reference PRC-LR-RM2017-3/1

When considering medium-term stability, the PRC focuses on net income, an indicator comparable to the concept of economic profit described in the ANOPR (total revenue – [variable cost + fixed cost]).

Postal Service Total Costs FY 2007 – FY 2016[272]

Fiscal Year	Total Attributable Costs ($ in millions)	Total Institutional Costs ($ in millions)	Total Costs ($ in millions)
2007	$45,509	$31,648	$80,115
2008	45,637	32,137	77,774
2009	43,005	28,905	71,910
2010	41,576	34,006	75,582
2011	41,252	29,554	70,806
2012	40,528	40,625	81,153
2013	39,169	33,149	72,319
2014	39,175	34,187	73,362
2015	40,196	33,815	74,011
2016	40,758	36,363	77,121

Source: Library Reference PRC-LR-RM2017-3/1

Postal Service Net Income (Loss) FY 2007 – FY 2016

Fiscal Year	Total Revenue ($ in millions)	Total Costs ($ in millions)	Net Income ($ in millions)
2007	$74,973	$80,115	($5,142)
2008	74,968	77,774	(2,806)
2009	68,116	71,910	(3,794)
2010	67,077	75,582	(8,505)
2011	65,739	70,806	(5,067)
2012	65,247	81,153	(15,906)
2013	67,342	72,319	(4,977)
2014	67,854	73,362	(5,508)
2015	68,951	74,011	(5,060)
2016	71,530	77,121	(5,591)

Source: Library Reference PRC-LR-RM2017-3/1

Because USPS had negative net income in every year, the PRC determined that total revenue generated was inadequate to cover total costs. Therefore, medium-term stability was not maintained during the PAEA era according to the PRC.

In terms of long-term stability, the PRC asserts that in the long-term, revenue must exceed costs year after year, thus building up retained earnings that would allow the Postal Service to invest in capital improvements and pay down its debt. The Postal Service must have sufficient net income to generate retained earnings, which support its long-term solvency.

Net Income (Loss) and Retained Earnings (Accumulated Deficit) from FY 2006 – FY 2016

Fiscal Year	Net Income (Loss) *($ in millions)*	Retained Earnings (Deficit) *($ in millions)*
2006	N/A	$3,242
2007	($5,142)	(1,900)
2008	(2,806)	(4,706)
2009	(3,794)	(8,500)
2010	(8,505)	(17,005)
2011	(5,067)	(22,071)
2012	(15,906)	(37,978)
2013	(4,977)	(42,955)
2014	(5,508)	(48,463)
2015	(5,060)	(53,522)
2016	(5,591)	(59,113)

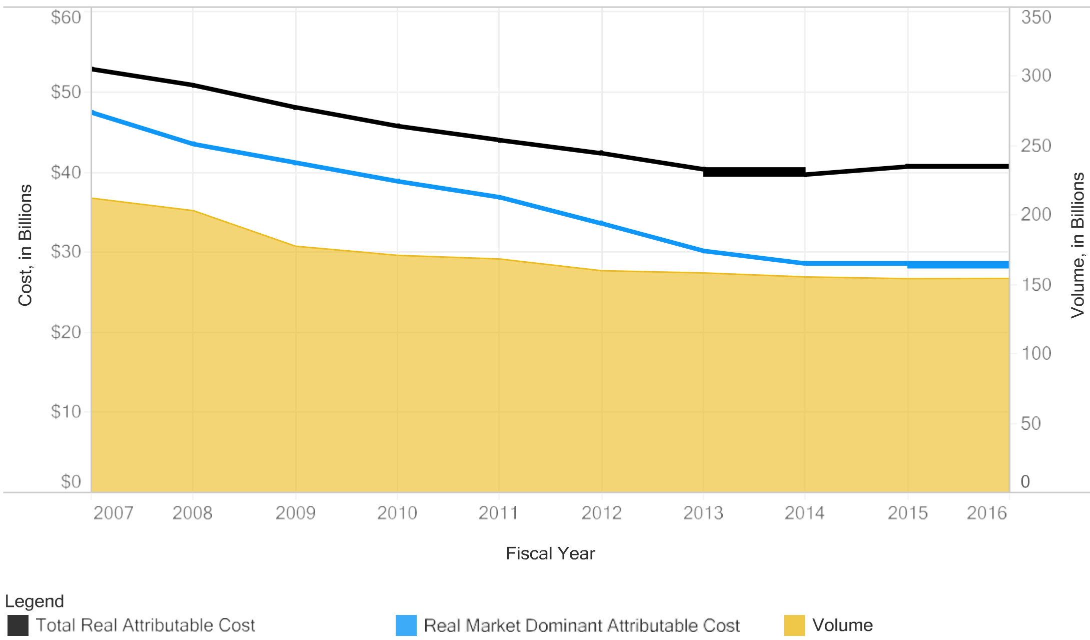
Source: Library Reference PRC-LR-RM2017-3/1

Because the Postal Service has not generated retained earnings during the PAEA era, the PRC believes that long-term stability was not maintained.

