

REMARKS OF COMMISSIONER GEORGE A. OMAS<sup>1</sup>  
AT THE LEGISLATIVE/POLITICAL SEMINAR OF THE  
NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

FEBRUARY 21, 2000

THANK YOU. IN PREPARING FOR TODAY, YOUR WASHINGTON REPRESENTATIVE, BOB LEVI AND I DISCUSSED THAT HE WISHED ME TO GIVE A "PRIMER" ON HOW THE COMMISSION PROCEEDS ON A RATE CASE AND, OVERALL, WHAT WE DO THERE. WE TALKED ABOUT THE FACT THAT THE POSTAL RATE COMMISSION IS A MYSTERY TO MOST POSTAL EMPLOYEES. HOWEVER, THE IMPACT OF ITS DECISIONS AND RECOMMENDATIONS ARE WIDESPREAD. I HOPE TO PROVIDE YOU WITH ANSWERS ABOUT WHAT THE POSTAL RATE COMMISSION DOES.

NOW, AS YOU KNOW, WE ARE IN THE PROCESS OF CONSIDERING R2000-1, THE POSTAL SERVICE'S LATEST REQUEST FOR A GENERAL RATE INCREASE. BY LAW THE POSTAL RATE COMMISSION CAN TAKE AS LONG AS TEN MONTHS TO COMPLETE OUR DELIBERATIONS. I'M SURE YOU WILL BE HAPPY TO HEAR THAT MY REMARKS TODAY OUTLINING THOSE DELIBERATIONS WON'T TAKE THAT LONG.

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FIRST, I WILL START WITH SOME BACKGROUND ON THE POSTAL RATE COMMISSION. THE PRC IS COMPRISED OF FIVE, FULL-TIME, PRESIDENTIALLY APPOINTED, COMMISSIONERS. ONE OF WHICH IS SELECTED BY THE PRESIDENT TO SERVE AS CHAIRMAN. TOGETHER WE OVERSEE A STAFF OF ABOUT 50, WHICH ARE ORGANIZED INTO FOUR AREAS: THE OFFICE OF THE CONSUMER ADVOCATE, THE ADMINISTRATIVE OFFICE, THE OFFICE RATES, ANALYSIS AND PLANNING AND THE OFFICE OF THE GENERAL COUNSEL.

- THE OFFICE OF THE CONSUMER ADVOCATE IS CHARGED WITH THE RESPONSIBILITY OF REPRESENTING THE PUBLIC'S INTEREST IN THE RATE CASES, AND DURING THE CASE IS TREATED LIKE ANY OTHER PARTICIPANT;
- THE ADMINISTRATIVE OFFICE IS CHARGED WITH ALL THE DAY TO DAY ADMINISTRATIVE DUTIES, INCLUDING MANAGING THE VOLUMINOUS AMOUNTS OF PAPER GENERATED DURING A CASE AND MAINTAINING OUR WEB SITE, WHICH HAS WON GOVERNMENTAL AWARDS, AS WELL AS PERSONNEL MATTERS;
- THE OFFICE OF RATES, ANALYSIS AND PLANNING IS CHARGED WITH THE TECHNICAL ANALYSIS OF THE DATA AND EVIDENCE SUBMITTED BY THE POSTAL SERVICE AND OTHER PARTIES. THE RAP STAFF, AS WE CALL THEM, ARE OUR NUMBERS PEOPLE. THEY ARE TRAINED AS ACCOUNTANTS, ECONOMISTS AND FINANCIAL ANALYSTS, THEY

ANALYZE ALL THE DATA ACCUMULATED THROUGH THE POSTAL SERVICE'S COSTING SYSTEMS SUCH AS THE IOCS, TRACS, THE CRA AND RPW. ALL OF THESE ARE USED ALONG WITH ONE-TIME SPECIAL STUDIES PRESENTED IN TESTIMONY TO HELP INSURE THAT WE COMPLY WITH THE LAW AND ATTRIBUTE TO EACH CLASS, SUBCLASS AND SERVICE ITS OWN COSTS. IN ADDITION TO RECOVERING ITS OWN COSTS, EACH CLASS IS REQUIRED TO MAKE SOME CONTRIBUTION TO POSTAL OVERHEAD.

