



Testimony of

John Waller, Director of Office of Accountability and Compliance

On Behalf of the

Postal Regulatory Commission

Before the

U.S. House of Representatives

Committee on Oversight

And Government Reform

Subcommittee on Federal Workforce,

Postal Service and the District of Columbia

July 24, 2008

Good afternoon.

Chairman Davis, Ranking Member Marchant, and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to discuss the Commission's views on the Postal Service's Network Plan.

To the Commission's benefit, we have had previous involvement in the Service's plans for network realignment. Under section 3661 of title 39 of the U.S. Code, the Postal Service is required to seek the Commission's advice before implementing nationwide service changes. In 2006, the Service requested an advisory opinion from the Commission on its planned nationwide realignment, then known as the "Evolutionary Network Development" (END) process.

When the Commission's proceeding started as Docket No. N2006-1, very little was known publicly about the overall END process, and the Service's vision of its future network was unclear. The Commission believed then, and continues to believe now, that the Postal Service should have the flexibility and authority to adjust its operations and networks to meet its business needs and create cost savings and efficiencies. However, the Postal Service must be accountable and transparent to postal customers and be sensitive to the needs of the communities it serves.

The Commission's proceeding brought transparency to the Postal Service's network development plans. Questioning by Commissioners and participants in the case shed needed light on the END program. The opening of the END program to outside scrutiny identified several areas of concern some of which have been addressed in the network realignment process incorporated in the current Network Plan. In particular, the public participation process seems to have been clarified and expanded.

In early 2007, the Postal Service and the Commission entered into what has become a monthly consultation between the two agencies. This process implemented a major initiative of the Postal Accountability and Enhancement Act (PAEA) to ensure that the Commission is involved in the development of certain required improvements in Postal Service operations. Specifically, the Act directs the Postal Service and Postal Regulatory Commission to consult with each other on the development of a modern system of performance standards, the measurement of actual performance, the setting of performance goals, and the adjustment of the postal network to meet those goals in light of changing mailer demands.

The Commission appreciates the Service's ongoing commitment to the consultation requirement. The Service has been most forthcoming with information on current operations and planned changes. They have been responsive to questions from the Commission and considerate of observations by the Commission.

Much of the success of this process goes to the involvement of top Postal Service management in the main activity of the consultative process. These monthly meetings include the five Commissioners and a team headed by Deputy Postmaster General Patrick Donahoe. Over the past months, the Service has provided presentations on the key elements contained in the Network Plan submitted to the Congress. Through this process, the Commission has had the opportunity to make suggestions, some of which are incorporated into the final version of the Network Plan. The process has also allowed the Postal Service to understand the Commission's requirements as a regulator.

On June 9, 2008, the Service presented to the Commission, for formal comment, its final draft of the Network Plan. On June 16, 2008, the Commission submitted its formal comments on the draft plan in a letter to Deputy Postmaster

General Donahoe. At the request of the Commission, the letter was submitted to Congress along with the final version of the Network Plan.

As background to reviewing the document presented to Congress, it should be noted that the Postal Accountability and Enhancement Act section 302(b) requires the Postal Service's Network Plan to: (1) establish performance goals; (2) describe network changes necessary to meet those goals; (3) describe how the new performance goals change previous submissions to Congress; and (4) describe the Postal Service's long-term vision for its infrastructure and workforce. Additionally, the Postal Service's plan must include detailed information on the costs, cost savings, impacts, time frames, and processes for rationalizing its facilities network.

In its letter to Deputy Postmaster General Donahoe, the Commission stated that the final draft of the Network Plan lacked specific performance goals for most postal products, and thereby lacked a vision of how the activities described in the plan would meet certain performance goals. During the consultative meetings with the Service, the Commission has made clear its view that the PAEA requires that service performance goals, expressed as specific percentages of on-time achievement of service standards, should be part of the June network plan. Corporate goals already exist for First-Class single-piece mail, such as 95 percent achievement of on time delivery for all First-Class Mail subject to overnight delivery standards. The Commission has consistently urged the Service to adopt such explicit percentage goals for all classes of mail and urged the Service to include such goals in the plan submitted to Congress. During the course of consultations this spring, however, the Service indicated development of such goals would be delayed. The draft Network Plan - given to the Commission 10 days before the delivery date to Congress - stated that such goals would not appear until early 2009.

The Commission is pleased to see, however, that the final version of the document presented adopts a more aggressive schedule and the Commission now expects to see proposed achievement percentage goals for all services before the end of the fiscal year. Such changes in the final document exemplify the progress and results that can be achieved via the consultative process that is a major component of the new regulatory environment envisioned by the PAEA.

Consultations with the Service also involve service performance measurement. The PAEA requires that the Service develop a system of external measurement of delivery performance for all mail products unless the Commission gives permission for the use of internal, Postal Service-generated data, such as can be obtained from scans of barcodes on mail pieces. The steps described by the Postal Service in its Network Plan under the heading of “Operationalizing Service Standards” are examples of the diagnostic benefits that can be gained from a robust internal performance measurement system that tracks the progress of mail through the postal network. Such information is not as available with external measurement systems that just captures the times of mailing and delivery. Also, a full external system would be significantly more expensive than an internal system. Thus, the Commission is being patient with the Service’s evolution of the internal system but still expects expanded measurement results to begin to appear with the start of the next fiscal year.

In the final version of the Network Plan, the Commission sees evidence that the Postal Service responded to concerns raised in the Commission’s review of the previous realignment effort in the 2006 docket, and discussed in my testimony before this Subcommittee on July 26 last year. For example, a criticism of the previous network modeling, and possibly still present in the current efforts to consolidate processing facilities, is the use of national average productivities. As demonstrated in Government Accountability Office (GAO) reports and Commission documents, the productivities of mail processing equipment vary widely among facilities.

Another assumption not supported by available data is that productivity necessarily improves as the size of processing facilities increases. If network planning decisions are based on flawed productivity assumptions they can produce costly reductions in service and efficiency. Thus, the efforts described in the Service's current network realignment document to standardize processing plant operations are a hopeful sign. The Commission will monitor the results of these standardization efforts if assumptions of standardized productivity are to be a basis of consolidation analysis. Also, it is a challenge for the Service to maintain delivery performance and control transportation costs as consolidations expand the distance between processing plants and delivery locations.

The document presented to the Congress describes many of the processes by which the network will change. These include the revamped Area Mail Processing (AMP) guidelines for analyzing potential processing plant consolidations, obtaining community inputs and eventually assessing impacts when consolidations do occur. Also, the document describes recent changes in the airport facilities and how employees will be impacted. Once performance goals are established, the Commission expects to see more details of the Service's vision for its network, what the facility configurations and transportation links will involve, and a quantification of the cost and performance benefits.

Since the late 1990s, the Commission has been concerned about the costs of handling flat mail and, in particular, Periodicals. Despite numerous automation attempts, productivity results achieved from letter mail automation have been elusive for flats. The Flats Sequencing System (FSS) now being implemented is intended to increase productivity and reduce carrier costs. The FSS holds great promise, yet continued oversight is required in order to verify the impact on costs and delivery performance. The Commission hopes to be able to see the projected benefits verified.

The Service makes a case that the Bulk Mail Center (BMC) network, as currently structured, may not efficiently meet the future needs of the Service. The Service's transportation outsourcing plan as outlined in the Network Plan and in the draft Request for Proposals for a Time-Definite Surface Network may have merit. However, the Commission is cognizant of the problems experienced outsourcing Priority mail operations a few years back with the Emery contract. This demonstrates the need for continued Commission oversight.

The Commission will continue to monitor the progress as the Service fills in the details of its network realignment plan. Further, we intend to review carefully the impacts on delivery performance. Any proposed network realignments by the Service that may have significant nationwide impacts on delivery standards will be subject to review by the Commission through an advisory opinion per section 3661 of title 39 of the U.S. Code. A full report on these service impacts will be included in the annual reports of the Commission.

In closing, the Commission takes very seriously this consultation role tasked to it by Congress. We do understand that the Postal Service faced a tight deadline for development of performance goals and a network plan. We look forward to continuing our consultation with the Service on both issues as the Service provides more details on the network realignment.

The Commission appreciates the continuing interest of the Committee in these areas and is prepared to regularly present results to the Congress either through annual reports, special studies or hearings such as this. Again, thank you Chairman Davis for inviting me to testify. I welcome the opportunity to answer any questions members of the Subcommittee may have.