



## PRC Issues Decision on Review of Ratemaking Process

On June 9, the Postal Regulatory Commission issued a set of orders following the conclusion of its second review of the ratemaking process that it had initiated on April 5, 2024.

As veteran commercial mail producers know, the current ratemaking system for market dominant products was established by the 2006 Postal Accountability and Enhancement Act. That law specified nine "objectives" that the system was to achieve, taking into account fourteen "factors."

### Reviews

The law further required the PRC to review the system ten years later to determine if it was operating as planned. The commission started that review on December 20, 2016. In a December 1, 2017, order, the PRC reported its findings, concluding that

"In short, the Commission found that the ratemaking system was not achieving the statutory objectives, taking into account the statutory factors. It found that the Postal Service's operating environment changed dramatically after the PAEA's enactment due to the Great Recession and technological trends, the Postal Service's costs increased significantly due to the PAEA's requirement that the Postal Service prefund future retiree health benefits (RHBs), and the Postal Service was unable to raise rates sufficiently given the CPI-U price cap. ... As a result, the Postal Service failed to achieve medium- and long-term financial stability and was unable to achieve retained earnings (Objective 5). In addition, the Initial Ratemaking System failed to maximize pricing and operational efficiency (Objective 1), failed to maintain reasonable rates (Objective 8), and failed to maintain high quality service standards (Objective 3)."

That same day, the PRC started a rulemaking to modify the ratemaking system to address the detected failures. After two rounds of comments and a revised proposed rule, the commission issued its final rule – the ratemaking process now in use – on November 30, 2020. Among other things, that rule established the three "adders," additional rate authority for the USPS (1) based on declining delivery volume ("density"), (2) to assist in meeting the prefunding payments ("retirement"), and (3) to improve cost coverage for under-water products ("non-compensatory").

That order included a commitment by the PRC to conduct another review five years later, "subject to its discretion to consider aspects of the system sooner (if needed)." Over the period during which the revised system operated, commercial ratepayers argued that the "density" adder was worsening the decline of mail – decreased volume generated rate authority, which pushed prices higher, which worsened the loss of mail volume, etc etc. Such a scenario suggested that the modified ratesetting system was not enabling achievement of the statutory objectives, a circumstance that motivated the PRC to start its next review early, on April 5, 2024.

In its order initiating the review, the commission stated that:

"... the new regulatory framework instituted [in 2020] has been in place for 3 years and that, while it had planned for a review after 5 years, it had also recognized that certain circumstances could merit a review sooner. The Commission noted that commenters in several dockets raised a number of concerns related to the Modified Ratemaking System, including:

[T]he magnitude of recent and future price increases, the frequency of rate adjustment proceedings, the Postal Service's

service performance, whether the objectives of 39 USC § 3622(b) are being achieved, the effects that recent rate adjustments have had on mailers, the Postal Service's overall finances and financial stability, the Postal Service's ability to collect adequate data, the Postal Service's business reputation, and Market Dominant mail volumes declines."

"The Commission also stated that, since [November 2020], the Postal Service has begun to implement its DFA Plan, which resulted in 'major changes in pricing tactics, operations, service standards, and capital investment.' Moreover, the Commission observed that a substantial number of Market Dominant products have not met their service performance targets in the last 3 years. Considering these issues, the Commission instituted this proceeding to review the Modified Ratemaking System."

Comments were received from 22 parties (including Mailers Hub). These were analyzed and answered by the PRC, as the requirements of the objectives and factors were evaluated. Finally, on June 9, concluding its 146-page order (No. 8891), the commission stated:

"Based on the foregoing, the Commission finds that it is appropriate to review the ratemaking system now. After notice and opportunity for public comment, the Commission has determined that the system is not achieving the objectives in subsection (b), taking into account the factors in subsection (c). Accordingly, the first phase of this review is completed."

### The next step

Also on June 9, the commission issued Order No. 8892 to start the next phase of the process to amend the ratemaking system. In the order, the PRC stated:

"... Because of the number and variety of issues identified in Order No. 8891 and the range of suggested ways of addressing them, the Commission will consider potential modifications and alternatives to the ratemaking system in a phased manner. Specifically, the Commission will issue notices of proposed rulemaking as the Commission deems appropriate, each designed to propose one or more modifications of the ratemaking system, or an alternative system, necessary to achieve the objectives."

"Taking this approach will allow the Commission to consider promptly discrete changes to the ratemaking system that received some discussion in comments [previously] and that may be made in the near term. ... Taking this approach will allow the Commission to consider thoroughly more wide-ranging changes to the ratemaking system that may benefit from additional development and stakeholder engagement, or an alternative system, without delaying the implementation of important and necessary changes that may be made sooner."

