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SERVICE STANDARDS AT THE POSTAL SERVICE: ARE CUSTOMERS GETTING WHAT THEY PAID FOR?

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

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SERVICE STANDARDS AT THE POSTAL SERVICE: ARE CUSTOMERS GETTING WHAT THEY PAID FOR?

THURSDAY, AUGUST 2, 2007

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:03 a.m., in Room 342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Akaka, and Coburn.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. The hearing will come to order. Welcome to our witnesses today, to our guests, especially to our first panel. I will be introducing General Potter and Mr. Blair in just a few minutes.

The Senate is in session. We are expecting our first series of votes later today at roughly 11:45, and I don't know if this is doable, but my goal is that by the time we finish up, the first vote will have begun and we will be able to move from there to vote and everyone will have had a chance to make their presentations and we will have had a chance to ask questions and make it all work.

A bunch of people missed a vote yesterday, and for some of the people, it was the first time they have ever missed a vote in the Senate. We are going to run under a little tighter rules as we come down the stretch here in the beginning of August on the Senate floor, so I want to make sure that we don't miss any votes over there today, but I want to also make sure we have a chance to fully hear from each of you that have come.

This is the third hearing that we have had on this Subcommittee this year with respect to the legislation that we passed last year that a lot of the folks in this room and those who were here last week helped us to develop. The part of the bill that we are going to be focusing on today is one that I am especially proud of. Title 3 of the Postal Accountability and Enhancement Act (PAEA) requires the Postal Service to issue a new set of service standards for its so-called market dominant products, essentially those products that make up the Postal monopoly. That section of the bill also

calls for the creation of a system for measuring service performance at the Postal Service.

Senator Collins and my other colleagues who were involved in the drafting of this bill, along with our staffs and, as I said earlier, a number of others, sought to include this provision not because we wanted to micromanage the Postal Service. We micromanage plenty of other things. We don't need to micromanage the Postal Service. But we included it because we thought it was vitally important that the Postal Service find a way to make their products relevant and valuable to their customers as we go forward in the first part of this century.

It doesn't take a Postal expert to figure out that the Postal Service has lost some customers over the years to innovations such as e-mail, electronic bill pay, fax machines, and cell phones—some of that business is, I think, likely gone for good. One look at the testimony, from Postal customers on our second panel, however, tells me this: Strong service standards coupled with an aggressive program to track and report on service performance will go a long way toward making at least some Postal products more competitive when compared to the new technologies that you go toe-to-toe with every single day.

The Postal Service adds, as we know, between one and two million new addresses to its rolls every year. We are likely very far away from the point where those homes and businesses no longer require mail service. Businesses, charities, and the American public still rely on the mail. I do. I think we all do. The Postal Service will need to be more competitive, though, in order to bring in the kind of volume and revenue necessary to cover the cost of providing the universal service that our economy and our communities count on, depend on.

The service standard provisions in the Postal Accountability and Enhancement Act are also important because the Postal Service is going to need to use the standards it sets to realign its workforce and to rationalize its network of processing and retail facilities.

A large percentage of the Postal workforce, as is the case throughout the Federal Government, is close to retirement, or closer to retirement. That is everywhere except the U.S. Senate, and here in this body, they tend to go on forever, or it seems that way.

In addition, the network of logistics centers and post offices the Postal Service depends on each day is something that has grown organically over the course of many years. It is not necessarily designed, to meet current needs.

So I think a lot is at stake here. I know that and you know that, as well, and we look forward to hearing from our witnesses, our first panel and our second panel, too.

General Potter, I never wanted to be a general. I was in the Navy and I would like to have been a commodore. It is a rank we have in the Navy, but nobody is a commodore. You go from being a captain to being a rear admiral, a one-star admiral. You are never a commodore. That was the rank I had aspired to. I would have been the only one in the Navy who would have been that.

But you got to be general, our Postmaster General. You have been that since, I think, 2001. You took over your job about 4 or 5 months after I came on board in my new responsibility. I think

you have done a very fine job. But you are, I am told, the 72nd Postmaster General and began your career with the Postal Service in 1978. I kid him that in 1978, he was a 12-year-old clerk, and over the years presided over, among other things, as our Chief Operating Officer at the Postal Service, Vice President for Labor Relations, and a number of other senior positions at the Postal Service's headquarters in Washington and out in the field.

Dan Blair, welcome. Dan Blair comes before us today as the very first Chairman of the Postal Regulatory Commission, which is the successor, as we know, to the old Postal Rate Commission. Mr. Blair was confirmed by the Senate as a Commissioner on the Rate Commission last December and was named Chairman by President Bush later that very same month. Chairman Blair previously served as the Deputy Director of the Office of Personnel Management and put in 17 long, hard, arduous years here on Capitol Hill.

We welcome you both. Your entire testimony will be made part of the record and feel free to summarize. If you can stay fairly close to 5 minutes, that would be fine. If you run a little long, we will give you some leeway. Thank you.

General Potter, would you like to begin.

TESTIMONY OF HON. JOHN E. POTTER,[1] POSTMASTER GENERAL, UNITED STATES POSTAL SERVICE

Mr. POTTER. Good morning, Mr. Chairman and Members of the Subcommittee. I am pleased to be with you to discuss one of the most difficult challenges faced by the Postal Service, the need to balance rising costs within a rate structure defined by a price cap.

By law, we are required to keep price adjustments at or below the rate of inflation for market dominant products, which represents over 90 percent of our revenue base. Unfortunately, our costs are not governed by the same standard and many have been rising faster than the Consumer Price Index. Like other employers, we have been affected by sharp increases in the cost of energy and health benefits, and for the Postal Service, cost per work hour for our career employees has been growing at a rate above inflation.

At the same time, First-Class Mail volume, which represents over 50 percent of our revenue base, is declining. The number of addresses we serve, as mentioned by the Chairman, is increasing by almost two million each year. This means, on average, even with the recent rate change, we are delivering fewer pieces of mail to each address and revenue per delivery is decreasing. This is not a formula for long-term success. The challenge is to close the gap between prices and costs while improving our quality of service.

How do you do that? As I see it, management can proceed along three paths. First, we can continue to operate as we have been for decades. After all, that brought a level of success no one anticipated when the law was passed in 1970. Service rose to record heights. We achieved our break-even mandate, and we reached unprecedented levels of efficiency.

But the environment in which we achieved that success has changed and it is continuing to change. The business model that was created in 1970, in my opinion, is broken. We can no longer

[1] The prepared statement of Mr. Potter appears in the Appendix on page 37.

depend on mail volume growth to produce revenue needed to cover the costs of a growing delivery network. That model helped us to limit increases in postage rates to the rate of inflation over the 35 years prior to the new law, but the mail volume growth necessary to do that is no longer there.

To proceed along the path of business as usual would be inconsistent with our rate cap obligations or the expectation of the American public. We no longer have the option of just adjusting rates if our costs get out of balance. We have to do more, much more, if we are to keep costs in check with the overall growth no higher, as I said, than the rate of inflation, but we must continue to provide universal service. We understand that is our primary mission, is to deliver universal service to the American public.

The second path to closing the gap between rates and costs would be wholesale, and absolute expansion of outsourcing of work now performed by Postal Service employees and use that as a cost reduction strategy. But there is much more at stake than simply costs. Pursuing this strategy could come with its own costs, and those costs would be a lost focus on service and damage to our brand.

That is why I prefer a third path, working directly with our unions and customers to confront the critical issues that we are facing as an organization, to address the demands of growing our business and the needs of our customers to better serve America and to protect universal service for the next generation. I am personally committed to the process of collective bargaining as an important tool in achieving these goals, and I have seen time and again that it works.

The latest example is the tentative collective bargaining agreement we reached with the National Association of Letter Carriers. It keeps the most important focus where it must be, on our customers, by helping us to improve service and operational efficiency, and it provides our employees with a fair wage. This is more important than ever as we operate in a competitive environment in which customers vote with their feet, no longer bound by a monopoly that is meaningless in today's world.

We were successful in reaching negotiated agreements with all of our major unions this year in this round of bargaining. We don't expect to agree on every issue, but we have demonstrated our ability to overcome our differences, confront our shared challenges, and negotiate bargaining agreements that benefit everybody—the Postal Service, our employees, and most importantly, the people we serve.

I strongly believe that we should rely on the collective bargaining process going forward and that the parties should be challenged to make the collective bargaining process work. The continued viability of the process requires that we retain our ability to bargain on a level playing field and that we have agreements that allow management certain rights and we shouldn't tinker with those. They have worked for us in the past and we would prefer that all parties to the collective bargaining agreements to continue to focus on that process and not focus on a change in the law.

Before I close, I would like to discuss our progress in developing modern service standards. Both of these and the related measure-

ment systems, are required by the new Postal law, as you mentioned, Mr. Chairman. Since early this year, we have been working with a large and diverse group representing all parts of the mailing industry to identify what changes in standards are warranted. We are on target to complete this process this summer. We are already consulting with the Postal Regulatory Commission so that the new service standards can be published by December.

In developing measurement systems, we are exploring the possible use of our new Intelligent Mail bar code. It is a passive internal data collection capability which will allow us to efficiently measure actual service performance, not in an aggregate way, by individual mailers, because at the end of the day, mailers care about their own mail. It is nice to know that we are performing at 95 percent, but if their experience is 75 percent, it doesn't matter to them. So our goal is to get as granular as we possibly can and give the people who are paying for postage information about their mail.

We look forward to working with all of our stakeholders, in particular the Postal Regulatory Commission, in achieving agreement on revised service standards and a measurement system. I appreciate the opportunity to testify today and would be happy to answer any questions you may have.

Senator CARPER. General Potter, thank you very much for your testimony and for being here with us again today.

Mr. Blair, you are recognized. Again, your full statement will be entered into the record and feel free to summarize as you see appropriate.

TESTIMONY OF HON. DAN BLAIR,[1] CHAIRMAN, POSTAL REGULATORY COMMISSION

Mr. BLAIR. Thank you, Chairman Carper. I appreciate this chance to come before the Subcommittee. I ask that my full statement be entered in the record and I am prepared to summarize.

First, I would like to acknowledge my fellow Commissioners with me here today, Commissioners Goldway, Tisdale, Acton, and Hammond. I appreciate their attendance and their support——

Senator CARPER. Could I ask you a favor? Would you just repeat those names slowly, and as you repeat those names, I am going to ask each of the Commissioners to raise their hand.

Mr. BLAIR. Yes. Commissioner Tony Hammond is in the audience, and also Commissioner Dawn Tisdale, Commissioner Mark Acton, and Commissioner Ruth Goldway.

Senator CARPER. Welcome. Thank you.

Mr. BLAIR. Since I last appeared before the Subcommittee in April, the Commission has put into place what I call a 360-degree approach in soliciting public input on both the new rate system and service standards. First, in February and May of this year, we published *Federal Register* notices seeking public comments on how best to structure the new ratemaking system. The public response has been extremely gratifying. We received approximately 100 separate responses in all.

[1] The prepared statement of Mr. Blair appears in the Appendix on page 43.

Although the Commission has until next June to develop the new system, we are moving quickly to beat this deadline. We hope to have in place a basic ratemaking framework by this October, which would provide the Postal Service with the flexibility to use the new system, a new streamlined system, should it need to raise rates.

Second, as you pointed out, the Act requires the Postal Service to consult with the Commission on the establishment of modern service standards for market dominant products. To fulfill this requirement, and as part of our ongoing outreach, we published a *Federal Register* Notice of Public Inquiry in June soliciting input on service and performance standards. The Commission received 35 comments in response to this notice. Further, we reached out to Postal stakeholders outside Washington, DC through field hearings in Kansas City, Los Angeles, and Wilmington, Delaware, where we ran into Brian Bushweller, your State Director.

Both the formal comments received in response to our notices and the testimony we heard during our field hearings share a number of common themes. Our written statement discusses these comments more fully, but let me give you some of those highlights.

In general, the mailing community is eager to move to a new system with the expectation of more stable and predictable rates. I know that you, Chairman Carper, and Senator Collins, are also very interested in seeing the new system set up as quickly as possible. You have my personal commitment that this goal is met.

Senator CARPER. Thank you.

Mr. BLAIR. We also heard that consistent and reliable mail service is critical. Most mailers consider the existing Postal Service standards acceptable, but insist that these standards should be a floor for all mail within a class. Further, there needs to be system-wide performance measurements that provides detailed information and is available to the public. Specifically, we heard that mailers, their customers, and the Postal Service would best be served by publicly-available reports listing the service performance regionally and possibly in greater detail. Moreover, details such as between specific three-digit ZIP code pairs or zones should be available to mailers on request.

Several mailers listed measurement of what is called the "tail of the mail" as being especially problematic and noted that product delivery delayed beyond the expected time frame results in decreased customer satisfaction and increased costs of shipping of replacement goods. Mailers also believe information beyond days to delivery are important components of service standards.

For instance, the critical entry or cut-off time for business mail and the last collection time from neighborhood mailboxes are important, as well as the length of the "tail of the mail." Another issue is whether there should be separate service standards for non-contiguous areas like Hawaii and Alaska.

While the current performance measures for First-Class Mail are generally considered adequate, measurement tools for other classes of mail are lacking. The new law requires measurements for all classes of mail. The Commission is encouraged by plans to implement the Intelligent Mail initiative over the next several years. Until it is widely operational, however, an interim system of measurement is needed. We do not believe that the Act envisioned mod-

ern service standards being enacted but with a 2 to 3-year delay in their measurement.

Regarding our consultation with the Postal Service, we appreciate that the Postmaster General has sent a strong team to work with us and has designated Deputy Postmaster General Pat Donohoe to lead these efforts. To date, the Commission and the Postal Service have engaged in three substantive standard-related meetings. We anticipate another meeting later this month, culminating in a final formal consultation toward the end of September. Based on the cooperative tenor of the meetings thus far, the Commission has every reason to believe that its input will be reflected in the final regulations adopted by the Postal Service.

Clearly, the Commission has its work cut out for it. The coming 12 months will be a time of intense work at the PRC as we move to carry out our new responsibilities.

Again, thank you for inviting me to testify, and I am ready for any questions you might have.

Senator CARPER. Mr. Chairman, thank you for that testimony.

Chairman Blair, I am going to ask you to go back and just briefly give us a little primer on how the rate-setting structure used to work for the Postal Service up until the enactment of the legislation last fall, how it is going to be working going forward into the future, and particularly go back to the first paragraph or so of your statement and just give us the status report of where we are. And then I am going to ask General Potter to react to that, if you will.

Mr. BLAIR. We have a lot of lawyers in this room. There might be second-guessing my answers on this, but I will give it my best try.

Senator CARPER. I see some of them. They are already at it. Go ahead.

Mr. BLAIR. Under the old system, there was cost-of-service pricing in which the Postal Service priced its products according to the costs of delivering those services. The Postal Service would come before the Commission with a request to raise rates in an omnibus case. That case would take 10 months. There were hearings on the record. Witnesses came before the Commission. They were subject to cross-examination. Briefs were filed. Reply briefs were filed, and after a period of 10 months, the Commission would come forth with a recommended decision which was based on that record. That decision would then go to the Governors of the Postal Service who could adopt it, send it back, or take other options.

Oftentimes, the Commission recommendations did not mirror the initial Postal Service request. It was a lengthy, litigious, and costly process that took place before the Commission.

Congress recognized that. Congress also recognized that mailers were saying that they need more stable, predictable rates. That every 3 to 4 years, when the Postal Service came in for rate increases, many times, mailers would see their rates jump, for which they were not prepared. And so Congress took action, which resulted in the legislation passed last year, the Postal Accountability and Enhancement Act.

Under that legislation, the PRC was charged with devising regulations that would allow the Postal Service to seek yearly rate increases subject to a CPI cap per class.

Senator CARPER. And now fast forward, if you will, to where we are at the current time——

Mr. BLAIR. Well, at the current time——

Senator CARPER [continuing]. In implementing the legislation.

Mr. BLAIR. At the current time, Congress gave us 18 months, until June 2008. When I came into office at the middle of December, we were in the midst of a very contentious—it was the first litigated rate case, I believe, since 2001. We gave our recommended decision back in February, but there was also talk that the Postal Service would have to seek another increase in order to cover its costs within a short time frame, as well.