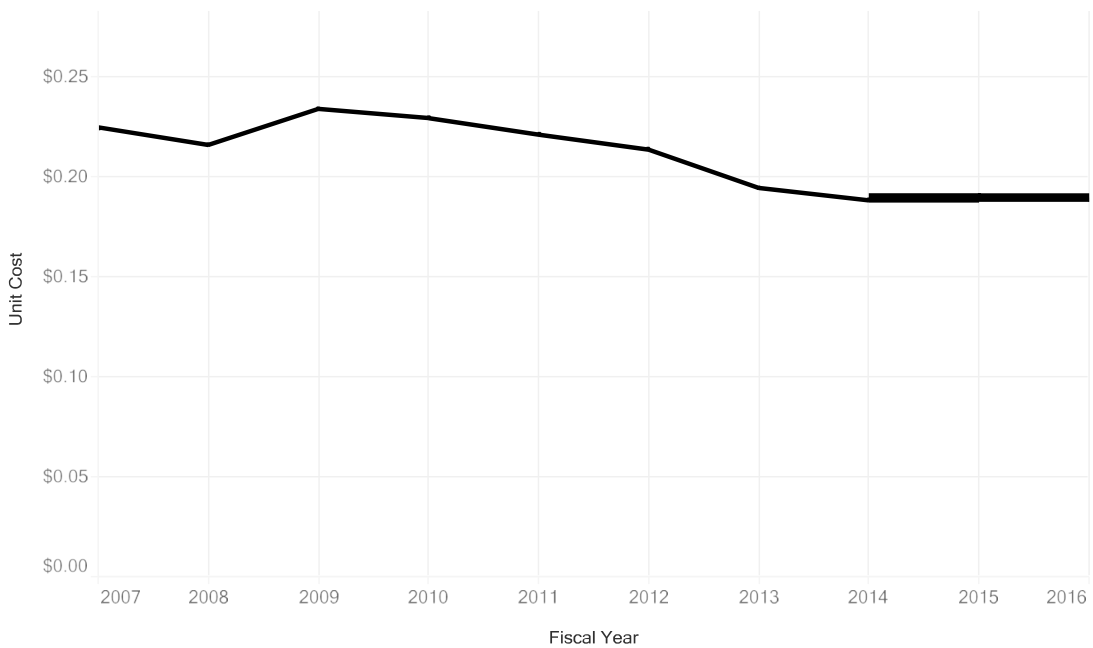
The PRC also examined costs and operational efficiency with respect to USPS financial health and whether the system "maximize[d] incentives to reduce costs and increase efficiency." To do so, the PRC separately considers (1) maximize incentives, (2) reduce costs, and (3) increase efficiency. To analyze whether costs have been reduced during the PAEA era, the Commission uses, as its determinative metric, the change in real unit market dominant attributable costs. The Commission performs a supplementary analysis by reviewing changes in average cost per piece by function and mail mix changes as potential drivers of cost reductions. The Commission also reviews additional considerations that potentially constrain cost reduction efforts, such as the nature of the Postal Service's cost structure and the USO. The Commission then summarizes it's precedent related to cost reduction efforts. To analyze whether efficiency has increased, the Commission uses, as its determinative metric, the change in total factor productivity (TFP) during the PAEA era.

In evaluating whether incentives have been maximized, the PRC looks at whether the "maximum benefit" was provided by each incentive mechanism as a function of whether: (1) the gains realized through cost reductions and efficiency increases were sufficient to contribute to the financial stability of the Postal Service; and (2) the rate of cost reductions and operational efficiency increases exceeded the rate of cost reductions and operational efficiency increases during the relevant comparable time period. For purposes of this review, the Commission considers the 10 years immediately preceding implementation of the PAEA to be the relevant time period.

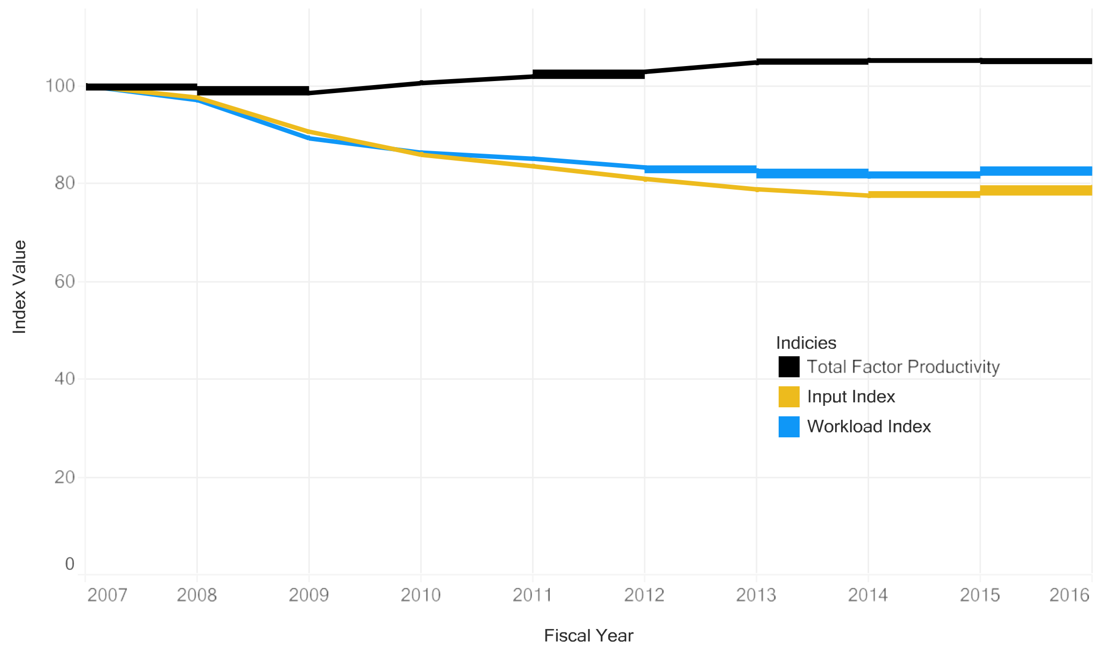
Total Real Attributable and Market Dominant Real Attributable Cost (Real, FY 2007 – FY 2016)



Unit Market Dominant Attributable Cost (Real, FY 2007 – FY 2016)

