

The U.S. Postal Regulatory Commission



The Postal Regulatory Environment in the U.S.

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“Liberalization of the Postal Service Year One”

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Outline

- 1. Overview of the Postal Regulatory Commission and the U.S. postal regulatory environment under the 2006 Postal Accountability and Enhancement Act (PAEA)**
- 2. Characteristics of the U.S. Postal Market**
- 3. U.S. Modes of Postal Liberalization**
- 4. Protection of customer rights**
- 5. The Universal Service Obligation: features, costs and future sustainability**



The Postal Regulatory Commission

- ❑ **An independent Federal Agency**
- ❑ **Regulates the U.S. Postal Service only**
- ❑ **Five commissioners appointed by the President and confirmed by the U.S. Senate**



Mission

Ensure transparency and accountability of the U.S. Postal Service and foster a vital and efficient universal mail system



U.S. POSTAL REGULATORY
COMMISSION

The Regulatory Environment Under the Postal Accountability and Enhancement Act of 2006



Created Postal Regulatory Commission with strengthened regulation and oversight



Introduced more flexibility for the Postal Service to compete, innovate, and respond to the market

- ✓ Greater Postal Service accountability and transparency
- ✓ Postal products separated into market dominant and competitive products
- ✓ Increased pricing flexibility
- ✓ Ability to test and offer new postal products and can enter into service agreements with mailers and other postal operators
- ✓ Postal Service allowed to earn and reinvest profits



The Role of the PRC

- ❑ **Approve rate increases within a price cap**
- ❑ **Provide advisory opinions to the Postal Service and the Congress on Postal Service proposals that impact service nationwide**
- ❑ **Report to Congress annually on Postal Service's finances, compliance with regulations, and adequacy of service**
- ❑ **Adjudicate complaints from mailers and the public**
- ❑ **Produce special reports and studies**
- ❑ **International engagement**



U.S. Postal Market Characteristics

- ❑ **USPS is an independent establishment of the Executive Branch of the Federal Government**
- ❑ **Letter and mailbox monopolies**
- ❑ **Market dominant and competitive products**
- ❑ **Price cap (Consumer Price Index)**
- ❑ **Universal Service Obligation**
- ❑ **Limited diversification (hybrid mail, money transfer, passport processing, electronic post mark)**
- ❑ **Mail is still the core business**



U.S. Modes of Postal Liberalization

- ❑ **Upstream competition (workshare discounts)**
- ❑ **Downstream access (local drop-ship)**
- ❑ **Commercial licensing of postal indicia (postage and tracking services) to private companies**
- ❑ **Competition in the express, priority and bulk parcel delivery market**



Protection of Customer Rights

- ❑ **Monitor quality of service**
- ❑ **Provide detailed, transparent information on Postal Service operations**
- ❑ **Hear appeals from citizens on post office closings**
- ❑ **Offer assistance in resolving rate and service inquiries**
- ❑ **Hear customer complaints and provide redress if appropriate**
- ❑ **Ensure level playing field between mailers (e.g. decide over allegation of rate discrimination)**
- ❑ **Assure Universal Service**



The Universal Service Obligation



No specific definition, but the law identifies features:

- ✓ One class, sealed against inspection, offered at same rate to everyone with expeditious handling
- ✓ Affordable rates
- ✓ Comprehensive service everywhere, especially in rural areas
- ✓ Access provided- no post offices closed solely for running a deficit
- ✓ Recognizes education, scientific, cultural, informative and social benefits when setting rates



Current law requires 6 days per week delivery frequency



Cost of the Universal Service Obligation and Value of the Monopolies

	Cost of Universal Service (USO)	Value of Monopolies/ Mailbox	Net
2009	\$4.9 b	\$2.1 b (0.8 b)	(\$2.8 b)
2008	\$4.8 b	\$3.0 b (1.0 b)	(\$1.8 b)
2007	\$4.4 b	\$3.5 b (1.3 b)	(\$0.9 b)

Obligations included in the estimate of the Cost of the USO:

- ✓ Cost of providing postal services (collection, delivery and retail facilities) to non-profitable areas
- ✓ 6 vs. 5 or less day delivery frequency
- ✓ Loss for providing reduced rates on certain mail categories (e.g. non-profit mail, periodicals and media mail, uniform rates for First Class Mail)
- ✓ Loss on market dominant products due to obligations such as the price cap

Value of monopolies:

- ✓ Estimate of the profit the Postal Service would lose if its monopolies on letters and mailboxes were eliminated.



Present Challenges of Guaranteeing Universal Service

- ❑ **Declining volumes and revenues (e-substitution, recession)**
- ❑ **Growing deficit (2011 - \$10 billion estimated, 2010 - \$8.5 billion / 2009 - \$3.8 billion)**
- ❑ **USPS self-sufficiency. No government subsidies to USO**
- ❑ **\$12.7 billion in debt to federal Treasury through June 30, 2011. \$15 billion debt limit**
- ❑ **Future Retiree Health Benefits Fund**
 - ✓ Average \$5.6 billion annual payment under PAEA for 10 years
 - ✓ \$20.9 billion paid between 2007-2010 (\$48.5 billion still unfunded)
 - ✓ Commission study estimated appropriate annual payment could be significantly less
- ❑ **Pension Fund**
 - ✓ Overpayment identified by Commission and Postal Service Office of Inspector General
 - ✓ Commission estimate overpayment between \$50 and \$55 billion



Postal Service Response

Cut costs

- ✓ 4.0% reduction in Compensation and Benefits Costs in 2010
- ✓ Reduction in work hours (6.0% in 2010)

Increase productivity

- ✓ 2.2% in 2010

Grow revenue

- ✓ New products and services
- ✓ Market tests
- ✓ Negotiated Service Agreements



Other USPS Cost Saving Proposals

- ❑ **Gain consensus on Retiree Health Benefits Fund and Pension Fund**
- ❑ **Six vs. five days of delivery (Cuts 20,000 jobs. Requires changes in legislation)**
- ❑ **Relaxation of service standards (Eliminate overnight service and reduce processing plants by 50%)**
- ❑ **Consolidation of stations and branches**
- ❑ **Retail Access Optimization (Close to 50% of all post offices)**
- ❑ **Offer of new non-postal products (e.g. digital and hybrid mail services)**
- ❑ **Alter contracts with unions to reduce work force by additional 120,000 jobs**



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