In order to avoid another lengthy go-around, although the Congress clearly contemplated there could be another cost-of-service rate case, the Commission thought it was in the community's best interest and in the public's best interest, that we try to get our regulations in place sooner rather than later. That is why we are targeting October of this year.

We have gone through two Advance Notices of Proposed Rulemaking, back in the spring and then again in June, in which we asked the community to give us ideas on what these regulations should look like. We had good responses to those. We also had the field hearings in which we went to three different places across the country and heard from stakeholders. We also looked at service standards during both proceedings, and for service standards, we put out a Notice of Public Inquiry. So we have been very engaged with the public and the community on what these new regulations should look like.

Senator CARPER. This is August. This is the first of August. What happens next?

Mr. BLAIR. The next public step would be for the Commission to publish the Proposed Rules for notice and comment. We hope to do that soon.

Senator CARPER. OK. General Potter, would you care to just weigh in and share some thoughts, reflections, on what Chairman Blair said, particularly as we go forward?

Mr. POTTER. Maybe I would respond from kind of a Postal Service business perspective——

Senator CARPER. Sure.

Mr. POTTER [continuing]. In the sense that the big changes that in the past, under the old rules—I don't disagree with anything that Chairman Blair said—the difference for us from a business perspective is that under the old rules, the Board of Governors determined what the revenue requirement was. So they looked out into a future year and said, this is how much money we are going to need to operate the business, and then they suggested rates to the Commission and the Commission made comment, but ultimately, the Board of Governors could decide whether or not—had the ultimate decision about what the revenue would be, the revenue stream, and obviously the Commission could make recommendations around it, but the Governors could overrule it.

Going forward, there is a very hard rate cap for market dominant products, which is 90 percent of our revenue. It is not just——

Senator CARPER. Could I interrupt for just a second? Excuse me, but 90 percent of the revenue is market dominant products. What

percent of the volume are represented by those market dominant products? Do you have any idea?

Mr. POTTER. I would venture to say it is about 98 percent, because the competitive products we are talking about are package products. We are not talking about significant volumes of packages. Maybe 99 percent. It is very high. But you get much more revenue per package than you do for a letter, whether it is an advertising letter or a First-Class letter.

Senator CARPER. Alright.

Mr. POTTER. But the real change is that we have this rate cap now for market dominant that says we have to operate at the rate of inflation, but even more difficult than that, the cap is at the class level, and we have never managed an organization by class of mail. We have managed product by shape. If it is a letter, we manage it as a letter. A flat is a flat.

Now we are going to have this rate cap by class, so it is going to introduce a whole new layer of complexity that we have never seen before. I talked to other business leaders and said, how do you do that in the business world, and they say, we don't. So this is kind of a real unique situation that we are going to have to attempt to manage.

In addition to that, going forward, then, we have the competitive product arena and we are going to have to—obviously, the intent was that we become even more competitive and grow our revenue. The key factor there for us is going to be what is the required cost coverage, because at a minimum, those products have to cover attributable costs. In addition to that, they have to make a contribution to overhead to be determined by the Regulatory Commission.

So that is a key element of us understanding what that is. We have had discussions with numerous mailers who are looking to us to work with them on offering discounts and other things. It is kind of, until we see the rules, we really can't make decisions around what is going to happen with that product line. So we are very anxious and we are very appreciative that Commissioner Blair and the other Commissioners are looking to accelerate the pace at which they promulgate rules, not only for the market dominant products but for the competitive products, as well.

Senator CARPER. Alright. Thank you.

Let me just change our focus a little bit. General Potter, I think it was the last time you came before the Subcommittee, I think you indicated that the Postal Service was on track to suffer some very substantial losses, report some very substantial losses this year, and I believe you said the loss was projected at the time to be a little over $5.5 billion. It is my understanding, however, that most of the loss is not a real loss in the traditional sense but really a one-time accounting charge that relates to the passage of our Postal reform legislation and the treatment of funds that have been deposited in the former escrow account.

I think I have that right, but I want us to compare apples to apples if we can here for a moment. But how much worse off is the Postal Service at this point on a cash basis compared to your plan for the year, and is there anything new that you can tell us about the impact that the recently-implemented rate case has had on your finances?

Mr. POTTER. In terms of financial impact, obviously, there is going to be a—we are looking at about a $5.5 to $6 billion loss this year on paper. We are also looking, because we are taking what was planned to be restricted cash this year for escrow contributions in 2006 and 2007, and now they become an outflow of cash. So we don't have that cash. Borrowing is going to probably go up above $4 billion this year, which is not something we are proud of, but when you are in a restricted cash mode, you have cash at hand and so you don't need to borrow——

Senator CARPER. That is borrowing from the Treasury?

Mr. POTTER. Yes, borrowing from the Treasury. So in terms of where we expected to be, probably the best thing to do is look forward and look at 2008, and so the cost of the new law is going to be about $800 million. Our plan was to break even next year. We are probably going to lose $800 million to $1 billion.

But I am glad you mentioned the recent rate case because there has been rate shock in the sense that people are trying to react to changes that were made and the recommendation of the Governors by the Commission, and so certain classes of mail got hit very hard by recommended changes and our volume, I will just talk to this month, or last month, the month of July, it looks like our revenue is probably going to be about $100 to $150 million off of plan. And a lot of it has to do with the fact, in my opinion, that the mailing community is trying to respond to the higher growth in revenue, in cost for certain classes of mail than they anticipated, so they have budgets for the year, the calendar year in a lot of cases. They don't have the ability to go back and increase their budget by 20 percent or 30 percent to account for the new rate. So it appears that they are holding back mailings and are coming up with new strategies on how to approach the use of mail as part of their advertising dollars and it has hurt us.

My hope is that they don't walk away from the mail, that they are just recalculating what their plan for this year is. We will have a better handle on that in the fall. If mail has migrated away from us, if people have made permanent decisions to get out of the mail, then the estimates for next year of an $800 million to a $1 billion loss could grow rather dramatically.

Senator CARPER. Alright. Thank you.

Chairman Blair, would you just weigh in on this, as well?

Mr. BLAIR. Well, the recommended decision that came forward was the first litigated case since 2001, and both the Commission and the Governors are on record as saying that a litigated case was going to cause some rate shock for mailers. I don't want to mitigate it. I don't want to in any way disparage the rate shock that mailers are experiencing.

However, again in this last case, the full revenue request was granted to the Postal Service. Particularly with regard to letter mail, efficiencies were rewarded and there was a rebalancing that took place that didn't occur in the previous two settled cases.

But I think that more than anything, this underscores the fact that the old system was, indeed, broken. If we continue under an old cost of service requirements, I think history would have repeated itself over and over again. You and your colleagues wisely chose to take a different path, and that was to impose a different

type of pricing system on the Postal Service. It was a historic step that Congress took, and I look forward to implementing that new system with my colleagues.

Senator CARPER. Alright. Thank you.

General Potter, I want to take a moment to follow up on some testimony we heard at our hearing last week with the Postal unions and some of the management organizations. You may have gotten some feedback on this already. But more than one of our witnesses testified that there has been an erosion of service in recent years, at least in their view, if not nationwide, in at least some pockets of the country they mentioned. We talked a bit about Chicago. They talked a bit about L.A. The erosion was blamed in part on the incentives that the pay-for-performance system used to make decisions on managers' pay.

Our witnesses said that some managers—not all, but some managers were sometimes incentivized to sacrifice service to meet cost-cutting goals, and I just want to ask you to take a minute, or maybe a minute or two, and tell us your thoughts on this issue and what you might be doing to address it.

Mr. POTTER. Well, first of all, let me talk a little bit about that incentive system. It is a balanced system. People are rewarded for service. They are rewarded for costs, and they are rewarded for people, and by people I mean safety, our Voice of the Employees Survey, where we take—every employee has the opportunity to fill out a survey once a year to talk about the workplace, the workplace environment. They are rewarded equally. So, when I look at the three categories, I think we have been successful in all three.

We are going to report for the Postal Quarter Three service results next week. Those who are at the Board of Governors meeting will hear a report about our Postal Quarter Three service results. They are at a record level. We broke through some barriers. They are at record levels for service. When it comes to cost, our productivity is at an all-time high and we are very proud of the fact that productivity has gone up in each of the last 7 years and will continue to go up.

When it comes to people, our Voice of the Employees Survey said despite the fact that we have downsized considerably, our employees are satisfied, our safety record is impeccable. We have brought OSHA in to help us with our ergonomic issues that have affected a number of our employees over the years. We have Voluntary Protection Program participation on the part of the Postal Service. It is an OSHA program to make sure that the workplace is safe. We have more Voluntary Protection Program sites than any other organization in America, private or public. Our grievances have been dropping dramatically and will continue to do it. And we have moved aggressively on equal employment opportunity.

So when I think if you step back and look at this compensation system, it is a balanced system, and yes, there are cases where we are asking people to do more with less, but given the fact that the revenues of the Postal Service are challenged and the volumes are challenged, people are just going to have to do that.

Now, that is not to say that we are perfect and that every manager manages each of those categories equally. But the fact that the bottom line results are there speak for themselves. We do have

people who are not effective when it comes to service and we do have slippages, and when we do, we move in and we look to resolve them. When we have issues where there are cost overruns, we move in and take care of those. And in cases where we have workplace issues, we have intervention teams that go in and review workplace problems because there are some.

Despite the fact that there is an overall good record, there are pockets of problems within each of those three categories, and with an organization our size, I don't expect it to be perfect, but I expect, when problems do occur, for us to react and we are doing that as best we can.

Senator CARPER. One of my credos when I was in the Navy and as governor and today is, "If it isn't perfect, make it better." I always say that to my team, whatever team I happen to be leading at the time. And obviously, you and the folks that you work with and lead at the Postal Service, have realized that your operation wasn't perfect and you sought to make it better in a lot of different ways and I commend you for that. I know we all do. I would just urge you, as you find those pockets, whether it is Chicago or L.A., where you find that folks aren't measuring up or your leaders aren't measuring up, that you act expeditiously to address those and I am confident you will.

Mr. POTTER. Well, I think when you see the service results for Chicago, you will see that there has been a lot of progress made.

Senator CARPER. That is good to hear.

Another question, if I could, for General Potter, and then Chairman Blair, I will probably pick on you for a little bit.

About a year or so ago, General Potter, the Postal Service announced a number of processing facility closures and consolidations. It has been unclear, at least to me, where the process is at this point. I understand that some announced closures and consolidations are going forward and some apparently are not.

In addition, there was language in the Postal reform bill that you may recall required that the Postal Service comply with certain disclosure and consultation requirements before doing anything with a facility. And then there is the fact that you must come up with a new strategy for handling your facilities by next spring based on the outcome of the service standards project that is currently underway.

Could you just take a minute and give us an update on what your current plans are in this area and what you plan on doing to incorporate community, employee, and customer input into those plans? Go ahead and answer that one, and then I have just a related follow-up, please.

Mr. POTTER. OK. Well, we have guidelines that we follow and we have revised them to provide for more input at the local level, particularly community input. The fact of the matter is that the Postal Service is in a constant state of evolution and so people are always asking me what is your facility game plan? As if we have some exact science when it comes to that, and you can't have an exact science because our business is related to and responds to the use of our systems by mailers throughout the country. And it also involves the introduction of new technology over the years.

Right now, we are planning to introduce a flat sequencing machine that will make the sortation of flats to delivery order much more efficient than it is today. Today, it is in a manual mode. It is going to go to an automated mode. That piece of equipment is going to require a lot of space. We are reevaluating our facility plans based on, again, revised projections in volumes as a result of some of the rate changes that were made because we anticipate a change in shape use by mailers as described by Chairman Blair. There are incentives now to use letters versus using flat mail. We anticipate the introduction of the FSS, as I said, and we look to greater mailer adoption of drop shipment, which means they bring mail closer to the destination. So we are constantly evolving our network.

Suffice it to say the migration of mail to automation and the migration, which means we are more efficient and can do things in less places, the migration of mail to destination means that we have the ability and the opportunity to shrink our network somewhat, and over the course of time, we are going to do that, but we are going to do it in an evolutionary kind of way, not in any kind of dramatic way.

The last factor that has to be built into the plan that we are going to submit next June are the standards for service, and those are in the process of being discussed with a number of folks in the Postal community and we will be prepared to present that to the Postal Regulatory Commission and they will have final say on that. I think we have, as Chairman Blair said, I think we are well along our way there in terms of progress.

But let me assure you, we understand that the closing of a facility has a major impact on the community, a potential loss of jobs, although our employees won't lose jobs. Our employees will probably be relocated to different locations, and that can disrupt their family life. So we take these things very seriously. We do seek input, as you said. There were some plans. When we do a study, oftentimes people conclude that the outcome of the study is predetermined, but I think over the course of the last year, as you mentioned, some facilities are closed, others are not, and it is a factor of looking at all the different elements involved and taking the input and then factoring in changes that happen, such as introduction of new equipment.

So there is no static answer. You can't draw a chart and say, here is what the place is going to look like in 10 years, because quite frankly, there is nobody on the face of this earth who can predict what Postal volume is going to look like in 10 years, what mailer behavior is going to look like in 10 years, what printing presses they are going to use, and so it has, as it has since Ben Franklin, it evolves to meet the needs, the changing needs, of the American public using the best tools available to the managers who try to perform the service.

Senator CARPER. Alright. Thank you.

I am going to ask Chairman Blair, do you think the Postal Service is doing enough to solicit input and to take it into account?

Mr. BLAIR. Before I joined the Commission last December, the Commission issued an advisory opinion on these issues and basically said that the Postal Service needed a better defined strategy

on how they were going to go about this process. Better management of these plants is a good idea. What is needed, however, is a more definable, more transparent, auditable, and consistent strategy in which the public, mailers, employees, and communities can understand and rely upon.

The new law requires a consultation akin to the service standards on this, and after we establish the service standards, we will be entering into another similar consultation preluding up to a 2008 report that the Postal Service will be issuing.

What is important here is looking at, from a service standard viewpoint, the closures of these facilities and what impact closures would have on delivery. How does it impact the time for delivery? Are we tracking that, and those types of things. Those are answers that we will be looking forward to when it comes to that consultation.

Senator CARPER. Alright. Thank you.

The next question I ask, I am going to initially direct it to General Potter, to you, but Chairman Blair, I would appreciate your responses, as well. General Potter, I understand that the Postal Service does not currently have performance standards in place for most of its market dominant products. If that is the case—and if it isn't, tell me, but if that is the case, what are your plans for developing a useful system for tracking performance under the new set of service standards that you are due to issue at the end of, I believe, this year?

And second, how are you measuring, or how are you going to measure, the impact that decisions in areas like facilities closure and consolidations will have on service?

Mr. POTTER. Let me address the second part of your question first.

Senator CARPER. OK.

Mr. POTTER. When we close a facility or consolidate, our goal is not to shrink service. In many cases, service improves because you get greater reach, and that is an element of the review, And again, it is auditable by our Inspector General. They look at the finances, whether or not they are met. They also look at the service performance and they do an after-implementation study. Occasionally when we do the consolidation, there might be some mitigation in service, but it usually quickly comes back. In fact, I haven't seen a case where it hasn't.

But we don't go in with this notion of downgrading service to any party. Again, that is not—an element of the review is to make sure that we are not doing that. We don't design a system to reduce service levels, either standards or performance. And so, again, that is an important element of the study.

What was the first part of your question?

Senator CARPER. The first part of my question is if you don't have performance standards in place just yet, what are your plans for developing a useful system really for tracking performance?

Mr. POTTER. Well, our discussions right now with all parties, what we are basically planning to do is lay out a three-digit to three-digit service performance matrix for all classes of mail. So you enter the mail in any one location, pick any three-digit ZIP

code in the country, and there will be a service standard for that origin to that destination.