In Order No. 8893, the commission's third order on June 9, the PRC detailed the substance of the changes to be considered in this phase:

"Commenters generally assert that the Postal Service's current schedule of twice-per-year Market Dominant rate adjustments frustrates the achievement of the statutory objectives to 'create predictability and stability in rates' and to 'reduce the administrative burden and increase the transparency of the ratemaking process' as provided by Objectives 2 and 6 respectively. To address these concerns, the Commission proposes to restrict the Postal Service from adjusting rates of general applicability for Market Dominant products more than once per fiscal year from October 1, 2025 through October 1, 2030, unless such rate adjustment filings only include rate decreases or are de minimis rate increases. This proposal would not affect the Postal Service's ability to propose rate adjustments on an expedited basis due to either extraordinary or exceptional circumstances ..."

"In addition,] several commenters express concerns that the Postal Service's approach to setting workshare discounts under the Modified Ratemaking System undermines efficiency and frustrates the achievement of multiple statutory objectives. These commenters maintain that the current regulations grant the Postal Service too much discretion, allowing it to set workshare discounts that do not fully reflect avoided costs, which, in turn, discourages cost reduction and increased efficiency. As a result, the Commission is proposing certain revisions to the workshare discount regulations to ensure that the ratemaking system better achieves the statutory objectives."

The specific regulatory changes were detailed at the end of the order:

**PART 3030—REGULATION OF RATES FOR MARKET DOMINANT PRODUCTS**

1. The authority citation for part 3030 continues to read as follows: **Authority:** 39 USC 503; 3622.

2. Add § 3030.103 to part 3030 to read as follows:

**§ 3030.103 Implementation of rate adjustments.**

(a) Except as described in paragraph (b) of this section, effective October 1, 2025 through October 1, 2030, the Postal Service may not adjust rates of general applicability for Market Dominant products using the rate authorities provided under subparts C through H of this part more than one time each fiscal year.

(b) Rate adjustment filings that only include rate decreases calculated pursuant to § 3030.244 or are de minimis rate increases compliant with § 3030.129 are not subject to paragraph (a).

3. In § 3030.282, add paragraph (d) to read as follows:

**§ 3030.282 Increased pricing efficiency.**

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(d) No proposal to adjust a rate associated with a workshare discount may increase the absolute value of the difference between the workshare discount and the cost avoided by the Postal Service for not providing the applicable service.

The notice was published in the June 13 issue of the *Federal Register*; comments are due by July 14. (Comments are to be electronically via the Commission's Filing Online system at <https://www.prc.gov>.)

**Dissent**

The PRC was not unanimous in its actions; commissioner Anne Fisher dissented, stating:

"At present, I do not believe a phased rate system review with no established timeline for consideration of the Postal Service's worsening financial position or service performance is the best path forward. The Commission just issued its annual financial assessment of the Postal Service where it noted that at the end of FY 2024, the Postal Service lost \$9.5 billion, \$3 billion more than it lost in FY 2023. With respect to service, in the FY 2024 *Annual Compliance Determination* issued on March 28, 2025, the Commission found that the Postal Service "continues to fail to meet targets despite changes in service standards[.]"<sup>61</sup>

"Given the overlap among the objectives, a comprehensive review and potential remedy may be more effective than separately adjusting aspects of the ratemaking system. As the Commission did in [the rulemaking after the 2016 review], a truly holistic analysis of all the objectives under consideration, while taking account of all the factors for three major areas: (1) structure of the Market Dominant ratemaking system, (2) financial health of the Postal Service, and (3) service, may better address the areas of continuing concern that the Commission has identified.

"A longer period of review would improve this holistic analysis. ... A longer review period would give the Commission the ability to review short-, medium-, and long-term financial stability under different scenarios and better balance the objectives, particularly efficiency and financial stability.

"I am keenly aware of the mailing communities' desire to limit Market Dominant rate increases to once a year. Many commenters also raised concerns regarding use of the density factor and the Postal Service's financials. However, this proposed rulemaking looks only at provisions that would lessen Postal Service pricing flexibility. A more holistic approach would look at provisions that address other concerns as well. ..."

In effect, the majority of the commissioners opted to look at one or two issues at a time, hoping to resolve them relatively quickly, rather than take on the ratemaking process as a set of interrelated components, as Fisher advocated. Both approaches may have merits and drawbacks but, either way, ratepayers might hope the "adders" will be considered soon.