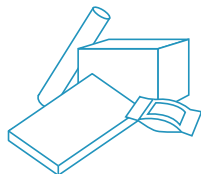




How Postal Rates Are Set



UPS Mail Innovations®



In December of 2006, the President of the United States signed into law the new Postal Accountability and Enhancement Act (PAEA). One component of the new law modified the process by which postage rates are adjusted. Previously, rate adjustments followed a long legal process and could take about a year to arrive at their final adjustment.

The new process that has been established is based upon United States Postal Service® (USPS) products and services being segmented into two very specific categories: “Market Dominant” and “Competitive.” The new guidelines are detailed and fairly complex. However, a summary explanation of each is provided below.

Market Dominant: Generally associated with those products and services that are not usually available by other service providers (i.e. First-Class Mail, Periodicals, Standard Mail, Package Services that originate as single pieces at USPS retail offices and Special Services).

Competitive: Generally associated with those products and services that are available by alternate service providers (i.e. Express Mail, Priority Mail, Commercial Package Services and much of International Mail).

For consistency purposes, the “**Market Dominant**” category rates are expected to be adjusted annually, on or about May of each year. The rate cap that will be utilized for these regular adjustments is established by the average Consumer Price Index – Urban (CPI-U), based upon the previous 12- month period. This year the rate cap will be a 2.9% maximum average increase for each overall mail class. The new guidelines for the rate adjustment for “**Market Dominant**” products require that the USPS provide public notice at least 45 days prior to the intended implementation date.

Note: For the 2008 rate adjustment, the USPS published the required advance notice 90 days prior to the rate adjustment that will take place on May 12, 2008.

The “**Competitive**” category guidelines are a bit different than those established for the Market Dominant category. “**Competitive**” category rate adjustments are determined by the USPS and must be published in the Federal Register and have notices provided to the PRC at least 30 days before the effective date of the adjustment.

The rate adjustment must include an explanation and justification for the change, the effective date and a schedule of the changed rates. There are additional guidelines that deal with cost coverage, but simply stated, each “**Competitive**” product or service must cover the costs that are attributed to that product or service.

Overall, you can expect future USPS rate adjustments, resulting from the new Postal Accountability and Enhancement Act (PAEA), to reflect more regular and predictable adjustments.