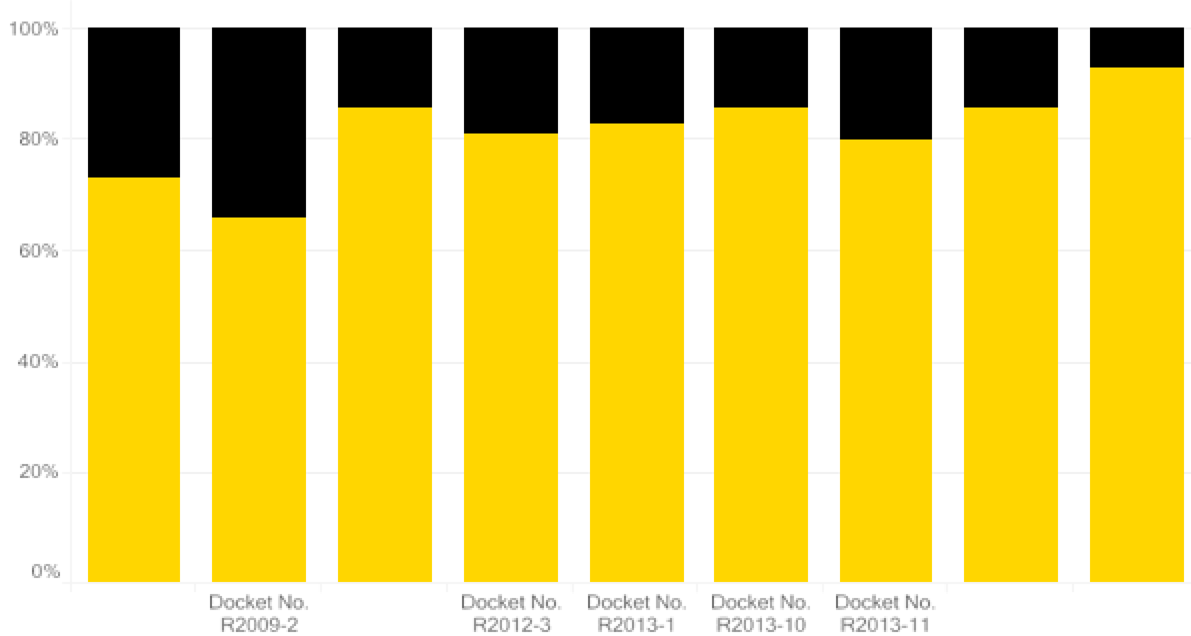


Workload, Input,
TFP Indexes
(Indexes based to 100 in FY 2007)



Source: Library Reference PRC-LR-RM2017-3/1

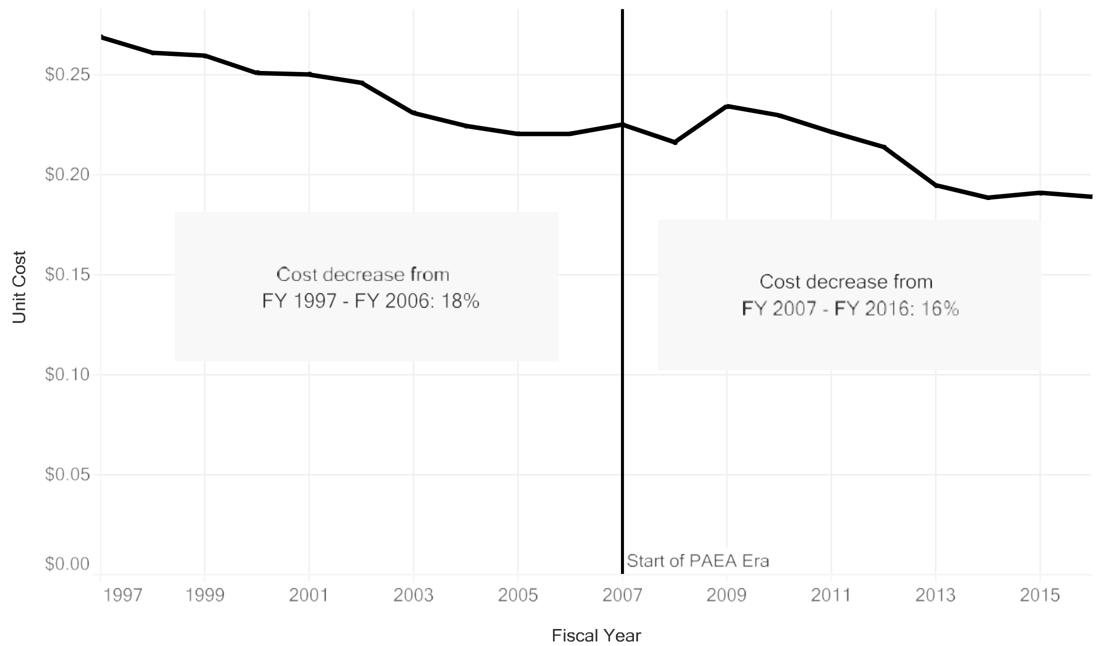
The PRC also considered worksharing incentives in this context as an additional consideration and potential driver for operational efficiency changes. This is because inefficient pricing incentivizes inefficient behavior. Also, workshare discounts that are substantially below avoided costs could lead to inefficiencies because the Postal Service performs work that the mailers could perform at a lower cost.



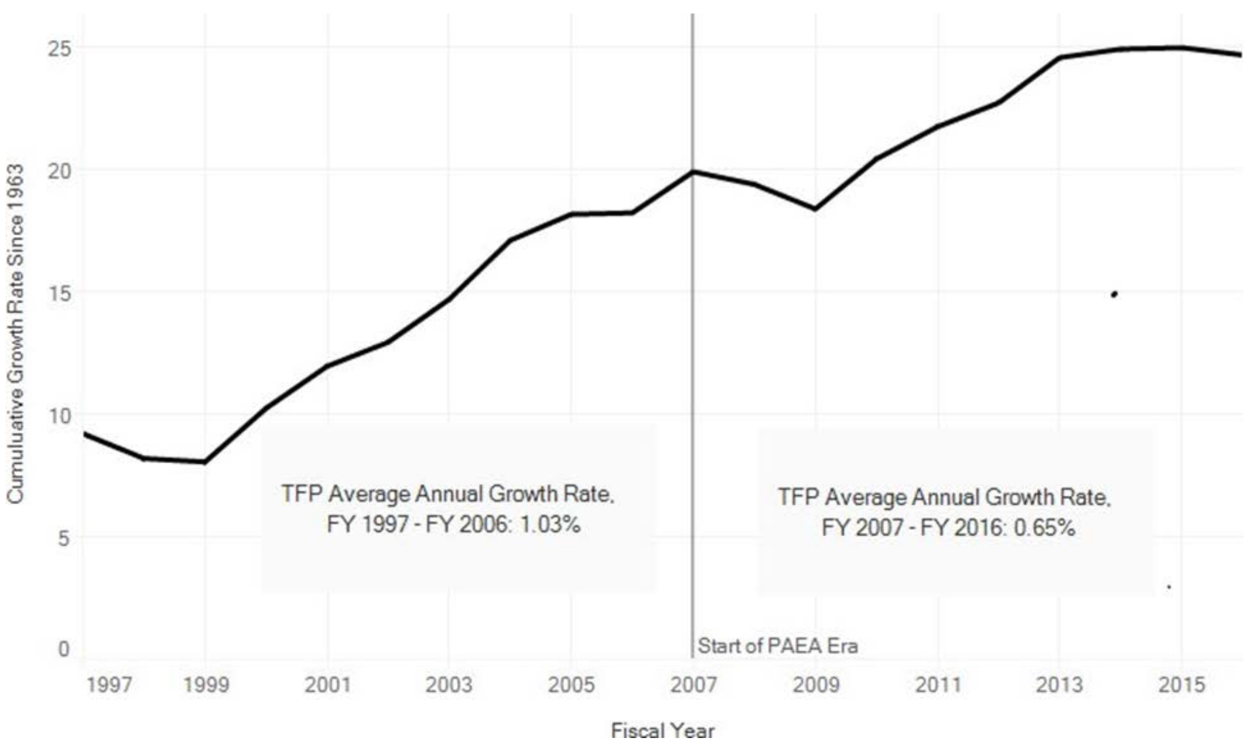
According to PRC analysis, USPS has not set the majority of its workshare discounts so that their passthroughs were close to 100 percent of avoided costs during the PAEA era. This pricing strategy may have harmed operational efficiency within the postal system because the Postal Service may have processed more mail than it otherwise would have if efficient price signals were sent. This may have led the Postal Service to maintain more mail processing and transportation capacity than necessary because more of the mail it received required additional processing and transportation.

