

DELIVERING CHANGE

Remarks of Mark Acton, Postal Regulatory Commissioner
Center for Research in Regulated Industries
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Tonight I plan to discuss some of the Postal Regulatory Commission's findings in the last rate case and to review the Commission's priorities and activities following the enactment of the first reform of the United States Postal Service in more than three decades – the *Postal Accountability and Enhancement Act*.

Before I start, I would like to recognize colleagues from the Commission who will be presenting papers as part of the conference program. Jed Smith, a senior econometrician with our Office of Consumer Advocate will be discussing measuring postal delivery costs. Also Margaret Cigno, a senior analyst with the Commission's Office of Rates, Analysis and Planning, will be reviewing some challenges of negotiated service agreements. I look forward to hearing from them both.

On February 26, 2007, the Commission issued its unanimous *Opinion and Recommended Decision* in the R2006-1 omnibus rate case proceeding. The Commission recommended an increase of 2 cents -- instead of 3 cents -- in the rates for one-ounce First Class letters and postcards. The Commission also endorsed the "forever stamp" proposal to help ease consumers' transition to revised rates. The Commission moved also to recommend more shaped-based rates, as well as a further endorsement of the use of efficient component pricing.

In developing our recommendation, Commission staff audited the projected revenue needs of the Postal Service and made appropriate adjustments to their initial estimates based upon subsequent Postal Service refinements of these estimates. At the Postal Service's request, we also recommended improvements in the design of rates for many postal products such as aligning rates more

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closely with shape, which affects processing costs. The Commission's decision relied on well-established ratemaking principles, including a definitive reaffirmation of the tenet that worksharing discounts should be limited to the amount of cost savings accruing to the Postal Service – an approach ratified by the recent postal reform Act.

In March, the Postal Service Governors endorsed the Commission's rate recommendations with three limited exceptions: pricing of the Priority Mail flat rate box; rates for non-machinable First-Class letters; and rates for standard flats mail.

On April 27, the Commission issued our *Opinion and Recommended Decision* on the Postal Service's request for reconsideration on the first two issues. We agreed with the Postal Service on the price of the Priority Mail flat rate box -- \$8.95 -- and extended the non-machinable surcharge to all single piece and pre-sorted First-Class letters regardless of weight.

Our determination on the third issue, standard flats mail, is still pending.

Given that status, there are certain restrictions – “ex parte concerns” as the attorneys say – which prevent me from directly addressing specifics of a matter still active and pending before the Commission.

I can add, though, that the Commission certainly recognizes that there are controversial elements of our *Opinion and Recommended Decision* on the omnibus rate case. It's safe to say that no one *likes* a rate increase – but costs are costs. I believe that many of these concerns affiliated with this rate increase are significantly greater because this last rate case was the first fully-litigated rate case since 2000. The last two rate cases were resolved in settlements. As a result, considerable levels of rate inequities and imbalance had crept into the existing rate structure. In fact, in our recommended decision for a case that was settled, the Commission pointedly warned:

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“[T]he delay in recognizing the impact of recent innovations and improvements in postal operations, coupled with the passage of time, will probably result in unusually disproportionate increases and decreases to different rates in the next case.”

Again, because the Commission has undertaken further consideration of our opinion and recommended decision with regard to standard rate flats, it would be inappropriate for me to address these issues any more specifically at this time. We are proceeding on this front with all possible speed and I am hopeful for a fair and equitable resolution soon.

I would like to talk briefly about postal reform and what it means for the PRC and its role in the regulatory process.

Since its creation by *The Postal Reorganization Act of 1970*, the former Postal Rate Commission was an independent Executive Branch agency responsible for regulatory oversight of the United States Postal Service. That oversight consisted primarily of conducting public, on-the-record hearings concerning proposed postal rate, mail classification, and postal service changes of a national scope, and then recommending decisions for action by the Postal Service Governors.

The *Postal Accountability and Enhancement Act*, signed by President Bush on December 20, 2006, strengthens the authority of the rechristened Postal Regulatory Commission and changes the form of regulatory oversight in many key respects. The Postal Service is granted more autonomy in setting rates, particularly for its competitive products. However, the Service’s ability to increase rates for market-dominant products is restricted – with some exceptions – by changes in the Consumer Price Index. The law now requires the Commission to complete its review of new rates for compliance with the CPI cap within 45 days. This is significantly faster than the previous 10-month statutory deadline. Additionally, the Act streamlines the Postal Service’s ability to introduce new postal products.

To balance the Postal Service’s enhanced autonomy in setting rates and introducing new services, the postal reform law assigns on-

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going oversight responsibilities to the Commission. The law appropriately equips the PRC with authority to use new enforcement mechanisms. Enforcement tools include new subpoena power, the authority to direct the Postal Service to adjust postal rates when needed and to take other remedial actions as called for – such as levying penalties in cases of deliberate noncompliance with applicable postal laws. Oversight will consist mainly of information gathering, annual determinations of Postal Service compliance, consideration of complaints, and periodic reporting on Commission operations.

The Commission is now fully engaged in implementing its strengthened regulatory functions assigned by the Act. This effort involves completing pending business under the previous law, as well as developing an organization optimized for the Commission's new responsibilities.

A key component of the Commission's reform efforts has been active outreach: soliciting input from postal stakeholders and the public and consulting with other government agencies. We will continue to engage all interested parties, particularly as we move forward with a new rulemaking process.

