



Testimony of
The Honorable Dan G. Blair, Chairman
On Behalf of the
Postal Regulatory Commission
Before the
U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia

May 8, 2008

Thank you Chairman Davis, Ranking Member Marchant, and members of the Subcommittee. I am always pleased to update the Subcommittee on the activities of the Postal Regulatory Commission. As you know, the Postal Accountability and Enhancement Act (PAEA or Act) significantly strengthened the Commission's oversight and regulatory responsibilities. Congress envisioned an effective regulator, and through its various initiatives and actions over the past 17 months, the Commission has marked its transformation to regulator from ratemaker.

It has been just over two months since I testified before the Subcommittee's last postal oversight hearing on February 28. During this nine week period, the Commission verified the lawfulness of the Postal Service rate adjustments for market dominant and competitive products; issued its determination of compliance for fiscal year 2007 postal operations and finances; completed work on mail classification matters, including a negotiated service agreement; continued consultation with the Postal Service on service performance measurement issues; initiated proceedings to obtain public input involving the Postal Service's universal service obligation and the cooperative mail rule; and testified before this panel on April 3 and April 24, as well as at a March 5 hearing before the Senate Postal Subcommittee. We also launched our redesigned website.

The Postal Regulatory Commission's role is to ensure transparency and accountability in postal operations, services, and finances. We are the window by which Congress and the American public have an unvarnished view of the Postal Service. Our mission is clear: we provide a regulatory environment to foster a robust postal system.

The Commission is proud of its efforts to complete those requirements of the Act by specific deadlines. One of our most time-sensitive and critical mandates was establishing new ratemaking systems for market dominant and competitive products. We finished this task eight months ahead of the statutory deadline, which allowed the Postal Service to move forward with inflation-based rate adjustments.

RECAP OF 2007 COMMISSION ACTIVITIES

Having these rules in place on October 29, 2007, allowed the Postal Service to use the flexibility provided by the PAEA to adjust rates under the new system as opposed to filing under the 1970 law. Both market dominant and competitive filings were explored and resolved within the timeframes we established. Although the Commission found that one workshare discount needed adjustment; this was done without delaying or disrupting the process.

Implementing the new ratemaking systems ahead of schedule was just one of the significant Commission accomplishments achieved in 2007. We also finished the following activities during the first year of the PAEA:

- The Commission consulted with the Postal Service regarding the development of modern service standards for market dominant products. To guarantee public participation in the process, the Commission held three field hearings outside of

Washington, DC, where witnesses shared their expectations for service standards and ratemaking regulations. In addition, we solicited written comments from mailers and consumers to assure a broad cross-section of opinion informed our input. The Postal Service issued new standards in December 2007.

- On February 26, 2007, the Commission issued its opinion and recommended decision on postal rate and fee changes in the last omnibus rate case considered under the old Postal Reorganization Act of 1970. Related to this action, was the completion and issuance of Recommended Decisions on three requests for reconsideration as part of the R2006-1 omnibus rate case.
- In addition to final action on the R2006-1 case, we completed other pending cases under the old law, such as rendering a final decision on the classification for stamped stationery and our decision affecting Repositionable Notes classifications and rates; and the Commission's decision in approving a Negotiated Service Agreement (NSA) with Bank of America.
- We completed the first new budget submission cycle, which was required by the PAEA to insulate the Commission, as the Postal Service's regulator, from the regulated entity. We are now a part of the President's budget proposal and authorized through the annual congressional budget and appropriations process.
- To better align staff and resources with the new law, the Commission examined its internal structure. We reorganized the Commission by establishing an Office of Public Affairs and Government Relations and added a new Auditing and Costing Division to the revamped Office of Accountability and Compliance. We also met the deadline imposed by the Act in creating a new Office of the Inspector General.
- The Commission also began work on its newly redesigned webpage last year. Unveiled last month, the new site offers timely and better transparency of postal data and developments in the postal community. As the Commission implements its new responsibilities under the PAEA, our website will be the focal point of information for postal customers on our progress and that of the Postal Service to the users of the mail system.

We are now building on these achievements to ensure future success in implementing the PAEA. As the Subcommittee may recall from my testimony two months ago, the Commission has an extremely full agenda in 2008.

RATE ADJUSTMENTS

As I previously stated, in early February, the Postal Service filed rate increases for market dominant products, which put into motion the regulations finalized last October. Following a public comment period, the Commission unanimously verified on March 17,

2008, that the increases for market dominant products were, on average, under the rate of inflation for all classes of mail (R2008-1).

