

REMARKS TO IDEALLIANCE

March 23, 2015

St. Petersburg, FL

Thank you, Anita for that kind introduction, and thank you, David and the IDEAlliance for inviting me to be with you today. I always appreciate an opportunity like this, mostly because I get to hear your concerns, which is essential in the Postal Regulatory Commission being able to do our job. I will make time for questions and comments after my remarks so I can find out what issues you are dealing with.

As Anita pointed out, I first spoke to the Print Distribution Conference here in St. Petersburg twelve years ago. I had just received my recess appointment to the old Postal Rate Commission by President Bush a few months before, and it was the first time I had addressed a major mailing group as a Commissioner.

When I was asked to speak to this years' group, I decided to pull out my twelve year old speech to see if anything had changed. Back in 2003, Jack Potter had been Postmaster General for a little over a year. The Postal Service had about 780,000 employees and was adding well over one million delivery points per year. It was significant news that the year before had seen a decline in first class mail volume for, literally, the only time since the Great Depression. In 2003, the volume of first class mail, which was the money-maker for the USPS, was ninety-nine billion pieces.

The PRC was actually not even the same agency it is today. We were the Postal Rate Commission, under the old rate system, which was 'cost-of-service' based. Roughly, the law said that the Postal Service was to break-even over time. So, when they were facing a deficit they simply filed an 'omnibus rate case' raising rates on every class of mail to cover their cost.

As some of you who used to have to sit through, or even testify, will remember, filing a case began a ten-month long process of on-the-record, formal filings. There were several days of public hearings before the Commissioners where the Postal Service and mailers made their case on rate changes. The rate case that approved just before I joined the Rate Commission in 2002 had resulted in an 8.8% increase in first-class rates, making the price of a stamp thirty-seven cents, and the Postal Service remained profitable. By then most stakeholders agreed that the system was too tedious, expensive, and time-consuming and that major changes needed to be made.

A few months before I spoke to the IDEAlliance, George W. Bush had appointed a Commission which was cleverly titled "The President's Commission on the United States Postal Service" to make recommendations about the future of our mailing system. The President's Commission was in the process of holding public meetings around the country to get input from stakeholders. A few months later they reported a very stark conclusion that universal service was at risk if the system remained the same.

Ultimately, since the President's Commission report stated that "a cumbersome regulatory and rate-setting model was one of the obstacles to a necessary overhaul of the Postal Service," people questioned whether the Postal Rate Commission should even be in

existence. Just like everyone else at that time, I wanted to see a viable Postal Service existing well into the new 21st Century. Personally, even though I had not sat through an entire ten month rate case, I thought the system had to be changed if the Postal Service was to survive.

I remember, too, that a big topic of discussion during our question-and-answer session that day was this new concept that the Postal Service might offer a special rate to an individual mailer. We were in the middle of the very first Negotiated Service Agreement case filed with the Commission. I remember a good debate that day about NSA's, some parties saying they were definitely needed and others contending they were illegal. Of course, Joe Schick and I went back and forth over whether a 'niche classification' could take care of that question.

Another issue we spent time discussing that day was work-sharing, which was quite controversial at the time. I know many of you deal extensively with work-sharing matters. I can tell you this to try to answer a question now instead of waiting for the Q&A: The PRC encourages the Postal Service's work-sharing practices, but legally speaking, the Commission's role with regard to work-sharing is fairly limited.

Basically, our role is to ensure that no work-share discount exceeds 100% of the costs avoided, with few exceptions. While I encourage the Postal Service to set the discounts as close to 100% as possible, the Commission cannot order discounts which are below 100% to be raised. What the Commission can do, and what our technical staff will continue to do, is ensure that the avoided costs calculations are accurate, so that 100% of costs avoided actually means 100%.

