

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

---

POSTAL RATE AND FEE REQUEST  
PURSUANT TO PUBLIC LAW 108-18

---

:  
:  
:  
:  
:  
:  
:

Docket No. R2005-1

TESTIMONY OF JOHN E. POTTER  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

## Table of Contents

	Autobiographical Sketch .....	i
I.	Purpose of Testimony .....	1
II.	The Postal Service Must Satisfy A Currently Unavoidable Obligation .....	2
III.	The Circumstances Of This Case Are Unique .....	3
IV.	An Across-The-Board Approach Is Appropriate Under The Circumstances .....	4
V.	We Will Reassess If Circumstances Change .....	7

1 Autobiographical Sketch

2  
3 My name is John E. Potter. I have served as Postmaster General and  
4 Chief Executive Officer of the United States Postal Service since June 2001. It is  
5 my responsibility as Postmaster General to direct the Postal Service in pursuit of  
6 the objectives of the Postal Reorganization Act, 39 U.S.C. 101 *et seq.* I am a  
7 member of the USPS Board of Governors and am responsible for consulting with  
8 the USPS Governors about postal operational, personnel, financial, and other  
9 policy matters, and for directing postal management in its execution of the  
10 decisions of the Board. In summary, I am responsible for directing the overall  
11 day-to-day administration and operation of the United States Postal Service.

12 Before my appointment as Postmaster General, I served in several senior  
13 management positions at USPS headquarters: Executive Vice-President and  
14 Chief Operating Officer (2000-01); Senior Vice-President, Operations (1999-  
15 2000); and Senior Vice-President, Labor Relations (1998-1999).

16 During the first few months of 1998, I served as Vice-President, Labor  
17 Relations. For three years before then, I was Manager of Capitol Area  
18 Operations in Gaithersburg, Maryland. Between 1989 and 1994, I served in  
19 management positions at USPS headquarters in Operations Support and in  
20 Delivery, Distribution and Transportation.

21 Before coming to headquarters, I held a series of staff and then  
22 management operations positions in what was the Northeast Region office, first  
23 in New York City and then in Windsor, Connecticut. I began my postal career in  
24 1978 as a Distribution Clerk in Westchester, New York.

1           In 1977, I was awarded a Bachelor of Arts degree at Fordham University,  
2 where I majored in Economics. In 1995, as part of the Sloan Fellowship  
3 program, I earned a Masters Degree in Business Management and  
4 Administration at Massachusetts Institute of Technology.

5           I have testified before the Postal Rate Commission previously in Docket  
6 Nos. MC95-1, MC93-2, MC91-3, MC91-1 and N89-1.

1 I. Purpose of Testimony

2 The purpose of my testimony is to explain the policy foundation for the  
3 Postal Service's request that the Commission recommend the rate and fee  
4 changes proposed in this docket. There are no Library References associated  
5 with my testimony.

6

1 II. The Postal Service Must Satisfy A Currently Unavoidable Obligation

2  
3 The Postal Service's decision to seek changes in postal rates and fees at  
4 this time represents a policy judgment about the most reasonable, practical and  
5 effective way to meet a currently unavoidable financial obligation in Fiscal Year  
6 2006. Otherwise, the Postal Service would not have filed this request now.  
7 Instead, in all likelihood, we would now be preparing to file in the future a more  
8 traditional omnibus filing.

9 When it enacted the Civil Service Retirement Funding Reform Act of 2003  
10 Public Law 108-18, Congress directed the Postal Service to place approximately  
11 \$3.1 billion in escrow, beginning in FY 2006. As it is now defined, the escrow  
12 fund has not been dedicated to a specific purpose or use. Yet, under the existing  
13 system governing postal finances and ratemaking, present and future mailers  
14 must pay the bill. After careful consideration, the Postal Service has determined  
15 that satisfying this obligation would best be accomplished now through moderate,  
16 across-the-board changes in all rates and fees, except for limited exceptions  
17 dictated by statute or other extraordinary circumstances.

