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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

MICHAEL L. ALEXANDER, STAFF DIRECTOR
BRANDON L. MILHORN, MINORITY STAFF DIRECTOR AND CHIEF COUNSEL

July 23, 2010

Coalition for a 21st Century Postal Service
701 8th Street, NW
Suite 500
Washington, D.C. 20001

Dear Members of the Coalition for a 21st Century Postal Service:

Thank you for your letter opposing the Postal Service's proposed rate increases under its recent exigent rate case filing and your concerns regarding the Postal Service's potential overpayment into the Civil Service Retirement System (CSRS) pension fund. I value your views and experience as Postal Service customers, who contribute significantly to the Postal Service's revenue, and I share your frustration with how the Postal Service has handled its current economic challenges. I agree with you that the exigent rate case filing is not justified under the terms of the 2006 Postal Accountability and Enhancement Act (PAEA). Rather than help restore postal solvency, an exigent rate increase will worsen the decline in mail volume and revenues.

I have expressed repeatedly my strong concerns to the Postal Service that reducing service and increasing prices are not the means to raise mail volume and restore fiscal balance. In fact, these steps are likely to erode further the Postal Service's customer base. Raising the rates for catalogs by more than five percent will cause some businesses to reduce their mailings and to direct more of their customers to websites for information about their products. This is exactly the wrong direction, and the Postal Service should be looking at initiatives that will increase volume, not drive it away.

I recognize that pricing increases have a considerable impact on your businesses. This is why I included mechanisms in the PAEA to help provide predictability and stability to pricing. Specifically, the PAEA provided the Postal Service pricing flexibility while requiring, for market-dominant products, that the Postal Service live within an inflation-based rate cap. These protections were designed to promote increased demand from the mailing community and to support long-term planning.

The law does include some flexibilities to help the Postal Service adjust to its changing needs, including carrying unused rate authority into future years and the ability to file an exigent rate case with the Postal Regulatory Commission. The law, however, provides the Postal Service with the authority to initiate an exigent rate only when there are extraordinary or exceptional circumstances that have caused significant and substantial declines in mail volume or increased operating costs in such a manner that the Postal Service could not reasonably be expected to

adjust in the normal course of business. By “extraordinary or exceptional circumstances,” I meant a terrorist attack or a natural disaster as my April 2007 letter to the Postal Regulatory Commission explained.

As the author of the PAEA, I can unequivocally state that the law does not provide for an exigent rate case based merely on poor economic circumstances or on increased utilization of electronic or other alternatives to traditional mail. Neither of these circumstances are exceptional nor extraordinary as required by the law. As then-Postal Rate Commission Chairman George Omas stated in a hearing before the Committee on Governmental Affairs in 2004, “...exigent increases are limited to extraordinary circumstances, and are not appropriate simply because revenues are misestimated or cost reduction programs are not as successful as planned. These types of events are normal in business, and postal management must be expected to adjust to normal business fluctuations.” The PAEA adopted this standard.

I am continuing to work with the Postal Service on other changes that could improve its financial condition without undermining service. One such change includes adjusting the Office of Personnel Management’s (OPM) methodology for calculating the Postal Service’s payments into the CSRS Pension Fund. As noted in your letter, the Postal Service Inspector General and an independent consultant the Postal Regulatory Commission hired to review the methodology identified a possible overpayment to the CSRS pension fund. In response, I have asked OPM, in a July 12, 2010 letter, to determine whether the Postal Service payments should be reduced to better reflect modern actuarial best practices and principles. As you know, such a reduction could help the Postal Service regain some of its financial footing and would have a direct impact on the \$1 trillion mailing industry that the Postal Service helps support.

Thank you again for taking the time to outline your concerns regarding the Postal Service’s proposed rate increases and the overpayment into the CSRS pension fund. I look forward to continuing to work with you to identify ways the Postal Service may regain financial solvency.

Sincerely,



Susan M. Collins
Ranking Member