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POSTAL RATE COMMISSION

"PERSPECTIVES ON THE FUTURE OF RATESETTING"

Remarks

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Good morning, ladies and gentlemen. Thank you for including me in this morning's program on the future of ratesetting. **I am always reminded at this point of my so-called friend who said: "You were much better than the last speaker -- he talked for an hour and didn't say anything. You only took 15 minutes."**

This topic is once again in the forefront, after spending a long time on the back burner. In fact, it's the subject of a congressional hearing that is underway this morning on Capitol Hill. Many people have asked: "Why is change needed?" Other people are saying: "It's crisis time at the Postal Service!" That the Postal Service must change to meet changing times or die on the vine. Well, I am reminded of what John Kennedy said about 'crisis': "When written in Chinese, the word 'crisis' is composed of two characters – one represents danger and the other represents opportunity. Where do you believe we are?"

Having relayed to you the thoughts I have heard, I will shortly be joining my fellow commissioners on the Hill where our Chairman, Ed Gleiman, will be presenting testimony on many topics, one of which is the ratesetting process. I can't speak for the Commission, but I, for one, have heard from many sources that this legislation is not even needed. Total volume has continued to grow to what is projected to be 200 billion pieces this year, with billions being spent on automation. Also, the Postal Service has the ability to seek expedited hearings, experimental cases, while users and competitors have the right to complain and have their concerns evaluated in a timely manner.

Having said this, however, it could be the right time to be considering the direction ratemaking may take in the future. Even better, no crystal balls or tea leaves are needed. Instead, a major piece of legislation — HR 22 — has taken shape. **Nothing is more dangerous than an idea when you only have one idea.**

Before talking about HR22 and its defining features – although this draft is an improvement over earlier drafts – several areas need to be addressed further and I will mention just a few at this point. It is possible they could become stumbling blocks or cause "heartburn" for many in the mailing community.

- Should a Federal agency be able to buy private companies or form joint ventures with them to market postal products which compete in the private sector?
- What about negotiated service agreements? Should the Postal Service offer one company lower rates than another for carrying mail that costs essentially the same to deliver?

- How does the Postal Rate Commission get the collection and production cost data that it needs to fulfill its statutory mission in a timely manner?

However, having said all of this, HR22 is now with us with some defining features. For example, it splits all postal products into two groups: competitive and non-competitive. Competitive products would essentially be free of Commission jurisdiction, once a transitional case is completed. Non-competitive products, such as First Class and Standard A letters, would have small, periodic rate increases targeted to be below the rate of inflation.

The emergence of a comprehensive bill can tempt both the cautious and the bold to make predictions about its chances for passage. This can be foolhardy, of course, since history provides us with many famous -- and flawed -- predictions. One that comes to mind, as a new generation has learned from last year's blockbuster movie, nearly everyone thought the Titanic was "unsinkable" when it set sail.

Given blunders are possible, I want to emphasize that my remarks are only "perspectives" on the future, not predictions. I welcome ideas on how to improve our system, but I won't be handicapping the legislative prospects of HR 22. However, I do have some opinions on some of its provisions.

I have also made some simplifying assumptions to suit the time that's available to us this morning. A major one is that my reference point is HR 22 as it is written today, **without** any of the proposed amendments promoted by the Postal Service or floated by others.

My main focus is on how the bill would affect operations at the Commission and, in turn, the strategic planning of those -- like your association - - who have actively participated at the Commission over the years.

With that understanding, let's back up a minute and consider **why** today's topic has moved from the sidelines of postal discussions to center stage. After all, we recently finished another omnibus rate case, with relatively few fireworks. And not so long ago, the postal community collectively tackled major classification reform.

Moreover, there has been an ongoing series of what we refer to in the trade as "rulemakings" and "minor classification cases." These deal with important, but narrower, concerns. One of them is the Mailing Online case, in which your association is participating.

What's more, from the general public's point of view, things probably look pretty good. After all:

- ◆ most holiday mail was delivered on time;
- ◆ news reports say the Service is showing a profit; and
- ◆ many street corners and shopping centers are sporting new or renovated postal facilities.
- ◆ as my father says: "Put a stamp on it, drop it in a box and for 33 cents it goes anywhere in the U.S. What a deal!" Well, you be the judge.

Given these developments, some might say the current ratemaking process is working reasonably well, and ought to be "good enough" for quite some time. This is the well known "if it ain't broke, don't fix it" approach to life and to legislation. Personally, I think there's a lot to be said for this approach.

Understandably, however, others see reason for change, despite the surface indications that "all's well." This includes John McHugh, chairman of the key House subcommittee on postal matters, and chief sponsor of that bill I mentioned earlier -- HR 22.