To determine whether these results add up to maximization of incentives the PRC conducts a comparative analysis looking at results before and after PAEA by looking at costs and productivity over similar periods of time.

Unit Market Dominant Attributable Cost (Real, FY 1997 – FY 2016)



Source: Library Reference PRC-LR-RM2017-3/1



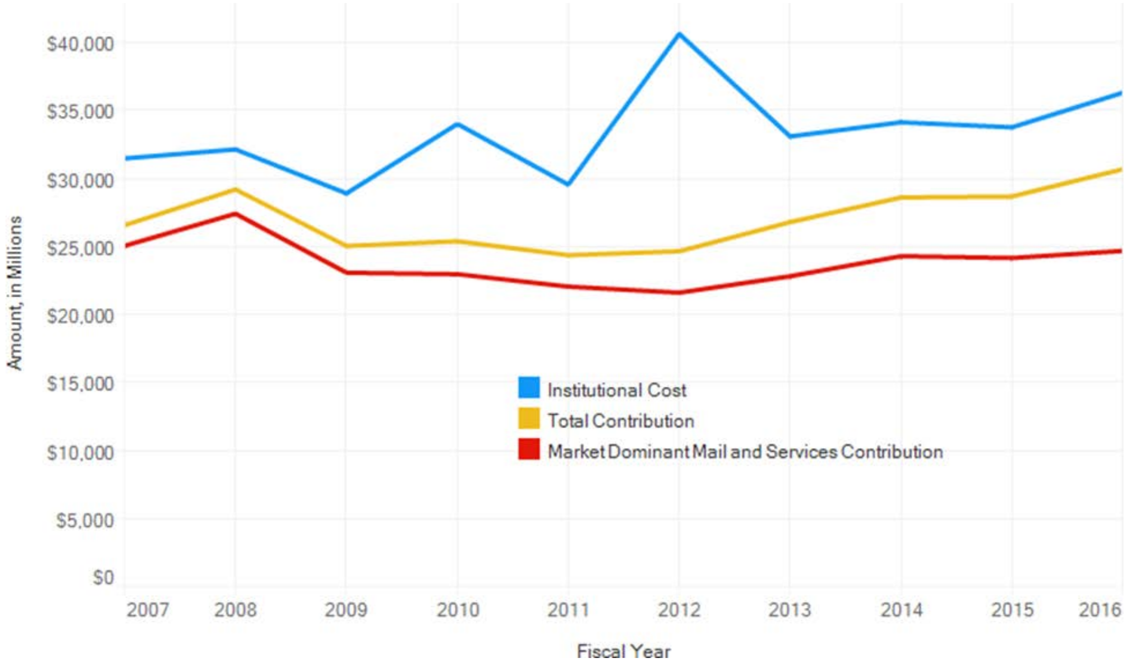
Based on the cost reduction, operational efficiency, and maximization analyses, supported by the discussions of additional considerations and Commission precedent, the Commission determined that there were cost reductions and efficiency gains during the PAEA era, but the incentives to achieve cost reductions and efficiency increases were not maximized under the current system.

Reasonable Rates

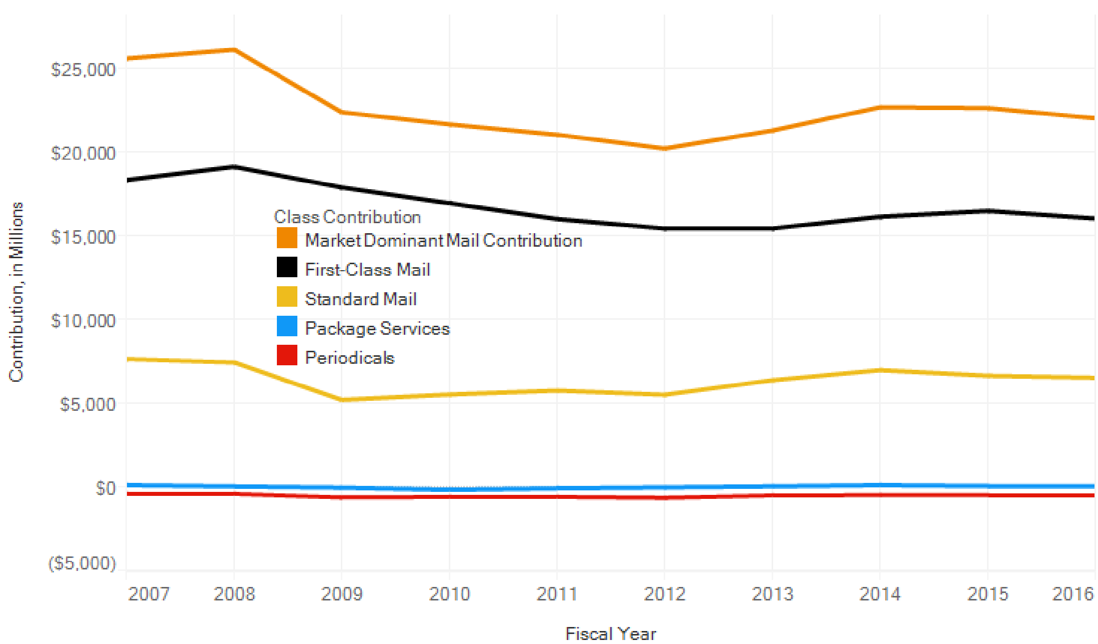
The analysis of incentives and costs is an important precursor to the examination of the reasonableness of the rates arising from the current system. Reasonableness in this case is being defined as rates that do not "threaten the financial integrity" of the Postal Service.