18 The Postal Service does not welcome this development. We currently  
19 face serious economic and operational challenges. The need to raise rates  
20 prematurely for any reason will not help us meet them, and will burden our  
21 customers and the economy. We have determined, however, that acting now to  
22 secure the funds needed through moderate rate and fee increases would be  
23 responsible stewardship. In particular, while appropriately spreading the burden  
24 to all postal customers, this approach creates the prospect of encouraging

1 settlement of issues among usually very contentious rate case participants. It is  
2 my hope that efforts to settle this case will lead to an early Recommended  
3 Decision and permit implementation early enough in 2006 to meet the lion's  
4 share of the escrow obligation.

5

### 6 III. The Circumstances Of This Case Are Unique

7 The impetus for Public Law 108-18 was recognition by both the executive  
8 and legislative branches of the Federal government that the Postal Service's  
9 annual contribution to the Civil Service Retirement System (CSRS) had been  
10 based upon a formula that, over the life of the system, would require us to  
11 overpay into the CSRS fund approximately \$78 billion.<sup>1</sup> In Public Law 108-18,  
12 Congress reduced the Postal Service's CSRS expense for Fiscal Years 2003  
13 through 2005. However, the legislation also directed the Postal Service, starting  
14 in Fiscal Year 2006, to hold in escrow, and classify as an operating expense, the  
15 difference between the amount the Postal Service would have had to pay into the  
16 Civil Service Retirement System for 2006, before Public Law 108-18 was  
17 enacted, and the amount it will pay into the system under the current law.

18 Public Law 108-18 further provided that Congress would revisit disposition  
19 of the "savings" represented by the escrow within 180 days of a Congressional  
20 submission by the General Accounting Office (GAO) of their evaluation of the  
21 Postal Service's proposal detailing how any "savings" to the Postal Service after

---

<sup>1</sup> That figure would be \$105 billion, were it not for the transfer of \$27 billion in funding responsibility from the U.S. Treasury to the Postal Service for CSRS benefits earned through military service of postal employees and retirees retroactive to 1971.

1 FY 2005 should be expended. GAO issued its report on the Postal Service's  
2 proposed options for disposition of the "savings" on November 26, 2003.  
3 Congress has not acted.

4 Public Law 108-18 negated the Postal Service's obligation to overpay into  
5 the CSRS, and directed us to dedicate the amount represented by excess  
6 payments in 2003 through 2005 either to debt relief or postal ratepayer relief.  
7 And, we have honored the Congressional expectation that no omnibus rate  
8 increases be implemented before 2006. Public Law 108-18, however, also  
9 burdens mailers with an annual escrow obligation for FY 2006 and beyond for  
10 which no purpose has been established.

11 The Postal Service, thus, finds itself in the peculiar situation of being  
12 required to ensure that its revenues in FY 2006 are sufficient to cover not only  
13 actual operational expenses but also an additional \$3.1 billion to be put in  
14 escrow. We are faced with the task of reconciling what to do when Public Law  
15 108-18 says that the \$3.1 billion dollar escrow amount for FY 2006 may not be  
16 obligated or expended by the Postal Service; Congress has not dedicated it to  
17 any particular use; and Public Law 108-18 declares that the escrow shall be  
18 considered as an operating expense of the Postal Service.

19

#### 20 IV. An Across-The-Board Approach Is Appropriate Under The Circumstances

21 Since Public Law 108-18 defines the escrow burden as an operating  
22 expense of the Postal Service, it becomes the responsibility of postal rate payers.  
23 Congress provided no guidance on how the obligation to fund the escrow

1 account should be allocated among the various mail classes and services. In a  
2 true sense, the escrow represents a financial obligation fixed on the entire postal  
3 system. The Postal Service has therefore concluded that this factor should be a  
4 controlling consideration in proposing rate and fee changes sufficient to meet our  
5 peculiar financial obligation under Public Law 108-18.