- THE OFFICE OF THE GENERAL COUNSEL IS CALLED UPON TO OVERSEE THE WORK OF THE ENTIRE COMMISSION. TO INSURE THAT ALL GOVERNING LAWS FROM THE POSTAL REORGANIZATION ACT TO THE ADMINISTRATIVE PROCEDURES ACT AND OUR STRICT ETHICS STANDARDS ARE COMPLIED WITH. THE ATTORNEYS IN THIS OFFICE ALSO ARE LARGELY RESPONSIBLE FOR DRAFTING THE MANY DECISIONS AND ORDERS THAT WE ISSUE.

NOW, REGARDING RATEMAKING AT THE PRC, WE ARE GUIDED BY SEVERAL FUNDAMENTAL REQUIREMENTS, HOWEVER TWO ARE PREMINENT: ONE, HOW MUCH MONEY NEEDS TO BE RAISED TO OPERATE THE POSTAL SYSTEM AND, SECONDLY, HOW THIS AMOUNT WILL BE RAISED THROUGH THE VARIOUS RATES AND FEES THE POSTAL SERVICE CHARGES FOR ITS SERVICES; NO RATE SHOULD BE SET BELOW THE COST OF PROVIDING THAT SERVICE. IN

FULFILLING THESE REQUIREMENTS WE ARE GIVEN GUIDANCE BY THE POSTAL REORGANIZATION ACT, SUCH AS:

“EACH CLASS OF MAIL OR TYPE OF MAIL SERVICE BEAR THE DIRECT AND INDIRECT POSTAL COSTS ATTRIBUTABLE TO THAT CLASS OR TYPE PLUS THAT PORTION OF ALL OTHER COSTS OF THE POSTAL SERVICE REASONABLY ASSIGNABLE TO SUCH CLASS OR TYPE.”

WE CONDUCT OPEN PUBLIC HEARINGS ALLOWING ALL INTERESTED PARTIES AN OPPORTUNITY TO SPONSOR WITNESSES, PROVIDE TESTIMONY AND OFFER EVIDENCE. THIS IS THE TIME-CONSUMING PART OF THE COMMISSION'S WORK AND, I PERSONALLY FEEL OUR MOST IMPORTANT FUNCTION. IT ALLOWS THE POSTAL SERVICE AND THE ARGUMENTS IT PRESENTS TO BE QUESTIONED AND ANALYZED IN BOTH WRITTEN AND ORAL FASHION. IT IS THE CHECK AND BALANCE PUT INTO THE REORGANIZATION ACT TO PROTECT USERS OF POSTAL SERVICES FROM UNSUBSTANTIATED RATES AND FEES.

ALL THE PROCEEDINGS BEFORE THE COMMISSION TAKES THE FORM OF A TRIAL-LIKE PROCESS, GOVERNED BY THE ADMINISTRATIVE PROCEDURES ACT. THE COMMISSIONERS HEAR THE EVIDENCE PRESENTED, SOME IN THE FORM OF WRITTEN QUESTIONS OTHERS IN THE FORM OF ORAL ARGUMENTS. AT THESE HEARINGS, POSTAL SERVICE ATTORNEYS, ATTORNEYS FROM OUR OFFICE OF CONSUMER ADVOCATE AND ATTORNEYS REPRESENTING THE VARIOUS INTERESTED PARTIES ALL HAVE AN OPPORTUNITY TO QUESTION

THE WITNESSES REGARDING THE EVIDENCE THEY HAVE PRESENTED. AND  
FINALLY,

WE MUST PREPARE AN OPINION AND A RECOMMENDED DECISION TO BE SENT TO THE POSTAL SERVICE'S BOARD OF GOVERNORS WITHIN THE TEN MONTHS ALLOWED BY LAW. THIS DECISION MUST BE BASED ON FACTS SUPPORTED BY EVIDENCE PRESENTED DURING THE HEARINGS AND IT MUST JUSTIFY THE RECOMMENDED RATES IN TERMS OF THE POSTAL REORGANIZATION ACT.

