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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Section 701 Report	)))	Docket No. PI2016-3

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE, MAJOR MAILERS ASSOCIATION, AND SATURATION MAILERS COALITION (June 14, 2016)

Pursuant to Order No. 3238, the Association for Postal Commerce ("PostCom"), Major Mailers Association ("MMA"), and Saturation Mailers Coalition ("SMC") (collectively, "Joint Commenters") submit these comments regarding the operation of the Postal Accountability and Enhancement Act ("PAEA") to inform the Commission's report to Congress under section 701 of that Act. Joint Commenters contend that while certain aspects of PAEA have worked as intended, producing a more efficient and cost-conscious Postal Service and providing a degree of price stability and predictability for mailers that was absent prior to the Act's passage, other requirements imposed on the Postal Service by the Act have undermined these benefits and placed the Postal Service in a precarious financial position.

The Commission has asked for comment on a number of specific topics. Joint Commenters address several of these below. A common theme running through these comments is that so long as the Postal Service remains a government-owned monopoly, it should be regulated as such. It is protected from competition, both legally and practically. Consequently, one cannot rely on market forces to control the Postal Service's prices, push it towards improved service, or drive the efficiency of its operations. Further, captive customers must be protected against discriminatory, unjust, or unreasonable regulations and practices. An involved

Commission supported with strong statutory authority is essential to protecting against abuses of this market power. However, once the parameters of permitted activity have been established and potential abuses mitigated, the Postal Service should have broad discretion to operate in a business-like manner with regard to its operations. Congress should remove artificial restrictions on the Postal Service's business and finances that prevent it from maximizing its potential.

I. POSTAL SERVICE FINANCIAL SITUATION

The Notice states that the "Postal Service continues to face significant financial challenges ahead," citing the Postal Service's unfunded pension and health care liabilities. Order No. 3238 at 4. The Commission solicits "comments or suggestions about provisions of the PAEA that impact the overall financial position of the Postal Service as described above." *Id.* at 5.

The financial health and viability of the Postal Service are important issues, because they affect all aspects of the services provided by the Postal Service, from prices to service quality. At the same time, it is imperative that the Commission move beyond a simple recitation of the conventional, and, in PostCom's assessment, oversimplified view of the Postal Service as being in difficult financial straits. A deeper and more sophisticated review of the Postal Service's finances presents a more complicated, and less dire, picture of those finances than a facile review of the operating numbers would suggest. Indeed, there are several aspects of such a review that are particularly important for the Commission to take into account in rendering an accurate assessment of the Postal Service's finances.

First, as the Notice itself explains, the Postal Service is saddled with very large but otherwise unnecessary financial obligations that have no analogue among comparable private sector entities, including the annual $5.5 billion prefunding payment for retiree health benefits and the non-participation of postal retirees in Medicare (even though postal employees consistently have made Medicare contributions). These Congressionally-mandated costs are unique to the Postal Service and, as PostCom has pointed out in past comments, it is deeply unfair to require the Postal Service to operate with private sector-like efficiencies while at the same time imposing on it the kind of obligations with which no private sector business has to contend.

No private entity is mandated by law to prefund its retiree health benefits, and few do. The federal government in general does not pre-fund these liabilities. The military funds these liabilities at a much lower rate than the Postal Service. *See¸e.g.*, Statement of Megan J. Brennan, Postmaster General, before the Senate Homeland Security and Affairs Committee (Jan. 21, 2016), available at https://about.usps.com/news/testimony/2016/pr16_pmg0121.htm. Through September 30, 2012, the Postal Service had contributed $17.9 billion to the PSRHBF, and expenditure no comparable entity would have been required to make. U.S. Government Accountability Office, "U.S. Postal Service: Status, Financial Outlook, and Alternative Approached to Fund Retiree Health Benefits," GAO-13-112 at 12 (Dec. 2012).

