

## TESTIMONY



**United States Senate**  
**Committee on Governmental Affairs**  
 Testimony of Commissioner George A. Omas  
 Vice Chairman, Postal Rate Commission  
**May 15, 2001**

Thank you Mr. Chairman.

My name is George Omas. With me today are my fellow Commissioners, Danny Covington, Ruth Goldway, and Trey Le Blanc. As you know, the position of Chairman of the Postal Rate Commission is currently vacant. I was elected Vice Chairman by my colleagues, and have been performing the administrative functions of the Chairman since February.

This morning I will focus my remarks on three topics. First, the Postal Rate Commission recently concluded Docket No. R2000-1, the most recent omnibus rate case. I will review that case and discuss several ways in which our experience in that case is relevant to postal issues under discussion before Congress. All of us are very concerned with the recent rapid deterioration of Postal Service finances. I will attempt to provide the Commission's perspective on recent Postal Service operating results as my second topic. Finally, I will offer some suggestions intended to alleviate the causes of the current crisis atmosphere.

In early March of this year, the Postal Service Governors addressed letters to the President and Congressional Leaders indicating that a comprehensive review and overhaul of the nation's postal laws was necessary. They focused on two particular aspects of the current law, the process established for developing postal rates, and the "collective bargaining followed by compulsory arbitration" system for establishing wages.

I will address only the first of those issues—how postal rates are set. I have been involved in reviewing postal issues since the 1970s, and I have served as a member of the Postal Rate Commission while the two most recent omnibus rate cases, R97-1 and R2000-1, were under consideration. During my time on the Commission I have seen ample evidence of why an independent review of the rate and classification changes that

the Postal Service might seek to impose upon the mailing public is essential.

### **The Existing Ratemaking Process**

The Postal Service is a vast network that is woven into the fabric of American business and personal relationships. A reliable, efficient Postal Service is one of the bedrock strengths of the American economy. It is appropriate for Congress to investigate when the Postal Service Governors issue a call for a comprehensive review of existing law, and suggest that absent major improvements, the system the American people have come to know and trust may be at risk. I would suggest to you, however, that the current ratemaking system achieves an effective balancing of the needs and interests of the many segments of our society most affected by postal rates.

In fact, I think a dispassionate observer might easily conclude that the ratemaking system established by the Postal Reorganization Act, as amended in 1976, has been a singular success. That Act enunciated three primary rate policies. First, rates were to be high enough to enable the Postal Service to break even. Second, rates for each subclass and service were to be high enough to recover the direct costs of providing service to that mail. Third, rates were to be fair and equitable. Each of these goals has been met.

In the 30 years since reorganization the Postal Service has collected some \$976 billion of revenue. Over that time, the Service has experienced a net loss of only \$4.3 billion, or to put it another way, revenues have recovered 99.6 percent of costs. The Postal Service essentially has broken even since reorganization.

The Commission and the Postal Service have also adhered to the policy that the revenue from rates for each type of mail should recover its costs. Extensive work has been done to identify what categories of mail cause various types of postal costs, and the costs attributed to each subclass and service serves as its rate floor. Both mail users and private firms that compete with the Postal Service for delivery of products not subject to the postal monopoly understand that this statutory prohibition against cross subsidy is rigorously enforced through the Commission's independent review of the Postal Service's rate proposals.

I would also point out that twice in the past ten years Congress has seen fit to enact minor amendments to the Postal Reorganization Act to fine tune the formula for developing rates for mail sent by qualifying non-profit organizations. This provides an example of the benefit of having a national Postal Service. Congress is able to review the impact of postal rates on various segments of society and make adjustments deemed consistent with public policy.

The final goal, that postal rates be fair and equitable, is obviously somewhat subjective, and no one individual can provide a definitive evaluation of how well that standard has been met. Nonetheless, review of the Postal Service's rate and classification proposals by an independent agency with no stake in the outcome is the most likely way that I can think of to assure that Congressional policies are faithfully carried out.

