



Testimony of
The Honorable Dan G. Blair, Chairman
On behalf of the
Postal Regulatory Commission
Before the
U.S. Senate
Committee on Homeland Security
And Governmental Affairs
Subcommittee on Federal Financial Management,
Government Information, Federal Services,
And International Security

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Postal Regulatory Commission Chairman Dan Blair

Statement before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security Thursday, August 2, 2007

Chairman Carper, Ranking Member Coburn, and members of the Subcommittee, thank you for the opportunity to testify. I am very pleased to update the Subcommittee on the steps the Postal Regulatory Commission is taking to implement Modern Service Standards as required by Title III of the Postal Accountability and Enhancement Act. I respectfully request that my full statement be entered into the Record.

Before I begin my comments on service standards, I would like to summarize briefly the progress the Commission has made towards full implementation of the Postal Reform Act.

First, the Act requires the Commission to establish a modern ratesetting process for market dominant products. While the law allows us until June of 2008 to develop this new system, the Commission is moving quickly to beat this deadline. We hope to have in place a basic ratemaking framework by October of this year. Such action would provide the Postal Service with the flexibility to use the new, streamlined system should it need to raise rates.

Having this new framework in place – and the Postal Service operating under the new framework as early as practical – would allow both the Postal Service and the

Commission to dedicate more resources to thoughtfully implementing other aspects of the reform legislation.

In general, the mailing community is eager to move to a new system that will provide more stable and predictable rates, thus, avoiding another costly, litigious case under the old system. I know that you, Chairman Carper, and Senator Collins, are also very interested in seeing the new system set up as quickly as possible. You have my personal commitment to ensure that this goal is met.

The Commission recognizes that the decision of whether or not a final rate case is filed under the old rules lies solely in the hands of the Postal Service Board of Governors; however, we believe that it would be best for both mailers and the United States postal system if another traditional rate case can be avoided.

Over the past several months, the Commission has put into place what I call a “360 degree approach” to soliciting public input on both the new rate system and service standards. In February and May of this year, the Commission published Federal Register notices seeking public comments on how best to structure the new ratemaking system. The public response has been extremely gratifying. We received numerous thoughtful and helpful responses – approximately 100 separate responses in all.

Second, the Act requires the Postal Service to consult with the Commission on the establishment of modern service standards for market dominant products. The statute sets forth objectives the new service standards should meet to include:

- Preserving regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;

- Assuring Postal Service customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices; and
- Establishing an objective system of performance measurements for each market dominant product based on external measurements unless the Commission permits the use of internal systems.

To fulfill this requirement, and as part of our ongoing outreach, the Commission published a Federal Register Notice of Public Inquiry on June 13, 2007, in which we solicited input on service and performance standards from the general public, postal stakeholders, specialty mail users, as well as businesses providing goods and services to mailers. The Commission received 35 comments in response to this Notice.

We also reached out to the diverse community of postal stakeholders “outside the beltway” – through field hearings in Kansas City, Missouri, Los Angeles, California, and Wilmington, Delaware. Witnesses at the hearings shared with us their expectations for a new, better ratemaking system as well as their views on modern delivery service standards – the focus of today’s hearing. Both the formal comments received in response to our Notices and the testimony we heard during our field hearings have a number of common themes. I would like to take this opportunity to give you a sample of what we heard:

- Consistent and reliable mail service is critical to the postal community.
- Most mailers consider the existing USPS service standards acceptable, but insist that these standards should be a floor for all mail within a class.
- There needs to be a system-wide performance measurement that provides detailed information, available to the public. Specifically, we heard that

mailers, their customers, and the Postal Service would best be served by publicly available reports listing service performance regionally and possibly in greater detail. Moreover, detail, such as between specific 3-digit ZIP Code pairs or zones, should be available to mailers on request.