LET ME TURN NOW TO THE LENGTH OF RATE CASES. YOU MAY HAVE HEARD A LOT OVER THE YEARS ABOUT THE TEN MONTHS IT TAKES TO HEAR A RATE CASE. I WOULD LIKE TO SHARE WITH YOU SOME OF THE CONCERNS AND COMMENTS SEVERAL OF INTERVENORS HAVE MADE REGARDING THE TIME NEEDED TO CONSIDER THE ISSUES BEFORE US IN THE PRESENT CASE. THEY MADE THE CLAIM THAT THE 213 DAYS SUGGESTED IN OUR PROPOSED SCHEDULE WAS NOT ENOUGH TIME AND POINTED OUT THAT THE SAME TASK TOOK 246 DAYS IN R97-1, 228 DAYS IN MC95-1, 220 DAYS IN R94-1, AND 248 DAYS IN R90-1. AS YOU CAN SEE, LIKE THE DOLLAR AMOUNTS BEING DISCUSSED, DAYS OR MINUTES, USED FOR PREPARATION TIME IS ALMOST AS IMPORTANT.

ONCE OUR RECOMMENDATIONS ARE SUBMITTED TO THE GOVERNORS, THEY CAN ACCEPT OUR RECOMMENDATIONS AND SET AN EFFECTIVE IMPLEMENTATION DATE; PUT THEM INTO EFFECT UNDER PROTEST AND

EITHER RETURN THEM TO US FOR RECONSIDERATION , OR SEEK REVIEW IN THE FEDERAL COURT OF APPEALS. IF THEY RETURN IT AND RECEIVE ANOTHER DECISION, THE GOVERNORS CAN MODIFY OUR DECISION, BUT ONLY, BY A UNANIMOUS VOTE FINDING THAT OUR RATE RECOMMENDATIONS WILL NOT PROVIDE ENOUGH REVENUE FOR THE POSTAL SERVICE TO BREAK EVEN.

WHILE OUR TITLE IS THE POSTAL RATE COMMISSION WE DO MORE THAN SET POSTAL RATES. THE LAW ALSO CHARGES US WITH THE RESPONSIBILITY FOR MAINTAINING THE DOMESTIC MAIL CLASSIFICATION SCHEDULE. TO ESTABLISH A NEW SERVICE OR SUBCLASS OR ALTER AN OUTDATED ONE, THE POSTAL SERVICE MUST REQUEST A NEW PLACE IN THE CLASSIFICATION SCHEDULE AS WELL AS A NEW RATE. OUR RULES, PROCEEDINGS AND INTERNAL OPERATIONS FOR HEARING CLASSIFICATION PROPOSALS ARE SIMILAR TO RATE PROCEEDINGS.

THE COMMISSION IS ALSO CHARGED WITH THE RESPONSIBILITY TO REVIEW CERTAIN OTHER POSTAL SERVICE ACTIVITIES; INCLUDING A REVIEW OF PROSPECTIVE NATIONWIDE SERVICE CHANGES, SUCH AS WHEN THE DELIVERY SERVICE STANDARDS WERE CHANGED A FEW YEARS AGO. THE COMMISSISON ALSO HEARS COMPLAINT CASES BROUGHT BECAUSE SOMEONE FEELS THE POSTAL SERVICE IS EITHER CHARGING A RATE THAT IS UNLAWFUL OR PROVIDING A SERVICE THAT IS INCONSISTENT WITH THE LAW. THE CLOSING OF POST OFFICES, MANY TIMES, ARE APPEALED TO THE

COMMISSION AND OUR NEWEST RESPONSIBILITY AT THE PRC WAS ADDED TO THE LAW JUST TWO YEARS AGO AND REQUIRES THE COMMISSION TO PROVIDE THE U.S. CONGRESS WITH AN ANNUAL REPORT ON THE POSTAL SERVICE'S INTERNATIONAL MAIL COSTS, VOLUMES AND REVENUES. LASTLY, WE ARE CALLED UPON AT TIMES BY THE CONGRESS TO PREPARE SPECIAL STUDIES OR REPORTS ANALYZING POSTAL ISSUES.

