

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Tony L. Hammond, Vice Chairman;
Mark Acton;
Dan G. Blair; and
Nanci E. Langley

Rate Adjustment due to Extraordinary or
Exceptional Circumstances

Docket No. R2010-4

NOTICE AND ORDER CONCERNING RATE ADJUSTMENT
FOR EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES

(Issued July 8, 2010)

I. INTRODUCTION

On July 6, 2010, the Postal Service filed a proposed rate adjustment pursuant to 39 U.S.C. 3622(d)(1)(E) and 39 CFR section 3010.60 *et seq.*, of the Commission's rules.¹ The filing seeks "to increase rates for market dominant products in excess of the otherwise applicable limitations of 39 U.S.C. 3622(b)(1)(A) and 39 CFR 3010.11." *Id.* at 1. The proposed prices represent an aggregate increase of approximately 5.6 percent and are to be implemented on January 2, 2011. *Id.*

¹ Exigent Request of the United States Postal Service, July 6, 2010 (Exigent Request).

II. BACKGROUND AND POSTAL SERVICE FILING

As part of the comprehensive changes enacted by the Postal Accountability and Enhancement Act of 2006 (PAEA), 120 Stat. 3198, Congress has authorized the Postal Service to adjust rates for market dominant products on the basis of “extraordinary or exceptional circumstances,” provided the Commission determines 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 39 U.S.C. 3622(d)(1)(E).

Section 3622(d)(1)(E) also required the Commission to establish procedures that permit exigent rate adjustments to be made on an expedited basis. *Id.* Commission determinations that a proposed exigent rate adjustment is “reasonable and equitable and necessary” can only be made “after notice and opportunity for a public hearing and comment, and within 90 days after any request by the Postal Service.” *Id.*

On October 29, 2007, the Commission adopted a new subpart E to its part 3010 market dominant product regulations. Subpart E established “a functional and flexible framework” for exigent rate cases. Order No. 43 at 65-73. Because of the statutory requirement that determinations on proposed exigent rate adjustments be made within 90 days of the date of filing, it was necessary for the Commission to adopt “streamlined proceedings” for exigent rate cases. *See id.* at 65-66; 39 CFR 3010.64.

On May 7, 2010, the Commission announced that a technical conference would be held on June 16, 2010 to discuss procedures for handling the exigent rate case that

² Rate adjustments under section 3622(d)(1)(E) for extraordinary or exceptional circumstances are commonly referred to as “exigent” rate adjustments, although the term “exigent” does not appear in the statute. Recognizing that the legal standard for assessing section 3622(d)(1)(E) rate adjustments is the “extraordinary and exceptional circumstances” standard, the Commission shall for convenience refer to rate adjustments proposed under section 3622(d)(1)(E) as “exigent rate adjustments” and to cases containing such rate adjustments as “exigent rate cases.” *See also* Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 66 (Order No. 43).

the Postmaster General had previously suggested might be filed.³ The Commission viewed the conference as an opportunity to discuss unique procedural considerations and to identify possible solutions to potential issues “that might otherwise complicate fair and meaningful participation by interested persons.” Order No. 456 at 2. In a subsequent order, the Commission solicited topics for discussion at the conference.⁴

Participants in the June 16, 2010 conference discussed a broad spectrum of topics, including, for example, the desirability of technical conferences, the nature and extent of permissible discovery, the manner in which participants would be permitted to submit questions to the Commission for response by the Postal Service, and procedures for filing written comments.⁵

In its July 6, 2010 filing, the Postal Service states that the Exigent Request is only one of several steps that it has taken to improve its financial condition. Exigent Request at 2. It states further that without the authority to increase rates beyond current limitations, it would be confined to an overall rate increase of only 0.578 percent, an amount which it asserts would prevent it “from making discernible progress towards closing the multi-billion dollar shortfall between projected expenses and projected revenues for FY 2011.” *Id.* at 2-3. The Postal Service states that while the proposed increases will not eliminate the revenue shortfall, this is one of the few options that can reasonably be expected to have a short-term positive impact. *Id.* at 3.

In support of its filing, the Postal Service asserts that the circumstances it faces are “extraordinary or exceptional” and that the proposed rates are reasonable, equitable, and necessary. *Id.* at 4-8. The Postal Service goes on to describe the structure of its proposed rate adjustment stating that the concept it has followed involves the identification of available price caps by class, the presentation of an

³ Docket No. PI2010-3, Notice and Order Providing for Technical Conference, May 7, 2010, at 1 (Order No. 456).

⁴ Docket No. PI2010-3, Proposals for Topics of Discussion During the Technical Conference in Response to Order No. 456, June 9, 2010.

⁵ See Docket No. PI2010-3, Tr. 1.

explanation of why the revenue generated from increases limited by price caps would be inadequate, and the presentation of an alternative proposed set of higher-percentage price increases. *Id.* at 9. The proposed increases are evaluated against factors set forth in the Commission's rules. *Id.* at 10. According to the Postal Service, this methodology could be viewed as an exercise in borrowing against future price caps and that if future circumstances permit, the Postal Service might be able to "pay back" some or all of the exigent increase by basing future price increases on price caps calculated below levels that future CPI-U calculations might otherwise indicate. *Id.* at 10-11.

Using its proposed methodology, the Postal Service states that the percentage changes by class implicit in its proposed exigent prices are as follows:

First-Class Mail	5.417 %
Standard Mail	5.616 %
Periodicals	8.035 %
Package Services	6.700 %
Special Services	5.225 %

Cumulatively, these percentage increases result in an overall percentage increase for market dominant products of approximately 5.6 percent. *Id.* at 15.