I think we are all pretty much agreed on where we are going to go long-term. Again, the feedback that I have gotten is we are all pretty much agreed that in the long-term, our intent is to put a bar code on each piece of mail that has the 11-digit bar code—in other words, our ability to allow us to walk-sequence mail for that piece of mail. It will have the class of mail. It will have any special service that is required—that could be a signature or address change service. It will also have the sender of the mail, so we will be able to track mail by sender. And it will have a unique identifier for every piece.

So if you think about it, it is every piece of mail that enters the system where people pre-bar code mail, we will create the ultimate transparency. You will see that mail every time we touch it. We will also put bar codes on containers and trays of mail. People will have this ultimate transparency, because I believe when it comes to service standards, yes, it is nice for me as the Postmaster General or Mr. Blair to know as the Chairman of the Regulatory Commission what the average is, but at the end of the day, what counts is what you experience as an individual mailer, and that is what is going to keep you in the system and give you confidence that this system works.

So we are going to move to this new Intelligent Mail bar code in January 2009. We are going to make it a requirement for everybody to use it that qualifies for a discount from the Postal Service. My intent is that even people who don't have automated mail use that code so that we will be able to provide service tracking for them.

So ultimately, everything will be tracked. Anything can be aggregated in any form that anyone would like it to be aggregated in. What do we do between now and the time that code becomes mandatory and we begin providing those systems. As I said, my intent is to push so that in January 2009, that code is there and we are able to use it. In the interim, we are going to have to have discussions with the Regulatory Commission about what it is that will satisfy the bridge between now and the time that we introduce this new system, and I would hope it will be some subset of that, but we will have to have those discussions. Our intent is to track the mail as required by law, but ultimately we want to give each user of the mail an opportunity to see what happens with their individual mail.

My expectation is, once that comes to pass, there are going to be a lot of problems, because I am sure there are deficiencies in our system. One of the things that we have learned from using this, we have all the systems are in place. They have to be upsized so that we can do it, but we have done this already with several mailings. The beauty of this system is it will allow us to receive electronic manifests of mailing. Today, they are paper-based. We have to count mail on acceptance. In the future, we will be able to count it as we sort it. We will eliminate a lot of redundancy and work burden for the Postal Service as well as the mailers when it comes to acceptance. And we will be able to give people feedback on their mail.

Today, we have a bar code that is simply a bar code. So if somebody has the wrong address, has a missing directional, we can't give them feedback. The beauty of the Intelligent Mail bar code is we will be able to give them feedback. My hope and my thinking is that it will improve the quality of mail. It will allow mailers to make changes that will improve their service experience as well as improve the efficiency of mail, because today, a lot of our cost is associated with mail that has a wrong address, missing directional, or an old bar code because somebody has moved, and this will speed up the process of, again, giving feedback to mailers, improving the quality of their mail base, taking what is largely a manual process today and automating that process.

So there is a huge opportunity, a huge upside for improved service, improved efficiency with the Intelligent Mail bar code and improved value to customers. And I don't want this organization to get distracted by moving into a different direction. We are going to work with the Regulatory Commission to find a way to see whether or not we can use some elements of that to bridge ourselves to when this is ultimately required.

Senator CARPER. Thank you. When do you expect to go live nationwide with the intelligent bar code? Did you say early 2009?

Mr. POTTER. January 2009 is what we have told mailers, that we want everyone who seeks a discount to put that code on the mail.

Senator CARPER. Good. Thank you very much.

Chairman Blair, do you want to share a comment or two on what the General has just said? Then I am going to turn to our colleague, Senator Akaka, for whatever questions he might have.

Mr. POTTER. Thank you, Mr. Chairman. Intelligent Mail really does hold out a lot of good prospects for reporting on service. However, as the Postmaster General just said, it is going to be operational in 2009, so what do we do in the interim? Also, we need to identify what gaps there may be in which Intelligent Mail won't measure and make sure that we have some kind of system in place, whether it be seeding or something else, in which we can report service on that.

Those two points were driven home, not only from our comments that we received according to our Notice of Public Inquiry, but also during the field hearings in which mailers expressed some concern as to what are we going to do in the interim and are they going to measure us. For instance, how are we going to treat local newspapers? Those are things that we will be working out over the period of consultation.

But the bottom line on this is what gets measured is what gets reported, and it is vitally important that mailers have access to this information and the public have access to this information, because if you don't have access or if it is not publicly available, it doesn't do anyone any good.

Senator CARPER. Thank you for those comments.

I am happy to welcome my friend and colleague, Senator Akaka, for whatever comments you might have and any questions you might have. Welcome, my friend.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. It is good to be here with you today. I would also like to add my welcome to the Postmaster General and also Chairman Blair.

Service standards are an important piece of the Postal reform bill that we worked so hard to pass and an area that is important for both Postal consumers and for the mailing community.

Currently, the Postal Service has vague standards that don't give customers or the mailing community any reliable measures to know when mail may arrive. In addition to the vague standards, there are no mechanisms in place now to reliably measure performance against service standards.

With that, I would like to start out, Mr. Chairman, by asking a question about service standards in offshore States, such as my home State of Hawaii. Postmaster General, will the Postal Service be taking geography into account when developing these delivery standards? For example, is there potential that Hawaii or Alaska could have vastly different delivery standards than the mainland?

Mr. POTTER. Well, geography, Senator, is a very important element when it comes to the ability to deliver. In Alaska today, there are no overnight standards. It is basically a two-day standard because of the difficulty of getting mail in from the bush and then turning it around and getting it back out.

In terms of service from the Lower 48 to either Hawaii or Alaska, in both cases, we attempt to get the mail there within 3 days. However, we do run into transportation issues. For example, in Hawaii, we have over the course of time had a lot of trouble getting lift out of the United States, the Lower 48 out to Hawaii, and we work with everybody to try and figure out how we can best get the mail there, and we are very grateful, as an example, that UPS has stepped in and been very helpful in terms of us moving mail to Hawaii.

So, yes, geography does count and available transportation is an issue, has been an issue, and unfortunately will continue to be an issue.

Senator AKAKA. In developing these standards, what do you think the Postal Service can do to balance the reality that Hawaii and Alaska are geographically far away from the mainland and your commitment to consistent universal service?

Mr. POTTER. Well, Senator, we have, again, the same standard. Our maximum standard is 3 days to anywhere in the United States, and as I said, there are some challenges in meeting that standard to Alaska and Hawaii, largely driven by transportation out of the Lower 48 as well as transportation between the islands and in particular between the cities and the bush in Alaska. Our experience has been that we are very effective in getting it there in 4 days, and some of the mailers have suggested to us that they would prefer that we lower our standards than move from 3-day to 4-day so it is more predictable to them.

Right now, for example, in Hawaii, our 3-day service is about 77 percent, and so that will be one of the decision points that we will look to have the Commission help us with regarding what is a reasonable service expectation between the mainland and Hawaii and Alaska. But as of today, we hold ourselves accountable for a 3-day

standard, and as I said, given the difficult logistics, we don't always make it.

Mr. BLAIR. Senator Akaka.

Senator AKAKA. Mr. Blair.

Mr. BLAIR. If I could just follow up on that, in our discussions with the mailing community at this point, we haven't had anyone urge us to relax any of the service standards for Alaska or Hawaii when it comes to First-Class Mail or mail transported by air. But when it is transported by boat, that does pose significant geographical and time problems, as well, and so we will be looking to working with the service on establishing or reestablishing what those standards are.

I think this underscores, however, the need for good, accurate, timely information on how long it actually takes, because if it falls outside the standard for how long does it actually take, how far outside the standard is it, and those types of transparency and accountability issues are things that we hope to shed light on in our consultation and in reviewing the maintenance of the service standards in our annual reports, as well.

Mr. POTTER. If I could, Senator, one of the factors that has to be considered is cost. We can look to create the best measurement system in the world and measure Aunt Minnie's mail, and we can build the best service by buying planes and flying them into Alaska and Hawaii and other places, but at the end of the day, we are trying to operate under a rate cap, and so there is always this balance between what is an effective service and what is, I guess, a pricey service.

So you have to find a balance there, and the notion of finding that happy medium is one that I think is going to take us several years to work out. But this notion that somehow because we are now going to create standards that snap your fingers and we are going to do it and do it without some cost, once we start to measure these things, I am not going to be surprised that we have problems. We are going to work very hard to fix those problems, but I think if we create expectations that are too high, we will do what Great Britain did, and what Great Britain did was they created very high expectations and then for the first 6 or 7 years, all they did was talk about how bad the Postal Service was.

Well, I have to tell you that we are in competitive environments for every type of mail that we deliver and the worst thing that could happen to us is that we spend more time focused on defending ourselves than on fixing what is broken and that we hurt our brand by bringing too much negativity to the table. So there is a need for balance here. That is not to say our goal isn't to provide the best service we possibly can to everybody and do it as quickly as we can, but we can't lose sight of the fact that we are now operating under a rate cap that we didn't have before and it is going to be a learning experience in terms of how we do that.

Senator AKAKA. General Potter, at a hearing last week, the American Postal Workers Union advanced the idea of mandating collective bargaining on contracting out instead of opposing outright the contracting out of deliveries. Does the Postal Service believe that bargaining over contracting should be on the table?

Mr. POTTER. Senator, there is a provision in our contract that deals with contracting out. That provision was negotiated in, so obviously the people who preceded me believed that there was a need to bargain when it came to contracting out. That provision calls for the sharing of information between management and the unions, and any time we share information is an opportunity for the parties to get together and work on issues.

So I personally don't see the need for any legislation. It is part of the collective bargaining process. I think I would recommend that you encourage the parties to work through the process. This is an issue that has come up recently and it has come up because there is a group of people whose work has not been contracted out in the past while others have, and there is a process. There is a collective bargaining process.

The Postal Service's challenge going forward, to pick and choose, to put constraints on the system, I think is problematic for us. I think the negotiated settlement that we have at the NALC shows that the parties can get together, can work through things that will help make the Postal Service more productive, that will drive revenue, and that, bottom line, will serve the American public.

I think I would really caution you to allow the collective bargaining process to do its job and challenge us as a mailing community, challenge us as the Postal Service management, and the unions to make this system work. The law was not passed because the system is some kind of panacea. There was a change in the law because everyone recognized that there were challenges going forward. And I would caution you to push back on the parties to have the system, have us work together to improve the system and let us use the mechanism and our employees. The collective bargaining process, the contracts that we have with each union, that is the place to work out the issues between management and labor.

Senator AKAKA. Thank you very much, Mr. Chairman.

Senator CARPER. Senator Akaka, thank you so much, and I hope we have time to come back just a little bit later to the contracting out issue, which dominated, as you probably know, most of our hearing last week, but we will see if time permits that.

We have been joined by Dr. Coburn fresh from the floor and we welcome you here and you are recognized for as much time as you wish.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Mr. Chairman. Thanks for having this hearing. I ask unanimous consent that my opening statement be made a part of the record.

[The prepared statement of Senator Coburn follows:] ??

Senator CARPER. Without objection.

Senator COBURN. I apologize to our panelists for not being here. I was on the floor. I thank each of you for your service.

I want to get down to the contracting issues just for a second. In your opinion, is the security of the mail in any way jeopardized by using contracted services?

Mr. POTTER. No. From a Postal Service standpoint, no, it is not. There have been issues raised about the background checks that we do on some employees versus what we do with contractors. With

the exception of drug screening, the background checks have been similar for both. We have now updated our rules and we have updated our contracts so drug screening is a requirement for contractors.

At a House hearing that I had recently, the Inspector General for the United States Postal Service was asked, what is the experience with contract employees versus the Postal Service employees, and in terms of investigations, it is basically the same. And in my opinion, as I said, human beings are human beings. There are good and bad amongst us at every level with the organization, of the social stratosphere. Just because you make a little less money doesn't mean that you are more prone to be a thief or a terrorist or any other of the wild allegations that are made against somebody who happens to make a little less than others. So our experience has been that they are the same.

The Postal Service contracts for some $14 billion in goods and services and those people have been reliable over the years and done a fabulous job. So, again, I don't see the risk as has been described by others.

Senator COBURN. Mr. Blair, any comments on that?

Mr. BLAIR. That is really largely outside the purview of the Regulatory Commission, so not at this time.

Senator COBURN. Mr. Potter, what would happen to you if Congress stepped in and shut down your ability to contract out?

Mr. POTTER. Well, as I said earlier, we contract for some $14 billion in goods and services. If they shut us down completely, we would probably be hampered from moving the mail because all the mail that flies is done on contract planes. Most of the trucks moving around the country is highway contractors. When it comes to delivery, we have some 7,000 routes that are done by contract employees.

If you just looked at the cost of moving from contract delivery and brought that in-house as part of a law, over the course of a 10-year period, the cost would be over $1 billion. So there would be a cost associated with the change and, in some cases, I don't know how we would have to buy our own fleet of planes. There are just some things that have been done for years. It would be impractical.

I think the notion of, and where the Postal Service has evolved to looking at the least-cost alternative, whether it is outsourcing or use of our employees, is one that has worked and one that needs to continue to evolve.

Senator COBURN. You all have contracted for a long time, correct?

Mr. POTTER. Since 1785, we have—at the behest of Congress——

Senator COBURN. So why all of a sudden is this a big issue now?

Mr. POTTER. It is a big issue because, Senator, there is a group of employees that had not been touched in the past and that was city delivery employees, and for the first time, the Postal Service began to look at areas that were traditionally served by city carriers and looked at a contracting alternative for them. That is, I think, what created the big stir in the recent months.

Senator COBURN. Is it true that the average difference between a contract employee and a Postal Service employee is $17 an hour?

Mr. POTTER. On an hourly basis, yes. And again, it is—one of the things we look at is what is the cost per delivery, and so—because I was asked in the House, well, what is the difference, and I said it depends, and it does depend on the situation. So if you look at our average cost for city delivery, it is $215 delivered to a city delivery address. It is $164 to deliver to a rural, if we have our rural carriers doing it. And contract delivery is $106. So there is quite a bit of difference in terms of cost when it comes to what type of delivery is chosen.

Senator COBURN. Senator Akaka was talking about standards. It is pretty hard for me to figure out why we haven't had measured performance standards against your standard in the past. Talk to me about that and explain it because I don't know any other business that is operating out there that sets a standard and then refuses to measure itself against the standard. Explain that to me.

Mr. POTTER. Well, we have standards for Express Mail. We have a network that says if you deposit it, we are going to get it there overnight. We measure that. We offer that measurement as part of our guarantee.

Priority Mail, we have standards and we have measurements. In the past, we have used outside concerns to measure that. But since that time, we have moved to using delivery confirmation because people put codes on their mail and then we tell them, we report back to them when it is delivered. It made no sense to use an outside party to do a sampling system when we had people actually putting codes on mail and so we use that now as our measurement system.

When it came to First-Class Mail, which is our premium product, that class of mail is measured. We use IBM. They do a sampling system where they deposit mail in collection boxes and they have reporters who come back and tell us when that mail is delivered. So we have standards there and we have measurement systems.

For other classes of mail, to be quite honest with you, in my opinion, the reason we haven't done it is because those other classes of mail initially were to take advantage of capacities that existed in our mailstream. So advertising mail—initially, all we had was First-Class Mail. In the 1970s, we started to put advertising mail in. It was a deferred product. There was no service guarantee. There were service expectations. And so because of that, over time, we never put in measurement systems. Now, our customers have put in systems where they measure when it is deposited and when it comes back to them, and we have put in a confirm system that allows people to track—put a code on their mail and track the mail through our system as a service measure.

But it is largely because of the way other classes of mail came into being that they weren't measured, and so now, today, Standard Mail or advertising mail is our largest volume of mail and the Postal Service is not opposed, as I said earlier, to the introduction of service standards. We are by law. We are intending to have a three-digit matrix for depositing any of these classes of mail anywhere and there will be a service standard and we intend to move to a measurement system, and our measurement system ultimately will track every piece of mail that has the potential to do that and aggregate that data. That is where we are headed.

Senator COBURN. Is that going to be transparent? In other words, are you all going to publish that data?

Mr. POTTER. We are going to publish that data. It is going to be so transparent, again, that every mailer can look at their own experience and they can use that to work with management to fix service problems that they have. Again, but that is subject to review by the Commission and agreement by the Commission.

Senator COBURN. When I say transparent, website searchable and accessible?