Mr. McHugh is able, energetic, and highly regarded. His sponsorship of the bill is motivated, in part, by concern about the impact of electronic communications on mail volume. Certainly, some of the numbers being tossed around are pretty big. Given the potential for substantial diversion, Congressman McHugh comes down on the side of doing something sooner, rather than later, in terms of national policy.

Congressman McHugh is also aware that other countries have been tackling postal de-regulation. So the world community's example also plays a part in his interest. But Mr. McHugh also has heeded calls, from various domestic quarters, to consider economic factors and policy concerns much closer to home. These include:

- whether some "sacred cows" -- like the legal monopoly and sovereign immunity -- are still valid controlling principles for the 21st century;
- whether classification reform, which I mentioned in passing a few minutes ago, went far enough in addressing important pricing, costing and competition concerns; and
- whether the current system can ever provide adequate incentives for the level of innovation and service many expect the Postal Service to provide.

Let's assume that HR 22 is the product of all these concerns. Let's also assume those who predict it will become the law of the land turn out to be right. What will happen to -- and at -- the Commission?

Well, when the last legislative ink has dried, the Commission will still be around, with the same 5-Commissioner setup. This alone may surprise some of you, especially for those who recall that people in high places, from time to time, have proposed abolishing the Commission.

However, we would be treated to a "complimentary makeover." First, there's the matter of a name change. We would be called the Postal "**Regulatory**" Commission, rather than the Postal "**Rate**" Commission." Then, in keeping with the name change, some fundamental aspects of our proceedings would be altered.

For one thing, a long-time fixture on the scene -- the traditional "omnibus" rate case format -- would go the way of the dinosaur. We simply would not have as extensive a range of postal products to consider as we do now. However, HR 22 still envisions a lot of work for the Commission. Consider, for example, that we would **gain** the jobs:

- of year-round monitoring and auditing, and
- of overseeing rate bands and price caps for non-competitive products.

We also would:

- **gain** authority to transfer products between the two basic categories, in certain circumstances;
- **gain** more extensive complaint case authority; and
- **gain** responsibility for monitoring certain quality of service data.

Moreover, these responsibilities would be in addition to recently-passed legislation adding some international rate authority to our jurisdiction.

In short, even a quick reading of HR 22 indicates that the Commission's job is likely to be just as complicated as it is today. And before plunging into substantive work, we would need to develop ground rules and work out some policy issues.

Under HR 22, much of this is to be accomplished in a transitional "base-line" case. As I see it, this case would have the unique distinction of being both

the great-grandchild, several times removed, of the original omnibus case under the existing system and the “parent” of approaches unfolding in the new era.

How does all of this affect you? Initially, I hope MASA members — like others in the postal community — will assume responsibility for making the new system work. We would be looking to you for help in shaping the rules, regulations, and internal policy that would guide future decision making. In fact, the Commission’s staff has identified a long list of jobs -- “rulemakings” in agency lingo that need to be addressed early on.

Once things get underway, you will probably find that you will continue to have a direct stake in monitoring, and actively participating in, Commission proceedings. In particular, I think the Commission’s expanded complaint authority will be of interest to you. Given the current scope of complaint case jurisdiction, many rate case participants do not need to follow these very closely, unless they are the one who brings the complaint. I think this will change under the HR 22 scenario.

For discussion’s sake, however, let’s say HR 22 -- or variations thereof -- do **not** pass, so there’s no change in the existing ratemaking framework. If you assume that the status quo will prevail as far as omnibus rate cases you’d be right, at least in a lot of respects. Certainly, we would still have rates for all so-called “competitive” products to consider.

But the future of ratemaking could still hold some changes and improvements as far as things at the Commission go, even if HR 22 does not pass. Obviously, these would not be as striking as those in the bill. However, they may still offer some opportunity for the flexibility and predictability that many seek. In other words, “all is not lost” in the absence of congressional action. Here’s a small sampling of what might be done:

- there could be more experimental filings;
- there could be greater use of the longstanding “settlement” option, which allows interested parties an opportunity to work things out on their own, with minimal Commission involvement throughout much of the process; and
- there could be more improvements in the “mechanics” of our proceedings, especially in things like electronic filing and service. In many instances, this holds the promise of reducing the costs of participation for associations like yours.

In closing, I would like to say that I always enjoy hearing the predictions others make, but am leery of making them myself. However, there’s one prediction I feel confident of making today: and that’s whatever the future holds,

MASA members will continue their long tradition of providing straightforward advice on how postal policy affects those out there on the front lines. Come to think of it, my Cajun friends in Louisiana would say that's not a prediction, that's a darn sure thing. Keep up the good work.

Thanks again for having me. I'll close now, and take a few questions if you have any.