



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

February 28, 2008

Thank you Chairman Davis, Ranking Member Marchant, and members of the Subcommittee. I appreciate this opportunity to review with you the activities of the Postal Regulatory Commission since the enactment of the Postal Accountability and Enhancement Act (PAEA) on December 20, 2006.

It has been an exciting and challenging fourteen months as the Commission transitioned into its role as the strengthened regulator from the former rate maker. Just a year ago, on February 26, 2007, we issued our recommended decision on the last omnibus rate case to be considered under the old Postal Reorganization Act of 1970. Less than a month later, at a joint Commission-Postal Service forum on the PAEA, I asked the attendees if they would like to see new ratemaking systems in place before the June 2008 statutory deadline. Fueled by an enthusiastic response favoring regulations "sooner, rather than later," the Commission beat the deadline by eight months. Our hard work set the stage for the first rate increase under the PAEA and resulted in the Postal Service foregoing one final rate case under the old law.

Completing the ratemaking regulations ahead of schedule is just one of the many tasks we undertook last year. In addition to establishing a new ratemaking process, the Act requires the Postal Service – in consultation with the Commission – to develop modern service standards for all market dominant products by the end of 2007. To guarantee public participation in the process, we solicited written comments from mailers and consumers and held three field hearings outside of Washington, DC, where witnesses shared their expectations for service standards and ratemaking regulations. We are now in the second phase of our consultation – establishing goals for performance measures and network reorganization which is due to Congress in June.

To further our commitment to a primary cornerstone of the new law – accountability and transparency – we reorganized the Commission. A comprehensive management review aided in the identification of key strategic goals, which allowed us to align our goals and office functions with the Commission's multiple mandates of the PAEA. We also began a complete redesign of our agency's website to ensure greater public accessibility and ease of use that will be completed this spring. A complementary activity is the upgrading of our Information Technology systems. We also appointed an Inspector General, as required by the law, who has provided the first semi-annual report to Congress.

In addition, the PAEA directs a new funding process for the Commission. Prior to enactment of the new law, the Commission submitted its annual funding requests directly to the Governors of the Postal Service, which in turn, directed the Postal Service to fund the Commission's budget from the Postal Service Fund. The Act sought to ensure the Commission's independence through the appropriations process by having Congress instruct the Postal Service to fund the Commission's budget from the Fund. I wish to thank the Chairman for his support of the Commission's appropriations submission for Fiscal Year 2009.

I am extremely proud of our accomplishments last year. However, the Commission will be even busier this year. As you know, the Postal Service filed rate increases for market dominant products with us on February 11, 2008. This filing puts into motion the regulations we finalized last October. Interested parties have until March 3, 2008, to submit comments to the Commission regarding the rate increases that will become effective on May 12, 2008. Once the public comment period ends, the Commission will have 14 days to review the comments, decide if the rate changes meet the requirements of the PAEA, with particular focus on satisfying the CPI based cap, and issue an order. Although the PAEA ensures a minimum of 45 days advance notice, the Postal Service is providing 90 days notice.

At the same time that the Commission is reviewing the first market dominant rate increase, we are also completing our first Annual Compliance Report. Work is underway to analyze the Postal Service's costs, revenues, and service data from fiscal year 2007. We have held two technical conferences regarding changes proposed by the Postal Service for Periodicals cost models, and we have asked for public comments on all aspects of the Service's Compliance Report filed with us at the end of 2007. This annual review, required by the PAEA, is due by March 27, 2008. Successfully managing these two responsibilities simultaneously, and within a compressed timeframe, demonstrates the Commission's ability to balance its resources and staff effectively. I would like to note that this year's compliance analysis will report on rate increases under the old cost-of-service system, which did not separate postal products. Future reports will analyze data for the two categories of mail established by the PAEA – market dominant and competitive products.

It is our obligation to develop, with input from the Postal Service and the mailing community, rules to ensure that the Postal Service provides sufficient reliable data to enable the Commission to prepare accurate and informative reports and studies as required by the PAEA. Good data is the foundation that supports meaningful transparency and allows for careful and conscientious analysis, and reports that provide real accountability.