As we were completing work on the market dominant filing, we were also considering the Postal Service's request for rate adjustments for competitive products. Following a period for public comment, the Commission verified the price changes sought by the Postal Service for its competitive products, which include Priority Mail, Express Mail, Parcel Select, Parcel Return Service, and selected international mail offerings. Our review determined that the filing met the statutory and regulatory requirements that each competitive product must recover its direct costs; that competitive products, as a group, must pay their share of institutional costs, which the Commission set at 5.5 percent; and that market dominant products do not cross-subsidize competitive products.

Planned adjustments for both market dominant and competitive products will become effective on May 12, 2008.

ANNUAL COMPLIANCE DETERMINATION

Further, the Commission issued on March 27, 2008, its first Annual Compliance Determination on the performance of the Postal Service for fiscal year 2007. This Determination was prepared after a 90-day review of the Postal Service's Annual Compliance Report and supplemental material, evaluation of public comments, and an assessment of data and information provided during technical conferences. Our Determination gives a clear picture of the Service's financial data, which in turn will assist the Commission to improve the quality and timeliness of data filed by the Postal Service with the Commission.

Our Compliance Determination found that while the Postal Service's revenue increased, its volume decreased. This underscores the need for more robust performance measurement reporting by the Postal Service in the future. Our report may be found on the Commission's website, www.prc.gov.

I would like to share with the Subcommittee a few of our *Principal Findings*:

- The Postal Service had a \$1.6 billion profit on operations; however, statutory funding requirements for retiree health benefits resulted in a net loss of \$5.1 billion.
- Total First-Class Mail volume declined by 1.6 percent and First-Class single-piece volume dropped 4.5 percent to continue a nine-year decline.
- Five market dominant postal services did not cover their attributable costs: Periodicals; Single-Piece Parcel Post; Media/Library Mail; Registered Mail; and First-Class Mail International (inbound).

- Two competitive postal services did not cover their attributable costs: Parcel Return Service and International Surface Parcel Post at non-Universal Postal Union (UPU) rates (inbound).
- Competitive products, as a group, slightly exceeded the requirement that they contribute at least 5.5 percent of Postal Service institutional costs.
- The five current market dominant Negotiated Service Agreements (NSAs) provided a \$2.5 million contribution.
- Our assessment discusses service performance in some detail. For fiscal year 2007, the data reported service performance for less than 20 percent of the mail. This will be improved as planned new performance measurement systems are implemented.

The annual compliance determination process should serve as an action-forcing mechanism in shedding light on postal operations, services, and finances. To assist the process, the Commission plans to propose Periodic Reporting Rules to help us prepare the annual compliance determination. These rules will specify what information the Postal Service must report to the Commission on a regular basis – monthly, quarterly, and annually – to enable us to carry out our broad oversight responsibilities. Given the current economic downturn, the Commission will be watching postal finances carefully. This and future compliance determinations should provide Congress with the appropriate information it requires in order to conduct meaningful oversight in assessing potential risks to the long-term health of the Postal Service.

UNIVERSAL SERVICE OBLIGATION AND POSTAL MONOPOLY STUDY

Another critical undertaking this year by the Commission is our work on the Universal Service Obligation study (§ 702 of the PAEA), which I know is of interest to Members of this Subcommittee. The Commission’s review will allow us to evaluate whether to recommend on any changes to universal service and the postal monopoly.

Last summer, Commission staff began developing the framework of our Request for Proposals (RFP) seeking a consultant to assist us in gathering information for this study. As part of a public competition, the Commission received three proposals in response to its RFP issued last November. The Commission selected the George Mason University School of Public Policy to support completion of the study due to the President and Congress by the end of the year.

On April 18, 2008, we initiated a proceeding to solicit the views of the Postal Service and other federal agencies, commercial mailers, and other interested parties for their expectations of universal postal service, postal monopoly, and the mailbox monopoly.

Like the public field hearings we conducted last summer, we have scheduled similar field hearings outside of Washington, DC to solicit views. We will visit Flagstaff, Arizona; St. Paul, Minnesota; and Portsmouth, New Hampshire over the next two months. We will augment our public hearings with an assessment of the needs and expectations of the general public concerning universal postal service, especially single-piece mailers, small nonprofit mailers, and small business mailers. We are also reaching out to the Washington-based mailing and postal community through an open workshop on June 12 at the Commission.

We are mindful that the Postal Service is a key stakeholder in this study. We have been working with them through our monthly consultation process since Congress tasked the Commission to look at possible changes to the universal service obligation and the postal monopoly.