Mr. BLAIR. Exactly, Dr. Coburn. That is exactly what we are looking for, and I think it highlights the new environment in which the Postal Service will be operating in. When you apply a rate cap as a way of adjusting rates, there may be a temptation on the part of the regulated entity to either cut service or shift costs to customers in order to operate within that cap. That is why you want to strengthen the regulator, which the reform legislation did. Analyzing these costs and numbers are part of the reporting requirements. It will be part of our annual report. It will be part of the complaint process.

I think it is important to understand that Congress chose a CPI rate cap that over the last 37 years, has pretty much tracked or fallen below the CPI the rate changes a little bit. So the index that Congress has chosen was very carefully chosen. There were other indexes that had been proposed in past reform bills that were much more stringent. A number of times when you go to a price cap regimen like there is a productivity factor that is then taken away from that index, as well. There was no productivity factor reduction in the legislation. So CPI really tracks the Postal Service's costs over the last 3 decades.

That said, the Commission is going to be very vigilant in reporting on the service standards and that is why our consultations are so important. I think what the Postmaster General said today is reflective of the consultation so far. The idea that it is transparent, the granularity, I think, is most important to allow mailers an idea of the level of services that they are receiving.

Cost is important, but I also think it is important—and it is a balancing factor and I think that there are ways that we can do it that the service standards and measures can be established in such a way that mailers have that transparency, and that is something the Commission is committed to.

Senator COBURN. Thank you very much. Thank you, Mr. Chairman. I have a Judiciary markup I have to go to.

Senator CARPER. Dr. Coburn, we are glad you are here and thank you for your participation today and in a lot of other areas that we are working on.

I have more questions to ask, but I am not going to delay you here. What I would like to do is submit those for the record. Senator Akaka, is that all right with you, because we have another panel we want to hear from and Dr. Coburn tells me we are still probably going to vote before 12 o'clock.

I want to thank you both for being here and thank you for your testimony, thank you for straightforward answers. We look forward to following up with some questions and would appreciate your timely response to those. Thank you very much.

Mr. BLAIR. Thank you, Mr. Chairman.

Senator CARPER. Thank you.

And with that, I am going to invite our second panel of witnesses to come forward, and as they come forward, I am going to go ahead and begin introductions of them.

Jody Berenblatt is the Senior Vice President of Postal Policy at the Bank of America. Ms. Berenblatt has worked on Postal policy issues for more than 25 years at the Bank of America and elsewhere and serves in a number of leadership positions in the mailing industry.

Joining her is Anthony Conway. He is the Executive Director of the Alliance of Nonprofit Mailers. Before joining the Alliance, he served for 34 years at the Postal Service. That is quite a record.

Bob McLean is the Executive Director of the Mailers Council. He has served in that position for the past decade. Prior to joining the Council, he worked for the National Association of Postal Supervisors at the Postal Service. Welcome.

And James West joins us from Williams–Sonoma, where he works as Director for Postal and Government Affairs. He began with Williams–Sonoma in 1975 as a mail order manager and has been with the company working on Postal issues ever since. My thanks to the Direct Marketing Association for recommending him and his expertise to us for this hearing today.

To our panelists, it is good to see you all. Thanks for coming, for preparing for this hearing, and we will recognize you all for about 5 minutes. I will ask you to keep your comments pretty close to that so that we can have a chance to ask you some questions and make the vote that is scheduled here for about 30 or 40 minutes from now.

Jody Berenblatt, welcome. We are happy that you have come. Thank you. You are recognized at this time. For each of our witnesses, your entire statement will be part of the record and you are welcome to summarize as you see fit. Thank you.

TESTIMONY OF JODY BERENBLATT,[1] SENIOR VICE PRESIDENT OF POSTAL STRATEGY, BANK OF AMERICA

Ms. BERENBLATT. Thank you very much. I appreciate the opportunity to provide comments at today's hearing. I would also like to thank Senators Carper and Collins, along with the other Members and Subcommittee staff for their leadership in shepherding the enactment of the Postal Accountability and Enhancement Act late last year. Properly implemented, it offers the opportunity for sounder finances for the Postal Service, a more streamlined regulatory system, and a more reliable and economical service.

Bank of America is headquartered in Charlotte, North Carolina. We provide a full range of financial products and services to individual customers, small and middle-market businesses, local and State governments, and large corporations. We are the 12th largest firm on the Fortune 500 list for 2006. We are also the No. 1 overall Small Business Administration lender and the No. 1 SBA lender to minority-owned small businesses.

[1] The prepared statement of Ms. Berenblatt with attachments appears in the Appendix on page 50.

Bank of America uses the mail for operations and marketing to both our existing and prospective customers. In 2006, we mailed roughly 1.4 billion pieces of First-Class Mail and 1.9 billion pieces of Standard Mail, 3.3 billion pieces of mail is a lot of mail. The mail delivery system is very important to us. Also, financial institutions are subject to regulatory constraints on the timing of our customer communications, so we must plan our production and entry schedules to avoid both early and late delivery. Reliable and timely service is equally important to our customers.

We support the new law's objective of achieving service performance that is both cost effective and consistent with best business practices. Current service performance is inconsistent nationally, and, therefore, improved service standards and measurements to enhance performance is very important.

For example, while current service standards require all domestic First-Class Mail to be delivered in 3 days or less, it often is not. Standard Mail, likewise, requires improvements to standards and measurements to enhance U.S. Postal Service performance. I include more on this topic in my written testimony.

The Postal Service's existing service standards for First-Class Mail and Standard Mail, if consistently met, are an excellent starting point. Future changes to the standards need to balance between service quality and cost, and incorporate mailer needs. Any change in the service standards should be publicly announced well before the effective date of the change to allow mailers adequate time to make necessary adjustments. Timely and consistent communication facilitates a good partnership between the Postal Service and its customers.

Major changes in service quality need to be linked to the index-based rate cap established by Congress. The cap will be meaningless if the Postal Service is permitted to satisfy it by reducing the quality of service offered. In fact, Postcomm, the U.K. regulator for Royal Mail, does adjust the price cap to reflect service degradation.

Developing an effective system for performance measurement is as important as the standards. What is measured is attended to. Credible public data on service performance provides the necessary information for Postal Service managers to prevent and eliminate service problems. This is a more effective incentive for change than fines or penalties.

To accomplish these purposes, however, data on actual performance must be detailed, geographically disaggregated, accurate, reliable, and current. The Postal Service should provide web-based access to performance data at a high level of granularity. Allowing mailers to access raw data is much less costly than requiring the Postal Service to develop and distribute detailed measurement data reports. More importantly, it facilitates communication and discussion, which leads to improved performance.

Now I will talk a little bit about the special concerns of the remittance industry. Detailed performance data is especially important for businesses that receive remittance mail. Remittance mail contains checks, either big or small. Notwithstanding electronic bill payment, remittance mail totaled over nine billion pieces of mail in fiscal year 2006 for the Postal Service and it represents over 20

percent of total First-Class single-piece mail volume. On an average day, it accounts for $20 billion of commerce in transit.

Bill payers often believe the payment processor is responsible for any delays in payment posting that cause late fees. Regardless of whether the payment processor caused the delay or not, such delay requires us to accommodate the bill payers and make customer satisfaction adjustments to their accounts.

The remittance industry needs a reporting system that provides transparency about the extent of lateness. We recommend a system that not only discloses the average days to deliver, but also shows the cumulative percentage of delivery by post-entry day.

Next, I would alert you to a promising related development. On February 7, 2007, Bank of America and the Postal Service jointly requested approval from the Postal Regulatory Commission for a proposed Negotiated Service Agreement. This is precedent setting. Among other things, it will commit Bank of America to using Intelligent Mail bar codes on all 3.3 billion pieces of letter mail. Intelligent Mail bar codes provides additional security over older generation PostNet bar codes. It improves operational efficiencies for the Postal Service, and Bank of America, and improves customer service. We look forward to jump starting the large-scale use of Intelligent Mail bar codes.

Senator CARPER. Alright. As usual, you are right on the money. Thank you very much.

Mr. Conway, you are recognized. Again, your entire statement will be made part of the record.

TESTIMONY OF ANTHONY W. CONWAY,[1] EXECUTIVE DIRECTOR, ALLIANCE OF NONPROFIT MAILERS

Mr. CONWAY. Thank you, Mr. Chairman. Before I begin, I would like to acknowledge three members of the Board of Directors for the Alliance who are here with me today, Steve Johnsen, Laura Grafeld, and Steve Smith.

Senator CARPER. Steve Johnson is also the Administrator for the Environmental Protection Agency. I am not sure how he balances all of his obligations, but that is impressive.

Mr. CONWAY. He is quite busy.

Senator CARPER. He must be. You must have cloned him, too. [Laughter.]

You are recognized at this time. Thank you.

Mr. CONWAY. Thank you, sir. Thank you for inviting me here today. The Alliance is a coalition of nonprofit organizations that is dedicated to the preservation of affordable postage rates and dependable mail service. Established in 1980, the Alliance is comprised of over 300 nonprofit organizations and commercial service providers that have an interest in nonprofit mailing issues. Our members include many of the Nation's best known charitable, religious, educational, scientific, and other nonprofit organizations.

Consistent, predictable, and measurable delivery of mail is critical to the mission of nonprofit organizations. Like most businesses that use Standard Mail to solicit actions from the public, nonprofit mailers have learned that the response rate to a mail campaign de-

[1] The prepared statement of Mr. Conway appears in the Appendix on page 103.

pends on delivery within a predictable window of time. This is particularly true for campaigns that are coordinated with follow-up campaigns or seasonal events. The same is true of nonprofit publications. The timeliness and predictability of mail delivery not only affects the timeliness of our members' publications for the readers, but is also critical to the effectiveness of advertisers' campaigns.

The Alliance recently surveyed our members about service issues and received reports of unevenness in service. Here are some of the comments from some of our members in the nonprofit community. We offer them not in a spirit of criticism, but to illustrate the importance of reliable and predictable service to mailers.

Boston University reports that letter-shaped nonprofit Standard Mail can take 5 to 20 days for delivery.

Consumers Union reports they occasionally must notify Postal officials about a mail problem. Consumers Union generally finds the Postal staff to be responsive and attentive, but resolutions or explanations are often elusive.

Easter Seals, headquartered in Chicago, Illinois, reports that service problems in Chicago result in significant delivery delays for their February and March mailings of the organization's signature Easter Seals. With the delivery delays, response rates and revenues were down almost 30 percent this year.

The Elks Lodge Number 46, Milwaukee, Wisconsin—the Lodge mails about 500 copies of its monthly newsletter. The Lodge formerly sent the newsletter by nonprofit Standard Mail, but as delivery performances deteriorated in recent years, the Lodge was forced to switch to First-Class Mail in order to receive acceptable service performance.

Marian Helpers Center, Stockbridge, Massachusetts, reports that despite the time sensitivity of its direct mail campaigns, the organization cannot project an in-home delivery date. The seed pieces from a given mailing can arrive up to 2 weeks apart, even to residences in the same town.

The Marist Brothers, Chicago, Illinois—the organization reports that it experienced delivery times of more than 6 weeks for standard nonprofit mail. In other instances, delivery can take only 6 days.

Pepperdine University of Malibu, California, reports that delivery times for mailings of nonprofit Standard Mail to addresses in the L.A. area have ranged from 1 day to a full month. The unpredictability of nonprofit Standard Mail delivery times has caused many departments to use First-Class Mail more often.

Word and Way is a biweekly newspaper published by the Missouri Baptist Convention, entered in Columbia, Missouri, on Tuesday and Wednesday in order to achieve delivery by Thursday. Subscribers often report, however, they don't receive the paper until the following week. With individual Baptist churches printing specific information about upcoming weekend events on the back page of *Word and Way*, delayed delivery results in subscribers missing events.

These illustrations of service problems at multiple locations throughout the United States underscore the importance of establishing a more current and granular measure of actual service performance than is now available to mailers. Data should be broken

down by three-digit ZIP code pairs or at least the ones carrying sizeable amounts of volume. Frequent reporting of service performance data by geographic region will not only help nonprofits plan their mailings, but will also allow them to work with the Postal Service to resolve service performance issues.

Thanks again for inviting me here today and I will be pleased to answer any of your questions.

Senator CARPER. Thank you for sharing those vignettes with us today, Mr. Conway.

Mr. CONWAY. Thanks.

Senator CARPER. Mr. McLean, you are recognized. Welcome. Thank you for joining us.

TESTIMONY OF ROBERT E. McLEAN,[1] EXECUTIVE DIRECTOR, MAILERS COUNCIL

Mr. MCLEAN. Good morning, Mr. Chairman. The Mailers Council is the largest group of mailers and mailing associations in the Nation. We represent for-profit and nonprofit mailers, large and small, that use the Postal Service to deliver correspondence, publications, parcels, greeting cards, advertising, and payments. Collectively, the Council accounts for approximately 70 percent of the Nation's mail volume.

The Mailers Council believes that the Postal Service can be operated more efficiently, supports efforts aimed at containing Postal costs, and has the ultimate objective of lower Postal rates without compromising service. We welcome this opportunity to testify on the creation of delivery service standards and performance measurement systems. These were issues of singular importance to mailers who lobbied for their inclusion in the Postal Accountability and Enhancement Act, the Postal reform bill signed into law last December with a lot of help from you, Mr. Chairman. Whatever differences mailers may have had on the other sections of this bill, our members were and are unified in their support for standards and a meaningful performance measurement system.

There are several reasons why we are so interested in new delivery standards. For many mail classes, the Postal Service has delivery guidelines, not standards, and its measurement systems fail to measure the types of mail that comprises most of the volume it delivers.

Although Title 39 directs the Postal Service to operate like a business, in this area, the Postal Service is doing quite the opposite. Private sector companies would not conceive of functioning without standards for one fundamental reason. Setting standards and measuring the organization's success in achieving them makes the organization better. Only by measuring performance can an organization identify where problems exist and then correct them and reward managers for their improvements.

We believe that creating new delivery service standards and performance measurement systems can be done in a way that will satisfy mailers for four reasons.

[1] The prepared statement of Mr. McLean appears in the Appendix on page 110.

First, because of the improvements in technology found at every mail processing facility, much of the data needed to determine delivery performance already exists.

Second, data collection for delivery measurement and classes that affect the largest mailers can be developed without large new expenses.

Third, any additional costs would be an insignificant portion of the Postal budget.

And fourth, mailers will dedicate their time to working with the Postal Service to design these processes because they will help management improve its efficiency and hold down postage rates.

As for the features we expect to see in new delivery standards, they must be realistic and reliable. The Postal Service must avoid lowering existing service standards. We also need new and more complete reporting of delivery performance. Mailers are interested in the speed and consistency of delivery, so we need a system that will tell us if the Postal Service is achieving both goals. New delivery performance reports must be timely, and as my two colleagues have already mentioned, detailed by geographic location.

The Mailers Council opposes the concept of fining the Postal Service should it fail to meet delivery standards. Because the Postal Service receives 100 percent of its revenue from mailers, the imposition of a fine would actually be a fine on mailers.

The Postal Service's Board of Governors must encourage creation of new executive compensation systems that reflect management's ability to meet these standards. These systems must offer greater compensation where consistent, on-time delivery is met.

You also asked us to comment on closing and consolidating Postal facilities. In its efforts to improve delivery performance and in response to ongoing changes in mail volume and compensation, the Postal Service will need to consider consolidating some facilities. We will support the Postal Service in realigning its mail processing and delivery network. We recognize that closing a Postal facility is difficult because it affects the lives of many individuals. However, right-sizing the Postal network is an essential step to keeping down the cost of postage. Therefore, we hope Members of Congress, including Members of this Subcommittee, will support such decisions that are essential to improving Postal efficiency.

Where consolidations have been handled successfully, Postal managers communicated with mailers, employees, and the public served early and often. They also allowed sufficient time to plan related delivery and transportation changes. Where such consolidations were handled poorly, Postal managers moved too quickly and failed to sufficiently discuss the implications with its customers and employees.

