



On February 25, 2004 the Chairman of the Postal Rate Commission, George Omas, met and took part in an informal roundtable discussion with representatives of the National Postal Policy Council, a twenty-year-old trade association of mailers.

The following are some of the points Chairman Omas made during this discussion:

A Presidential Commission issued a comprehensive report last summer, and in early December the Bush Administration announced it supported reform based on five basic principles. I think the Administration got it just right, it supports change that will assure:

1. those put in charge are equipped to **implement best practices**,
2. maintain **transparency** of Postal Service costs and performance,
3. management has **flexibility** to adjust in a dynamic marketplace,
4. independent oversight provides **accountability** to protect mail users, and
5. the Postal Service remains **self financing**.

I will focus my remarks today on a critical issue that will determine whether legislation actually achieves the desired results

- The thrust of current postal reform proposals is to grant the Postal Service additional flexibility in exchange for added transparency and accountability.
- The key to meaningful and successful reform is assure the two sides remain joined: *flexibility for transparency and accountability*.
  - The Postal Service wants flexibility, but do not be surprised if as legislation emerges it objects to transparency and accountability, it is only natural.
- Some mailers expect that the Postal Service will be better able to negotiate mutually beneficial arrangements with its best customers if the current public process is eliminated, which may be true.
- But I believe Congress will want to be assured that the Postal Service does not do more harm than good. The first rule of legislation, like medicine should be, “first do no harm.”

The Flexibility sought by the Postal Service is pretty well understood: It wants:

- Authority to change rates whenever it wants
- Authority to increase rates as much as it wants
- Authority to agree to special rates with whomever it wants
- Authority to close facilities without interference
- Authority to negotiate all issues with labor
- Authority to compensate managers without restrictions
- Authority to operate without political interference

But there are degrees of flexibility, the proposed reforms will give the Postal Service MORE flexibility, but it won't get TOTAL flexibility, for example:

- The authority to operate without government interference, as everyone here knows, every private business of any size must deal with the government
- I also think there are limits on flexibility in ratemaking, I do not think Congress wants the Postal Service to have the flexibility to increase rates as much and as often as it wants.
- And I don't think all mailers want the Service to have that kind of flexibility either.

The Postal Service should have the most flexibility in the area of rates for competitive classes of mail, but rates must be high enough to recover the costs to the Postal Service attributable to the offering of that product. Competitive classes should also be required to make a reasonable contribution to the institutional or overhead costs.

- Some independent reviewer is going to have to make sure the Postal Service meets these obligations.

In the area of non-competitive classes, someone must make sure the Postal Service doesn't abuse its monopoly, and price gouge.

- Both the rates and quality of service of privately owned public utilities are constantly scrutinized, and I think the Postal Service should be subject review as well.
- In my recent testimony to the House Committee on Government Reform's Special Panel on Postal Reform and Oversight, I urged Congress to consult with mailers on what protections they might need.
- Specifically, the President's Commission suggests that the Postal Service should have the flexibility to raise non-competitive rates whenever it wants, *so long as*, increases do not exceed some inflation-based measure.

- Most of those who have commented on this think that's okay, but what if the Postal Service needs bigger or more frequent increases.

I think there must be some mechanism to assure that postal management acts responsibly.

- The President's Commission suggests a regulator should have 60 days to evaluate Postal Service requests, and mailer comments, on rate increases that exceed inflation.
  - Does an exchange of written comments, all within 60 days, provide the opportunity for meaningful analysis?
  - Does it provide adequate protection for captive mailers?
  - Should there be some way to limit excessive Postal Service expenditures?
  - The ratepayers, they are the ones at risk in postal reform and they need to address these issues.

The area of Negotiated Service Agreements will be controversial.

- Last year we considered the first NSA, between the Postal Service and Capital One, a member of your organization.
- We added a stop-loss provision to assure that the Postal Service wouldn't lose too much money if the NSA were not successful.

I know that private companies can negotiate to do pretty much whatever they want. Sometimes private companies do good business, make good contracts, and prosper, and sometimes they make bad decisions contracts and go bankrupt. That's the private enterprise system.

But if the Postal Service makes a bad contract, shareholders with control over management don't suffer because there aren't any.

- Mailers who cannot use postal alternatives will be stuck with the cost of postal business decisions.
- I expect there to be a call for a regulator to evaluate NSAs to assure that the Postal Service doesn't give away the store.

Compared to Flexibility, I don't think Transparency and Accountability are well understood,

- *Transparency* is having to provide meaningful, timely information
- *Accountability* is being regularly evaluated by one with the ability to reward or punish

The President's Commission on the Postal Service proposed a Postal Regulatory Board to impose transparency and accountability

- But, it did not specify how the Board should reward or punish.
- The current Postal Rate Commission can suspend rate decisions if the Postal Service fails to respond to a lawful order. As a result, the Postal Service is very cooperative — in rate cases. In other circumstances it is less cooperative.

Congress can reward or punish, but it usually has more urgent business to which to attend. I expect the Postal Service to oppose giving any meaningful authority to a regulator.

The President's Commission identified seven specific duties for the Postal Regulatory Board, each of which is an important component of transparency and accountability.

- 1) Review Universal Service Obligation--Establish minimum levels of service speed and availability for each class of mail, and annually review the levels of service achieved
- 2) Clarify the monopoly—The Board would interpret, and when appropriate define the scope of the monopoly.
 

Determine what costs are attributable—The President's Commission suggests:

  - *competitive* categories should cover costs,
  - *non-competitive* (real or de facto monopoly) should not rise faster than inflation.
- 3) Limit retained earnings.
- 4) Establish data reporting requirements--Both financial (SEC-type) and operating (detailed actual cost and service results).
- 5) Periodic progress reports and suggestions for Congress--When necessary, use authority to subpoena relevant data and information from Postal Service.
- 6) Hear and resolve complaints.
- 7) Authority to impose remedial action.

The seven duties identified by the President's Commission should make for a somewhat effective regulator.

Regarding legislative discussions on reform. The Commission has offered its expertise to Congress on issues historically as well as its thoughts on the future. We are happy to continue to indicate how we think any legislative proposal will work, however,

- We do not think we should argue for any particular outcome. Our role is not to make policy; rather, the Commission tries to implement policies established by Congress.
- Some mailers have suggested the Commission should lobby for a strong regulator. If these mailers want a strong regulator they should make that known during the ongoing discussions on reform.

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