My point in taking you down memory lane is mostly to remind us how much the mail system, and what this country expects from a Postal Service, is constantly changing. As you know, it took years to actually get the Postal Accountability and Enhancement Act of 2006 signed into law, our old Rate Commission was done away with, and we became an entirely new agency, the Postal Regulatory Commission, with strengthened regulatory responsibilities. The PRC was tasked with coming up with a new regulatory rate structure which allowed the Postal Service the flexibility they said they needed.

It required a major revamping of our agency's functions. We transformed into a new agency in a responsible manner and in keeping with the mandates of the PAEA, and we were actually able to implement an entirely new rate-making system several months ahead of schedule during that process. We also provided the report to Congress on the Universal Postal Service Obligation and the postal monopoly as mandated by the PAEA. Every year since, we include the current estimated value of the monopolies and the estimated cost of the universal service obligation in our annual report to the President and the Congress.

The PRC also continues to produce the comprehensive Annual Compliance Determination, the ACD, which is the ongoing mechanism for providing accountability and oversight of the Postal Service. I will discuss the ACD in more detail in just a moment.

First, let me add a little context as to the Postal Service and the Postal Regulatory Commission. Today, the U. S. Postal Service is still a \$67 billion operation with about 500,000 employees. It is not a quasi-governmental body, a quasi-private body, or quasi-anything. By statute, it is 100% part of the federal government, and operates as an independent

establishment of the Executive Branch. It is an agency totally owned by us, the American people, and exists totally for our benefit. Yet the Postal Service receives NO tax dollars for operating expenses and relies solely on the sale of postage, products and services to fund those operations.

In contrast, the Postal Regulatory Commission determines the legality of the Postal Service's prices, products, and fair competition issues, as well as overseeing the Postal Service's service standards. We are composed of five full-time Commissioners, each appointed by the President as a bipartisan Commission and confirmed separately by the U. S. Senate. Bottom line: the Postal Regulatory Commission is not the U. S. Postal Service. We are a separate, independent federal agency. We are the regulator, not the operator, of our nation's Postal Service.

Although things have changed a lot in these last twelve years, there is good news, even if it seems overwhelmed by the financial position of the Postal Service. There is STILL strength in the system. The Postal Service is the one government agency that touches every American on a daily basis. It literally services 150 million American households and businesses on a typical day. The Postal Service facilitates trillions of dollars in commerce. It supports a \$900 billion mailing industry and employs almost 8 million people, as you know better than I. It is a significant driver of the nation's economic engine and an essential piece of its infrastructure.

Of course, we cannot ignore the Postal Service's current financial predicament. Based on the information the Postal Service reported to us in its recent Annual Compliance Report, we know that 2014 was its eighth consecutive year in the red. The total loss in 2014 was \$5.5

billion, which is \$500 million more than the loss in 2013. The total net deficit since 2007 has been almost \$52 billion.

Now, if you ignore for a moment non-operational expenses, there is some good news. In 2014, the Postal Service had a net operating income of \$1.4 billion, the first time it has had a positive net operating income since 2008. While this is a positive development, we cannot ignore that the Postal Service remains in financial crisis, and that something must be done to right the ship.

I would like to talk for a moment about some of the issues that David and Anita specifically mentioned to me that the IDEAlliance members would want me to touch on. And I will be glad to get into more detail during the Q&A if asked.

I was asked to comment on the new leadership at the U. S. Postal Service. As you know, Megan Brennan recently replaced Pat Donohoe as Postmaster General. Pat, I believe, did a good job as PMG at one of the most difficult times the Postal Service has ever had, and while there were many disagreements between the USPS and the PRC, I found Pat to be straightforward with us and he tried to be responsive to our concerns.

The PAEA required the Postal Service, in consultation with the PRC, to establish modern service standards for market-dominated products. Since those standards were established, the Postal Service has continued reporting to the PRC. About every two months, Pat and the entire Commission would set through those reports. It was an indication of the importance he placed on our playing our respective roles in the process. The only time we would suspend those meetings was when the Board of Governors had a rate case pending before us.