Furthermore, and equally as importantly, without these artificial obligations, the Postal Service has positive operating income. The Postal Service's Form 10-K for 2015 states that the obligation to fund the Postal Service Retiree Health Benefits Fund ("PSRHBF") under an accelerated schedule is one that otherwise is "not imposed on most other federal entities or private sector businesses that offer retiree health benefits" and has "contributed significantly to our losses." A review of the income statement on that Form 10-K reinforces the veracity of this assessment. That income statement shows that the Postal Service had operating losses during 2015 of $5.06 billion – less than the annual $5.5 billion PSRHBF funding payment. The Postal

Service itself states that "when the impact of the required prefunding payments, FERS amortization and non-cash expenses for workers' compensation are excluded, the income from ongoing business activities or 'controllable income' was $1.2 billion" in FY 2015. USPS, "Net Controllable Income" at https://about.usps.com/who-we-are/financials/annual-reports/fy2015/annual_report2015_tech_022.htm.[1] Controllable income continued to be positive in the second quarter of FY 2016, with the Postal Service reporting controllable income of $576 million despite an overall $2.0 billion loss resulting from legislatively-imposed obligations. USPS, "USPS Reports Fiscal Year 2016 Second Quarter Results," May 10, 2016, available at https://about.usps.com/news/national-releases/2016/pr16_038.pdf. These figures do not even account for such changes as requiring Postal Service retirees to participate in Medicare, which has been discussed in recent legislative proposals and would lead to an even greater reduction in liabilities.

This positive controllable income continues a trend. As the Office of Inspector General noted in a report last year, after removing the requirement to prefund retiree health benefits and workers' compensation expenses, "the Postal Service earned $1.4 billion in controllable operating income in FY 2014," and "it has earned a total of $1.7 billion in cumulative operating income since 2006."Office of Inspector General, United States Postal Service, "U.S Postal Service Revenue: Is the Glass Half Empty or Half Full?," Report No. RARC-WP-15-008 at 1 (April 13. 2015)

[1] "Non-cash expenses for workers' compensation" refers to "non-cash expenses related to changes in the liability [to the Postal Service] for participation in the federal workers' compensation program, which include fluctuations in workers' compensation expense due to changes in discount (interest) rates." USPS, "Net Controllable Income" at https://about.usps.com/who-we-are/financials/annual-reports/fy2015/annual_report2015_tech_022.htm.

Thus, it is clear that, having recovered from the recession, and in spite of the conventional view that the Postal Service is in dire financial straits, the Postal Service actually operates profitably, and is in a position to continue to operate profitably. Indeed, the Notice itself notes that the Postal Service's cash position is at the highest level since Fiscal Year 2007. Order No. 3238 at 5. Thus, in spite of the warnings about the Postal Service's financial difficulties, it is clear from the Postal Service's own numbers that that Postal Service is operating well within its finances, and is capable of continuing to do so for the foreseeable future.

In addition to the operating numbers, a review of the Postal Service's balance sheet indicates other areas of financial strength that are not accounted for in the conventional assessments of the Postal Service's financial circumstances. In evaluating the financial position of any company, a standard approach is to assess the reproduction value of the assets reflected on the company's balance sheet. This is a key part of any valuation analysis because those assets, particularly long-term assets like property, plant, and equipment ("PPE"), are usually carried on the balance sheet at original cost net of depreciation, but often have a value that is far in excess of that amount, especially for property that has been held for many years.

A review of the Postal Service's balance sheet indicates that its PPE account is indeed a source of hidden financial strength for the Postal Service. The balance sheet in the Form 10-K indicates that the Postal Service's PPE account is worth approximately $15.69 billion. However, given the substantial and highly valuable real estate holdings of the Postal Service, this number almost certainly understates the true value of the Postal Service's real estate holdings. Indeed, an analysis of the Postal Service's PPE is likely to show a true value of its real estate holdings that is much higher than $15.69 billion. In 2011, for instance, the Office of Inspector General noted that the purchase price value of the Postal Service's real estate was nearly $27 billion. *See*

