

PRC 10-Year Review – FAQ



Fairrington
AN LSC COMMUNICATIONS COMPANY

Frequently Asked Questions

UPDATED: USPS FY 17 ACR Data

This has been updated to reflect the USPS FY 2017 Annual Compliance Report.

What is the PRC 10-Year Review?

In 2006, the Postal Accountability and Enhancement Act (PAEA) was put in place to regulate rates and classes for market-dominant products. Part of the law required the Postal Regulatory Commission, PRC, review the past 10 years of the rate and classification system to determine if the system achieved the goals of PAEA which were to create a flexible, stable, predictable, and streamlined ratemaking system that ensures the Postal Service's financial health and maintains high quality service standards and performance.

What were the PRC's key findings?

The PRC determined that some of PAEA objectives are being met:

- Predictable, stable rates
- Less burdensome process
- Improved transparency

Some are not

- Adequate USPS revenues
- Pricing efficiency
 - Non-compensatory products
 - Workshare passthroughs

Is this a final determination or rule?

No, this is a proposal



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What do does the PRC propose for the CPI cap?

The Commission proposal would maintain a price-cap system. The Commission determined that it is necessary to maintain such a mechanism to create predictability and stability, and seeks to build upon, rather than replace the CPI price cap by providing discrete amounts of additional rate authority.

What are the proposed increases?

- **2% Over CPI:** Proposes a 2% rate authority over the CPI cap for five years
- **1% Performance-Based Authority:** Proposes an additional 1% performance-based rate authority. The PRC divided the 1% 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).
- **2% Non-Compensatory:** For products that do not cover costs, the PRC proposes price increases that are 2% higher than other elements of the class. The below table is from the PRC proposal.

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

What factors will be used to determine how the pricing authority will be applied?

In the Commission’s review they determined that over the past 10 years, the Postal Service set most discounts substantially above or substantially below 100 percent. The proposal includes passthrough bands:

- 75-125% for Periodicals
- 85-115% for all others

The proposal includes a three-year phase-in to bring all existing discounts into compliance.

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What were the passthroughs in the USPS FY 2017 ACR?

	2017 ACR	After 2018 Increase		2017 ACR	After 2018 Increase		
First Class			Carrier Route Letters				
Auto AADC Letter	117.6%	94.1%	DNDC Carrier Route Letters	176.5%	166.5%	Assumed	
Auto Mxd AADC Cards	142.9%	85.7%	DSCF Carrier Route Letters	181.0%	171.0%	Assumed	
Auto AADC Cards	133.3%	100.0%	Carrier Route Flats				
Auto 5 Digit Cards	118.2%	100.0%	5 Digit Carrier Route Pallets	111.1%	105.6%		
Auto 5 digit Flat	129.6%	83.8%	Basic Carrier Route Flats	107.2%		Not Stated	
Marketing Mail Letters			High Density & Saturation Letters				
DNDC Letters	152.9%	142.9%	Assumed	DNDC HD & Sat Letters	141.2%	131.2%	Assumed
DSCF Letters	161.9%	151.9%	Assumed	DSCF HD & Sat Letters	147.6%	137.6%	Assumed
Auto AADC Letters	121.4%	92.9%		High Density & Saturation Flats			
Auto Mxd AADC Letters	1300.0%			DNDC HD & Sat Flats	114.0%		Not Stated
NonAuto AADC Mach Ltrs	106.3%	81.3%		DSCF HD & Sat Flats	124.7%		Not Stated
NonAuto 3 Digit Nonmach letters	113.6%	104.5%		NOTE: DNDC and DSC expected 2018 % are based on the assumption the USPS has decreased the passthrough by 10% as expected			
NonAuto 5 Digit Nonmach letters	127.9%	104.4%					
Marketing Mail Flats							
Auto Mxd ADC	190.0%	180.0%					

What does this mean catalogs?

If the proposal moves forward, the 2% over CPI would be applied. Marketing Mail Flats were also listed as Non-Compensatory chart, an additional 2%. There is also the additional 1% if the Postal Service meets the performance-based objectives.

Rate authority is not applied equally across all rate cells. Instead, the authority has historically been applied to optimize revenue, applying to higher-volume sortations, or used to improve cost coverage.

The proposal includes passthrough bands of 85-115%.

What does this mean for Marketing Mail Letters?

If the proposal moves forward, the 2% over CPI would be applied. There is also the additional 1% if the Postal Service meets the performance-based objectives. Rate authority is not applied equally across all rate cells. Instead, the authority has historically been applied to optimize revenue, applying to higher-volume sortations, or used to improve cost coverage.

The proposal includes passthrough bands of 85-115%.

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What does this mean for magazines?

If the proposal moves forward, the 2% over CPI would be applied. For Periodicals, where the entire class is non-compensatory, an additional 2%. There is also the additional 1% if the Postal Service meets the performance-based objectives.

Rate authority is not applied equally across all rate cells. Instead, the authority has historically been applied to optimize revenue, applying to higher-volume sortations, or used to improve cost coverage.

The passthrough band is 75-125% with a three-year phase-in to bring all existing discounts into compliance.

What is the timeline?

Winter 2006: On December 20, 2006, the Postal Accountability and Enhancement Act (PAEA) was signed into law and created a modern system of regulating rates and classes for Market Dominant products. The PAEA also mandated that the Commission review this system 10 years later to determine if it is achieving the objectives established by Congress. December 20, 2016 was the ten-year anniversary of the PAEA.

Winter 2016: On December 20, 2016, the Commission issued an Order to begin the review. The Order described the approximate structure and timeframe within which the Commission will complete its review, as well as defined the opportunities for public comment within the review.

Spring 2017: Initial comment period closed. During the public comment period of the ongoing rate review, the PRC received more than 70 comments.

Winter 2017: December 1, 2017: Commission issued an Order including its findings and, if necessary, preparatory rule-making information for any changes to the system. This begins a 90-day comment period.

Spring 2018: Comments are due no later than March 1, 2018. Reply comments are due no later than March 30, 2018.

That 30 days could extend longer. If it did move forward, there is an anticipated 45 – 90 day implementation period. This is a very fluid situation. It could be as early as June or push into 2019. Most expect the proposal will change and we won't see implementation in 2018.

How are comments filed?

Visit the [PRC website](#) to create an account for comment submission.

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