The Mailers Council members have spoken with senior Postal officials, including Postmaster General Jack Potter, about how network realignment will be handled in the future. As a result, we are confident that mailers will be brought into the process earlier and that field managers will receive the timing resources needed to manage such difficult yet necessary changes, and it is our hope that we will be meeting with Mr. Potter between now and December on this issue.

Mr. Chairman, thank you again for this opportunity to present our views on these important issues. I will gladly answer any questions you may have.

Senator CARPER. Mr. McLean, thank you very much.

With that, I am going to turn to Mr. West and ask him for his statement at this time. Thank you.

TESTIMONY OF JAMES WEST,[1] DIRECTOR OF POSTAL AND LEGISLATIVE AFFAIRS, WILLIAMS–SONOMA, INC.

Mr. WEST. Thank you, Mr. Chairman, and thank you for the opportunity to present testimony on the implementation of the new regulations as required by the Postal Accountability and Enhancement Act. We highly commend the Subcommittee on this continuing attention and interest in this legislation and the Postal Service in general. In addition to this hearing, I have submitted written testimony that I request be entered into the official record.

My company, Williams–Sonoma, is a nationwide retailer of home furnishings and was founded in 1956. When we first started mailing catalogs 35 years ago, we were doing about $4 million in annual sales and had just one store in San Francisco. Since then, we have grown to annual sales of approximately $4 billion and become an internationally-known brand with 585 stores in the United States and Canada and employing approximately 45,000 associates.

We have achieved this growth in large part by using catalogs as our exclusive advertising vehicle, and our strategic partnership with the Postal Service is an essential part of the execution of our marketing strategy. This year, we will mail approximately 390 million catalogs, making us one of the largest catalog mailers in the United States. Our annual postage expense is approximately $140 million and the Postal Service is our largest single vendor.

Our growth and continued success depends largely on the continued ability of the Postal Service to provide effective and cost-efficient mail delivery. Essential to making this happen, we believe that the Postal Service must focus on three key areas: Customer service, management of its operating infrastructure, and service standards and measurement.

First, the Postal Service must become a customer-centric organization by being responsive to its customers' changing needs. Our own response to our customers' needs, as well as maintaining the highest level of customer service, has been the key reason for the success of Williams–Sonoma. We listen and make every effort to understand and anticipate what our customers will need next. The Postal Service now has the tools to do the same and must begin to put its customers' changing needs ahead of its own.

Second, the requirements that are placed on the Postal Service by both commercial and private mailers are changing faster than ever before. As such, the Postal Service must be allowed greater flexibility to change and modify its own operating network and services. Without the ability to manage its infrastructure free of the influence of outside bodies, it cannot be expected to fully control the costs which have a direct impact on its ability to continue to offer efficient and cost-effective services and products.

[1] The prepared statement of Mr. West appears in the Appendix on page 114.

Third, in order for any business to know how well it is doing, it must have effective measurements by which to judge its performance, and we believe that measurement of performance provides a direction for improvement. The service standards that the Postal Service are now required to put in place must be fair, accurate, and achievable. The measurement of performance against these standards must be timely and actionable to the extent that it can consistently maintain and improve the service performance that is realized by its customers. The performance evaluation of this process should not be focused on penalty, but rather be designed to encourage and reward improvement.

The Postal Service has a long and admirable history. It has grown to become the largest postal service in the world. Both private and commercial mailers have contributed and benefited from this growth. But as its customers' needs are changing, so must the culture and the operating focus of the Postal Service. The greatest promise of PAEA is it encourages the Postal Service to evolve into a truly customer-oriented organization. It raises the standards and provides the tools to meet this challenge. We hope that the Postal Service fully realizes the opportunity it is presented.

Thank you, Mr. Chairman. I appreciate the opportunity to be here and I will look forward to any questions.

Senator CARPER. Mr. West, thank you, and my special thanks to each of the witnesses for coming in within their 5-minute time line.

Ms. Berenblatt, you mentioned in your testimony that the Bank of America is currently working with the Postal Service on something that we call a Negotiated Service Agreement, and what I would ask you to do is just take a minute, if you will, and discuss how an agreement like the one you all negotiated can benefit your company, your bank, and others.

Ms. BERENBLATT. The negotiated deal that we have is the first proposed for the entire basis of the deal to be "cost-based," as opposed to previous negotiated service agreements that were entirely based on volume and then some operational requirements. This is very unique partly because of the "cost-based" approach and then partly because of the Intelligent Mail roll-out. So in addition to the Intelligent Mail roll-out, we will be using basically every tool the Postal Service has to improve its network in the future. There are several other operational requirements.

This will benefit the Postal Service, Bank of America, and our customers because we will now have visibility as to the status of the mail piece in the mail stream at all times. As General Potter has acknowledged, we expect to see some things that need to be attended to and we intend to be good partners in making improvements with the Postal Service.

For the balance of the community, it offers the opportunity and the possibility that in the future the Postal Service will operate similar to private businesses in crafting appropriate proposals for each individual customer and the Postal Service, without harming the balance of the community. Our learnings, the test bed from this Intelligent Mail experiment, will benefit all of the other mailers and the users of the system. By us going first and understanding where the problems are and how we can resolve them will clear the path for the balance of the system.

Senator CARPER. You said by going First-Class, is that what you said?

Ms. BERENBLATT. It is not only helpful by going First-Class, but also by having 3.3 billion pieces of mail and enabling an ongoing dialogue between the two very large organizations on very complex aspects of those various mailings. So we will be testing their systems not only through the Intelligent Mail piece, but also in terms of the dialogue.

Senator CARPER. Will any of those mailings emanate from Wilmington, Delaware?

Ms. BERENBLATT. Yes. A significant amount of volume will be emanating from Delaware. We have both production facilities for First-Class Mail, and our acquisition mail personnel are headquartered in Wilmington. They also use outsource providers throughout the United States.

Senator CARPER. Every State has a slogan. In Delaware, our State slogan for the last several years, at least, has been "It's Good Being First," and in one more way, it looks like we may be the first. We will see. There are some things you don't want to be first in.

Ms. BERENBLATT. This will be a good one.

Senator CARPER. But do you think there is a need to do something to make these negotiated agreements a little easier to reach?

Ms. BERENBLATT. Most certainly. The process involved with the previous negotiated service agreements were lengthy and costly, and there was a significant amount of uncertainty in the process. Our experience has been perhaps less lengthy than others, but still the same amount of uncertainty and a significant amount of cost. We are hoping that under the new law, these deals would be able to be made between the customer and the Postal Service without any interference from parties that are not stakeholders in that deal.

Senator CARPER. Alright. Thank you.

Several of you said a fair amount in your testimony about what you would like for the Postal Service to do with the service standards that they are developing. What is it that you would like to see them not do?

Mr. WEST. Mr. Chairman, if I may, I want to be sure that they do not establish standards that are so lenient that they can consistently exceed the delivery goal. Early delivery has as much negative impact on my company's operations as does late delivery. We need to have accurate and fair, but very accurate standards that give us accurate guidance in order to enter our mail into the Postal stream to be delivered to our customers as close as possible to the day that we need them to receive it.

Senator CARPER. Alright. Thank you.

Mr. MCLEAN. We also share your beliefs on that, but we also stress that we do not want to see the Postal Service use this as an opportunity to diminish existing service standards. We also don't want to see broad national averages that would fail to reveal problems in delivery that are very specific to an individual, Postal area or Postal district.

One of the problems that we have today is isolating service difficulties to specific Postal facilities. Our reports to the Postal Serv-

ice are sometimes treated as anecdotal, the experience of an individual mailer. The reports that would come from new delivery standards, we hope would help identify where there are broad systemic delivery problems that cut across every class of mail coming from a particular geographic area.

Senator CARPER. Mr. Conway, same question, if you would.

Mr. CONWAY. Yes, sir. Our perspective is that the standards themselves are less important than the measurement systems.

Senator CARPER. Say that again. The standards themselves are less important than——

Mr. CONWAY. The standards themselves are less important than the establishment of measurement systems.

Senator CARPER. OK.

Mr. CONWAY. The measurement systems will give the picture, hopefully, of what reality is and that will allow our members to plan around that reality, and that will also help, I think, the focus to improve the service within that particular class of mail.

In terms of what we don't want to happen, or perhaps what we don't want the Postal Service to do, is to hold off establishing measurement systems until the Intelligent Mail bar code system is fully operational throughout all classes of mail.

Senator CARPER. Alright. Thank you.

Ms. Berenblatt, did you want to comment on this, as well? Again, the question was, what is it you would like to see the Postal Service not do in this regard.

Ms. BERENBLATT. Frist, I wouldn't want them to sacrifice service for cost, as we have heard discussed earlier.

And second, I would like them to not gear themselves to actually meet the standards or meet the law but work to exceed and improve at all times.

Senator CARPER. Alright. Thank you. And a related follow-up to this is what mistakes do you think are being made—and some of you actually spoke to this a little bit, but I will ask it nonetheless—what mistakes do you think are being made or could be made that would make the service standards less effective or fail at making Postal products more relevant and valuable. Some of you have spoken to this already, but does anybody want to take a shot at that? Mr. Conway.

Mr. CONWAY. Yes, sir. I did mention some mistakes that have occurred amongst our members, and again, I think it is owing to a lot of factors, not the least of which is, as General Potter said earlier, First-Class Mail and the Preferred Mail products in the Postal system are the ones that have been focused on for years. The advent of Standard Mail, as Mr. Potter said, occurred in the early 1970s as a filler product. So historically, there has not been the focus on that type of mail and other types of mail that are called non-preferred mail in the Postal system.

So I think it is a rebalancing of focus. Standard Mail now represents the largest mail volume percentage in the Postal system. It is the biggest growth product in the Postal system. I think it is something that deserves greater focus, as well as other products, too.

Senator CARPER. Alright. Thank you.

What problem does the fact that the Postal Service does not have a performance measurement system in place for most of its products cause for your businesses or for your members' operations? And also, how can these problems best be addressed? Mr. McLean.

Mr. MCLEAN. Well, as Mr. West said, knowing the timeliness of delivery is as important as the speed of delivery in some situations. Being too soon is oftentimes, as he said, as difficult as being too late.

Senator CARPER. I think the same about trains departing——

Mr. MCLEAN. Exactly.

Senator CARPER [continuing]. On their schedule. If I get there for a 7:15 train and they left a minute early, it doesn't do me any good.

Mr. MCLEAN. So I think that one of the things that we are hoping for is to have a better understanding so that we can plan our mailings better. We can work cooperatively with the Postal Service if we have a genuine and accurate understanding of the delivery standards that are involved. If we know that it is going to take 3 days, we will plan accordingly. But without the consistency of delivery that we are expecting standards to provide, oftentimes, our mail campaigns are unsuccessful, or you have periodicals that are typically delivered on a Tuesday showing up on a Thursday, which will generate hundreds of phone calls to a magazine from customers who want to know why their magazine is not arriving consistently and who shortly thereafter will wind up not subscribing to that publication.

So retaining customers is essential to having this kind of information so that we can plan accordingly to ensure that mail is delivered when customers not only want the mail, but expect the mail.

Mr. WEST. Mr. Chairman——

Senator CARPER. Mr. West.

Mr. WEST [continuing]. I would like to add that what we would really like to see is, and I mentioned timely reporting in my testimony. What I meant is information that we can react to in time to affect the mailing, and this goes to the granularity of the performance measurement. If we know where the Postal system is experiencing a backup or issues with delivery, we can react if we have enough time to do so. If we need an additional day in the Postal system, we can plan for that if we know in a timely manner.

Currently, that is, for the most part, unavailable. If we see issues in the Southeast, for example, we know the issue is there, but the post office comes back to us saying, well, exactly where is the issue? We will go out and try to see what we can do about it. But that does not allow us time to react in a timely manner and satisfy our customers' expectations.

Senator CARPER. Alright. Any thoughts, Mr. Conway?

Mr. CONWAY. Yes, sir. Well, predictability and a good measurement system are key in the nonprofit mailing stream, both for Standard Mail, nonprofit Standard Mail, as well as periodicals. Whether it's as I mentioned, *Word and Way,* church bulletins that are obviously related to weekend events, or fundraising campaigns by nonprofit organizations, whether they be a small local nonprofit organization or a big nationwide organization, a measurement system will give those mailers an understanding of what to expect and what the predictability is so they can plan around that. Now, they

don't know what to expect. It is a wide spectrum of unpredictability. By having a system and having expectations and knowing what the reality is, you can plan around that. So it is going to be extremely helpful to have this system in place.

Senator CARPER. Ms. Berenblatt.

Mr. BLAIR. The absence of a system has often previously been referred to as the black box, where you give the Postal Service a piece of mail and you just hope it comes out and gets delivered ultimately.

In the case of Bank of America, as in all of the other participants here today, consistency and reliability is key for us to be able to maintain a dialogue with our customers and to meet their expectations and exceed their expectations where it is possible to do so. The Postal Service can't actually properly manage its own system in the absence of a measurement system, and most importantly, the Postal Service and its customers, such as Bank of America, can't engage in dialogue for improvement without a system. So we very much look forward to doing that with the Postal Service in developing our partnership for the benefit of our mutual customers.

Senator CARPER. Well said, a good note on which, I think, to close.

I am reminded of something that Vince Lombardi, I believe it was Vince Lombardi used to say, legendary football coach for the Green Bay Packers. He used to say, unless you are keeping score, you are just practicing. So what we need to do is not just practice, but to keep score. And I have always found in my own life that the organizations I have been a part of, the things that we measure are the things that we do best, and that is probably the case in delivering mail.

We are about to start our vote on the floor and I am going to ask each of our witnesses to take maybe no more than 60 seconds for a closing thought that you might have to share with me, kind of reflecting back on this panel's presentations and some of the earlier comments from our first panel. But just take maybe a minute, no more than a minute apiece, if you have any closing thoughts. If you don't have anything further to add, that is quite alright, as well.

Mr. West, I will let you have the first shot, if you would like.

Mr. WEST. Thank you, Mr. Chairman. I would like to make a closing comment sort of in line with what Ms. Berenblatt said. The NSA process, which we are also examining right now, is a long and kind of arduous, expensive, and unpredictable process. Using that as an example, I would say that the post office has got to evolve into a much more customer-centric organization, and again to refer to the NSA, it is kind of backwards to the way my business and the private sector is used to doing business. The vendor comes to us with a proposal as opposed to us going to them. They are going to have to learn to start reaching out to their customers and be proactive in selling their—in looking to their needs and designing a program that is going to meet their requirements.

Senator CARPER. Thank you. Mr. McLean, any closing comment?

Mr. MCLEAN. Thank you, Mr. Chairman. There is a comment concerning a topic that both Postmaster General Potter and Chairman Blair both addressed, and that is the new rate setting process. Currently, the Postal Service's Board of Governors is contemplating

whether to implement the next increase in postage rates under what we now affectionately call the old rules, the old lengthy, litigious rules, or set rates——

Senator CARPER. Not much affection.

Mr. MCLEAN. Yes, sir—set rates under the new system. It is obviously our preference that the next increase would be set under this new system. Mr. Blair has indicated that those rules will be published shortly and in place by October, thereby giving the Postal Service, we believe, adequate impetus to avoid filing a rate case and instead have a rate increase.

We also hope that the Postal Service will, in its new process, allow mailers a published implementation period of at least 90 days between the time that a rate increase is announced and implemented so that mailers have as much time as they need, and as Postal managers need, to implement new rates.

Senator CARPER. Good. Thank you. Mr. Conway.

Mr. CONWAY. Yes, sir. Nonprofits in this country are highly dependent on the U.S. Mail, have been for years and, I think, will be for a long time into the future. It is the lifeblood of the nonprofit community, both in terms of fundraising, reaching out to its supporters, its members, and as a communication tool. The advent of the Internet is impacting mail use in the financial services industry and it is changing a lot of what is done in this country, but the mail is still the go-to medium in this country for nonprofits in terms of communication and fundraising.

So with that said, I want to thank you and your colleagues for passing the Postal reform legislation. We think it is going to go a long way towards helping solve many of the problems the Postal Service now faces and we look forward to continuing to work with you and your colleagues to making sure that is the case.

Senator CARPER. Good. Thank you, sir. Ms. Berenblatt, you get the last word in and then I will give the benediction.

Ms. BERENBLATT. OK. Well, rather than summarize, as my colleagues have done so well, I will add an additional idea——

Senator CARPER. Alright. Sure.

Ms. BERENBLATT [continuing]. And that is to point out to you that Accenture has done a study on high-performance in the postal industry, specifically looking at the E.U. countries as there has been liberalization of the posts there, and there have been three identified areas that need to be addressed in order to have a high-performing post. The first is a market focus and a strategy. The second is technical capabilities and improvement. And the third is a cultural change in the organization. I would point out that we need to support the Postal Service in all of these three areas so that it can grow and be successful.

Senator CARPER. Thank you. Well, folks, it is not every day that things work out this well, that you conclude your testimony and responses to our questions literally at the time that the bell sounds for us to go to the floor and start casting our votes.

This has been a good hearing and I very much appreciate your being here, the time and the thought that has gone into the preparation of your testimony, and for the way you have presented it and responded to our questions.

One of the things that Senator Collins and I indicated when we worked with our colleagues and a lot of you in passing Postal reform is that once we enacted the legislation, we weren't going to just ignore it. We are going to come back and perform our appropriate oversight role to see how we are doing, see what we have done well, and to see what could be done better to make sure that the Postal Service is doing its best to comply, the Commission led by Chairman Blair is doing its role, and to find out how we can help, what else the Congress needs to do to be of assistance.

So this is, again, our third hearing for the year and we will hold more. I don't know that we will hold more in this calendar year, but we will certainly be following up. In the meantime, we would welcome continuing dialogue with you outside of the hearing forum.

Let me just close by saying the service that the Postal Service provides as it enters this new regulatory system that we have established will go, we hope, a long way toward determining how successful the Postal Service will be in remaining relevant in the 21st Century. At least some of the customers that we have heard from here today, and offline, as well, have other options now, or they will. If not today, they will have them someplace down the road. So we need to make sure that the service standards that are set by the Postal Service in the coming months are strong and that they take into account the views expressed here today and in recent months by the mailing community to make sure that the performance of those standards are attempting to meeting those standards, that we measure it well and respond to those measurements.

We also need to make sure that the Postal Service continues to take the steps that it needs in order to modernize its operations, and I was very much encouraged by some of what we heard from the Postmaster General today. I am excited about this prospect of Intelligent Mail bar coding and some other things, as well, some of the mechanization that he talked about with respect to more expeditious processing of some of the flats.

This service standards exercise gives Postal managers, I think, the opportunity not necessarily to close a lot of processing centers and post offices, but to make sure that the system we now have is what it needs to be.

I think we will keep our hearing record open for the next 2 weeks. There may be some follow-up questions from my colleagues either who were here or who were unable to join us, and I would just ask those of you that are here that have been on this panel and our first panel just to respond to us as promptly and as fully as you can.

Again, thank you very much for joining us on this occasion and for your working with us.

With that having been said, this hearing is adjourned. Thank you.

[Whereupon, at 11:58 a.m., the Subcommittee was adjourned.]

APPENDIX

UNITED STATES POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY
OF THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

AUGUST 2, 2007

Good morning, Mr. Chairman and members of the Subcommittee. I am pleased to be with you today to discuss one of the most difficult challenges faced by the Postal Service – the need to balance rising costs within a rate structure defined by a price cap. The Postal Accountability and Enhancement Act of 2006 requires that we keep price adjustments at or below the rate of inflation for market-dominant products, which are over 90 percent of our revenue base.

In an ideal world, this would mean that our costs would rise at the rate of inflation. Unfortunately, our costs are not governed by this same standard and many have been rising faster than the consumer price index.

Work-hour costs for our career employees and other expenses, such as energy, have been growing at a rate above inflation. At the same time, First-Class Mail volume, which represents over 50 percent of our revenue base, is declining. The number of addresses we serve is increasing by almost two million new households and businesses each year. This means that, on average – even with the recent rate change – we are delivering fewer pieces of mail to each address and average revenue per delivery is decreasing. We are projecting a loss of $5.7 billion for this fiscal year.

This is not a formula for long-term success. The challenge is to close the gap between prices and costs while improving quality service. The question is, "How do you do that?" As I see it, management can proceed along any of three paths.

First, we can continue to operate as we've been operating for more than three decades. After all, that brought us a level of success that no one could have imagined when the modern Postal Service was created in 1970. Service rose to record heights. We achieved our statutory "break even" mandate. And we reached unprecedented levels of efficiency.

The problem with this approach is that the ground rules have changed. To proceed along the path of business-as-usual would be inconsistent with our rate cap obligations under the Postal Accountability and Enhancement Act. We have to do more, much more, if we are to keep our costs in check, with overall growth no higher than the rate of inflation. Prudent exercise of our fiduciary responsibility demands that we intensify our focus on the business imperative of driving costs out the system. We cannot afford to do any less.

A second path to closing the gap between rates and costs would be the absolute expansion of the outsourcing of work now performed by Postal Service employees as a cost-reduction strategy – whenever and wherever possible. This would certainly be effective when viewed from a pure cost-management perspective. But business success is not solely a factor of reducing costs. It is also a reflection of the entire organization working cooperatively to meet the needs of its customers. Contracting out, while potentially reducing significant direct costs, could come with the intangible – but just as significant – costs, of lost focus on service, and diminution of the Postal Service brand.

That is why I prefer a third path – working directly with our unions and customers to confront the critical issues we are facing as an organization, such as improving service to meet the changing needs of the marketplace, as well as the need to increase revenue and reduce costs. By doing this, we can develop the solutions that can help us overcome flaws in our business model.

The tentative collective-bargaining agreement we reached with the National Association of Letter Carriers last month does this. It keeps the most important focus where it must be – on our customers – by helping us to improve service and operational efficiency. It provides our employees with a fair wage. And it commits both parties to growing the business. This is more important than ever, as we operate in a competitive environment in which customers vote with their feet, no longer bound by a monopoly that is meaningless in today's wired world.

We were successful in reaching negotiated agreements with each of our major unions in this year's round of bargaining. This is a reflection of the value of cooperative labor-management relations. We do not expect that we can agree on every issue, every time, but we have demonstrated our ability to overcome our differences, confront our shared challenges, and negotiate working agreements that benefit the Postal Service, our employees, and the people we serve.

The Postal Service occupies an unusual position within the federal government. It is required to be operated ". . . as a basic and fundamental service provided to the people by the Government." Yet, unlike most other agencies, the cost of providing our service is not borne by taxpayer-funded Congressional appropriations. Rather, is paid for by its customers through the purchase of postal products and services.

Since the modern Postal Service assumed operations from the heavily-subsidized Post Office Department in 1971, it has been required to operate like a business. With the enactment of the Postal Accountability and Enhancement Act, this requirement has been underlined significantly, since we must now operate within the restraints of a price cap – although there are no offsetting restraints on our cost drivers.

To overcome this considerable limitation, the Postal Service must redouble its efforts to reduce costs and increase productivity. But if we are to do that, it is necessary that management retain the flexibility to explore and implement cost-reduction initiatives that support the fulfillment of our mission of providing high-quality, affordable, universal mail service. In doing this, we are also protecting the interests of all postal stakeholders, including our employees, by offering the attraction of minimal rate adjustments, so as to maximize mail volume in a hyper-competitive communications and delivery marketplace.

This means we must continue to change. We must question our assumptions about what we do and how we do it. We must be open to new ways of doing business. We cannot assume that what worked in the past will work today – or tomorrow. And we must consider our expectations about the Postal Service within the context of today's financial reality.

Over the past several years, we have been very successful in managing costs. But that very success – which has eliminated the low-hanging fruit – requires us to reach even higher and to look at our operations more intensely to build on this success. As we work to take this to the next level, my approach is to look at every event as an opportunity to lower costs. By an "event," I mean a situation that requires us to make a decision to continue doing what we've been doing or to make a change. Events can take many different forms.

For example, when a lease expires for a postal facility, we have to take a hard look at our needs going forward. Do we need as much space as the old lease provided? As we deploy new equipment that can sort larger mail pieces into delivery sequence, we might need less space for carriers to sort mail at their local delivery offices. If that's the case, we should negotiate for less space or attempt to lease a smaller facility.

When a highway mail transportation contract comes up for renewal, we need to take a realistic looks at our transportation needs. Are we paying for a trip or vehicle capacity beyond our actual requirements? Are we paying the contractor to haul a half empty truck from one Post Office to another? In the simplest terms, are we paying for more vehicle cube than we have mail? If we are, we have to use the opportunity to change the contract specifications and match mail volume with the trip frequency and truck size.

And we have to continue to examine new deliveries as well, since this function is one of our largest cost drivers. Average annual cost per delivery for a route served by a city carrier is $215. For a rural carrier, this is $164 and for contract delivery, $106. Unlike many mail processing, support, and retail functions, mail delivery itself cannot be automated.

With delivery-point growth approaching two million new homes and businesses each year, it makes good business sense to examine the available options when preparing to serve new delivery areas. It could mean that some new deliveries would be served by more economical contract services. But it is worth emphasizing that the overwhelming majority of new delivery continues to be assigned to Postal Service carriers and that contract service represents less than two percent of the nation's deliveries.

By "new deliveries" we are referring to a newly established business or residential address where the Postal Service has not previously provided service.

As you know, expansion of contract delivery services has become the subject of a great deal of discussion over the last several months. This is one of the reasons we are here today. I am hopeful that the information I can provide today will assist in your understanding and consideration of this matter.

Through testimony at previous hearings and through correspondence, I have referred to contract delivery services as a valuable tool in helping provide quality, affordable service to our customers.

Contract delivery has affected only a portion of new deliveries, <u>not</u> existing deliveries already provided by Postal Service carriers. Contract delivery expansion <u>has not</u> resulted in the layoff of any letter carriers.

Contractors and Postal Service employees are governed by the same legal and administrative standards regarding the sanctity and security of the mail entrusted to them. The Postal Inspection Service, the federal law enforcement agency charged with protecting the security of the mail, ultimately determines the suitability of contractors. And there is no appreciable difference in the care exercised by postal employees or contractors in the care of the mail.

The independent Ponemon Institute, a leading privacy and data protection think tank, has named the Postal Service the "most trusted" government agency for the last three years and, for 2007, among the ten "most trusted" of all organizations. This is a judgment of the organization as a whole – reflecting the combined accomplishment of all groups, working together.

The Postal Service's use of private-sector services is not a 21st-century development. We have used contractors to transport and deliver mail since 1785, when Congress first authorized the Post Office to contract with stagecoach companies for mail transportation. This was later expanded to include delivery. In fact, the storied Pony Express was a contractor to the Post Office Department.

Much of the mail you receive each day—whether delivered by a City Letter Carrier or a Rural Letter Carrier—has been handled by contractors providing over-the-road or air transportation. Moreover, the postage stamp that paid for that mail may have been purchased at a supermarket, convenience, stationery, or greeting card store.

In addition, it is quite possible that the postage was applied by a postage meter, which are all owned and leased by private-sector providers. And it is very likely that many of you have had experience with one of our contract postal retail units, nearly 4,000 of which are operated by respected local business people in their communities.

In addition, the Postal Service, with the concurrence of the Postal Regulatory Commission, uses our rate schedule to effectively incent mailers and consolidators to presort and transport the mail. Through the use of workshare discounts, valued at roughly $18 billion last year, an entire industry has flourished to help increase mail volume and revenue. These are just a few of the ways that the Postal Service, in cooperation with the private sector, provides high-quality, consistent service to the American public in the most cost-effective and efficient manner.

Looking beyond the specific subject of contract delivery, there is a bigger issue at stake. That is the ability of the parties, the Postal Service and its unions, to resolve their differences through the collective-bargaining process.

One of the most important accomplishments of the Postal Reorganization Act of 1970 was the extension of full collective-bargaining rights to the postal unions. Over the course of more than three decades, these have served our employees, our unions, and the Postal Service well. And, in serving the Postal Service well, they have served our customers well.

As difficult as negotiations may sometimes be, the process is designed to produce consensus, maintain stability, and protect uninterrupted mail service for our nation. Because the Postal Service is a public service, federal law forbids our employees from striking. This principle also takes the form of a provision in our collective-bargaining agreements.

In its wisdom, however, Congress recognized that bargaining impasses can occur and understood that there must be a mechanism to resolve seemingly insoluble disputes that, in other situations, might result in work stoppages. That method, enshrined in the Postal Reorganization Act of 1970 and continued and expanded through the provisions of the Postal Accountability and Enhancement Act of 2006, calls for fact finding, mediation, and mandatory arbitration if the parties reach impasse.

The current round of bargaining between the Postal Service and the National Association of Letter Carriers was lengthy, difficult and, at one point, seemed headed for arbitration. Yet, as intractable as some of the issues appeared, we continued discussions at the highest levels of both organizations and, as I have noted, arrived at a tentative agreement – without the need for arbitration. Among its other terms, the new agreement contains specific provisions addressing the issue of delivery outsourcing.

I have always been a strong believer in the value of the collective-bargaining process. No one understands the issues we face better than Postal Service people – management and our unions. No one understands our shared challenges better than we do. No one understands the opportunities better than we do. Our future is the future of the organization. There is no one in a better position than we are to build the agreements that will help us face that future together – successfully. And, as we have seen, the process can – and does – work.

Of course, we are mindful that many others have taken an interest in the subject of contract delivery. While there are different thoughts as to the relative advantages of one form of delivery compared to another, I am extremely encouraged by the level of interest. It represents widespread agreement that the mail and, in particular, mail delivery service, continues to offer unique value to our customers, their communities, and the American economy.

Having participated closely in the collective-bargaining process over the last decade, I am no longer surprised at its amazing flexibility. Even when the issues it is asked to take on can seem larger than the ability of the parties to resolve them, the process itself often brings out the very best in its participants. I have seen this time and time again. And I remain impressed that such a simple process, when approached in good faith, allows the parties to see beyond their individual and immediate interests and act for the greater good. Because in doing that, all parties – including the people we serve – are the winners.

Collective bargaining in the Postal Service has been shown to be a valuable and productive tool in bringing the Postal Service and its unions together on an equal footing. The process represents a sound public policy decision, one made almost four decades ago by public law, which not only allows, but more importantly, requires the parties to bridge their differences without the need for direction from parties who are not directly involved in the process.

The continued viability of the process requires that the Postal Service retain its ability to bargain collectively on a level playing field, and know that agreements that are reached through good-faith negotiations, and the subjects of those negotiations and agreements, will not be altered as a result of legislative action. The precedent set by legislatively overriding a long-standing provision of a collective bargaining agreement is very dangerous for all parties. It is not hard to imagine how a future Congress with a different composition or different priorities could tilt the playing field dramatically in a different direction.

As the Chief Executive Officer of the Postal Service, and as a member of the Postal Service's Board of Governors, I am keenly aware of my responsibility in the development and implementation of policies that support our mission of providing quality, affordable, universal mail service to our nation. This is why I am extremely concerned about the precedent of legislative intervention in the collective-bargaining agreements with our employee unions. If Congress acts on restricting or eliminating the option of contract delivery, what other work or cost-management initiatives would be next? This is dangerous step on a very slippery slope. While, today, such an action might be to the advantage our employees, in the future, a different Congress might intervene on issues adverse to employee interests.

The hurdles created by the new postal law are among the highest we have ever faced. Removing specific cost-management strategies from consideration through additional legislation limits the tools that are available to the Postal Service to satisfy the mandates of our enabling legislation.

When I became Postmaster General in 2001, the Postal Service's debt had reached more than $11 billion dollars. That was a huge burden to carry; simply servicing the debt exceeded $300 million a year. It is very clear that the Postal Service has to take thoughtful, serious actions to continue to control costs or we will be back on track to potentially incur significant debt – which also contributes to increases in our costs.

In planning for today's hearing, the Subcommittee has also expressed its interest in the Postal Service's efforts to develop modern service standards and to measure our performance against those standards. Both of these requirements were established by the Postal Accountability and Enhancement Act, which recognizes that sound adjustments of the Postal Service's processing and transportation network depend upon accurate service standards and performance measurement systems for our market-dominant products. In turn, greater network efficiency will be the primary driver behind better service performance in the future. We have undertaken a wide range of activities to comply with the requirements of the new law in this respect.

First, we are working with a diverse group of stakeholders to examine existing end-to-end service-standards for our market-dominant products. This is helping us to identify which standards may be candidates for revision, based on factors such as changes to business rules, actual network capabilities, and the growth of worksharing programs since current standards were first established. This will provide the baseline information necessary to determine if modifications to some standards are warranted.

Our efforts involve the participation of the Mailers Technical Advisory Committee through a workgroup that involves over 100 representatives from all elements of the industry. It includes the participation of the independent Postal Regulatory Commission and the Government Accountability Office. We have also surveyed more than 35,000 small businesses and residential customers to help guide the development of the new standards. Outreach efforts also include interacting with attendees of the National Postal Forum, the leading annual mailing industry trade gathering, and briefings to our employee unions and management associations.

We are on target to complete this review – which will include proposed new service standards – this summer. We have also begun consultation with the Postal Regulatory Commission so that we can publish revised service standards by late December 2007.

Our goal in developing these standards is to meet the needs of our customers while building from a base that is within the reach of the capabilities of our system. And, as we establish full accountability in achieving the new goals on the part of our managers, we believe that fairness dictates that we compile a full year's baseline of performance data under the changed standards prior to linking their performance evaluations to the achievement of the new goals. As an organization, however, we will bring all of our efforts to bear on meeting the revised service standards as soon as they are effective.

Just as important as the establishment of the new standards is the development and implementation of measurement systems to determine our compliance in meeting the standards. This is a subject that is also being examined by the Mailers Technical Advisory Committee.

Our efforts include planning for the possible use of the Intelligent Mail platform for accurate service performance measurement. Leveraging this internal, passive data collection system will allow us to accurately measure aggregate performance – rather than sampling. We believe this is ultimately in the best interests of our customers, who ultimately pay for service measurement through the price of postage.

Our innovative Intelligent Mail system uses barcodes that uniquely identify each piece of mail for purposes of sorting, identifying special services, performing diagnostics as we identify system "pinch points," and providing status data to mailers. From the perspective of a passive service measurement system, the Intelligent Mail barcode will permit us to identify when mail enters our system, track the mail as it moves through the network, and tell when it has been delivered. As we expand Intelligent Mail to different types of mail, it can be used to accommodate service measurement needs. We anticipate full implementation of the Intelligent Mail barcode for most commercial mail in 2009. The Intelligent Mail barcode contributes to enhancing the value of the mail for our customers, contributing to their business growth and success, ultimately helping the Postal Service to achieve its critical goal of revenue growth.

We look forward to working with our stakeholders, particularly the Postal Regulatory Commission, in achieving agreement on revised service standards and measurement systems for our market-dominant products.

I appreciate having the opportunity to discuss these important issues with you today. I would be happy to respond to any questions you may have.

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Postal Regulatory Commission Chairman Dan Blair

Statement before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security
Thursday, August 2, 2007

Chairman Carper, Ranking Member Coburn, and members of the Subcommittee, thank you for the opportunity to testify. I am very pleased to update the Subcommittee on the steps the Postal Regulatory Commission is taking to implement Modern Service Standards as required by Title III of the Postal Accountability and Enhancement Act. I respectfully request that my full statement be entered into the Record.

Before I begin my comments on service standards, I would like to summarize briefly the progress the Commission has made towards full implementation of the Postal Reform Act.

First, the Act requires the Commission to establish a modern ratesetting process for market dominant products. While the law allows us until June of 2008 to develop this new system, the Commission is moving quickly to beat this deadline. We hope to have in place a basic ratemaking framework by October of this year. Such action would provide the Postal Service with the flexibility to use the new, streamlined system should it need to raise rates.

Having this new framework in place – and the Postal Service operating under the new framework as early as practical – would allow both the Postal Service and the

Commission to dedicate more resources to thoughtfully implementing other aspects of the reform legislation.

In general, the mailing community is eager to move to a new system that will provide more stable and predictable rates, thus, avoiding another costly, litigious case under the old system. I know that you, Chairman Carper, and Senator Collins, are also very interested in seeing the new system set up as quickly as possible. You have my personal commitment to ensure that this goal is met.

The Commission recognizes that the decision of whether or not a final rate case is filed under the old rules lies solely in the hands of the Postal Service Board of Governors; however, we believe that it would be best for both mailers and the United States postal system if another traditional rate case can be avoided.

Over the past several months, the Commission has put into place what I call a "360 degree approach" to soliciting public input on both the new rate system and service standards. In February and May of this year, the Commission published Federal Register notices seeking public comments on how best to structure the new ratemaking system. The public response has been extremely gratifying. We received numerous thoughtful and helpful responses – approximately 100 separate responses in all.

Second, the Act requires the Postal Service to consult with the Commission on the establishment of modern service standards for market dominant products. The statute sets forth objectives the new service standards should meet to include:

- Preserving regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;

- Assuring Postal Service customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices; and
- Establishing an objective system of performance measurements for each market dominant product based on external measurements unless the Commission permits the use of internal systems.

To fulfill this requirement, and as part of our ongoing outreach, the Commission published a Federal Register Notice of Public Inquiry on June 13, 2007, in which we solicited input on service and performance standards from the general public, postal stakeholders, specialty mail users, as well as businesses providing goods and services to mailers. The Commission received 35 comments in response to this Notice.

We also reached out to the diverse community of postal stakeholders "outside the beltway" – through field hearings in Kansas City, Missouri, Los Angeles, California, and Wilmington, Delaware. Witnesses at the hearings shared with us their expectations for a new, better ratemaking system as well as their views on modern delivery service standards – the focus of today's hearing. Both the formal comments received in response to our Notices and the testimony we heard during our field hearings have a number of common themes. I would like to take this opportunity to give you a sample of what we heard:

- Consistent and reliable mail service is critical to the postal community.
- Most mailers consider the existing USPS service standards acceptable, but insist that these standards should be a floor for all mail within a class.
- There needs to be a system-wide performance measurement that provides detailed information, available to the public. Specifically, we heard that

mailers, their customers, and the Postal Service would best be served by publicly available reports listing service performance regionally and possibly in greater detail. Moreover, detail, such as between specific 3-digit ZIP Code pairs or zones, should be available to mailers on request.

- These publicly available measurements of service should be web-based, real-time, verifiable, and subject to a third party audit.
- Several mailers listed measurement of what is called the "tail of the mail" as being especially problematic and noted that product delivery delayed beyond the expected timeframe results in decreased customer satisfaction and in increased costs of shipping of replacement goods.
- While mailers appreciate the low cost associated with the Postal Service's plans for Intelligent Mail tracking, many point out that measurement systems will be needed for mail that bypasses automated processing, along with the other mailstreams that will not be tracked by barcode technology.
- Mailers also believe information beyond days-to-delivery are important components of service standards. For instance, the critical entry or cut-off time for business mail and the last collection time from neighborhood blue mail boxes are important, as well the length of the "tail of the mail."
- Another area of discussion is whether there should be separate service standards for non-contiguous states like Hawaii and Alaska.

While the current performance measure for First Class mail – known as EXFC – External First Class – is generally considered an adequate system, measurement tools for other classes of mail are lacking. The Commission is very encouraged by the Postal

Service's plans to implement its Intelligent Mail initiative over the next several years. This system of barcode scanning should greatly increase the Postal Service's ability to track movement of the mail from drop-off to delivery, and in turn allow the mailing public greater access to performance information.

Until the Intelligent Mail initiative is widely operational, there is broad consensus among the mailing community that an interim system of measurement is needed. The Commission agrees. We do not believe that the PAEA envisioned modern service standards being enacted, but with a two to three year delay in their measurement. The efforts by large mailers or mailer groups to self-measure days-to-delivery are evidence of the importance mailers assign to performance measurement data. For instance, some periodical mailers already use a system of self-measurement, and the Commission recently held a public briefing by Red Tag News Publications, which provides tracking for periodicals.

In addition to the Commission involving the public in the development of a new standards and measurement system, members of the Commission staff are observing Mailers' Technical Advisory Committee (MTAC) meetings focused on developing recommendations to the Postal Service on delivery standards.

The public's input is aiding us in our meetings with senior officials of the Postal Service. To Postmaster General Potter's credit, he has sent a strong team to work with the Commission and has designated the Deputy Postmaster General, Pat Donohoe, to lead these efforts. The Commission appreciates the cooperative tone of the meetings and the attention senior leadership is paying to this important issue.

To date, the Commission and the Postal Service have engaged in three substantive service standard-related meetings. We anticipate another meeting later this month, culminating in a final, formal "consultation" at the beginning of October. We have had an open and vigorous dialogue between Commissioners and representatives of the Postal Service. Based on the tenor of the meetings thus far, the Commission has every reason to believe that our input will be reflected in the final regulations adopted by the Postal Service.

In closing, I would like to touch upon the relationship between Postal Service mail processing facility consolidations and service standards. Last year, the Postal Service requested an advisory opinion from the Commission on its planned nationwide realignment known as the "Evolutionary Network Development" (END) process. 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.

When the proceeding started, very little was publicly known about the overall END process, and the Service's vision of its future network was unclear. The Commission believes 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 some transparency to the Postal Service's network development plans. Questioning by the Commissioners and participants in the case shed needed light on the Postal Service's network rationalization efforts. We expect the transparency achieved through our review of network realignment last year to

continue and improve under the new Act. Besides requiring the Postal Service, in consultation with the Commission, to establish service standards for market dominant products, the Act also directs the Postal Service and the PRC to consult on developing a facilities plan for meeting those standards, including any necessary changes to the Service's processing, transportation, delivery and retail networks. This plan is due to Congress by June of 2008.

Clearly, the Commission has its work cut out for it. The coming 12 months will be a time of intense work at the PRC as we move to carry out our new responsibilities.

I hope I have given you a flavor for what we are learning from our field hearings and through our public comment process. Again, I thank you Chairman Carper for inviting me to testify. I welcome the opportunity to answer any questions members of the Subcommittee may have.

TESTIMONY OF JODY BERENBLATT
SENIOR VICE PRESIDENT—POSTAL STRATEGY
BANK OF AMERICA
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY
OF THE
SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

AUGUST 2, 2007

Mr. Chairman and Members of the Committee, my name is Jody Berenblatt. I am Senior Vice President—Postal Strategy for Bank of America. Bank of America very much appreciates the opportunity to appear before this Committee today.

We would also like to thank Senator Carper and Collins, along with the other members and staff of the Committee, for their personal leadership in gaining passage of the Postal Accountability and Enhancement Act ("PAEA") late last year. Enactment of the legislation was the culmination of many years of hard work. The legislation, if properly implemented, offers the prospect of sounder finances for the Postal Service, a more streamlined regulatory system, and more reliable and economical service for mailers.

The purpose of this testimony is to identify several critical areas for implementation of PAEA in the area of mail service performance and measurement. The quality and consistency of the mail service we receive greatly affects its value for the Bank of America.

I. BANK OF AMERICA' S INTEREST IN MAIL SERVICE PERFORMANCE AND MEASUREMENT

Bank of America Corporation, headquartered in Charlotte, North Carolina, provides a full range of banking, investing, asset management and other financial and risk-management products and services to individual consumers, small and middle market businesses, local and state governments and large corporations. We are the second largest bank in the United States in revenue, and the 12th largest firm on the Fortune 500 list for 2006. We are also the No. 1 overall Small Business Administration lender in the United States, the No. 1 SBA lender to minority-owned small businesses, and by several measures, the largest issuer of credit cards in the United States.

Bank of America uses the mail for operations and marketing communications to both our existing and prospective customers. In 2006, we mailed approximately 1.4 billion pieces of First-Class Mail (billing statements, privacy notices, etc.), and approximately 1.9 billion pieces of Standard Mail (welcome packages, marketing materials, etc.). As such, the mail system is very important to us.

I serve as industry co-chair of the First-Class Mail sub-team of the Mailers Technical Advisory Committee ("MTAC") Workgroup 114, entitled *Establish Service Standards and Measurement* (formed February 2007). In my role, I have facilitated the involvement of the Remittance Industry in the workgroup.

The Bank of America is also a member of the Association for Postal Commerce, which I currently serve as Vice Chairman, and several other

associations of mailers, including the American Bankers Association, the Direct Marketing Association, the Major Mailers Association, and the National Postal Policy Council.

The establishment of service standards and a reporting system for all market-dominant products of the Postal Service is critically important. Financial institutions are subject to regulatory constraints on the delivery timing of our customer communications, so we must plan our production and entry schedules to avoid premature or untimely delivery. The ability to predict delivery times with reasonable precision is especially important for this planning.

Enhancements of the Postal Service's performance in relation to these standards will help drive improvements in service, thereby enhancing the value of the mail to current and future customers. And the enhanced value of mail should help to grow the mailstream. We support the PAEA statutory objective of achieving service performance that is cost effective and consistent with best business practices.

II. ASSESSMENT OF CURRENT SERVICE PERFORMANCE

Current service performance is inconsistent and improvement of standards and measurements to enhance performance is therefore important. For example, while current service standards specify that all domestic First-Class Mail is to be delivered in three days or less, it is not. As a result, we often employ special services and experience extra expense for on-time delivery.

Standard Mail, likewise, requires improvements to standards and measurements to enhance USPS performance. While the service standard for a piece of Standard Mail depends on its entry point and destination, all Standard Mail is supposed to be delivered within 10 days. Publicly available data again show that the Postal Service does not achieve its service standard consistently.

Even if the data pointed to a more acceptable result or were acceptable as is, the degree of inconsistent delivery is a large issue for mailers, large or small, trying to conduct business through the mails with either class of mail. Moving forward, we will work closely with the USPS to identify opportunities for improvement.

III. SERVICE STANDARDS

The Postal Service's existing service standards for First-Class Mail and Standard Mail, if consistently met, are an excellent starting point for developing the service standards required by PAEA. Future changes to the standards need to strike a balance between service quality and cost, and recognize the general consensus of mailers' needs.

Changes in service standards should be communicated in a timely and regular fashion, in a format similar to the summary of changes appearing at the beginning of each new release of the Domestic Mail Manual. Any change in service standards should be publicly announced at least one quarter before the effective date of the change to allow mailers adequate time to make any necessary adjustments.

The Postal Service should not be permitted unilaterally to lower existing service standards in any significant way. While limited changes to service standards may be appropriate (e.g., the realignment of standards for specific "city pairs" as the postal network changes), any major downward redefinition of acceptable service levels should not be permitted to occur without independent review.

Critical Entry Times ("CET") should also be specified in the service standards, and changes in CETs should be subject to the same review process as changes in delivery times. A critical entry time is defined as "[t]he latest time a particular class of transported mail can arrive at the destination post office to meet the service standard for mail processing, dispatch, and final delivery." USPS Library Reference N2006-1/1, *Glossary of Postal Terms* at 29.

An advance in the critical entry time is a mirror image of a delay in the applicable delivery time: each amounts to changes in the service standard. For example, consider an example where the CET for a First-Class mailing is currently 9:00 PM. This entry time will allow the Postal Service sufficient time to process the mail for next day delivery in the overnight service area and also allows the mailer sufficient time to produce the entire mailing by 8:00 PM, allowing entry by the CET. If the CET is now changed to 3:00 PM, the mailer will no longer have time to produce the full day of mail. All mail that is produced between 3:00 PM and 8:00 PM now effectively has an additional day added to its delivery time making it a two day delivery.

Changes in CET could affect large volumes of mail. Large mailers can easily enter two million pieces of mail each day and produce almost 100,000 pieces of mail in an hour. A five hour CET change could affect half a million pieces of mail each day for such a mailer.

Service standards should also be published for the special services: (1) address corrections; (2) Post Office Boxes and Caller Services; (3) Business Reply Mail; (4) Certified Mail; (5) Registered Mail; (6) Certificate of Mailing; (7) Delivery Confirmation/Signature Confirmation; (8) Money Orders; (9) CONFIRM; and (10) Merchandise Return Service/Bulk Parcel Return Service.