Office of Inspector General, “Management Advisory – Leveraging Assets to Address Financial Obligations,” Report No. FF-MA-11-118, at 2. The OIG noted that the fair market value of these assets likely far exceeded that figure. *Id.* The National Postal Museum property, for instance, was purchased for $47 million and had an assessed tax value at the time of this report of $304 million. *Id.*

Finally, as PostCom has emphasized repeatedly over the past few years, there is still substantial room for the Postal Service to improve the efficiency of its operations. The Postal Service continues to operate a service infrastructure that is oversized and inefficient in many respects, and continues to take actions, and to engage in pricing practices, that decrease efficiencies in the processing and delivery of mail. One example of this, which PostCom highlighted in its comments on the 2015 Annual Compliance Report, is the Postal Service’s processing of Standard Mail Flats and Periodicals. In particular, the Postal Service has been pricing and processing Standard Mail Flats and Periodicals in ways that increase processing costs, while also decreasing incentives by mailers to engage in pre-mailing work that could decrease the Postal Service’s overall costs of processing this mail.

Another example is the Postal Service’s apparent inability to take advantage of the full range of information on mail being processed through its system to adjust and streamline the efficiency of its practices. As a result of this inability to gather and fully process such information, the Postal Service has been unable to measure the impact of its various initiatives, such as its Load Leveling initiative or its “24-hour clock” initiative, or to determine whether such initiatives are saving money or, as PostCom believes, simply adding to the inefficiencies of the Postal Service’s operations.

In sum, it is clear that the Postal Service can operate profitability under the price cap when it is freed from the unnecessary prefunding burdens placed on it by PAEA, burdens which no private company would be expected to bear. Additionally, while the Postal Service has, driven by the price cap, reduced costs and increased efficiency in a number of areas, it can still do a better job of operating more efficiently than it does currently. Such readily-achievable efficiency improvements would go a long way toward improving the Postal Service's financial circumstances, without the need for any extraordinary pricing measures that are unnecessary to shore up the Postal Service's finances, and that would only have the result of driving mailers away from the use of the Postal Service for their business needs.

II. MARKET DOMINANT RATE SYSTEM

A. Generally

The Postal Service's ability to operate more efficiently, and with more cost transparency and analytics, highlights a key point about the PAEA and its relationship to the Postal Service's finances. In particular, PostCom would emphasize that the PAEA, and the PAEA price cap in particular, reflect an important balancing of interests. Specifically, the PAEA was intended to give the Postal Service pricing flexibility, and to allow it to raise prices within a particular class of mail in a manner that reflects basic measures of inflation. The sufficiency of this type of cap was well-established as part of the passage of the PAEA – the Postal Service itself noted at the time of passage that during the period from 1971 (when the Postal Reorganization Act was passed) to 2006 (when the PAEA was passed), overall postal price increases were within the nation's general economic inflationary bounds. In recent years, even as the Postal Service has complained about the price cap, and sought to highlight its financial difficulties, it has never explained whether, how, or why its costs are now increasing at rates higher than the level of inflation.

In exchange for this increased pricing flexibility granted to the Postal Service, the PAEA sought to provide pricing stability and incentives for efficiency to customers. These benefits were provided by the price cap itself, which limits the rate increases that can be imposed on individual mailers, and gives the Postal Service an incentive to operate more efficiently. Indeed, in spite of the Postal Service's complaints about the price cap and the Postal Service's struggles with efficiency, the existence of the price cap forces the Postal Service to at least pay some attention to efficiency issues, and ensures that mailers are not subject to unexpected and financially problematic rate shocks. Without the price cap, the Postal Service would have no incentive at all to improve the efficiency of its operations, or to avoid abrupt and financially ruinous price hikes. Indeed, price caps in other industries have actually forced regulated firms to limit their cost increases to less than the rate of inflation, requiring regulated firms to be more efficient than the average firms in the economy. It is not clear why a lesser standard should apply to the Postal Service, a standard that would permit the Postal Service to lag behind the average firm in terms of increasing efficiency and limiting cost increases.