NOW LETS SPEND A LITTLE TIME AND GET INTO SOME OF THE SPECIFICS OF THESE RESPONSIBILITIES AND HOW WE CARRY THEM OUT. AS I SAID, WE HAVE A RATE CASE BEFORE US, WHICH PRECLUDES ME FROM TALKING ABOUT THE MERITS OF ISSUES BEFORE US IN THAT CASE, HOWEVER, I BELIEVE I CAN TALK ABOUT HOW WE PROCEED IN RATES CASES IN GENERAL.

WHEN THE POSTAL SERVICE SUBMITS ITS REQUEST THEY DO SO IN THE FORM OF VOLUMINOUS WRITTEN TESTIMONY OF POSTAL EMPLOYEES AND CONTRACTORS THAT DETAIL AND SUPPORT THEIR REQUEST. ONE OF THE FIRST THINGS THEY HAVE TO ESTABLISH FOR US IS WHY, FINANCIALLY, THEY FEEL A RATE CASE IS NEEDED. THEY DO THIS IN THE FORM OF FINANCIAL DOCUMENTS THAT DETAIL THE REVENUE REQUIREMENT FOR THE MOST RECENT YEAR FOR WHICH DATA IS AVAILABLE, AND PROJECTIONS FOR ANY INTERIM YEARS AND A FUTURE TEST YEAR DURING WHICH THE PROPOSED RATES WILL BE IN EFFECT. AS YOU WOULD EXPECT, THE POSTAL SERVICE'S RATE FILING IS VERY DETAILED. IT IS A STACK OF PAPERS AROUND TWO FEET HIGH AND, IN THE PRESENT CASE, REPRESENTS THE WORK OF FORTY

INDIVIDUALS WHO ARE WITNESSES FOR THE POSTAL SERVICE AND IT IS THE RESPONSIBILITY OF THESE WITNESSES TO JUSTIFY AND EXPLAIN EVERYTHING CONTAINED IN THE POSTAL SERVICE'S REQUEST. THIS CAN ENCOMPASS ECONOMIC FORECASTING QUESTIONS, TO WHY THE SERVICE "CARRIER STREET TIME" OR "IN OFFICE TIME" IS PROJECTED TO GO UP OR DOWN, TO WHY CERTAIN ITEMS COST MORE TO PROCESS THAN OTHERS. THE POSTAL SERVICE MUST ALSO PROPOSE A COMPLETE NEW SET OF RATES AND FEES, AND EXPLAINS WHY IT BELIEVES ITS PROPOSALS ARE SOUND.

THE WORK OF THESE FORTY WITNESSES WILL BE GROUND ZERO FOR ALL THE INTERVENORS, OR INTERESTED PARTIES. THEY ARE PEOPLE YOU WOULD EXPECT TO BE CONCERNED WITH POSTAL RATES; MAILER ORGANIZATIONS SUCH AS THE NATIONAL NEWSPAPER ASSOCIATION, MAGAZINE PUBLISHERS ASSOCIATION AND THE DIRECT MARKETING ASSOCIATION; COMPETITORS SUCH AS UNITED PARCEL SERVICE AND FEDERAL EXPRESS; AND THEY ALSO INCLUDE SOME YOU MIGHT NOT HAVE THOUGHT ABOUT, SUCH AS THE GREETING CARD ASSOCIATION AND THE LONG ISLAND POWER AUTHORITY. FINALLY, THERE ARE INDIVIDUALS, PRIVATE CITIZENS, THAT INTERVENE IN A CASE. ALL INTERVENORS FROM THE SINGLE INDIVIDUAL TO THE BEST REPRESENTED PARTY IN TOWN IS GIVEN THE OPPORTUNITY TO QUESTION THE POSTAL SERVICE WITNESSES REGARDING THEIR TESTIMONY AND, IF THEY WANT, TO REBUT THE

WITNESSES ARGUMENTS WITH FACTS OF THEIR OWN. WHICH IN TURN IS SUBJECT TO CROSS-EXAMINATION BY POSTAL ATTORNEY'S.

