

**Remarks by Postal Regulatory Commissioner Tony Hammond
Meeting of
The National Postal Policy Council
Arlington, VA
December 2, 2008**

Thank you, Art, for inviting me to be here with you again. And, I really appreciate your moving around your schedule since I couldn't be with you at lunch today.

It's been a year since I last saw you in this format and we are now in an economic slowdown that I know has directly impacted your business as well as the Postal Service. In fact, the declaration came yesterday that the recession started in December of last year.

I'm sure you've heard that the USPS finished the fiscal year with a net loss of \$2.8 billion, as the slowdown lowered mail volume. And, the coming year doesn't look to be much better.

Members of the Senate have asked the Postmaster General for the Postal Service's management plan that explains their current financial situation and their strategies for managing their budget for the next two years. If the Senate gets that plan by their December 3rd request (which is tomorrow), the Congress could possibly consider altering funding of retiree health benefits when the Congress reconvenes this month.

But, regardless of whether or not assistance is given during a very short Congressional session, the USPS has to look at different ways to raise revenue and cut costs, while not reducing service.

In this environment, I think it is our role at the Postal Regulatory Commission to balance the need for transparency with not overburdening the Postal Service during a difficult time.

One thing you can count on is that, because of the new system, there is a cap on annual rate increases for most classes of postal products.

Now, the Postal Service hasn't formally notified us of anything. But they've already said in public that they want to adjust prices on their market dominant products in May of 2009.

That means they will file a rate case with us in February and we will be very busy during the short time we will have to consider it.

Because....if what we've heard is correct, it will be more complex than last years' across-the-board increase. But, I do think we will be able to respond in our limited time frame..., just like we have been able to keep every deadline we've been given since the reform legislation passed.

Most of you know that the Postal Service filed a new rate change for competitive products (like Priority Mail, Express Mail and Parcel Select) with us last month. The public comment period just closed yesterday (December 1). They want to implement those rates on January 18, 2009, to have their changes be consistent with their competitors from now on.

Last year, it took us only ten days to confirm that the rates met the requirements of the law. I look for us to send our recommendations to the Board of Governors with enough time for them to make their January changes on schedule.

SERVICE PERFORMANCE MEASUREMENT

There is one issue that the Commission just issued an Order on which I wanted to discuss with you briefly... Service Performance Measurement.

By law, the Postal Service had to ask the PRC's formal approval to use a hybrid (internal and external) measurement system to track its progress in meeting its performance goals. An important part of this system is the Postal Service's Intelligent Mail Barcode (IMB).

Last week, the PRC formally approved their request to use a hybrid measurement system which includes the use of the IMB.

(The Postal Service will use internal service measurements developed from its IMB data to track service performance of bulk letters and flats. This data will be combined with externally collected information to provide the first system measuring the speed and consistency of delivery for most types of mail.)

We didn't, however, just give our blanket approval. The PRC urged USPS to move quickly to deploy IMB. But, we will carefully monitor the results.

And, while the IMB is being tested and implemented, we have asked the Postal Service to provide quarterly and annual reports- which will be available to the public - on its progress toward implementing full service IMB.

If necessary, changes to the systems will be developed.

We have been consulting with the Postal Service on service performance issues for almost two years. We recognize IMB is a "work in progress" and we will continue our consultations to insure that the IMB provides an effective way to measure performance.

UNIVERSAL SERVICE OBLIGATION/POSTAL MONOPOLY

We are also nearing completion of our year-long study mandated by the Congress to report on universal service and the postal monopoly.

Earlier in the year, we asked for and received public comments from over seventy organizations and individuals.

We held field hearings in different parts of the country (Flagstaff, Arizona—St. Paul, Minnesota—and Portsmouth, New Hampshire) so we could hear from a broad cross section of the mailing public in addition to the usual Washington sources.

We also hosted a public forum. And, finally, we held an additional hearing in Washington, DC, which some of you were able to attend.

And, I do want to thank your organization, and especially Art, for submitting comments with the Financial Services Roundtable on this issue.

And I also want to thank those of you who testified and submitted comments during our hearings. Your input added greatly to the record and we appreciate your efforts.

The Commissioners are just now reviewing the draft of the report (some 200 pages long if we don't cut it down) and we haven't finalized anything yet. However, without telling you anything I shouldn't tell you, the report is the most comprehensive study of the history of mail in the United States done in a long time.

When we do issue the report.....

We will discuss how the U. S. compares with other countries all over the world with our postal services.

We will have calculated the cost of the Universal Service Obligation and we will have calculated the value of the postal monopolies.

We will evaluate other methods of financing the USO and the potential on savings if six day delivery was altered.

We also will deal with the societal and economic benefits of universal service.

And we will provide options and recommendations for the Congress to consider in the future. So, I hope it will be worth your reading when it comes out.

That report must be sent to the Congress by December 19th and the PRC will formally ask for public comment once it has been issued. So, I really do hope many of you will take a look at it at some point and provide us with your feedback.

You know, thanks to the reform legislation, we have become a more “open” commission - both to the Postal Service and to the mailing community. The law changed the way the PRC, USPS, and the postal community interact.

Today we are able to reach out to groups and the Postal Service through hearings, workshops, and informal and formal meetings. I think this has been a positive change.

We have even been able to host groups of you that Art has brought to our offices for discussions. And it’s very helpful for us to have the input you provide.

The Commissioners have been holding monthly consultations with senior Postal Service management which will continue into the new year. And, this has really improved the line of communication between the two parties.

OTHER ITEMS

Now, as I am prone to do, let me quickly offer you a list of other items that the PRC has before it right now and then maybe I can get your thoughts or questions on what we have going on.

Number One **Complaints Process**

We recently proposed new rules for us to use in evaluating complaints against the Postal Service. These rules would completely replace our existing rules and would establish a two-track system: (1) a complaint track for more formal, legalistic complaints and (2) an informal track to deal with rate and service inquiries.

These rules are just a starting point. They will evolve as we grow more familiar with the issues that we may be asked to consider.

For instance, we are in the process of reviewing a complaint by “one entity” alleging that USPS discriminated by not offering a similar agreement to an NSA provided to “another entity.” And I shall not comment any further on that.

Number Two **Postal/Non-Postal**

Under the new law, the PRC is required to review all non-postal products offered by the Postal Service (as of January 1, 2006), and then determine whether each of them should continue (based on an assessment of public need and the private sector’s ability to meet such a need).

I can say it’s one of the most contentious issues between us and the Postal Service. There are a lot of items left to be resolved. But, the final report is due in just over two weeks so be watching for that one.

Number Three

We have tentatively started, along with the Postal Service, our mandated report to the Congress on attributable costs for periodicals.

Number Four

We are developing the accounting and auditing practices for the Postal Service in consultation with the Treasury Department. That is to come out by December 19th.

Number Five

Rules on Confidential Information

We will soon finalize the rules on the treatment of information which the Postal Service doesn't want publicly disclosed.

I could give a recitation of the other reports, reviews and studies that the PRC is still mandated to do with postal reform. But, it only gets more technical and less exciting. So, I will stop and be glad to listen to your comments or questions.

And, thank you again, Art, for having me here today.