In order to move expeditiously toward the new ratemaking system, the Commission published an Advanced Notice of Proposed Rulemaking in the *Federal Register* on January 30, 2007. We have solicited comments on how the Commission can best fulfill its new responsibilities and achieve the objectives of reform. The initial round of comments closed on April 6, 2007, and reply comments were due by May 7, 2007. Thirty-two parties provided initial comments, twenty-one have submitted replies.

In an additional endeavor to solicit input from the postal community, on March 13th, the Commission and the Postal Service co-sponsored a joint summit in Washington, DC on *Meeting Customer Needs in a Changing Regulatory Environment*. Over 200 participants were in attendance and there is a good possibility that we may host more forums of this type in the near future.

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The new postal reform Act directs the Postal Service, in consultation with the PRC, to establish modern service standards for market-dominant products and assigns regulatory oversight to the Commission. The Act also directs the Postal Service and the PRC to consult on developing a plan for meeting these standards, including any necessary changes in the Service's transportation, processing and delivery networks. Consequently, we will be revisiting these infrastructural issues in the context of service standards to be established under the new law. We look forward to full consultation with the Postal Service, as envisioned by the Act, later this spring and summer.

The Commission is also advancing toward performance of its auditing and reporting responsibilities under postal reform. During the next two years, these responsibilities will require the following essential actions:

1. A comprehensive review and report examining universal postal service and the postal monopoly in all regions of the United States, including an assessment of likely future needs and recommended changes;
2. A review of all non-postal products offered by the Postal Service, followed by a determination whether each of them should continue, based on an assessment of public need for the service and the private sector's ability to meet any such need;
3. Annual notice-and-comment proceedings followed by Commission determinations on whether any rates, fees, and service standards failed to comply with applicable requirements during the preceding year; and
4. A report to the President and to the Congress on the first year of Postal Regulatory Commission operations.

In furtherance of these tasks, the Commission has already begun discussions with the U.S. Departments of Treasury and State, the Federal Trade Commission, U.S. Customs and Border Protection,

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the Postal Service Office of Inspector General, and the Government Accountability Office, regarding implementation of the new law.

The Commission itself is transforming to meet its new regulatory responsibilities. To comply with the new law, the Commission will need to change its organizational structure, workforce size, and skills mix. You will see changes in areas of functionality and expertise, as well as agency policies and procedures. We have begun a timely and thorough analysis of the Commission's current state, and the development of a strategic plan of action to bridge functional gaps to allow us to meet statutory deadlines.

The PRC is presently coordinating with an outside consultant experienced in agency organizational development. The first step in this process documented the current organizational baseline through in-depth interviews with staff to gauge what competencies were required to perform their current duties. The Commission is identifying and analyzing skill gaps between the current baseline and the new requirements the Act places on the PRC.

We are also progressing on schedule toward the appointment of the Commission's first Inspector General – by reform statute this post is required to be filled by next month. I would like to note too, that the Commission recently created an Office of Public Affairs and Governmental Relations, and appointed a new director to help foster closer relations with all postal stakeholders.

The benchmarks established for the Commission by the *Postal Accountability and Enhancement Act* pose some daunting challenges, especially in light of the Postal Service option to file one last omnibus rate request under prior law. There is little question that an additional rate case would divert Postal Service, Commission, and mailer/stakeholder resources that might otherwise be devoted to developing the new system of regulatory oversight. Nevertheless, whatever the Postal Service's ultimate decision, the Commission is committed to timely performance of all its statutory obligations, and to doing so in a reasoned and balanced manner.

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The reform Act separates Postal Service products into two categories – Market-Dominant and Competitive. Market-Dominant products are: First-Class Mail letters, Sealed Parcels and Cards, Periodicals, Standard Mail, Single-piece Parcel Post, Media Mail, Bound Printed Matter, Library Mail, Special Services and Single-piece International Mail. Competitive products are: Priority Mail, Expedited Mail, Bulk Parcel Post, and Bulk International Mail.

Market-dominant product pricing will be tied to the CPI; specifically, the Urban “All Consumers” CPI – not adjusted seasonally. In addition to the price-cap, the new law calls for the PRC to consider 14 factors when establishing the system for regulating rates and classes for Market-dominant products. Many of these principles were part of the Postal Reorganization Act of 1970. They are a framework for balancing important policy considerations. The other Commissioners and I must consider all of the factors. We must weigh all the arguments presented; check the data introduced as well as the testimony submitted for the record in arriving at our recommended decisions and determinations.

For Competitive products, the Postal Service will have flexibility in pricing. The PRC will set rules for a price floor – not a price cap. The price floor must cover the product's costs and a required contribution to institutional costs.

In the “big picture,” we have entered a time of change for the postal world. We are in that interesting transition period with one foot in the past, in terms of how we formerly guided Postal Service activities, and with the other in the future -- looking ahead to how we will soon be doing business under reform. There are ever-growing challenges to the future vitality of the Postal Service – including concerns such as electronic diversion and state “Do Not Mail” lists – I am convinced, however, that there still is, and will continue to be going forward, a vibrant channel for those who “bring it home” for the American consumer.

The Postal Regulatory Commission is determined to uphold the intent and spirit of the *Postal Accountability and Enhancement Act* in a fashion that empowers the Postal Service in its pursuit of preserving affordable universal mail service for all.

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Thank you again for your invitation to speak with you. I will be happy to answer any questions you may have.

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