To make this assessment the PRC looks at reviews the contribution to institutional costs from market dominant products as a whole during the PAEA era as well as the institutional cost contributions from individual classes.

Institutional Costs and Contribution



Contribution by Market Dominant Class (in $ Millions)



Source: Library Reference PRC-LR-RM2017-3/1

Based on the cost and contribution analyses, the PRC concluded that there was not an adequate mechanism to maintain reasonable rates during the PAEA era because certain products and classes threatened the financial integrity of the Postal Service by failing to cover their attributable costs.

Mail Security

PAEA Objective 7 requires that the system enhance mail security and deter terrorism. This particular objective received limited comment and the PRC found that that the system worked to enhance mail security and deter terrorism during the PAEA era because there were sufficient funds available to maintain safeguards and provide for specific and unforeseen security or terrorism emergencies.

Institutional Cost Allocation
Objective 9 requires that the system "allocate the total institutional costs appropriately between market-dominant and competitive products.

Contributions to Institutional Costs (FY 2007 – FY 2016)

Year	Competitive Product Contribution ($ Billions)	Market Dominant Product Contribution ($ Billions)	Residual Institutional Cost ($ Billions)
FY 2007	1.52	25.05	4.91
FY 2008	1.78	27.41	2.94
FY 2009	1.96	23.08	3.87
FY 2010	2.42	22.97	8.62
FY 2011	2.31	22.05	5.19
FY 2012	3.04	21.61	15.98
FY 2013	3.86	21.97	7.26
FY 2014	4.31	24.29	5.52
FY 2015	4.52	24.15	5.08
FY 2016	6.00	24.68	5.62

Source: Library Reference PRC-LR-RM2017-3/1

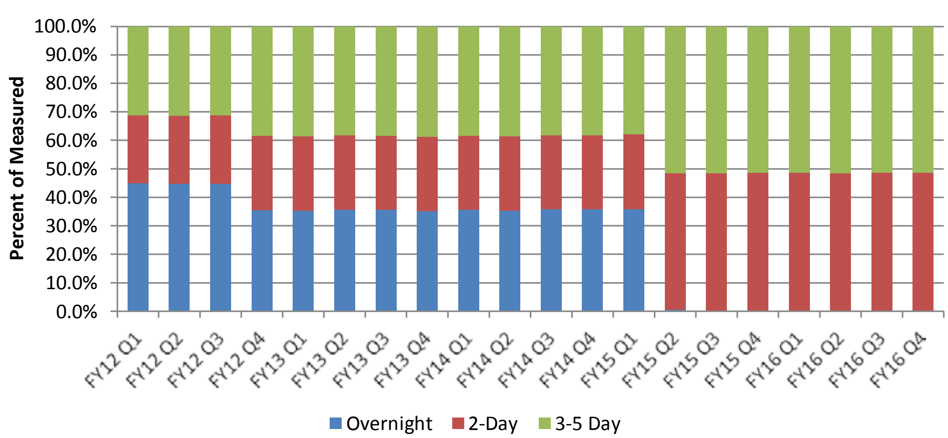
The system established under section 3622 of the PAEA does not specify the *amount* to be allocated to market dominant products, rather it only requires that the system have a *mechanism* to appropriately allocate between competitive and market dominant as set forth by Objective 9 and the PRC states that such a mechanism is in place.

Having used a topical approach – as described above – the PRC considered the objectives relevant to USPS' financial health in conjunction with one another and drew the conclusion that the USPS' financial health is poor and that financial stability was not maintained during the PAEA era. Therefore, the system has not maintained the financial health of the Postal Service as intended by the PAEA.

Service
The factors in PAEA require the maintenance of high quality service standards. In considering whether this has been achieved the PRC considers whether the system is designed to encourage the maintenance of high quality service standards established pursuant to 39 U.S.C. § 3691, and to hold the Postal Service accountable for consistently achieving those standards. The Commission begins its analysis by reviewing Postal Service changes to the service standards that have occurred over the past 10 years. The Commission's approach is to quantify changes in the quality of service standards by determining the percentage of mail volume eligible to receive various service standards, and to then identify percentage changes in these eligibilities during the PAEA era that resulted from actions taken by the Postal Service.

Since December 2007 the Postal Service's service standards have undergone two major revisions. In both instances, the Postal Service filed a nature-of-service case with the Commission. First, in 2012, the Postal Service promulgated revisions to its service standards as a result of its "Mail Processing Network Rationalization" initiative (Network Rationalization). The revised service standards had a substantial impact on the level of service for multiple mail classes, including First-Class Mail, Standard Mail, Periodicals, and Package Services.

First-Class Mail Single-Piece Letters/Postcards Percent of Volume by Service Standard, FY 2012 - FY 2016 (by Quarter)[393]



Although overnight service was retained for First-Class Mail Presorted and Periodicals, the Postal Service changed its business rules for these products, including setting more stringent entry requirements in order for these products to continue to be eligible for overnight service. In addition, service standards applicable to the Periodicals, Standard Mail, and Package Services classes were revised and lengthened, including service standards applicable to non-contiguous states and territories. These changes caused a reduction in the quality of service compared to the initial 2007 service standards.