The Act details numerous public policies, including nine factors specifically applicable to developing postal rates. Rates are set in an open, public proceeding during which all interested segments of society have the opportunity to show how those policies relate to specific types of mail, to present evidence verifying their concerns, and to test the validity of arguments presented by other stakeholders. Then the Commission must fully explain, in writing, the basis for each of its decisions. Its decisions must be based on the public, evidentiary record, and appellate review of its written decisions is available to all parties, including the Postal Service.

### **Recent Rate Case Experience**

Over the years, an extensive cross-section of American businesses have seen fit to present their views before the Postal Rate Commission. Small businesses as well as high volume mailers benefit from the existence of an independent agency that reviews Postal Service proposals. For example, in my first case on the Commission, a group of small business shippers found themselves faced with a 220 percent increase in the Special Handling fee. The Commission asked the Postal Service to provide support for its proposal, and the Service was unable to do so. As a result, the proposed increase was not recommended.

That case also was notable because the Postal Service proposed to increase rates even while it was generating substantial profits. Some mailers contended that the Commission should

have rejected the Postal Service request outright. Instead, the Commission recognized both the profits from recent positive Postal Service operating results and the added costs of newly planned computer upgrades, and scaled back the proposed increases to be consistent with the evidentiary record. Additionally, the Commission urged the Board of Governors to defer implementation of the new, higher rates until the Service actually needed an infusion of additional cash. The Board delayed implementation of the higher rates approximately six months.

The most recent omnibus rate case, Docket No. R2000-1, was just completed. Our decision in that case has become quite controversial because of unanticipated events that occurred after the case was all but over. The Governors asked the Commission to reconsider its decision twice, and just a week ago the Governors announced that they found it necessary to modify the Commission's decision to generate additional revenues.

Some may suggest that this outcome provides an indication that a fundamental change in the ratesetting process is necessary. I would suggest just the opposite. In many ways, this case has provided an example of why open, public proceedings are beneficial when establishing rates for an essential monopoly service.

The Postal Service submitted a request for a Commission decision in January, 2000. That request was accompanied by a full explanation of why the Service believed rate increases were necessary, and separate justifications to support its proposed increases for each of the classes of mail. Seventy intervenors appeared in this case, many of which were industrywide associations representing hundreds of mailers.

The intervenors were able to examine the justifications offered in support of the requested rate increases and to present facts and arguments supporting different results. Many intervenors took advantage of Commission rules to submit testimony and arguments jointly.

Mailers are not the only interests to intervene before the Commission. Private businesses that compete against the Postal Service also are allowed to present evidence to the Commission. Everyone is aware that parcel delivery firms such as United Parcel Service are active before the Commission, but other industries that are not so financially robust, such as

door-to-door delivery firms, also take advantage of the opportunity to appear before the Commission if they believe proposed rate changes are unreasonable or anti-competitive.

Businesses that depend on the Postal Service also have the opportunity to be heard. For example, in Docket No. R2000-1 firms that had developed electronic postage systems and greeting card manufacturers presented evidence. Other intervening interests were represented by labor unions, individual citizens, and potential suppliers. Finally, the law provides for an independent representative of the interests of the general public, a function performed by the Commission's Office of the Consumer Advocate.

All of these groups may focus on different aspects of the evidence offered by the Postal Service as justification for its rate proposals. Taken together, they present the totality of the complex interrelating interests that effect the Postal Service. Participants frequently suggest new approaches to rate or classification issues, and their ideas often influence final Commission recommendations. On occasion, an intervenor will focus on an issue that had been completely overlooked by postal management, such as the example from Docket No. R97-1 that I mentioned.

It would be a mistake to assume that mailers that use the same class of mail have identical interests. On occasion, large circulation publications and small circulation publications have had directly contrary interests. Similarly, high density advertising mailers and targeted advertising mailers often have completely different concerns. Shippers of heavy parcels and light parcels also may offer conflicting testimony. The Commission's role is to sort out the merits of these conflicting claims in an open public proceeding.