For these reasons, the price cap is not a peripheral aspect of the PAEA, but rather (as the PRC itself has acknowledged) the "centerpiece" of the PAEA's reforms – a measure designed to give the Postal Service pricing flexibility while also giving customers price certainty, as well as a necessary prod to the Postal Service to increase the efficiency of its operations. Order No. 547 at 1. Furthermore, and even more importantly, the price cap has worked. Outside of the exigent increase, it has stabilized prices, allowing mailers to better plan campaigns and budget for postage. It has forced the Postal Service to evaluate its cost structure and make needed reforms.

For example, over the past few years, the Postal Service has undertaken its Network Rationalization effort, an initiative to try to streamline operations by closing and consolidating certain postal facilities. Although the initiative has come in for its share of criticism, such an effort owes its existence to the price cap. Indeed, it is likely that without the price cap to constrain the Postal Service's pricing power, the Network Rationalization initiative, and similar efforts by the Postal Service to improve operating efficiencies, would not be undertaken. And, as discussed in the previous section, it has achieved these goals while still permitting the Postal Service to earn positive controllable income.

Finally, it should be noted that there are mechanisms in place now for breaking through the price cap in very limited circumstances, when truly extraordinary circumstances occur. Indeed, when the 2008 financial downturn resulted in an untenable financial situation for the Postal Service, the PRC was able to grant temporary relief by allowing for limited pricing above the price cap. The Postal Service was thus enabled to recoup its losses resulting from the recession and return to profitability (excluding prefunding requirements) once the crisis had passed.

In sum, the PAEA's pricing provisions, particularly the price cap, are at the very heart of the PAEA, and – equally as importantly – have worked as designed. There is no need for a radical change that would subvert the balance achieved by the PAEA and the benefits resulting from the price cap.

1. <u>Improved costing methods can improve the performance of the existing system of regulation</u>

The current system for regulating market dominant rates could become even more effective if the Postal Service would take full advantage of the data being generated by the Intelligent Mail Barcode ("IMb") and other systems the Postal Service currently has in place.

Fully utilizing this data would allow the Postal Service to evaluate the effectiveness of its cost-reduction initiatives, identify cost drivers and "pain points" within the mail processing system, and develop prices that incent the most efficient processing of mail.

PostCom has expressed concern in prior comments regarding the Postal Service's efforts at tracking the costs of processing, shipping, and delivering each category of mail, and the impact that these potential cost measurement inaccuracies have on the development of efficient price signals and methods of handling mail.

Indeed, the Postal Service's costs continue to be based on an outdated and un-representative sampling methodology that does not accurately capture or reflect actual costs of service. The Postal Service has been asking mailers to supply all their detailed data on unique IMb pieces since 2009. In 2016, the Postal Service has the capability to track this information for the vast majority of the mail that moves through its system, and could leverage such IMb information to better determine volumes and actual costs of processing different categories of mail. This kind of data-driven analytical approach has been used by many, if not most, large businesses over the past ten to 15 years. Yet the Postal Service has continued to adhere to its outdated sampling system.

As part of Phase II of the Postal Service's Network Rationalization initiative, the Postal Service should finally be able to tap into the same data tracking systems that mailers have been using for many years, and that have driven improvements in the processing and pricing of mail services outside of the Postal Service's system. The use of these systems should allow the Postal Service to track actual costs much more accurately, and therefore to adopt prices that truly reflect the costs incurred by the Postal Service.

This is particularly important in the context of workshare discounts. The Postal Service's ultimate goal should be to ensure that costs are appropriately and accurately tracked, in order to ensure that workshare discounts are calculated and allocated appropriately, and that unnecessary infrastructure and operating costs are not incurred by the Postal Service. Furthermore, and equally as importantly, the Postal Service should ensure that avoided costs are fully passed through to mailers in the calculation of rates, as discussed further below.