Pat and Megan met together with the Commission at the last service standards meeting. Megan indicated she wanted to continue the meetings, and she and Acting Chairman Taub have met to see about an acceptable schedule. I believe we will have a productive relationship with the formal restrictions that the PRC and USPS must follow.

While we are on the topic of new postal leadership, as you know, along with Commissioner Langley and I returning to the Commission last December, President Obama named Robert Taub as Acting Chairman of the PRC to replace Ruth Goldway who is now in her hold-over year as a Commissioner and announced that she was not seeking appointment to an additional term. Many of you knew Robert during the many years served with Congressman John McHugh as Chief of Staff and Director on the House Oversight and Government Reform Committee. Robert worked with McHugh for years on postal reform legislation that culminated in passage of the PAEA in 2006. He is one of the best postal experts there is, as well as a good friend on the Commission.

Since becoming the Acting Chairman, Robert has worked closely with the postal leadership in Congress to make sure that they know they can count on maximum efficiency from the current PRC budget and our staff. And especially to let Capitol Hill and postal stakeholders know that the PRC is a reliable regulator there for you—the people who use the mail.

Now let me talk about something that Anita specifically asked me to talk about, that she knows I am not going to talk about. Right before my last term on the Commission expired in October 2013, the Postal Service filed an Exigent Rate Case to raise rates beyond the statutorily

mandated CPI restrictions because of extraordinary circumstances. A few days after that, I left the Commission awaiting confirmation daily by the U. S. Senate to return as a member of the PRC. It turned out that both Commissioner Langley and I ended up not returning to the Commission until December of 2014. In the meantime, the Commission approved a temporary price adjustment beyond the CPI to last until later this year. Many people have asked me since that time how I would have voted on that decision and what I thought of the Opinion as rendered by my colleagues.

I can tell you this: That decision was actually a continuation of the original exigent case the Postal Service had filed with the Commission in July of 2010. I opposed an exigent increase at that time and voted against its approval. I was not at the Commission during the time the exigency matter was briefed and deliberations made, so I do not want to guess about what my conclusion would have been at that time about any possible decision. However, now that the matter has been appealed to the DC Circuit Court, I expect to take part in future deliberations and briefings on the case pending the Court's decision in the matter.

I do not want anyone to say that I had pre-formed a judgment if we get the case back. So, I should comment no further on how I would have voted, and that is by advice from our PRC legal counsel.

Separately, I was asked to speculate why the DC Court of Appeals has taken so long to make a decision. I actually do not know. Intelligent observers advised me when I returned to the Commission last December that a decision was coming "any day now" from the Court. We wait right along with stakeholders and the Postal Service every Tuesday and Friday to see if a

decision comes down, and I simply do not know anything to say about the time involved in their consideration.

Anita also asked that I talk about the PRC's role in review of the rates in 2017. I must say that I was somewhat surprised that this is already a topic of discussion among many in the mailing industry that I have heard from since coming back to the Commission. Let me provide you with some background.

When Congress passed the PAEA, it provided that ten years after enactment, the Commission would review the ratemaking system set up by the PAEA. Specifically, it directed the Commission to evaluate whether the ratemaking system is achieving the objectives set forth by Congress. For example:

Is it producing predictability and stability in rates?

Is it allowing pricing flexibility?

Is it assuring adequate revenues? And so on.

If the Commission finds that the objectives are being met, then it is to leave the system as is. On the other hand, if the objectives are not being met, then the Commission is empowered to make whatever changes are necessary to meet Congress's objectives.

This process will begin in December 2016 and likely continue through much of 2017. It will be an open and extensive process with plenty of opportunity for all interested parties to comment. Of course, a lot could change in the postal world between now and the end of 2016,

so it is premature at this point to speculate on what sort of changes, if any, the Commission will need to make.

Now there are other issues to talk about, but this may be a good place to stop and discuss what is on your mind today.