I have emphasized the benefit of an open public forum several times. Let me give you an actual example of why process can be so important. When the Commission first began to evaluate the evidence provided in support of the Postal Service's request it focused on the rapidly increasing costs of processing the flat-shaped mail often sent by periodical publications and advertising mailers. The Commission's early analysis showed that since 1993, the costs for processing flats had been increasing well above the cost of inflation, even as new automated equipment for handling this mail was being added.

The Commission directed the Postal Service to review this problem and present testimony from knowledgeable witnesses who could explain the causes of this phenomenon. The Postal Service provided testimony by two witnesses; however, these individuals could not explain why flats processing costs were skyrocketing.

A coalition of intervenors concerned with the impact of out of control flats processing costs on rates presented evidence on numerous steps that the Postal Service could take to rein in flats processing costs. This testimony referred to analyses done by a joint Industry-Postal Service task force. The Postal Service had not incorporated in its rate request any of the potential savings identified by the task force.

Faced with a public record describing costs rapidly escalating for unknown reasons, and numerous potential opportunities for achieving savings, the Postal Service determined to implement several of the suggestions developed by the task force. As a result it was able to adjust its projections of future expenses, and support substantially smaller rate increases for flats mailers than it had initially requested.

From my vantage point on the Commission, it seemed clear that the Postal Service would have demanded the large increases it initially proposed had it not been for the public focus on its poor record for restraining flats processing costs. It also seems clear to me that the expertise developed by the Commission over time allowed the early identification of the magnitude of the problem with escalating flats processing costs.

The most controversial aspect of the Commission's decision in Docket No. R2000-1 was its determination that the Postal Service had failed to justify its request for \$1.7 billion for unidentified "contingency" expenses.

Let me put that request in the context that it was presented to the Commission. The Service analyzed all of its expected operating and non-operating costs for fiscal year 2001, and determined that it needed to raise rates. In total, the Postal Service asked for rate changes to generate an additional \$2.8 billion. Of that amount, slightly over \$1 billion was to cover estimated cost increases in 2001. The remainder, \$1.7 billion, or 60 percent, was requested as a contingency fund to cover potential misestimates and unforeseeable events.

Never before had the Postal Service asked for a rate increase that was intended primarily to generate funds for contingencies. By definition, the contingency fund is intended to provide insurance against unexpected adversities that are completely speculative. It is to cushion against misestimates and unforeseeable events. Such events are just as likely to help the Postal Service as to hurt it.

Not surprisingly, a number of mailers vehemently objected to the Postal Service's request to raise rates to provide so much money to guard against the potential for a negative unforeseeable event. In fact, 25 participants sponsored testimony that was sharply critical of increasing rates to provide for such a large provision for contingencies. They pointed out that while the Postal Service had presented voluminous evidence in support of its request for rate increases, only three pages of testimony was offered in support of the need for a \$1.7 billion contingency fund. The evidence presented by mailers' representatives also pointed out that the limited Postal Service testimony was focused almost entirely on the potential for misestimates. The chief "unforeseeable" event identified by the Service was the potential for adverse legislation, and it did not present any analysis of the frequency and impact of unforeseen events that had occurred over the past thirty years.

Mailer witnesses pointed out that after thirty years of projecting costs in support of rate increases, the Postal Service had become far more proficient at predicting the impact of cost change factors on its operating expenses. They contended that over this time the Service also should have gained experience that would enable it to predict how frequently unforeseeable events would be likely to affect the Service's bottom line, and how large a provision for contingencies was needed to protect against such events. Some of these witnesses contended that in the absence of probative evidence, the Commission should reject the entire portion of Postal Service request for rate increases that was to fund the provision for contingencies.

The Commission found that the evidence before it did not support a \$1.7 billion provision for contingencies. The Commission was persuaded that an analysis of the frequency and impact of unforeseeable events was feasible by testimony that cited the practices of regulated insurance companies that must perform this type of analysis on a continuing basis.