In sum, the PRC and Congress should encourage the Postal Service to take full advantage of the cost tracking capabilities of its IMb system, and of the upgrades that are to be implemented as part of Phase II of the Network Rationalization initiative. Doing so will allow the Postal Service to better adjust its prices and operations to improve efficiency and operate profitably under the price cap.

B. Workshare Discounts

The justification for providing discounts for workshare activities lies in the desire to drive work to the lowest-cost provider, resulting in the most efficient processing of mail. These discounts, therefore, should be set at a level that incents mailers to use the lowest cost provider to provide the service in question. As the Commission well understands, if the cost to the Postal Service of performing an activity is two cents, the discount provided for entering mail with that activity already provided should be at least two cents. Then, if the mailer (or mail service provider) can perform the activity for less than two cents, they will do so, as the total cost to prepare the mailpiece will be less than the undiscounted rate. If, however, it would cost the mailer three cents to perform the activity, the mailer will forego the workshare discount and allow the Postal Service to perform the work, as the undiscounted rate will be cheaper than the total cost of the discounted rate plus the cost of preparing the mail outside the Postal Service.

PAEA provides that workshare discounts may not exceed the costs avoided by the Postal Service in performing the activity for which the discount is provided if a specified exception to the rule does not apply. 39 U.S.C. § 3622(e)(2). This rule ensures that where the Postal Service is the most efficient provider of a presorting, prebarcoding, handling, or transportation activity, it will set prices that incent mailers to forego private performance of these activities. PAEA does not, however, require workshare discounts to pass through 100% of the costs of preparing mail—meaning that such discounts may be (and often are) set at a level that does not reflect the full value to the Postal Service of performing the work in question. In these instances, the economic signals provided incent inefficiency. Even though the private sector may be able to perform the activity in question at a lower cost than the Postal Service, the price signals given by this discount will result in the Postal Service performing the work. The result is higher costs for all parties.

The Postal Service should be directed to set workshare discounts at a level that passes through all of the costs avoided by private performance of the activity. Doing so will save the Postal Service money by reducing processing costs, and it will save mailers money by reducing the all-in cost of using the mail. The result will be lower costs and increased volume, a winning situation for all stakeholders. PostCom also has expressed concern over the manner in which workshare discounts are calculated, particularly the fact that the Postal Service focuses too much on individual silos or rate tiers in calculating workshare discounts, and does not take a sufficiently holistic view of costs across the spectrum of market dominant products. The Commission and Congress should make whatever changes in law or regulation are necessary to allow the Postal Service to take such a view as it develops a more rational structure for workshare discounts.

Finally, in the previous section of these comments, PostCom expressed concern regarding the Postal Service's efforts at tracking the costs of processing, shipping, and delivering mail. The costs of workshare activity must be accurately tracked to ensure the most efficient price signals are sent. Thus, as the Postal Service works to improve its cost tracking, the Commission should also encourage the Postal Service to undertake a broad review of its workshare pricing practices, to ensure that costs are accurately tracked, allocated between the Postal Service and customers, and reflected in prices. A rationalization of the workshare discount approach, relying on the best available data, would facilitate the overarching pricing goals of the PAEA. Whatever the Postal Service ultimately determines are the avoided costs associated with worksharing activities, it should pass on the full savings associated with avoiding those activities to mailers.

III. NEGOTIATED SERVICE AGREEMENTS

One seemingly obvious method of tailoring rates and classifications to meet the needs of both mailers and the Postal Service, and thus drive increasing use of the mail and postal revenue, is the use of Negotiated Service Agreements ("NSAs") between the Postal Service and individual mailers. In practice, however, these agreements have not lived up to their potential. The metrics and process the Commission employs to evaluate NSAs discourages both mailers and the Postal Service from pursuing these arrangements. Obtaining an NSA is simply too costly and administratively burdensome.