We are engaging in other critical activities related to PAEA mandates, including the development of accounting principles and methods to calculate the "assumed" Federal income tax on competitive products. Our final rules will be issued no later than December 20, 2008, and will have the benefit of recommendations made to the Commission by the Department of Treasury at the end of 2007, in addition to public comments, which are being solicited now.

I wish to note that applying an assumed Federal income tax on competitive products is a unique requirement of the PAEA. Approximately 10 percent of the Postal Service's revenues are generated by products, such as Priority Mail and Express Mail, which are offered in competition with private firms. By law, the Postal Service must compute an approximation of the Federal income tax it would pay on its competitive products to ensure fair competition with the private sector. We will have final rules by the end of 2008.

We are currently working on our report to Congress on the universal service obligation (USO) and the postal monopoly, due by December 20, 2008. Commission staff, assisted by a contractor, will review the history of the postal monopoly, including the Mail Box rule, universal service in the United States and other countries, and the varied needs of individuals and businesses. To ensure active public participation, we plan to hold field hearings early this summer as well as solicit public comments. We are also asking the Postal Service, which is conducting its own review of the USO, to provide the Commission with the benefit of its recommendations and observations prior to releasing our final report to Congress. Further, we look forward to consulting with the Service, as required by the PAEA.

Another activity of interest to Members of the Subcommittee is the initiation of discussions with the Postal Service on a joint Commission-Postal Service review of Periodicals costs required by the PAEA. Although the Act did not specify a completion date for this report to the President and the Congress, we believe that comments made during the October 30, 2007 hearing before the Subcommittee justify the undertaking of the review now.

Mr. Chairman, I have laid out how the Commission moved quickly over the past 14 months to meet its responsibilities under the new law. We have shaped the new postal regulatory environment, and we are meeting our newly mandated responsibilities well. As part of this new environment, we are mindful that the Commission's strengthened regulatory authority includes our ability to issue subpoenas, order remedial actions, and levy fines in instances of noncompliance with applicable postal laws. We are formulating a new formal complaint system to strengthen the Commission's existing process to ensure even greater transparency and accountability. Work has begun on drafting new regulations, and we are instituting a system to process and track informal consumer concerns. Because so many consumer inquiries to the Commission are outside of our scope of responsibilities and relate to postal delivery service issues and operational matters, our Office of Public Affairs and Government Relations works closely with the Postal Service's Office of Consumer Advocate to ensure more timely and responsive actions.

I would like to address one final issue before I conclude my written remarks. I wish to discuss the future of agreements between the Postal Service and individual mailers, commonly referred to as Negotiated Service Agreements (NSAs). Up until very recently, the Postal Service operated as a tariff industry – offering products on the same terms to all its customers. However, in 2002, the Postal Service began negotiating contracts with specific mailers.

The PAEA codifies the use of the NSAs as one of the factors of the Act, and contemplates an expedited review process that we interpreted through our ratemaking regulations. The law is very specific, and our regulations directly reference section 3622(c)(10), among other provisions, as the basis for the Commission's review of NSAs. This section requires that market dominant NSAs must either improve the net financial

position of the Postal Service or enhance the performance of operational functions. In addition, NSAs may not harm others in the marketplace and must be available to similarly situated mailers. Competitive product NSAs must cover attributable costs.

I wish to assure the Subcommittee that we will review NSA filings from the Postal Service in this light. Moreover, reviewing the data behind these filings will be a critical component of the Commission's Annual Compliance Report to Congress. I understand many stakeholders may have questions about the Commission's review of NSAs under the new rules and the guidelines and criteria the Postal Service uses in evaluating a potential agreement. To address these questions, the Commission looks forward to working with the Postal Service in an effort to explore ways of resolving stakeholder questions and issues on how to best utilize NSAs.

In closing, I wish to thank the Subcommittee Members for their continued support of the Commission and our activities. I also wish to thank the Members for their work in bringing about postal reform. Moving from the lengthy, highly litigious rate cases in favor of annual rate increases capped at the CPI allows businesses to foresee their mailing costs. The predictability of rate increases and the transparency of the data behind cost adjustments will bring more value to the mail.

Thank you, and I will be more than happy to answer any questions the Subcommittee may have.