The Commission criticized the Service for failing to analyze its past experience and develop some justification for its contingency request. However, the Commission refused to disallow the Service's entire contingency fund request. The Commission recognized that in the previous case, Docket No. R97-1, it had allowed one percent of the Service's projected annual expenses as an appropriate contingency fund. Additionally, it noted that the Postal Service had indicated that certain projected cost savings were somewhat speculative. Therefore, the Commission allowed a fund for contingencies equal to 1 ½ percent of projected total annual expenses, or slightly more than \$1 billion.

Last week the Governors modified the Commission's recommended rates. They announced that they would implement new higher rates. I will not attempt to critique that Decision. I will, however, highlight a few points that I view as particularly pertinent to the subject of today's hearings.

The Governors justify their action by arguing that the Commission exceeded its authority when it determined that the Postal Service failed to justify its proposed \$1.7 billion contingency fund. They recognize that in this case intervenors argued, and the Commission found, that the Postal Service had failed entirely to explain a rational basis for selecting its proposed 2 ½ percent contingency. But they contend that the size of the contingency is unreviewable so long as one or more reasons why some contingency might be necessary have been identified, and some attempt to explain the Service's proposal has been offered. They also gloss over the Commission's finding that a contingent field reserve can not be allocated among mailers as a recognizable expense.

The Governors and the Commission disagree about one aspect of the current law. I think it is fair to say that the Governors believe that it is their responsibility to establish how much revenue the Postal Service will need, and that rates should be set high enough to provide whatever revenue the Governors think they might need. The Commission believes that mailers, particularly captive mailers of monopoly products, should not have to pay higher rates unless the Postal Service shows that its request for additional revenue is reasonable.

I do not know whether this conflict will be the subject of a judicial challenge to the Governors' recent action. Regardless



of what a court may or may not decide, I sincerely hope that in future cases the Postal Service will not request revenues without providing adequate supporting justification. Mailers have a right to know why their rates are being increased.

There is another aspect of Docket No. R2000-1 that bears special mention. When the Postal Service filed its Request, its cost estimates were based on historical costs incurred before more recent rates and classifications were put into effect. For this reason, its cost estimates were questionable. Therefore, after obtaining comments from all participants, the Commission instructed the Postal Service to update its request to reflect its most recent year of actual cost data. At the same time, the Commission invited the Postal Service to revise any of its projections of costs, volumes, and revenues to reflect its most recent intelligence.

The Postal Service presented updated cost data in July, 2000, and its witnesses supported these changes during hearings in August, 2000. Let me interject at this point that this was a major project for the Postal Service, and the Commission commends the Service for their effort and cooperation.

The Commission used this updated cost data in the R2000-1 decision. The more recent cost data improved the Commission's expense projections and resulted in recommended rates that more accurately reflected Postal Service operating experience. Initially, the Postal Service opposed use of updated cost data. Nonetheless, the Postal Service provided new estimates for many cost items in its July submission.

For example, the Service predicted \$192 million of additional annual expenses as a result of changes in the cost of living index.

It increased its estimates of annual transportation costs by \$49 million to reflect the increases in fuel costs that occurred in the Spring of 2000.

The Service even anticipated that the labor contracts it would conclude during fiscal year 2001 would be more expensive than it had estimated when it submitted its original filing, and it asked for \$261 million to cover these additional projected expenses.

It also predicted that new productivity programs would reduce

costs in certain areas, and it identified potential new sources of revenue. However, in total, the July 2000 revisions, after corrections and supplementary explanations, increased the Postal Service's projected revenue needs by \$587 million. The Commission recommended rates sufficient to cover all of these adjusted cost projections, although a new contingent field reserve was not separately funded, but was treated as justifying a larger contingency allowance than otherwise would have been approved.