THE REACH OF THE POSTAL SERVICE, AS YOU KNOW, IS TREMENDOUS AND THE AMOUNT OF TIME ATTORNEYS AND OTHERS SPEND ARGUING BEFORE THE COMMISSION ON HOW A CARRIER DELIVERS HIS ROUTE OR HOW TRANSPORTATION OF MAIL BETWEEN BMC'S IS HANDLED CAN, AT TIMES, BE ALMOST SCARY. HOWEVER, YOU MUST REALIZE WHILE THE ARGUMENTS SOMETIMES SEEM ALMOST "NIT PICKY" WHEN THEY ARE MULTIPLIED BY EITHER VOLUMES OR HANDLINGS, THE DOLLAR AMOUNTS IN QUESTION CAN BECOME UNBELIEVABLY HIGH. THE DECISIONS THE POSTAL SERVICE MAKES IN PUTTING TOGETHER ITS RATE CASES AND THE RECOMMENDATIONS WE MAKE IN RESPONDING AFFECT THE BOTTOM LINE OF MANY COMPANIES. POSTAGE CONTINUES TO BE A MAJOR BUSINESS EXPENSE AND JUST HOW MAJOR IS REFLECTED IN THE AMOUNT OF INTERVENTION WE HAVE ON A RATE CASE. AS I SAID EARLIER, WE HAVE FORTY WITNESSES FROM THE POSTAL SERVICE, PLUS, AFTER A LITTLE OVER A MONTH, WE ALSO HAVE 79 OTHER INTERVENORS. THESE 79, TO DATE, HAVE ASKED OVER 1000 INDIVIDUAL WRITTEN INTERROGATORIES OF THE POSTAL SERVICE'S WITNESSES. IN CONTRAST IN R97-1, THE LAST OMNIBUS RATE CASE, WE HAD 5,925 INTERROGATORIES, OR WRITTEN QUESTIONS, FILED.

OUR REVIEW OF THE TESTIMONY PRESENTED BY THE POSTAL SERVICE, THE QUESTIONS ASKED BY INTERVENORS AND POSTAL SERVICE'S RESPONSES

ENABLE US TO ADDRESS CERTAIN AREAS. FIRST, HOW MUCH ADDITIONAL REVENUE, KNOWN AS THE REVENUE REQUIREMENT, THE POSTAL SERVICE WILL NEED IN THEIR TEST YEAR. IN DOING SO WE MUST DETERMINE IF THE OVERALL INCREASE IS JUSTIFIED BY THE ADDITIONAL COSTS THE POSTAL SERVICE IS PROJECTING.

NEXT IS COSTING. AS I MENTIONED EACH CLASS AND SUBCLASS OF MAIL HAS TO COVER ALL THE DIRECT AND INDIRECT COSTS THAT IT CAUSES.

THEREFORE, USING THE DATA THE POSTAL SERVICE PROVIDES, INFORMATION GLEANED FROM THE WRITTEN QUESTIONS AND ANSWERS AND THE ORAL ARGUMENTS PRESENTED DURING HEARINGS, WE ATTEMPT TO CONFIRM WHETHER THE POSTAL SERVICES PROPOSED RATES WILL COVER THE COSTS THAT EACH TYPE OF MAIL INCURS. THE PRC REVIEWS HOW THE POSTAL SERVICE PROPOSES TO SPREAD ITS INSTITUTIONAL COSTS WHICH ARE OFTEN CALLED "OVERHEAD". THESE COSTS, DESPITE INDEPTH ANALYSIS, CANNOT BE DIRECTLY ATTRIBUTED TO A SPECIFIC CLASS OF MAIL. AMONG THE FACTORS TO BE CONSIDERED IN SPREADING INSTITUTIONAL COSTS ARE VALUE OF SERVICE PROVIDED, ALTERNATIVES AVAILABLE, AND THE EDUCATIONAL, SCIENTIFIC, INFORMATIONAL AND CULTURAL VALUE OF THE MAIL.