The second major revision to service standards occurred in 2014 as part of the Postal Service's "Standard Mail Load Leveling" initiative (Load Leveling). The Postal Service explained that the intent in making these changes was to "address the imbalance in the proportion of volume with a Monday delivery expectation . . . and the resulting burden on resources associated with Monday delivery operations . . . ."

With regard to service performance, the PRC's primary mechanism for ensuring compliance is the Annual Compliance Determination (ACD). The PRC notes a number of persistent class and shape specific issues that it has attempted to address but acknowledges that the lack of comparable analysis from the PRA era makes it difficult to assess the extent to which the PAEA system represents an improvement. All in all the PRC concludes that that the ACD has been and continues to be the proper vehicle for addressing issues related to service performance.

Conclusion
In concluding its order the PRC states "In accordance with the statutory mandate set forth in 39 U.S.C. § 3622(d)(3), the Commission reviews the market dominant ratemaking system to determine whether it has achieved the objectives of 39 U.S.C. § 3622(b), taking into account the factors of 39 U.S.C. § 3622(c). The Commission applies a topical approach and reviews the structure of the ratemaking system, the financial health of the Postal Service, and service to analyze the objectives in conjunction with each other as set forth by 39 U.S.C. § 3622(b).

In its review of the structure of the ratemaking system, the Commission finds that the system was largely successful in achieving the goals related to the system's structure. With respect to the ratemaking process, the Commission finds that the system has worked well to create rate adjustments that are stable and predictable with regards to timing and that it has reduced the administrative burden and increased the transparency of the ratemaking system. For pricing, the Commission finds that the system allowed the Postal Service pricing flexibility, and achieved just rates that were of a predictable and stable magnitude. However, the Commission concludes that the system has not increased pricing efficiency.

In its review of the financial health of the Postal Service, the Commission finds that the Postal Service's overall financial health is poor. The Commission concludes that financial stability has not been maintained throughout the PAEA era. The Commission finds that the short-term financial stability measure was generally achieved; however, the Postal Service was not financially stable in the medium and long-term timeframes. Although costs were reduced and operational efficiency was increased during the PAEA era, the incentives to reduce costs and increase operational efficiency were not maximized. Non-compensatory products and classes further threatened the financial integrity of the Postal Service, as the system did not generate reasonable rates. On a positive note, the system provided sufficient funds to maintain high quality service standards as intended by the PAEA.

In conclusion, based on its review of the objectives of the PAEA, considering the factors, the Commission finds that the system as a whole has not achieved the objectives of the PAEA."

Supplemental Views of Commissioner Tony Hammond
While concurring with the Commission for the most part, Commissioner Hammond expresses several misgivings regarding Order 4257. Acknowledging that the system arising from PAEA has given USPS and the PRC the flexibility to respond to a changing environment, Mr. Hammond expresses the opinion that the change from the PRA system has mostly achieved Congress' objectives with some exceptions.

Commission Hammond expresses disagreement with the extent to which the system has created just and reasonable rates, questioning whether the Retirement Health Benefits Fund (RHBF) prefunding requirement should be considered when assessing the Postal Service's financial stability. He opines that the price cap has made the Postal Service focus on cost savings and efficiency gains and expresses concern about whether the service objective of PAEA – which is impacted by the price cap – has been met.

Mr. Hammond agrees that financial stability has not been maintained but points out that this is largely the result of aggressive prefunding requirements for retiree health benefits. He recognizes that this requirement is outside of the PRC's purview but notes that with the benefit of hindsight, Congress might likely reconsider those requirements. According to Commissioner Hammond's supplement it would have been wise to separate out the effects of the prefunding requirements.

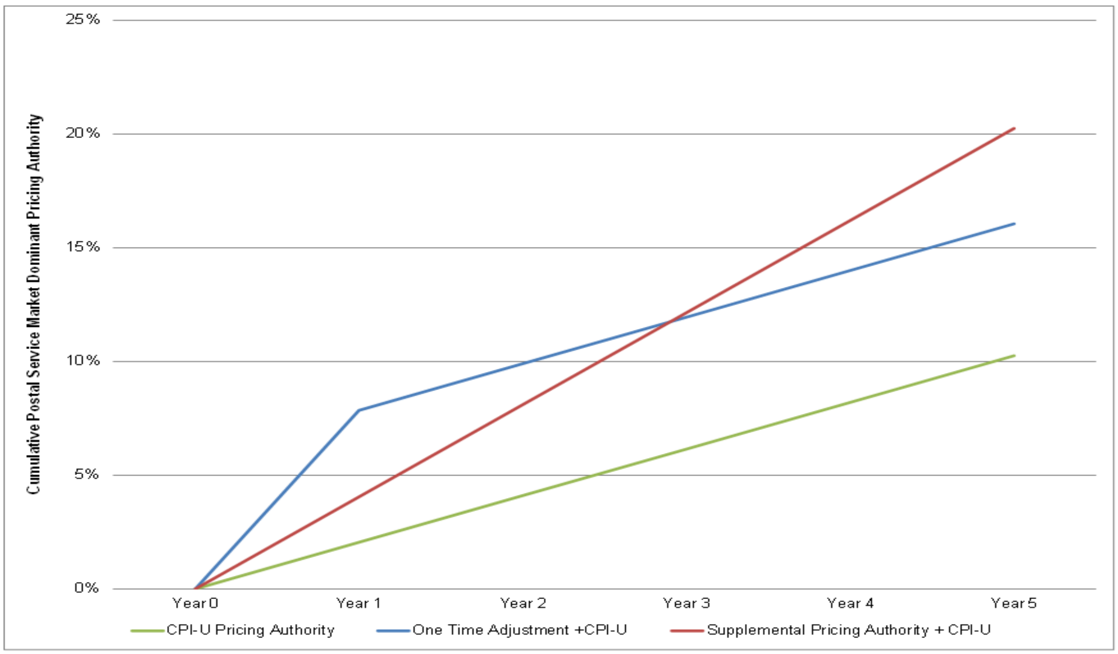
He concludes his remarks by saying that " the price cap framework has, for the most part, achieved its objectives. But, it requires some adjustment to address areas where it has fallen short. Such adjustments must be balanced, meaning that the end result must be that all of the objectives continue to be met, rather than sacrificing certain objectives for others."

