

ORAL STATEMENT  
BEFORE THE UNITED STATES SENATE  
COMMITTEE ON GOVERNMENT AFFAIRS  
April 7, 2004

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Chairman Collins, members of the Committee, thank you for providing me with the opportunity to testify on ways to achieve meaningful postal reform. I understand my full statement will be incorporated into the record, so I will take just a few minutes to focus on some of the most important aspects of postal modernization.

First, if I may, I would like to recognize Danny Covington and Tony Hammond, two of my fellow Commissioners who accompanied me here today.

The Postal Reorganization Act of 1970 focused on taking politics out of the old Post Office Department, and allowing the renamed United States Postal Service to operate in a more business-like fashion. I think that legislation was a success.

The Administration has now presented five principles to guide the future evolution of the Postal Service into a more efficient and market-responsive organization. I fully support those five principles.

Postal reform will greatly benefit the nation if it can revitalize and modernize the Postal Service. However, I urge Congress to keep unchanged, the basic charter of the Postal Service — that it bind the Nation together through the correspondence of the people.

The Postal Service should become more business-like, and it should adopt modern, efficient practices, but it must also retain its essential character as a service provided to the people by their government.

The Administration seeks reform that provides the Postal Service with the flexibility to more easily implement best business practices, while ensuring that the public has transparent access to timely and accurate cost and performance information to assure accountability.

The responsibility for adopting best business practices, and being self-financing lies with the Postal Service. The responsibility for assuring transparency and accountability lies with the regulator. My testimony discusses in some detail ways to assure a successful balance of these two missions.

During my tenure at the Rate Commission, the Postal Service has not been transparent. It has opposed changes suggested by the mailers to make rate cases faster and less complex.

And it has resisted attempts by the Commission, by mailers, and by neutral third parties such as GAO, to gain detailed information about Postal Service practices and operating results. I sincerely hope this culture of confidentiality and resistance to change can be overcome through reform legislation.

With regard to transparency, I fully agree with the testimony of Treasury Secretary Snow that private sector confidentiality concerns should not apply to our government-owned Postal Service, and that postal reform requires true and exacting transparency.

The public should have broad access to the detailed information on costs and service performance that the regulator will analyze in order to assure compliance with all applicable public policies.

The Postal Service and the regulator must work together with mailers to develop a modern system for regulating rates. That system should allow the Postal Service flexibility to meet the needs of all of its customers while establishing strong and effective incentives to reduce costs and increase efficiency.

One aspect of this system should be elimination of adversarial trial-type rate hearings. If there is meaningful transparency of Postal Service operating and financial data, consumers can be assured that new rates are consistent with applicable requirements by a brief administrative review.

I will elaborate on this point.

Draft postal reform legislation in the last Congress, S. 1285 and H.R. 4970, tasked the new regulator to work with the Postal Service and mailers to develop a modern ratemaking system that met a number of important policy goals. Such a system would encompass both standards to guide the Postal Service in its pricing, and procedures for implementing rate changes.

However, when the President's Commission on the Postal Service provided its thoughts on pricing, it suggested that rate changes be allowed to take effect without any public review. It left mailers to file after-the-fact complaints to correct rates that violate price caps or involve cross-subsidy.

I think that recommendation is misguided, and I urge that it not be enshrined in legislative language.

Rate changes are not a routine matter. Businesses have to purchase and install new programs to compute postage, and individuals have to purchase new stamps. Every effort should be made to avoid the disruption that would be caused by complaints leading to rate adjustments.

A far more efficient and mailer-friendly system would involve advance administrative review. This would take advantage of enhanced Postal Service transparency to assure that planned new rates for market dominant services are within applicable pricing guidelines such as rate caps or cross-subsidy prohibitions.

A brief administrative review of planned rate changes would not limit management flexibility. Rate predictability is a key aspect of postal reform, and mailers of market dominant products must be given ample advance notice of rate changes. Review could easily be accomplished before mailers have to prepare to implement new rates.

Another key safeguard in the modern system of rate regulation should be a provision allowing for limited exigent rate cases.

A reformed rate system should include price caps that give incentives to the Postal Service to reduce costs and increase efficiency.

It should also allow for exigent rate increases, in case unforeseeable extraordinary circumstances threaten the Postal Service's financial stability.

It must be understood however, that exigent increases are limited to extraordinary circumstances, and are not appropriate simply because revenues are misestimated or cost reduction programs are not as successful as planned. These types of events are normal in business, and postal management must be expected to adjust to normal business fluctuations.

To assure that the system is not abused, all exigent rate increases for market dominant products must be approved in advance by the regulator.

Reform legislation that clearly sets out national goals of more modern and efficient business practices, and meaningful oversight to protect consumers and maintain universal service, will go a long way toward assuring that our Postal Service will thrive in the coming decades. I hope these efforts are successful.

I will be happy to answer any questions you may have.