Postal Service witnesses presented their final financial testimony on August 31, 2000. At that time the Postal Service was predicting that it would lose \$325 million in fiscal year 2000. The evidentiary record before the Commission was closed in early September, participants submitted briefs and reply briefs analyzing the record, and the Commission's decision was issued in early November, 2000. Also in early November, the Postal Service announced that its loss for fiscal 2000 was only \$199 million, a better result than it forecast just two months before.

### **Postal Service Post-rate Case Projections**

At the same time that the Service announced that its fiscal 2000 loss was smaller than it had predicted on the R2000-1 record, the Postal Service suddenly began to trumpet the possibility of huge deficits for fiscal year 2001. The Postal Service referenced these expected deficits in supporting the Governors' request for reconsideration. These potential deficits, however, were never mentioned in the evidence presented to the Commission.

When the Commission received the Governors' requests for reconsideration, it invited the Postal Service to update the record with evidence explaining its new, more pessimistic estimates. Such evidence could have supported adjusted rate recommendations. However, the Postal Service expressly declined to present any evidence explaining its new, post hearing financial projections.

The letter inviting me to testify here today asked whether I concur with the Postal Service's projection of a \$2 to \$3 billion deficit. The short answer is that I cannot evaluate that estimate.

Initially, it was hypothesized that the projected deficit resulted from volume declines caused by the growth of electronic

communications. But volumes were not declining. Then it was suggested that the mix of mail had changed, and that the Service is now delivering less expensive mail. But from the data currently available to the Commission, it appears that the major causes of current operating losses are expenses that are much higher than the Postal Service expected.

The Postal Service has not provided any systematic explanation of its multi-billion dollar loss projections. In fact, a major part of its estimate is a potential \$1 billion loss that is never associated with any cost or revenue category. This \$1 billion can best be characterized as a potential loss “if whatever is going wrong continues to get worse.” This is not analysis.

The imprecision of these forecasts makes it impossible to evaluate their reliability. The Postal Service may have detailed analyses that justify at least some portion of these forecasts. I hope so. It would be embarrassing to think that the management of a \$70 billion organization had no clue about **why** it was suddenly incurring far higher costs than it forecast to the Commission. But any analyses the Postal Service may have prepared, have not been made public.

The Postal Rate Commission’s primary function is to respond to Postal Service requests for rate and classification decisions. When the Postal Service asks the Commission to recommend rates, it provides detailed cost data to support its request. After the Commission provides its recommendations, it does not have access to data that would enable it to know where postal costs are diverging from projections, or whether the Postal Service is implementing its promised cost savings programs. At this point, the Commission cannot determine with any precision what portions of the Postal Service’s rate case cost projections were misestimated. Therefore, the Commission cannot evaluate whether the Service is taking effective steps to halt its growing deficit.

The Commission has examined the limited, preliminary cost reports released by the Postal Service. We have annualized the results of the first six accounting periods of 2001 data published by the Postal Service and compared those figures with the annual expense projections estimated for fiscal year 2001 in the R2000-1 case. This comparison is quite revealing.

Comparing just seven important cost elements, the Commission finds that if current cost patterns continue, the

Postal Service is likely to incur \$1.8 billion more costs in 2001 than it estimated to the Commission in July, 2000. To me this result undermines many of the arguments suggesting that radical reform of the price setting mechanism is necessary.

- ø Skyrocketing costs are not the result of volume losses to electronic messaging.
- ø Skyrocketing costs are not the result of mailers doing more worksharing or switching to less expensive postal products.
- ø Skyrocketing costs are not the result of a failure to rapidly bring new products to the marketplace.

The table below shows the seven cost elements, and how inaccurate the Postal Service’s cost projections may have been. One interesting area is that expenses for clerks and mailhandlers are running below projected levels. Hopefully, this reflects cost savings resulting from additional mailer worksharing. But it might indicate that work formerly performed by clerks is now being done by carriers. As I said, we do not have sufficient information to evaluate these possibilities.

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**Decrease in Net Income Due to Expense Increases**

Summary of Largest Cost Differences

Current Annualized Estimate vs. R2000-1 PRC Estimate

	<b>FY 2001 Estimate (\$ Millions)</b>		
	<b>Current</b> *	<b>R2000-1**</b>	<b>Difference</b>
City Carriers	14,142	13,580	562
Rural Carriers	4,637	4,095	542

Clerks & Mailhandlers	19,024	19,396	(372)
Workers Compensation	1,025	855	170
Purchased Transportation	5,231	4,649	582
Vehicle Maintenance	480	338	142
Long-Term Debt Interest	382	252	130
Total Difference			1,755

\* Annualized costs based on six (6) accounting periods of data

\*\* Estimates submitted July 7, 2000

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### Matching Problems with Solutions

The two questions that need attention are these:

- What can be done to fix the problem of rapid, unexpected increases in postal costs?
- What can be done to prevent that problem from reoccurring?

I think the other witnesses on this panel are giving a great deal of attention to fixing the problem of unexpected cost increases, and I am sure that they will find solutions. I do have some thoughts on how to prevent the problem from reoccurring.

I mentioned earlier that during the R2000-1 rate case the Commission identified a continuing negative trend in the costs

of processing flat shaped mail. The Commission was both surprised and dismayed that the Postal Service had not recognized that trend and taken corrective action more promptly.

The Commission came across a similar problem with regard to the costs for processing media mail. Media mail is the new name for parcels sent by book and record clubs, among other things. Toward the end of our proceeding it became apparent that media mail was also experiencing a continuing negative trend in processing costs. The Commission asked the Postal Service to provide a witness to answer questions on the potential causes of this trend, and again, it appeared that the Postal Service had not been aware of the trend, and had not begun to take corrective action.

These two situations lead me to suggest that the Postal Service, and the whole mailing community, would benefit if the Commission was tasked with the function of performing an annual performance review of postal operations, and reporting its findings to the Congress to assist it in its oversight responsibilities. I am not suggesting yet another audit of Postal Service data systems. I suggest that the Commission provide an independent review of operating results, and evaluate operating trends, including the success of new processing, transportation, and delivery initiatives. The Commission could identify areas where cost results were unexpected, and could focus attention on potential problem areas. As a natural complement of this effort, the Commission could review how well the Postal Service is meeting its service commitments, not just to overnight First Class mail, but to all classes of mail.

The recent slowing of economic growth in this country might explain sluggish growth in postal revenues. To this point, I have seen nothing that explains the rapid increase in Postal Service operating costs. Having a separate, independent agency with postal expertise regularly reviewing the Postal Service's performance results should provide Congress, mailers, and the Postal Service itself with an early warning system to identify negative trends before those trends get out of hand. Furthermore, a continuing public report would provide a sound foundation for evaluating proposals for major structural change.

It is almost a truism that one needs to know what the problem is, before one can develop an effective solution. Informative annual performance reviews would help all interested segments

of the postal community to understand what problems are most pressing, and it would provide a factual basis for cooperative efforts to fashion remedies.

Another benefit of an annual performance report would be that it could be part of an integrated program that would lead to more effective, and perhaps less time consuming, rate cases. Participants in rate cases could use the annual reports as a reference. Additionally, the development of an annual report would require regular, timely data submissions from the Postal Service. I am not suggesting new data collection systems. I envision the Postal Service making already collected data available on a more regular, periodic basis so that trends could be more quickly identified and analyzed. Having this data available in advance of a rate filing should reduce the time intervenors need to develop their evidence.

One of the main reasons that rate cases take ten months is that the Postal Service frequently withholds its most recent operating data compilations from the public during the final stages of rate case preparation. Thus, the Commission and interested participants must start from ground zero to analyze the materials the Postal Service provides in support of its rate requests. Often these materials reflect new, unexplained cost allocation procedures. Furthermore, because certain types of relevant data are not available on a quarterly basis, it is quite difficult to identify trends quickly, without wading through the large amount of data the Postal Service files with its requests. I understand that it takes resources to prepare final versions of relevant data reports; however, by failing to use its resources to provide these data the Postal Service allows its critics to speculate that the Service withholds this information from the public as a litigating strategy, to make it more difficult for the public to participate economically in rate cases.