Order 4258 Notice Of Proposed Rulemaking

Having determined that the current system is not meeting the objectives of PAEA, the PRC initiated a NOPR to consider the proposed changes to the system. The notice begins with a legal analysis asserting the PRC's authority to change the price cap system. PostCom and other commenters argued that under PAEA the PRC does not have such authority.

The system then proposed by the PRC contains a number of specific elements described below:

Additional Pricing Authority - Having determined that the current system is not generating sufficient revenue and citing recent USPS financial performance, the PRC found that the most appropriate means of putting the Postal Service on a path to medium-term financial stability is to provide 2 percentage points of supplemental rate authority each year for a 5-year period, after which it ends. According to the PRC 5 years is a reasonable and appropriate time period to allow the Postal Service the opportunity to achieve medium-term financial stability, after which time the Commission will review the Postal Service's financial performance. The 2 percentage points of supplemental rate authority per class of mail per calendar year for each of the first 5 full calendar years following the effective date of these proposed rules is structured to encourage regular and stable timing and magnitude of rate increases—that is the same amount of supplemental rate authority, provided on an annual basis at the same time each year, over a finite period of years. This proposed magnitude and 5-year phasing schedule will supposedly allow mailers to plan their operations and budgets over this period. Applying this proposed supplemental rate authority in addition to the CPI-U price cap for 5 years produces estimated revenues with a net present value equal to that of a one-time rate increase of 5.7 percent above CPI-U followed by 4 years of inflation-only increases based on PRC assumptions. The 5.7 percent one-time increase was considered as an alternative by the PRC but rejected. The projected increases from these alternatives are considerably larger than CPI only increases over the same period.



Performance Based Rate Authority - Acknowledging that PAEA was supposed to foster greater efficiency, the PRC identifies a presumed causal link between USPS inability to generate retained earnings and its inability to attain greater efficiency using something called the "financial health cycle".

Citing declines in USPS capital spending since the passage of PAEA and contemporaneous stagnation in productivity as measured by Total Factor Productivity, the PRC prescribes an additional element of pricing authority to facilitate accumulation of additional capital. After balancing the objectives of the ratemaking system, the PRC concluded that the best course of action is not to provide the Postal Service a specific level of retained earnings or a set amount of funding for capital investment but rather to put the Postal Service on a path to long-term financial stability while providing meaningful incentives for the Postal Service to increase operational efficiency and maintain high quality service standards. To do so, the PRC proposes to allow USPS 1 percent additional pricing authority per year over and above the 2 percent supplemental authority described above. The PRC expects this to allow USPS to return to pre-PAEA levels of capital spending which will lead inexorably to improvements in efficiency. This additional rate authority will also be reviewed five years after a new system is put into effect.

In order to ensure that the additional one percent rate authority is earned, the PRC proposes a mechanism designed to ensure that service quality and efficiency gains are attained; a Performance Incentive Mechanism (PIM). The PRC proposes to make this performance-based rate authority conditional on USPS meeting or exceeding an operational efficiency-based standard and adhering to service standard quality criteria. Using a performance-based approach should encourage the Postal Service to maintain service standard quality and maximize incentives to increase efficiency—thereby addressing areas where the existing ratemaking system was deficient in the 10 years following the enactment of the PAEA. In line with the general premise that improved operational efficiency should help to improve service, the PRC determines that it is appropriate to attach more weight to the operational efficiency aspect of the incentive mechanism. Therefore, the PRC divides the 1 percentage point of performance-based rate authority between an operational efficiency-based standard (0.75 percentage points), and service quality-related criteria (0.25 percentage points).

The operational efficiency component of the 1 percent will be determined using Total Factor Productivity (TFP); a measure of productivity that takes into account all productive inputs and outputs. To allay some commenters concerns about perceived shortcomings of TFP as a measure, the PRC proposes to make the additional 0,75 percent pricing authority conditional on whether average TFP growth for the most recent 5-year period has met or exceeded 0.606 percent. The standard of 0.606 percent reflects the average growth for TFP over the most recent 5 fiscal years of the PAEA era, *i.e.*, for the 5-year period from FY 2011 to FY 2016. If the PRC finds that such is the case, then the 0.75 percentage points of operational efficiency-based rate authority shall be allocated to each class of mail for the next calendar year. If the PRC finds that average TFP growth for the most recent 5-year period has not met or exceeded 0.606 percent, then the 0.75 percentage points of operational efficiency-based rate authority shall not be made available.

The remaining 0.25 percent is tied to service achievement. The PRC proposes that the service quality-based rate authority be allocated for a class of mail if all of the Postal Service’s service standards (including applicable business rules) for that class for the applicable year met or exceeded the service standards in place during the prior fiscal year on a nationwide or substantially nationwide basis. To facilitate this review, the Commission proposes to require the Postal Service to provide in its Annual Compliance Report (ACR) a description of and reason for any changes to service standards, or to certify that no changes to service standards have been made, since the last ACR. Under the proposed rules, the Commission would issue a preliminary determination, specific to each class of mail, at the time of the ACD. Any interested person will have 30 days to challenge this preliminary determination. The subject matter of the challenge is limited to changes in the service standards, including the business rules, that occur on a national or substantially nationwide basis. If no timely challenge is filed, the preliminary determination shall become final. If a timely challenge is filed, then the Commission will rule on any challenge within 60 days after the filing of the challenge. Any service quality-based rate authority allocated under this process would be available to the Postal Service for the upcoming calendar year. This proposed procedure will give the Postal Service and ratepayers adequate advance notice of whether, for each class, the 0.25 percentage points of service quality-based rate authority will be available to the Postal Service to use for the next calendar year.

Non-Compensatory Classes and Products - Non-compensatory products are those for which revenues are insufficient to cover attributable costs. At the onset of the review a number of USPS products fell into this category, most notably Periodicals and Marketing Mail Flats.

Non-Compensatory Products in FY 2016

Classes: Products	FY 2016 Cost Coverage (%)
Periodicals: In-County	70.0
Periodicals: Outside County	73.5
USPS Marketing Mail: Flats	79.4
USPS Marketing Mail: Parcels	64.6
Special Services: Stamp Fulfillment Services	87.3
Special Services: Money Orders	91.1
Special Services: Collect on Delivery	41.1
Special Services: Stamped Envelopes	92.3
First-Class Mail: Inbound Letter Post	66.4
Package Services: Media Mail/Library Mail	75.2

Source: FY 2016 ACD at 42-71; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/5, March 28, 2017.

