The PRC gets a second chance

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In life, you don't always get a second chance to get things right. The Postal Regulatory Commission (PRC) has such a chance right now.

Back in 2013, the PRC made a huge mistake when it decided to make the "exigent" rate increase it authorized in the wake of the Great Recession a *temporary* increase. Even though the Postal Service had suffered a 20 percent decline in the volume of letter mail that has not come back, the PRC ruled that the 4.3 percent increase in rates should expire after a short period of time, which it did in April 2016. This ignored the fact that the Postal Service still had to cover the high fixed costs of our universal service obligation. It was a terribly misguided decision.

This year, without the $2 billion in annual revenues from that exigent increase, USPS has needlessly returned to an operating loss and postal management is once again slashing service quality instead of investing in our networks. Fortunately, the PRC can redeem itself by fixing the system of setting postage rates.

The 2006 Postal Accountability and Enhancement Act (PAEA) called for indexing postage rates to the Consumer Price Index (CPI) for 10 years—even though the CPI has no real economic meaning when it comes to running a national postal system. It's nothing more than a statistical artifact: the weighted average of price changes for thousands of unrelated products and services. It bears no relationship to the costs of providing universal delivery services, which depend heavily on the costs of energy, transportation and labor across the country. The CPI for Delivery Services makes more sense than the general CPI. It tracks prices in the private delivery industry, which embodies the costs and productivity trends most relevant to the Postal Service.

Fortunately, Congress provided for the possibility of sun-setting the price cap and replacing it with a more rational system by calling for a review of the rate-making system after a decade.

That review began in December 2016 when the PRC invited all interested parties to weigh in on whether the current system is working to achieve the many goals of the PAEA, which included key objectives such as preserving high-quality services, maintaining the financial viability of the Postal Service and providing users with predictable and reasonable rates. NALC and dozens of other USPS stakeholders and customers submitted testimony (see the February 2017 issue of *The Postal Record* for a story on our submission). We argued that the price cap system does not work and should be replaced.

The good news is that on Dec. 1, the PRC agreed with us (and the Postal Service and the other postal unions). Its report on its review concluded that the current rate-setting system is not working to fulfill some of the most important goals of the PAEA—most notably the maintenance of high-quality services and the financial stability of the Postal Service. The bad news is that the PRC's proposal for a new system missed the mark. But there still is for it to improve its proposal with feedback from us and from the mailing industry over the next three months.

The PRC has called for a somewhat looser price cap, allowing the Postal Service to raise postage rates by up to 2 percentage points above the CPI each year for five years, with quality and efficiency incentives that would allow for up to one additional percentage point increase each year. Unfortunately, the proposal did not address some serious problems. Most notably, it did not call for a one-time adjustment in rates (a so-called "true-up" increase) to fully cover the cost of operating our postal system, which includes the unique and unfair burden of having to pre-fund retiree health benefits. Nor does the proposal adequately address how to deal with external factors, such as congressional mandates, nor does it permit the Postal Service to earn sufficient profits to restore funding for the kind of investments it will need to thrive over the long term.

NALC is carefully reviewing the PRC's notice of proposed rulemaking and will actively participate in the 120-day comment period. We will argue that the new system must fix one of the biggest problems of the PAEA-era Postal Service—the failure to build the cost of pre-funding retiree health benefits into the rates we charge. Back in 2007, the then-new postal reform law allowed for a one-time adjustment in rates before the price index took effect. The Postal Service, citing the onset of recession, declined to do so, deciding not to build the cost of pre-funding into base postage rates. While somewhat understandable, the revenue losses resulting from this decision led to USPS implementing damaging and counterproductive cuts in service quality. In hindsight, it would have been better for the PRC to conduct the one-time rate case in 2007 and then delay the implementation of the required baseline rates until the economy recovered.

It's not too late to conduct that one-time rate case called for by the PAEA. Now is the time, and if Congress provides the Postal Service relief from the pre-funding burden, as we think it should, the PRC can adjust rates accordingly.

Assuming we can get the basic rate structure right, a more suitable price index, such as the CPI for Delivery Services, might be workable. A sensible rate-setting system is within our grasp—so long as the PRC takes advantage of its second chance to get things right.