We have all heard that the Postal Service is considering whether to file a rate case this July. The Commission and mailers would be able to respond far more quickly and effectively to such a filing if the Service had already published its fiscal 2000 Cost and Revenue Analysis Report, its Cost Segments and Components Report, and the breakout of billing determinant data.

I am aware that certain critics have suggested that the postal ratemaking process is too lengthy and too inflexible. The current process for setting postal rates is not without flaws. I

suggest, however, that part of the Postal Service's frustration with the system is the result of its failure to take advantage of currently available options.

While the Postal Service might prefer a system that would allow it to change rates unilaterally following notice in the *Federal Register*, absolving the Service from having to justify rate increases would remove a major incentive for the Service to operate efficiently. Furthermore, over the last thirty years the Postal Service has consistently sought to increase the share of institutional costs imposed on captive monopoly users. If freed from the discipline of formal rate cases, the Service might shift an ever increasing share of total costs onto captive users.

In recent rate cases the Commission has allowed itself barely six weeks to evaluate the participants' arguments and develop its recommendations. The vast majority of a ten-month rate case is allotted to giving participants the opportunity to understand and challenge the justifications for rate increases presented by the Postal Service. Parties have repeatedly told the Commission that they had barely enough time to participate effectively.

Nonetheless, I believe that opportunities exist for the Postal Service to expedite the process. Recently, the Service has estimated that it takes six months to prepare a case for filing with the Commission. This apparently assumes that each case must be started from scratch. I cannot understand why management does not have the outlines of a pro forma case available at all times.

The Postal Service should have been able to request rate relief as soon as it began to believe that it would incur significant losses in fiscal 2001. The Commission invited the Service to use portions of the record made in Docket No. R2000-1 to support a prompt request for any necessary emergency relief. The Service's preference for developing an entirely new Request was a matter of choice, not an obligation imposed by the statute.

Under current law the Postal Service has almost unlimited discretion to develop rate change proposals. The current statute is very clear that only the Postal Service may initiate rate changes. The Postal Service may request large increases or small ones; simultaneous increases for all classes or targeted rate changes for individual subclasses; experimental rates of



fixed duration or phased rates to be implemented over time; peak load rates or seasonal rates. During my tenure as a Commissioner, the Postal Service has offered several innovative rate proposals. The Commission seriously reviewed each one, and none was found unlawful.

Throughout the decade of the 1980s some people believed that the law prevented the Postal Service from experimenting with new services even though the Commission had adopted rules for hearing requests for experiments. Finally, a joint Postal Service/Postal Rate Commission task force suggested a number of ways to facilitate interaction between the two agencies. Recently, the Postal Service has requested a number of experiments and the Commission has provided expedited consideration of those requests.

A somewhat similar situation existed with regard to negotiated service agreements. For a number of years many people thought they were impermissible. However, the Postal Service has recently proposed a number of classification changes which essentially implemented negotiated service agreements. Again, these proposals were found to be consistent with the policies of the act, and have been approved by the Commission and the Governors.

I urge the Postal Service to continue to be innovative, and to take advantage of the wide latitude permitted by current law. Ideas that have proven appealing in other monopoly industries, such as phased increases, peak load rates and seasonal rates can be explored. The Postal Service should not assume that new ideas will be treated with hostility.

I hope that the Commissioners and the Governors can start to meet more regularly to discuss problems and explore new initiatives. These meetings could be preceded by an exchange of items of interest for discussion and might include a limited number of senior staff members. If it appears necessary, consideration could be given to establishing a new joint Postal Service/Postal Rate Commission Task Force to explore in depth opportunities for improved interaction. The Commission and the Postal Service can and should work as partners to assure that the nation's mailers have the opportunity to participate in an open, effective, and efficient rate setting process.

This concludes my testimony. I would be pleased to answer any questions.