6 In these circumstances, a simple, uniform solution is most reasonable.  
7 Allowing for the decline in volumes associated with a rate change, \$3.1 billion  
8 amounts to about 5.4 percent of our estimated revenue need in FY 2006, as  
9 described by Postal Service witness William Tayman (USPS-T-6). Accordingly,  
10 the Board of Governors has directed the Postal Service to request that the  
11 Commission recommend uniform 5.4 percent increases over existing rates and  
12 fees. This approach is reasonable and fair under the circumstances because it  
13 generally seeks to require that mailers pay the same percentage increase over  
14 and above the rates and fees they are paying now.<sup>2</sup>

15 One compelling justification for this approach is the likelihood that it will  
16 enhance the prospect for settlement of issues in this proceeding, permit a more  
17 expeditious conclusion, and allow the Postal Service to begin early in calendar  
18 year 2006 to generate the additional revenues necessary to meet the obligation.  
19 Moreover, early settlement will allow the Postal Service and postal stakeholders  
20 to concentrate on prospective legislative reform and return the pricing focus to  
21 issues such as appropriate changes in the rate structure and alignment of

---

<sup>2</sup> Had the escrow amount been either larger or smaller, we would be proposing proportionally larger or smaller across-the-board percentage rate and fee changes.

1 institutional cost burden in the interim. In order to simplify this proceeding and to  
2 advance the prospect for settlement among as many parties as possible, the  
3 Board did not authorize the proposal of any classification changes in this docket.

4 I am not an expert in postal costing and pricing and will defer to the  
5 expertise of other Postal Service witnesses in this filing. The implications of this  
6 pricing approach are reflected in the testimonies of two postal experts in this  
7 docket. Witness Altaf Taufique (USPS-T-28) describes how the ratemaking  
8 objective that I have outlined can be accomplished through relatively uniform  
9 adjustments to current rates and fees. Witness Maura Robinson (USPS-T-27)  
10 assesses the cost coverages implied by the relationship between FY 2006 costs  
11 and revenues that result from witness Taufique's rate and fee design. Witness  
12 Robinson also explains how the resulting cost coverages, rates and fees are  
13 reasonably related to those recommended by the Commission in Docket No.  
14 R2001-1. In this regard, for reasons explained by witnesses Robinson and  
15 Taufique, the uniform percentage changes the Postal Service has proposed are  
16 subject to certain limited exceptions for Within County Periodicals rates and the  
17 fees for Registered Mail and the Periodicals Re-Entry Application. Actual rate  
18 and fee percentage changes within each subclass and special service are also  
19 subject to rounding constraints.

20 The Commission will observe that there have been some extraordinary  
21 volume-variable cost increases since Docket No. R2001-1 for Registered Mail.  
22 As explained by witnesses Robinson and Taufique, these cost increases require  
23 us to propose fee increases well above the 5.4 percent system-wide goal. I have

1 directed postal management to organize a cross-functional team to thoroughly  
2 review Registered Mail service, including its operations, costs, customer needs,  
3 and fee structure. I expect this review to provide postal management with a  
4 basis for determining whether to pursue classification or fee changes in a future  
5 Commission proceeding. Meanwhile, should the Commission recommend  
6 Registered Mail fee increases of a magnitude suggested by our current proposal,  
7 and those increases be approved by the Governors, it is my intention to  
8 recommend that the Board delay implementation until the Postal Service has at  
9 least determined a course of action in response to that review.

10 Finally, as explained in a notice filed today, the Postal Service has  
11 decided to address the unique circumstances surrounding the Confirm special  
12 service in a separate proceeding in the future.

13

#### 14 V. We Will Reassess If Circumstances Change

15 If the FY 2006 escrow obligation embodied in Public Law 108-18 did not  
16 exist, the Board of Governors would not have directed postal management to file  
17 the request now under review. Should legislation be enacted that relieves the  
18 Postal Service of this \$3.1 billion obligation before a recommended decision is  
19 issued in this docket, we will withdraw this request.