All of the proposed rates are set forth in Attachment A to the Exigent Request.⁶ The Postal Service also includes several proposed changes to the mail classification schedule (MCS) in the Exigent Request. The Postal Service states that while it has attempted to minimize the scope of MCS changes, some beneficial programs requiring MCS changes are warranted. *Id.* at 19. The following changes are identified:

- In First-Class Mail, a Reply Rides Free Program is added for Presorted Letters;

⁶ The Exigent Request is posted on the Commission's website at www.prc.gov/docs/68/68792/request.final.pdf.

- For First-Class Mail Parcels, a Single-Piece Commercial price category is added;
- In Standard Mail, a Saturation and High Density Incentive Program is added;
- The Standard Mail Not Flat-Machinable/Parcels product is renamed Standard Parcels and, as renamed, is divided into Marketing parcels and Fulfillment parcels. The Not Flat-Machinables price category is replaced by a Regular Marketing Parcels category;
- For Bound Printed Matter, half-pound rate cells are eliminated; and
- Standard Mail denominations for Stamped Envelopes are eliminated.

All of the proposed changes are shown in legislative format based upon the Postal Service's understanding of the current version of the MCS draft. *Id.*

Supporting justification for the proposal is provided in the statements of three postal officials: Joseph Corbett, Chief Financial Officer; Stephen J. Masse, Vice President, Finance and Planning; and James M. Kiefer, Pricing Economist. Mr. Corbett provides financial context for the request for an exigent rate increase. Mr. Masse relates the financial context to the increases proposed for the different mailing services products. Mr. Kiefer explains the policy reasons for the pricing decisions underlying proposed rates.

Also provided are Attachment A which shows the requested rate schedules and changes to the MCS; Attachment B which provides calculations underlying what the CPI-U cap would be if the Postal Service were to file a Type 1 rate adjustment; Attachment C which is a list of supporting materials; and Attachment D which is an application for non-public treatment of a non-public annex.

III. SUBSEQUENT PROCEDURAL STEPS

The Postal Service's July 6, 2010 exigent rate case filing is the first such filing to be made since enactment by the PAEA of section 3622(d)(1)(E). The Commission's regulations in subpart E of part 3010 govern the filing. In adopting those regulations,

the Commission acknowledged that further procedures might be needed to ensure an orderly but expeditious proceeding that protects the rights of all interested persons to participate. Order No. 43 at 33.

The June 16, 2010 conference has provided the Commission with a number of potentially useful suggestions and comments. One of the suggestions was that the Commission include a tentative schedule in the Commission's initial order. Tr. 1/40-41. The following schedule responds to that suggestion.

July 6, 2010	Exigent Request filed.
July 19, 2010	First Technical Conference (topics to be determined), to start at 2:00 p.m.
July 23, 2010	Second Technical Conference (if needed).
July 27, 2010	Third Technical Conference (if needed).
August 5, 2010	Deadline for filing suggested questions to be asked of the Postal Service during the public hearing. 39 CFR 3010.65(c).
August 10-12, 2010	Public Hearings.
August 17, 2010	Deadline for filing initial comments. 39 CFR 3010.65(f).
September 2, 2010	Deadline for filing reply comments. 39 CFR 3010.65(g).
October 4, 2010	Deadline for Commission determination. 39 CFR 3010.66.

Absent specific notice to the contrary, all technical conferences and hearings will convene at 9:30 a.m., eastern daylight time in the Commission's hearing room in Suite 200, 901 New York Avenue, N.W., Washington, DC 20268-0001. Further review of the Postal Service filing may warrant adoption of additional procedural dates and/or

requirements. If so, the Commission will issue further procedural orders as it deems advisable or necessary in order to ensure both efficiency and fairness. In that connection, the Commission has taken under advisement the further comments and suggestions made by participants at the June 16, 2010 conference.⁷

Comments may address, among other things: (1) The sufficiency of the justification for an exigent rate increase; (2) the adequacy of the justification for increases in the amounts requested by the Postal Service; and (3) whether the specific rate adjustments requested are reasonable and equitable. See rule 3010.65(f).

To be included in the formal docket being established in this proceeding, submissions must be filed online as provided by rule 9 of the Commission's rules of practice, 39 CFR 3001.9, unless a waiver is obtained.⁸ All submissions that do not conform to the rules of practice for online filings and do not obtain a waiver from the online filing requirements will be treated as informal statements of views and shall be placed in a separate file to be maintained by the Secretary as provided in 39 CFR 3001.20b.

IV. PUBLIC REPRESENTATIVE

Pursuant to 39 U.S.C. 505, the Commission hereby appoints James Waclawski to serve as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding. Technical assistance will be provided by Pamela A. Thompson and Natalie L. Rea. Neither Mr. Waclawski nor any staff assigned to assist him shall participate in or provide any advice on any Commission decision in this proceeding other than in their designated capacity.

⁷ All future procedural rulings will be posted in Docket No. R2010-4 on the Commission's website at www.prc.gov. Interested persons are urged to monitor that docket to stay abreast of such further rulings.

⁸ Formal intervention is not necessary.

V. ORDERING PARAGRAPHS

It is Ordered:

1. The Commission establishes Docket No. R2010-4 to consider matters raised in the Postal Service's July 6, 2010 filing.
2. Subject to further orders, the Commission adopts the procedural schedule as set forth in the body of this Order.
3. The Commission will sit *en banc* in this proceeding.
4. Pursuant to 39 U.S.C. 505, the Commission appoints James Waclawski to represent the interests of the general public in this proceeding.
5. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary