

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 30, 2009

Chairman Lynch, Ranking Member Chaffetz, and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to represent the Commission to discuss Postal Service plans to adjust its retail and delivery networks.

On July 2, the Postal Service requested an advisory opinion from the Commission on a plan to optimize the postal retail network, which it calls the "Postal Service Station and Branch Optimization and Consolidation Initiative." 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. The governing regulations were established under the Postal Reorganization Act of 1970 and continued under the Postal Accountability and Enhancement Act (PAEA).

In this case, the Postal Service has asked the Commission to determine if the Initiative will likely generate changes in the nature of postal services on a substantially nationwide basis and if so, to issue an advisory opinion which concurs that such process for service changes would result in decisions which will preserve service levels that are consistent with the policies of title 39 of the United States Code. The Commission is being asked to review and shed light on the closure process and not to review the merits of individual closures except to the extent they shed light on the operation of the closure process.

Section 3661 requires the Commission to afford an opportunity for formal, on-the-record hearings, with an officer of the Commission designated to represent the public interest. This process gives the public an opportunity to learn the details of the Postal Service's Initiative and to comment on any issues of concern. At the conclusion of this process, the Commission will review the entire record of evidence assembled and provide an advisory opinion to the Governors of the Postal Service, with

recommendations on whether or not to proceed with the Initiative in its current form and why.

The Commission has established Docket N2009-1 to conduct this proceeding and provided public notice through the Federal Register process, a notice on the Commission's web site, www.prc.gov, and a press release. Interested parties were advised of their right to participate and given until July 28 to request a hearing. A prehearing conference with the Postal Service and interested parties is scheduled for July 30 at Commission Headquarters. This prehearing conference and all future hearings will be broadcast on the web with access available through www.prc.gov. Due to the nature of this Initiative, the Commission may consider holding public hearings outside of Washington DC. All documents filed in the docket, including the initial Postal Service request and information offered by participants, are immediately available on the Commission's web site under the link to Docket N2009-1.

This proceeding is now in the initial discovery phase. During discovery, participants and the Commission can question the Postal Service to clarify the operation of the process the Postal Service will use to evaluate the impact on service and to decide whether to close specific stations and branches.

The Subcommittee's hearing is timely in highlighting issues that will arise in the Commission's proceeding. Participants and the Commission can draw upon the facts and issues raised before this Subcommittee to expand the record of review of the Station and Branch Initiative.

Two years ago, on July 26, 2007, I had the privilege to testify before this Subcommittee about an earlier advisory opinion issued by the Commission regarding the Postal Service's Evolutionary Network Development (END) Plan aimed at reorganizing the Postal Service's mail processing and long distance transportation network. At the beginning of that proceeding little was publically known about the END process. The Commission's proceeding brought transparency to the Postal Service's plans and provided a meaningful opportunity for public input. Ultimately, the Commission's public proceeding on the END program led to improvements in the process for consolidating mail processing facilities and modifying the surface transportation network. The Postal Service's recently initiated Network Rationalization Plan that was discussed in the Subcommittee's May hearing is aimed at realizing some of the goals and objectives of

the original END process. Initial reports verbally communicated to the Commissioners are that handling times are improving for parcels with the new network configuration. The Commission will monitor the impact of this and other reorganization efforts through the quarterly reports on service performance.

In the current proceeding regarding stations and branches, the Postal Service indicates that the purpose of the initiative is to realign its retail network with current and future customer service needs while reducing inefficiency and redundancy and capturing cost savings. The Postal Service cites growth in alternative retail channels, like USPS.com and Automated Postal Centers, and reductions in customer foot-traffic and purchases at its retail units in support of the realignment.

The Postal Service advises that the Initiative actually began back in May of this year with a pre-screening for discontinuance of all stations and branches that report to Postmasters at or above the USPS Executive & Administrative Schedule level 24 pay grade. According to the Postal Service, this covers approximately two-thirds of the Postal Service's more than 4,800 stations and branches nationwide, primarily offices located in urban and suburban population centers. In a footnote in the documents filed by the Service in support of its Request for a Commission Advisory Opinion, the Service states that it will soon provide the list of the stations and branches that have passed the pre-screening and are candidates for closure. The Postal Service states that no closures started under the Initiative will be implemented before October 2, 2009 and that the bulk of the actual closure reviews and resulting operation and service changes will be implemented in postal fiscal year 2010.

