

**Remarks of Commissioner Tony Hammond before the
National Postal Policy Council**

Arlington, VA

November 27, 2007

Thank you, Art, and thank you all for inviting me to be here with you once again. It's been over two years since I spoke to the National Postal Policy Council. I recall at the time there was the continual guessing game of: (A) when is the Postal Service going to file their next omnibus rate case and; (B) how much of an increase in rates are we going to see.

Well, those days are gone forever. We will now proceed under an entirely different system and I hope you will come to view it as an improved system that better responds to the needs of today's mailing community.

As you know, the Postal Regulatory Commission issued the new rate regulations for the Postal Service's market-dominant and competitive products at the end of October, eight months ahead of schedule.

Because of that, the Postmaster General and the Board of Governors announced that instead of filing one more omnibus case under the old system, (which they were allowed to do under the postal reform legislation) that they instead, would use the new procedures for future price changes. This moves the

Postal Service much closer to annual, market-based price adjustments and away from the primarily cost-based pricing model.

I won't repeat all the details of the new regulations because I know you've already received information and discussed it for some time now. But, let me just highlight the major points for our discussion later.

- There is a cap on annual rate increases for most classes of postal products.
- We wrote the regulations to ensure that competitive products pay their own way.
- We clarified the content of exigent rate requests.
- There are worksharing discounts that fully reflect the Postal Services' avoided costs, so that mailers can benefit fully from presorting and other activities.
- There is a streamlined process for creating special customized rates for mailers who can make the overall postal system more efficient (NSAs).

- And we established a Mail Classification Schedule, which categorizes products as either market dominant or competitive.

I'll be happy to try to answer any questions you might have about the specifics during our Q&A time in a few minutes, even though I didn't bring the lawyers with me today.

But, let me take one minute to do something I don't always do and say good things about our own Commission. Under the law, we had until the middle of next year to write new rate-setting regulations. To those of you familiar with the ways of bureaucracy in this city, you know that deadlines are not often met.

So, when our Chairman Dan Blair announced that the PRC would not only beat the deadline, but that we would have the new rules in place well in advance of the Postal Service having to decide whether to file one more old-style omnibus case, I, myself, wondered if we could do an adequate job under such an aggressive schedule.

But, when Postmaster General Jack Potter raised the question of how could the Postal Service decide whether to file another case when, in the middle of it, entirely new rules would be put in place, we knew that the PRC owed it to

everyone to get the new system set up before the Postal Service was put in that situation.

And we accomplished it. And, I'm proud of the work that the Commission and especially the staff did in such a short time frame. We may not have gotten it all right, but I believe Chairman Blair was right to push for it and I think all the mailing community is going to benefit from the new rules being in place.

PROPOSED SERVICE STANDARDS

I know you also care about another provision in the PAEA, that dealing with the Postal Services' proposed service standards.

As you know, the Postal Service published its proposed rules establishing modern service standards for all market-dominated products on October 17 and comments were due on November 16. Their final report is due out in December. Several of you have been involved in that process by your activities in the MTAC groups.

The reform legislation provided that those standards be developed in consultation with the Postal Regulatory Commission. Over the past several months, the Commissioners and the senior staff from the Postal Service, led by

Deputy Postmaster General Pat Donahoe, met for half-day meetings at least seven times. We will be meeting again next week.

But the Commission did also send formal comments during the comment period. Mostly, since the PRC's role is limited to consultation, we focused on the topic of periodic review and we specifically endorsed the MTAC work group's recommendation of an annual review that would "assess the continuing viability of the service standards."

We hope the Postal Service will reiterate in its final rules that it will conduct periodic reviews of the standards to include consultations with interested stakeholders.

WHAT IS NEXT FOR THE PRC

While our focus for the past year has been on getting the new regulations in place and working with the Postal Service on standards, the reform legislation actually gave the PRC much more to do as we head into our new role as a strengthened regulator.

1. Once the service standards are set, the PRC is to consult with the Postal Service on developing a plan for meeting those standards,

including changes to the Service's processing, transportation, delivery and retail networks

2. The PRC will develop a complaints process that is more streamlined and better suited for the new rules. We will be putting out a formal rule-making for public comment within the next few weeks.
3. The PRC has to develop accounting and auditing practices for the Postal Service in consultation with the Treasury Department. The Treasury report is due next month and the PRC then has to implement those recommendations. This is basically what will put the Postal Service under the "SEC-type" reporting requirements.
4. The PRC has to develop regulations that govern the data that the Postal Service provides to the PRC.
5. One of our biggest mandates from Congress is for the PRC to do a comprehensive report on universal service and the postal monopoly. That report is to include an assessment of likely future needs and recommended changes. It is supposed to be published by December 2008. This is something that we will certainly need your input on.

6. The PRC is to do a review of all non-postal products offered by the Postal Service, followed by a determination of whether each of them should continue, based on an assessment of public need and the private sector's ability to meet such a need. That too is to be accomplished in the next year.
7. The PRC is to do an annual compliance review: a notice-and-comment proceeding followed by a PRC determination on whether any rates, fees and service standards failed to comply with the applicable requirements during the proceeding year. This will be a very important yearly report.
8. We are to report to the President and the Congress on the first year of the new Postal Regulatory Commission's operations.
9. There will soon be a Federal Trade Commission report on the equal application of the law to competitive products that the PRC is to deal with. That report will be coming out next month.
10. The first USPS annual report on their facilities rationalization plan is due this December and there is to be consultation between the PRC and the Postal Service following their report.

11. The PRC and the Postal Service is also mandated to study and report to Congress on attributable costs for periodicals. Our responsibility is to show how to improve efficiencies for periodicals and make recommendations for administrative or legislative actions in this area.

And, finally, we are in the process of reorganizing the Postal Regulatory Commission to accomplish all the goals I just mentioned.

As you can see, we have a great deal to accomplish at the PRC in a short amount of time. But let me stop at this point to hear what you have to say and try to answer your questions.