PostCom has often made the point that the Postal Service is a government-owned monopoly, and as such, it should not enjoy the full freedom of action that a private firm operating in a competitive market would. But regulation of the Postal Service should focus on preventing abuses of this monopoly power—limiting price increases that would otherwise be unchecked by competition, preventing predatory pricing and other anti-competitive behavior, and preventing undue discrimination among postal customers. There is less need for regulation regarding the exercise of business judgment that falls within these parameters. The decision whether to enter an NSA with a customer is precisely the type of business decision that the Postal Service should be entitled to make with limited oversight. So long as the contract does not represent an abuse of market power (*e.g.*, it does not impose above-cap rate increases or onerous conditions on a mailer due to lack of competitive alternatives) and is non-discriminatory (*i.e.*, it is available to similarly situated mailers on reasonably equivalent terms), the contract should be approved by the Commission.

The Postal Service will always be in a better position than the Commission to understand the value of an agreement to its business. It is in position to take a holistic view of its customers' mailings and evaluate, for example, whether providing a discount for one type of a customer's mail will lead to increased revenue from other categories of mail from that customer. It is further better positioned than the Commission to determine whether there is value in rewarding customer loyalty for retaining mail volumes rather than diverting resources to electronic communications. These are decisions private businesses regularly make, and the Postal Service should have the same freedom to do so.

Joint Commenters would suggest that the statute, as written, allows for this freedom of contract. PAEA authorizes the Commission to permit the Postal Service and mailers to enter agreements that either "(i) improve the net financial positon of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or (ii) enhance the performance of mail preparation, processing, transportation, or other functions." 39 U.S.C. § 3622(c)(10)(A). The Commission has established regulations to implement this authority which essentially restate the statutory standard. *See* 39 C.F.R. § 3010.40. In keeping with this language, the Commission could reasonably conclude that the Postal Service's determination of whether an agreement will improve its net financial position by increasing overall contribution to institutional costs is entitled to deference.

To the extent Congress and the Commission view the statute as providing a stricter standard, the statute should be amended. One approach would be to bring the provisions governing market dominant NSAs in line with those governing competitive NSAs. Under this approach, before-the-fact review of market dominant NSAs would be limited to ensuring the rates embodied in the NSA cover the product in question's attributable costs and comply with the price cap. *See* 39 U.S.C. § 3633(a)(2); *see also* 39 C.F.R. § 3015.5. The Commission would retain its authority under 39 U.S.C. § 3622 to hear complaints against NSAs, and as is the case today, any NSA would need to be available on reasonable terms to similarly situated mailers.

By providing the Postal Service with additional discretion to work with its customers to find mutually beneficial solutions, these changes would improve the finances of the Postal Service and the relationship between mailers and the Postal Service while presenting little risk of the type of monopoly abuses postal regulation is designed to prevent.

IV. POST OFFICE CLOSINGS

Current law establishes a deferential standard for reviewing Postal Service decisions to close or consolidate post offices, allowing the Commission to overturn such decisions only when they are arbitrary and capricious, not in accordance with law, or unsupported by substantial evidence on the record. 39 U.S.C. § 404(d)(5). The difficulty arises in determining what actions "are not in accordance with law," as the law governing Postal Service decisions to close post offices requires the Postal Service to balance competing and contradictory factors. For instance, the Postal Service must consider both the economic savings of closing a post office and the impact of that closure on postal employees—when the economic savings of closing a post office are likely to arise in substantial part from a reduction in the employees needed to operate and maintain that post office. Further, the Postal Service cannot close a small post office "solely for operating at a deficit." 39 U.S.C. § 101(b).

Joint Commenters recognize the importance of providing postal service to small and rural communities. This service, however, need not depend on the operation of an otherwise uneconomic post office. So long as the Postal Service continues to be able to provide adequate service to these communities at efficient rates, it should have the flexibility to close or consolidate post offices in line with economic efficiencies. This authority would provide the Postal Service with maximum flexibility to manage its costs and operate as efficiently as possible.

Moreover, it cannot be denied that requiring the Postal Service to maintain post office that are not economically feasible on their own imposes a cost burden on the Postal Service that a private business in the same position would not face. To the extent the Postal Service is required to continue to operate such post offices, Congress should consider means of mitigating that exogenous cost. A possible solution would be to co-locate additional government services in these postal facilities to maximize the value of these locations to the community and defray the costs of operating and maintaining the facilities.