The Postal Service has outlined only the broad parameters of the Initiative and stated that it presently cannot estimate the number of targeted offices that might be discontinued nor quantify the potential changes in the nature of any affected postal services. It also is unable to estimate any expected financial savings. This is similar to the position that the Postal Service was in when it initiated Docket N2006-1 regarding the Network Realignment process. Questions have already been submitted to the Service in the initial discovery phase of the proceeding to provide more detailed information on scope, process and expected benefits from the initiative. In 2006, such questions significantly increased the transparency on the Service's plan for redesign of the postal mail processing network.

The Commission recognizes that under the PAEA the Postal Service has the flexibility and authority to make rational adjustments to its operations and networks to meet its business needs and create cost savings and efficiencies. Further, the Postal Service must be accountable and transparent to all postal customers, be sensitive to the need of the communities it serves and make changes in a strategic manner.

In its recent *Report on Universal Postal Service and the Postal Monopoly*, the Commission found that access to postal services was viewed by the American people as a fundamental aspect of universal service. As part of a common theme, comments and testimony pointed to the need for the Postal Service to maintain flexibility in how it provides access and encouraged the Postal Service to develop alternative access beyond the post office. Overall, most comment and testimony indicated a continued need for the current level of access to postal facilities and services. A survey of households conducted in 2008 for the Commission as part of the study of Universal Postal Service showed that households tend to utilize their local post office extensively. More than half of the respondents reported that a member of the household visited a post office in the last 7 days, and an additional 25 percent reported visiting within the last 30 days.

The N2009-1 proceeding will allow for consideration of the universal service implications of the Postal Service's Station and Branch Initiative balanced against ongoing changes in Postal Service finances and customer behavior. The proceeding also will ensure needed transparency as critical decisions are made and specific changes in service are contemplated.

If the Postal Service should determine to discontinue or consolidate a station or branch under this Initiative, it would be obligated under section 404 (d) of title 39 to provide for thorough public notice and input into the decision. The Commission has long accepted the common usage of any retail location staffed by Postal Service personnel as the operative definition of a post office as used in the acts. The Commission's definition of a post office includes stations and branches. The statute further confers upon the Commission the authority to hear customer appeals of decisions to close post offices. The Postal Service's proposed closure process does not include notifying the public of the right to appeal to the Commission. Participants have already submitted questions on this issue and it is likely to receive a thorough review over the next several months.

Through its oversight of Postal Service's financial and mail service performance, the Commission also takes a regulatory interest in all of the ongoing nationwide changes to carrier delivery operations. The Commission is aware that delivery is a problematic cost center for the Postal Service as well as its primary service contact with the American people. Yet the significant drop in volume provides an opportunity to generate savings through the reduction in the number of delivery routes. These potential savings are limited, however, by the fact that historically only 50 percent of carrier costs vary with volume and that the number of delivery points continues to increase despite the volume decline. Based on statistics provided to the Commission, the number of carrier routes decreased by only seven-tenths of one percent in 2008. This trend is likely to accelerate now that the Postal Service has initiated a thorough review of all city carrier routes with a new interim process involving joint management and union review teams.

The Postal Service, in consultation with the Commission as required by the PAEA, has developed measurement systems dependent on full implementation of the new Intelligent Mail Barcode, which will provide quarterly speed of delivery performance data for each major mail product on a nationwide basis and at the area or district office level. This will provide a means for the Commission and mailing community to maintain a close watch on delivery performance and institute remedial action should drops in performance be detected. The Commission will continue to exercise its authority to ensure that service levels are maintained and that service issues are appropriately and quickly addressed when encountered.

The Postal Service has stated that, in order to eliminate some of the 50 percent of carrier costs that do not vary with volume, it may be necessary to reduce the days of delivery. This would require action by Congress to modify the current requirement to maintain delivery at 1983 levels. In addition to Congressional action, a Commission review would be required. Reducing delivery days would be a nationwide change in the nature of service and thereby require a full review of the proposal through a Commission proceeding – like the current examination of the Station and Branch Initiative. The Commission is ready and well equipped to conduct such a proceeding and provide full transparency on the delivery day reduction issue should the Postal Service decide to submit such a proposal.

In closing, I would again like to thank this Subcommittee for the invitation to testify at this critical time for the Nation's Postal Service. Declining revenue and mail volume have changed the postal landscape in ways that were unimagined just a few short years ago when the Postal Service was enjoying record-high mail volumes. The increased risks inherent in the current environment reinforce the need for an effective regulator to provide the transparency and accountability mandated by the PAEA.

Since the Postal Service's retail initiative is currently under review by the Commission, it is not appropriate for me to comment on the merits of the Postal Service's proposal. I can, however, identify issues being raised in the proceeding by the mailing community and answer any questions on the procedures being used to examine the Postal Service's Initiative. I welcome the opportunity to answer such questions or others you might have on other consolidation issues.