- These publicly available measurements of service should be web-based, real-time, verifiable, and subject to a third party audit.
- Several mailers listed measurement of what is called the “tail of the mail” as being especially problematic and noted that product delivery delayed beyond the expected timeframe results in decreased customer satisfaction and in increased costs of shipping of replacement goods.
- While mailers appreciate the low cost associated with the Postal Service’s plans for Intelligent Mail tracking, many point out that measurement systems will be needed for mail that bypasses automated processing, along with the other mailstreams that will not be tracked by barcode technology.
- Mailers also believe information beyond days-to-delivery are important components of service standards. For instance, the critical entry or cut-off time for business mail and the last collection time from neighborhood blue mail boxes are important, as well the length of the “tail of the mail.”
- Another area of discussion is whether there should be separate service standards for non-contiguous states like Hawaii and Alaska.

While the current performance measure for First Class mail – known as EXFC – External First Class – is generally considered an adequate system, measurement tools for other classes of mail are lacking. The Commission is very encouraged by the Postal

Service's plans to implement its Intelligent Mail initiative over the next several years. This system of barcode scanning should greatly increase the Postal Service's ability to track movement of the mail from drop-off to delivery, and in turn allow the mailing public greater access to performance information.

Until the Intelligent Mail initiative is widely operational, there is broad consensus among the mailing community that an interim system of measurement is needed. The Commission agrees. We do not believe that the PAEA envisioned modern service standards being enacted, but with a two to three year delay in their measurement. The efforts by large mailers or mailer groups to self-measure days-to-delivery are evidence of the importance mailers assign to performance measurement data. For instance, some periodical mailers already use a system of self-measurement, and the Commission recently held a public briefing by Red Tag News Publications, which provides tracking for periodicals.

In addition to the Commission involving the public in the development of a new standards and measurement system, members of the Commission staff are observing Mailers' Technical Advisory Committee (MTAC) meetings focused on developing recommendations to the Postal Service on delivery standards.

The public's input is aiding us in our meetings with senior officials of the Postal Service. To Postmaster General Potter's credit, he has sent a strong team to work with the Commission and has designated the Deputy Postmaster General, Pat Donohoe, to lead these efforts. The Commission appreciates the cooperative tone of the meetings and the attention senior leadership is paying to this important issue.

To date, the Commission and the Postal Service have engaged in three substantive service standard-related meetings. We anticipate another meeting later this month, culminating in a final, formal “consultation” at the beginning of October. We have had an open and vigorous dialogue between Commissioners and representatives of the Postal Service. Based on the tenor of the meetings thus far, the Commission has every reason to believe that our input will be reflected in the final regulations adopted by the Postal Service.

In closing, I would like to touch upon the relationship between Postal Service mail processing facility consolidations and service standards. Last year, the Postal Service requested an advisory opinion from the Commission on its planned nationwide realignment known as the “Evolutionary Network Development” (END) process. Under section 3661 of title 39 of the U.S. Code, the Postal Service is required to seek the Commission’s advice before implementing nationwide service changes.

When the proceeding started, very little was publicly known about the overall END process, and the Service’s vision of its future network was unclear. The Commission believes that the Postal Service should have the flexibility and authority to adjust its operations and networks to meet its business needs and create cost savings and efficiencies. However, the Postal Service must be accountable and transparent to postal customers, and be sensitive to the needs of the communities it serves.

The Commission’s proceeding brought some transparency to the Postal Service’s network development plans. Questioning by the Commissioners and participants in the case shed needed light on the Postal Service’s network rationalization efforts. We expect the transparency achieved through our review of network realignment last year to

continue and improve under the new Act. Besides requiring the Postal Service, in consultation with the Commission, to establish service standards for market dominant products, the Act also directs the Postal Service and the PRC to consult on developing a facilities plan for meeting those standards, including any necessary changes to the Service's processing, transportation, delivery and retail networks. This plan is due to Congress by June of 2008.

Clearly, the Commission has its work cut out for it. The coming 12 months will be a time of intense work at the PRC as we move to carry out our new responsibilities.

I hope I have given you a flavor for what we are learning from our field hearings and through our public comment process. Again, I thank you Chairman Carper for inviting me to testify. I welcome the opportunity to answer any questions members of the Subcommittee may have.