NETWORK REALIGNMENT

Of great interest to Congress is the Postal Service's upcoming report on its network realignment plans and how the plans will help it meet its service performance goals. The PAEA requires the Service to consult with the Commission before submitting this plan to Congress by June 20, 2008 (§ 302 of the PAEA). We have also met with the Government Accountability Office, which has reviewed this aspect of postal operation and management extensively. We are also relying on the Commission's 2006 advisory opinion (N2006-1) issued in the evolutionary network development proceeding that provided suggestions for improving this process, especially in the area of public participation.

SERVICE STANDARDS/PERFORMANCE GOALS

Adjunct to network realignment is the Commission's consultation on service standards and performance measurements and goals. We are now in the second phase of our consultation – establishing goals for performance measures and network reorganization that are due to Congress this June. The adoption of performance measurements and goals will allow mailers to better gauge service against the performance standards. Our consultations have focused on varied topics, but one area of great importance is the timely implementation of and mailer acceptance of the Postal Service's Intelligent Mail Barcode (IMB) standards. The Postal Service has sought the Commission's formal approval to utilize a hybrid measurement system to track its progress in meeting its performance goals.

COMPLAINT PROCESS

Other regulations that the Commission is working on are those regarding complaints. Our existing complaint system will become better aligned with the PAEA (39 U.S.C. § 3662), which requires the Commission to act within 90 days of receiving a complaint. Failure to act within 90 days will be treated as if the Commission had denied

the complaint. We anticipate issuing the proposed rules on complaints this summer, as well as proposed rules on our new subpoena power and rules for confidentiality.

ACCOUNTING PRINCIPLES

The Commission is also reviewing public comments on the recommendations made by the U.S. Department of Treasury in its report on accounting principles and practices in the operation of the Competitive Products Fund and the assumed Federal Tax liability (39 U.S.C. § 2011(h)(1)(B)). Our review will be followed by a rulemaking proceeding to develop regulations governing the Fund and establish rules for determining the assumed Federal income tax on competitive products income. Competitive postal products offered in competition with private firms, such as Federal Express and United Parcel Service, make up only about one percent of postal volume, and yet contribute approximately 11 percent of Postal Service revenues. These regulations are to be completed by this December unless the Commission and the Postal Service agree to a later date.

PERIODICALS STUDY

The PAEA also requires the Commission to conduct a number of studies, including two studies of interest to the Subcommittee and Committee. We have initiated discussions with the Postal Service on a joint Commission-Postal Service review of Periodicals costs that is required by the PAEA (§ 708 of the PAEA). Although the Act did not establish a deadline for this study, I believe it is justified to undertake the review now.

COOPERATIVE MAIL STUDY

As the Chairman knows, the Commission is reviewing the operation of the cooperative mail rule and its fundraising exception. Through the PAEA, Congress asked the Commission to look into whether sufficient safeguards exist to protect against abuse and deception of consumers (§ 711 of the PAEA). Since the April 24 hearing before this Subcommittee, the Commission has received additional correspondence from the Postal Service. In addition, on April 22, we issued a notice (PI2008-4) seeking public comment on the cooperative mail rule and its fundraising exception.

INTERNATIONAL MAIL

Another important change mandated by the PAEA enhances the Commission's role regarding international postal arrangements. The Commission has participated in the Universal Postal Union working groups and committees for many years, but our role has been statutorily strengthened. We are coordinating very closely with the Department of State, the Postal Service and other agencies such as the Department of Commerce and the Office of the U.S. Trade Representative.

We are also engaging the private sector to hear their concerns on international postal issues. On March 25, the Commission participated in the first meeting of the Federal Advisory Committee on International Postal and Delivery Services. The Department of State established this Committee to provide advice and input as it sets the United States international postal policy. The Commission is represented along with other key officials representing public and private sector interests.

Lastly, we are busy forging stronger channels of communication with other postal regulators. Last month, the Commission hosted postal regulators from the European Commission, which proposes and implements policies for the European Union, to discuss our respective experiences in postal reform. The Commission will be represented at the UPU Congress this summer, where important decisions on terminal dues and initiatives to improve quality of service will be decided.

In summary, the Commission understands and appreciates that these are challenging times. The Postal Service faces declining volume and a tough economy that has hit hard at some of the Service's key economic sectors. This reinforces the need for an effective regulator to provide the transparency and accountability mandated by the PAEA.

I would be happy to respond to any questions the Subcommittee may have.