FINALLY, WE COME TO RATE DESIGN. RATE DESIGN DEALS WITH THE SPECIFIC ELEMENTS OF EACH RATE AND FEE AND INCLUDES THE DISCOUNT STRUCTURE FOR WORKSHARING. THROUGHOUT THIS PROCESS OUR STAFF

ARE WORKING TO ANALYZE BOTH THE POSTAL SERVICE'S CASE AND EVIDENCE PRESENTED BY PRIVATE PARTIES. EACH ISSUE RAISED BY THE POSTAL SERVICE OR OTHER PARTY WILL BE REVIEWED BY MEMBERS OF THE TECHNICAL STAFF. TEAMED WITH ATTORNEY'S FROM THE GENERAL COUNSEL'S OFFICE ON TOPICS SUCH AS VOLUME TRENDS, WORKSHARING, THE REVENUE REQUIREMENT OR ECONOMIC ANALYSIS. THEY WORK CLOSELY THROUGHOUT THE CASE TO INSURE THAT WHAT IS TESTIFIED TO CAN BE SUBSTANTIATED.

NOW LET'S TALK ABOUT WHAT YOU, AS POSTMASTERS, CAN DO TO HELP US SET RATES THAT ARE AS FAIR AS POSSIBLE, FAIR TO THE MAILER AND TO THE POSTAL SERVICE. NO ONE WANTS RATES HIGHER THAN THEY HAVE TO BE, BUT IT IS TO EVERYONES INTEREST TO INSURE WE RECOUP POSTAL COSTS. POSTMASTERS CAN ENCOURAGE WORKSHARING WITH CUSTOMERS, WHICH IS A PROVEN WAY OF REDUCING MAILER'S AND POSTAL COSTS. YOU CAN INSURE THAT YOUR FINANCIAL REPORTS ARE AS PRECISE AS POSSIBLE. YOU CAN ALSO MAKE SURE THAT IF DATA IS BEING COLLECTED FROM YOUR OFFICE FOR ONE OF THE POSTAL SERVICE'S STATISTICAL DATA SYSTEMS, THAT IT ACCURATELY REFLECT WHAT'S BEING MEASURED. WE RELY ON THOSE REPORTS AS TRUE REFLECTIONS OF THE EXPENSES YOU INCUR. AND, FINALLY, IF YOU GET A CALL THAT A COMMISSION STAFF PERSON WOULD LIKE TO VISIT YOUR FACILITY, WELCOME THEM. PERIODICALLY, COMMISSIONERS AND OUR STAFFS VISIT FACILITIES TO MAKE SURE THAT WE ARE FAMILIAR WITH THE EVER-CHANGING WAYS POSTAL EMPLOYEES DO

THEIR JOBS. IT HELPS US, IT HELPS RATEPAYERS AND IT HELPS THE POSTAL SERVICE. I MIGHT ADD THAT WE NEVER COME UNANNOUNCED, WE ALWAYS ARRANGE OUR TOURS THROUGH HEADQUARTERS.

I WOULD LIKE TO THANK YOU, AGAIN, FOR THE OPPORTUNITY TO BE HERE TODAY AND GIVE YOU A BRIEF EXPLANATION OF WHAT THE PRC IS ALL ABOUT. THERE ARE SOME MATERIALS UP HERE EXPLAINING IN MORE DEPTH THE POSTAL RATE COMMISSION AND WHAT WE DO. IF YOU WOULD LIKE COPIES I AM SURE BOB CAN ARRANGE FOR YOU TO GET ONE. AND, NOW, I AM GOING TO HAND OUT SOME BLUE BOOKS FOR A SHORT TEST ON WHAT I HAVE JUST SAID.