V. SERVICE STANDARDS

Quality of service is crucial for all mailers, but especially for businesses who rely on the mail to provide timely communications with customers and other third parties. The Postal Service's inability to provide consistent, reliable service causes many mailers to look to other forms of communications, a result which harms the Postal Service and drives up costs for all users of the Postal Service. As long as the service provided by the Postal Service fails to meet the needs of its customers, it will struggle to operate profitably. Any legislative solution to the Postal Service's woes must take this reality into account.

It is uncontroverted that the Postal Service has struggled to meet the service standards it has established. For instance, in the 2015 Annual Compliance Determination (ACD) Report, the Postal Regulatory Commission said:

> In the FY 2014 ACD, the Commission issued directives to the Postal Service for products composed of flats to improve service performance results during FY 2015 or otherwise provide an explanation as to why efforts to improve performance were ineffective and identify further planned changes to improve those results. The Commission finds that during FY 2015 service performance results for these products remain substantially below their targets, and in all but one case, the performance results declined."

Postal Regulatory Commission. "Annual Compliance Determination Report, Fiscal Year 2015." Pg. 3. http://www.prc.gov/docs/95/95462/Final_2015_ACD.pdf

The Commission's finding has been validated throughout the nation by customers of the Postal Service. Moreover, certain initiatives of the Postal Service to reduce costs and improve quality – for example, the "24-hour clock" mail processing regimen and the load leveling initiative – appear to have raised costs, while providing incentives to mailers to use the mail network in less-efficient-than-optimal ways. It is imperative that the PRC oversee the Postal Service's move to higher quality operations that truly reduce costs and meet the needs of the Postal Service's customers. Currently, the Postal Service cannot even meet the standards it has set for itself.

While determining how service standards are set and measured is less important than ensuring the Postal Service provides adequate service, these activities of course play a role in the Commission's oversight function. But as long as the Postal Service retains primary responsibility for setting standards and determining rules around “start-the-clock” and other issues related to measurement of compliance, *see* 39 U.S.C. § 3691, these metrics are essentially meaningless. Instead, the PRC should have the ultimate authority to set and enforce service standards. While the Postal Service must have input into these standards, it should not be the ultimate arbiter of what level of service is acceptable.

VI. ADVISORY OPINION PROCESS

The Commission has asked for comment regarding “the advisability of preserving the opportunity for a hearing on the record in the PAEA” with respect to a change in the nature of postal services requiring an advisory opinion from the Commission. Order No. 3238 at 11. Joint Commenters suggest that so long as the Commission lacks the power to enforce its conclusions in advisory opinions, there is no need for a hearing on the record. In fact, unless the Commission is provided with such enforcement authority, the advisory opinion process will continue to provide little value.

The Commission’s revisions to its rules in Docket No. RM2012-4 at least resolved the situation in which the Postal Service determines to move ahead with a change in postal services prior to the Commission concluding its review of the request. However, because PAEA does not give the Commission authority to modify Postal Service proposals in line with its advisory opinions, the new rules could not address situations in which the Postal Service has plainly determined to proceed with an initiative without regard to the Commission’s initial determination. In past proceedings, including its load leveling initiative (Docket No. N2014-1), the Postal Service has begun moving forward with initiatives while advisory opinion proceedings were still ongoing, demonstrating no desire to modify its proposals in line with industry or Commission input.

Continuing to hold on-the-record hearings when the Postal Service is under no obligation to incorporate or respond to the Commission's views simply wastes the resources of the Postal Service, the PRC, and the industry. While seemingly valuable information may be gained during the advisory opinion proceedings, if the Postal Service is under no obligation to follow the PRC's recommendations, the expenditure of resources to develop that information is entirely wasted. The advisory opinion process, therefore, should either be abolished or substantially revised to provide the Commission with some ability to enforce its recommendations.

Respectfully submitted,

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