For non-compensatory products in classes for which attributable costs for the entire class do not exceed revenue for the class, the Commission proposes to require minimum product-level price increases. Under the Commission’s proposal, whenever the Postal Service files a request for the Commission to review a notice of rate adjustment applicable to any class of mail, it will be required to propose to increase the rate for any non-compensatory product within that class by a minimum of 2 percentage points above the percentage increase for the class. This proposed rate increase does not create additional rate authority for the entire class. The PRC also proposes to prohibit price reductions for non-compensatory products.

In the case of Periodicals, where the entire class is non-compensatory, the PRC proposes that USPS must use all available rate authority including an additional 2 percent as applies to non-compensatory products within classes that cover their costs.

The goal of course is to improve cost coverages and ultimately to enable cost coverages greater than 100%. The PRC also considered premia of 1 percent and 3 percent but determined that requiring the Postal Service to increase the rate for any non-compensatory product by a minimum of 2 percentage points above the percentage increase for the class is appropriate because it balances the need for mailers to pay reasonable rates with the need for the Postal Service to achieve cost reductions.

Workshare Discounts - In its determination that the current system is not achieving the goals of PAEA, the PRC supported the principle of ECP as a way to ensure that efficient price signals are sent via worksharing incentives. Under the PAEA system, many workshare passthroughs vary substantially from 100 percent, thus violating this principle. To remedy this situation, the PRC is proposing the establishment of bands – or limits – for workshare passthroughs. The Commission proposes two bands—one for Periodicals and one for all other classes. For Periodicals, passthroughs must range between 75 percent and 125 percent. For all other classes, passthroughs must range between 85 percent and 115 percent. The wider band for Periodicals takes into account the wider variance observed in passthroughs for Periodicals and "the educational, cultural, scientific, or informational value" of those mailpieces. The median passthrough for Periodicals declined from 89 percent in Docket No. R2008-1 to 75 percent in Docket No. R2017-1. The median passthrough for all other classes declined from 97 percent in Docket No. R2008-1 to 85 percent in Docket No. R2017-1.

In order to alleviate concerns over rate shock, the PRC proposes to allow a three-year grace period during which passthroughs must be brought within the proposed bands. For all existing passthroughs, the Postal Service will have 3 years after the proposed rules go into effect to adjust the passthroughs to comply with the applicable band. If the Postal Service establishes a new workshare discount after the proposed rules become effective that does not comply with the applicable band, the Postal Service will have 3 years after establishing the new workshare discount to adjust the passthrough to comply with the applicable band.

Procedural Improvements - The Commission proposes two procedural changes to improve the ratemaking process. First, the Commission proposes to improve the requirements relating to the schedule for regular and predictable rate adjustments. Second, the Commission proposes to lengthen the notice period for rate adjustments and make conforming adjustments to the timing of comments and the Commission's decision.

The Commission proposes to require that the schedule contain plans to adjust rates that may occur over the next 3 years, at a minimum. Specifically, the Postal Service must include the estimated filing and implementation dates (month and year) and an explanation that will allow mailers to predict with reasonable accuracy, by class, the amounts of planned rate adjustments. The Postal Service will retain the flexibility to provide a new schedule at any time. It may also deviate from the anticipated rate changes if it explains the reason for the deviation in its request to the Commission to review its notice of rate adjustment.

To facilitate the administration of rate adjustment proceedings, the Commission proposes to extend the notice period from 45 days to 90 days prior to the planned implementation of rates. This proposed change codifies the existing practice. Requiring 90-days' advance notice of the specific rate and structural changes should facilitate mailers' ability to generate budgets. It also allows adequate time for the proceeding to be adjudicated, including potential changes, while still giving mailers time to implement the planned rates on the planned date. Consistent with extending the notice period, the Commission also proposes to extend the deadline to comment on an initial request from 20 days to 30 days. Allowing commenters 10 additional days to formulate comments will facilitate meaningful and intelligent participation by interested persons. The Commission also extends the deadline to comment on an amended request from 7 days to 10 days. These proposed durations are consistent with extensions to the comment period made in prior proceedings.

Rule Changes And Administrative Actions - The PRC's ruling also included a line by line discussion of the rule changes required to enact the proposed changes to the ratemaking system, administrative changes, and ordering language that can be found here.

Supplemental Commissioner Comments - Three of the Commissioners supplied additional comments in an appendix to the PRC ruling.

Commissioner Acton notes that "Many of the Postal Service's greatest challenges are not a primary result of the rates that it charges its customers and partners. Comprehensive legislative reform is best suited for brokering compromise and tailoring outcomes in this landscape where such divergent interests must coexist. The last few years have seen significant bipartisan efforts in Congress to craft such reform, and it has yet to come to fruition. The Commission does not have the ability to allow the Postal Service to re-amortize unfunded liabilities, administer employee benefits differently, change the frequency of delivery, or deliver profitable items restricted by statute. In short, there is no action the Commission can take to substitute for meaningful legislative reform, and I urge Congress to continue to work toward that goal." He also urged participants to provide the PRC with comments on how the system can be improved.

Commissioner Langley offered that the "instant rulemaking proposes one approach to regulating market dominant rates, which may satisfy the objectives of the PAEA. However, it is only one of many possible approaches. Interested parties, especially users of the mail, now have an opportunity to critique this approach and/or propose alternative solutions through the comment and reply comment periods.” She also expressed her commitment to continue to work toward a system that appropriately balances the needs of the USPS and its ratepayers.

Commissioner Hammond presented an actual dissent echoing his concurring statement in Order 4257; stating that the proposed changes “elevate the financial stability objective above the others.” He notes that the USPS financial distress is largely the result of an overly aggress retiree benefit prefunding schedule and expresses concern that the proposed changes will weaken features of the existing system that protect customers. He also worries that the added features create unwanted complexity but like Commissioners Acton and Langley anticipates comments that will help the PRC improve on its proposal.