Like mail delivery, the delivery of address correction information by the Postal Service has a "tail of the mail" distribution curve, with some corrections not showing up until one or more additional pieces have been mailed to the uncorrected address.

Given the lead time necessary to prepare mailings, address correction services will be much more effective in reducing the number of forwards for First-Class Mail and Undeliverable-as-Addressed Standard Mail if service standards are issued and met. Mailers who use address corrections need to know when they can expect the address correction information in order to integrate the address update into the current mail production process. Knowing the service standards for address corrections will help mailers reduce forwarding and returns for subsequent mailings.

Finally, changes in service quality need to be linked to the index-based rate cap established by Congress in 39 U.S.C. § 3622(d). As the Committee

members are aware, Section 3622(d) limits the average rate increase for market-dominant mail classes to increases in the Consumer Price Index. But meaningful before-and-after comparisons of prices for particular products or services require that the analysis control for any intervening changes in the *quality* of those products or services. The Section 3622(d) rate cap would become meaningless if the Postal Service were allowed to satisfy the constraint by reducing the quality of service offered. That would be akin to a Broadway musical being able to continue to charge their patrons $100 for a box but seating them in the balcony, having the show begin several hours—or days—after the advertised curtain time, and requiring the audience to perform the songs and dances themselves and clean up the theater before and after the performance. Major and systematic reductions in actual service quality are tantamount to rate increases, and should count against maximum increases allowed by Section 3622(d). In fact, Postcomm, the regulator for Royal Mail, does adjust the price cap to reflect service degradation.

IV. REPORTING OF ACTUAL DELIVERY PERFORMANCE

A. Basic Issues

The development of an effective system of performance measurement is as important as—indeed, more important than—the development of service standards.

First, to the extent that actual service performance falls short of the standard—either in actual delivery time or in the range of variance from the standard—mailers rationally base their mail critical entry times and points

on actual service, not nominal service standards. Accurate performance data enable mailers to identify locations and facilities where service has deteriorated, and thereby enables mailers to adjust entry times and entry points to mitigate, to the extent possible, the resulting commercial injury to the mailer. For example, call centers often need to be staffed around the expected delivery time of a mailing. If delivery in a particular geographic area is expected at seven days for a marketing mailing but the mail is not actually delivered in that timeframe, there is no reason for the mailer to incur the extra personnel costs of staffing the call center before the mail is actually delivered.

Second, credible public data on service performance provide the necessary information for Postal Service managers to prevent and eliminate service problems. Indeed, this is probably a more effective incentive for change than fines or penalties.

Finally, credible public data allow mailers and the Postal Service to discuss performance issues. Six Sigma shows that data-driven communication and discussion are central to improvement. Problems must be identified, possible solutions must be tested, and workable solutions must be communicated before improvement occurs.

Bank of America is an enthusiastic user of Six Sigma, a data-driven method of process control that can be used to reduce defects in any process—whether manufacturing/transactional or product/service delivery. The Bank uses Six Sigma in all of our businesses. A process that experiences fewer than 3.4 defects per million opportunities is considered to be performing at a

"Six Sigma" level. A central principle of Six Sigma is that measurement must precede improvement.

To accomplish these purposes, however, data on actual performance must be detailed (i.e., geographically disaggregated), accurate, reliable and current. In addition, the performance reports should indicate not only the *average* time for mail delivery between two points, but the *distribution* of *the variance* from standard for the portion of the mail that is delivered late (the "tail of the mail").

The Postal Service should provide web-based access to performance data in the level of granularity or detail currently provided in the quarterly Service Standard disc—in other words, the ability to search by product, shape (postcards, letters, flats and parcels) and by 3-digit Origin/Destination ZIP Code pairs. Allowing mailers to access raw data is much less costly than requiring the USPS to develop and distribute detailed measurement data reports. More importantly, it facilitates communication and discussion, which leads to improved performance.

Bank of America shares the Postal Service's belief in the long-run promise of Intelligent Mail and the intent to use IM as the mechanism for generating service performance data. In fact, the Bank of America and the Postal Service are currently seeking regulatory approval of a Negotiated Service Agreement ("NSA") under which we would agree to serve as a large-scale test bed for Intelligent Mail technologies. It is important to recognize, however, that Intelligent Mail is new and not yet fully deployed. For formats where it is not widely used, other measures may be necessary to measure performance until IM is fully mature.

In this regard, the USPS should take advantage of its existing membership in the International Post Corporation ("IPC") by leveraging the wealth of expertise and experience of the IPC to explore standards and measurement practices developed by IPC that could be used for the USPS. Founded in 1989, the IPC is a cooperative association of 24 member postal operators in Europe, North America, and Asia-Pacific. The Postal Service and the mailing community should explore further the model that the International Post Corporation uses for service standards and performance measurement of the Postal Service's counterparts in other advanced industrial economies. Attached to this testimony is a PowerPoint presentation by IPC summarizing its performance measurement standards and models.

B. Special Concerns of Remittance Mail Industry

Detailed performance data are especially important for businesses that receive remittance mail. Remittance mail contains a payment, usually a check, big or small, sent to a creditor's address via First-Class Mail. Notwithstanding electronic bill payment, mail of this kind totaled over 9 billion pieces in FY 2006 and represents over 20 percent of total First-Class Single-Piece Mail volume. Remittance mail conservatively accounts for at least $20 billion of commerce in transit on an average day.

Every day that a financial transaction remains undelivered has an equal and calculable impact upon its recipient, which can be measured based upon the size of the payment and the collecting firm's cost of capital.

There is general consensus that the existing system for measuring the performance of First-Class Mail—External First-Class Measurement System ("EXFC")—is inadequate to the needs of the remittance mail industry. The data publicly reported by EXFC reveal only the percentage of mail delivered that satisfies a particular standard (*e.g.*, that 92% of overnight mail was delivered within standard). This binary, all-or-nothing reporting provides no incentive to the USPS for *early* delivery - the reported data do not disclose the percentage of mail that *exceeds* standard, let alone by how much.

Nor do the reports disclose *by how many days* the mail fails to meet the delivery standards. This is a serious omission. Late mail, "the tail of the mail," can be one or more days late. A long tail has extremely serious consequences, even when the average piece—or even the vast majority of pieces—is delivered within standard. Because all delivery-day delays are equally consequential from the industry's vantage point, a payment delivered two days late has twice the financial impact as a payment delivered one day late.

Additionally, bill payers generally hold the payment processor responsible for any delays in payment posting that cause late fees, – whether the actual cause was the payment processor's fault or not – which requires us to accommodate the bill payer and make customer satisfaction adjustments to their account. The remittance industry needs a reporting system that provides transparency about the *extent* of lateness. We recommend a system

that discloses not only average days to delivery, but also one that shows the cumulative percentage of delivery by post-entry day.[1]

V. NEGOTIATED SERVICE AGREEMENTS

Next, I would like to alert the Committee to a promising related development. On February 7, 2007, Bank of America and the Postal Service jointly requested approval from the Postal Regulatory Commission of a proposed Negotiated Service Agreement ("NSA") between the Bank and the Postal Service.

The proposed NSA is precedent-setting in several respects. As the "first cost-savings NSA," this proposed agreement provides the opportunity for the Postal Service to save money and create operational efficiencies for both the Postal Service and Bank of America. Among other things, it would

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[1] The remittance industry also needs information on the time of day distribution of mail deliveries to the post office boxes of remittance processors. Since payments most often include a check within the envelope, the "payment path" is not final upon delivery of the mail piece. The check itself must be delivered to the paying bank before the funds transfer is deemed complete. The transportation for much of this does not occur during so-called "normal" banking hours, but occurs in late evening and early morning hours. Thus, the timing of receipt of payment can itself have a huge impact on the collecting institution. For this reason, payment processing is usually performed both on weekends and on multiple shifts during the processing day. For many processors, the function is literally performed constantly, including holidays. Thus, staffing is a huge issue for processors and requires a complicated understanding of delivery patterns throughout the day and across days of the week. EXFC provides none of this information. We believe that this specialized need will largely be addressed by a new USPS certification of key remittance facilities. Public reporting of geographically based data into a specific delivery plant that incorporates the delivery time of substantially all (i.e., 99 percent) of the mail would greatly improve the industry's ability to monitor individual delivery plant performance.

commit Bank of America to use Intelligent Mail barcodes on substantially all of its First-Class and Standard letter mail. In essence, Bank of America would offer its approximately three billion pieces of annual First-Class and Standard Mail volume to serve as the first truly large scale pilot test of Intelligent Mail technology. In particular, customer service is enhanced by improving the timeliness of mail delivery, automating the address update process and thereby reducing the amount of forwarded and undelivered mail. Intelligent Mail Barcodes also provides additional security over older-generation PostNet barcodes. We look forward to the approval of that NSA, which should jump-start the large scale use of Intelligent Mail Barcodes.

VI. SUMMARY

Reliable, consistent delivery is critical to all of us who currently use the mail in our businesses. Mail is an important medium for nearly all businesses to acquire new customers and communicate with existing customers. Consistent service is critical to preserving our use of the mail. And consistent service will be critical to growing our use of the mail and further enhancing the value of the mail delivery systems to attract new users.

Performance standards are one key to reliable, consistent delivery. Performance measurement is another. We look forward to working with the Postal Service, the Postal Regulatory Commission, and the entire mailing community as the performance standards and the performance measurement system are developed.

International Post Corporation

Mail Service Performance

An International Perspective

Ross Hinds
Director Operations & technology

Presentation at July 11 Full Workgroup Meeting

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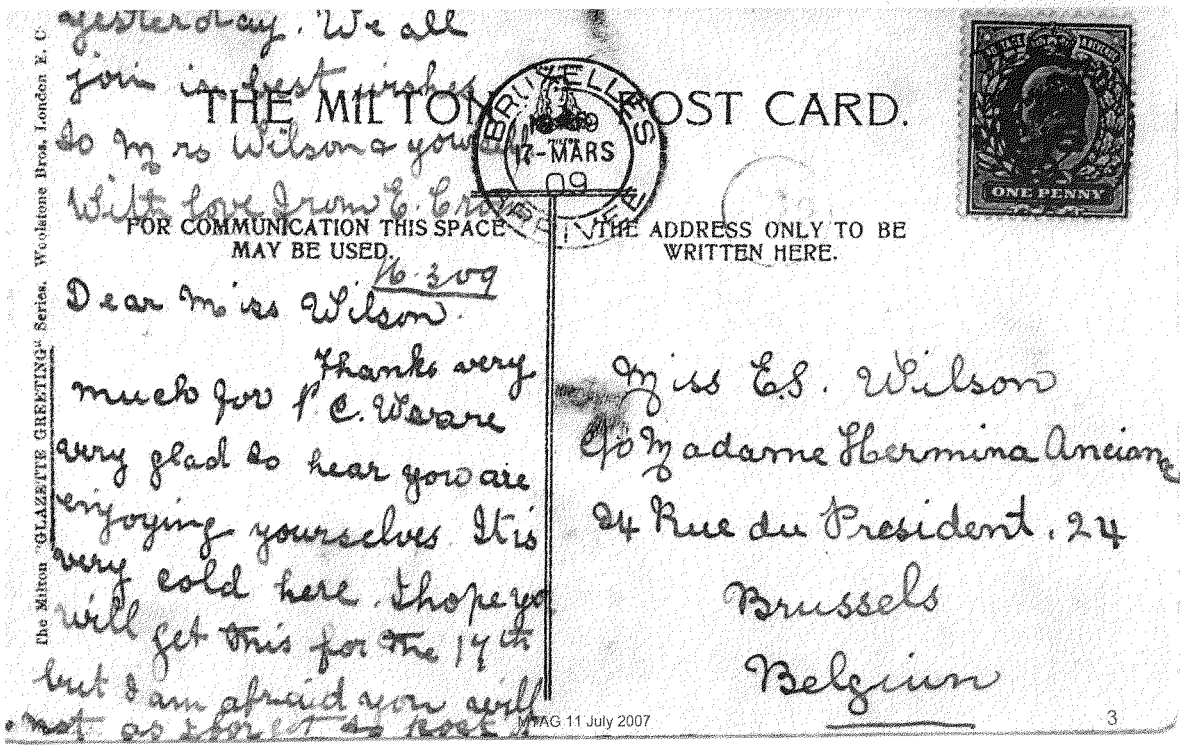
Outline

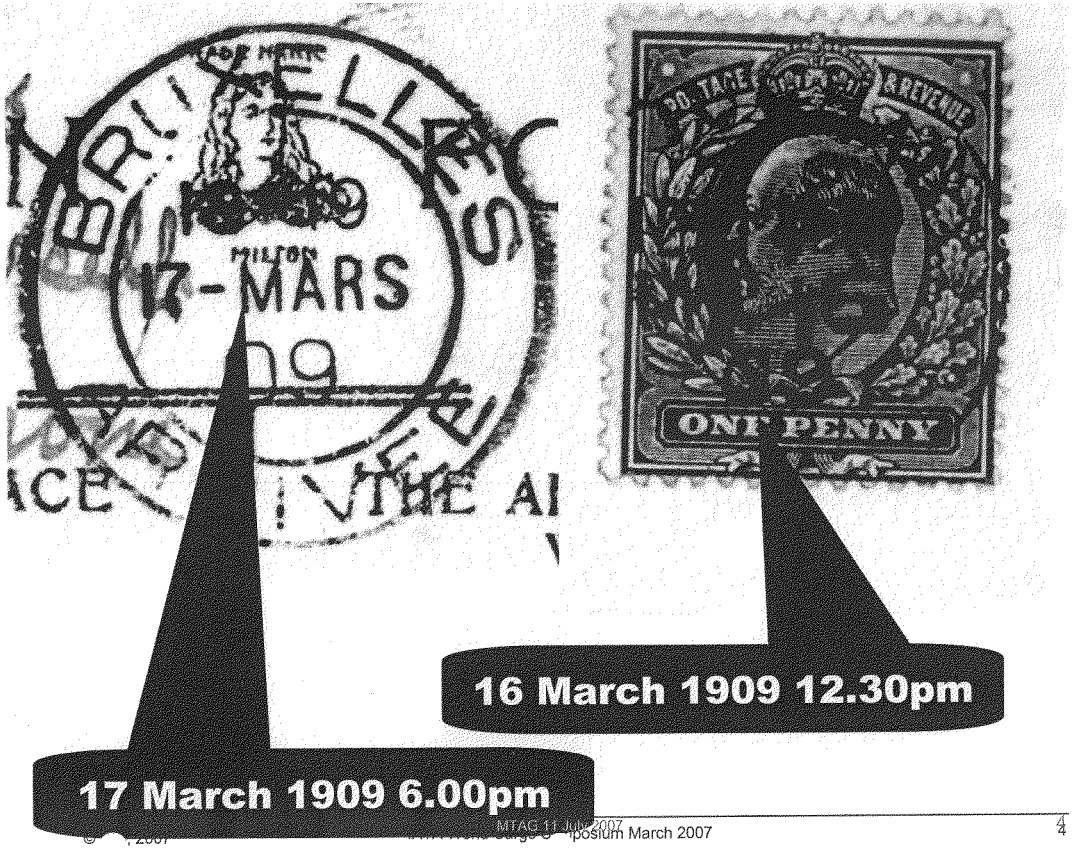
International Post Corporation

- How it was!
- Why measure
- How to measure
  - Counting
  - Sampling
- Technology for postal measurement
- International sampling systems
- European Union postal law changes

Letter Performance 1909

International Post Corporation




MILTON
17-MARS
09
ONE PENNY
16 March 1909 12.30pm
17 March 1909 6.00pm

1909 from Ireland to Belgium

International Post Corporation

- Ordinary rate postcard
- Arrived in one day
- Handled by postal service in Ireland, Britain, Belgium
- Exception reporting the norm – all mail expected to be cleared at the time of arrival and it was
- Excellent service!

© IPC, 2007

Why measure?

International Post Corporation

- Can only manage what is measured
- For customer to know end-to-end time
- For regulator to know if requirements met
- For Post to know segment by segment
- For Posts internationally to assess how much to pay each other

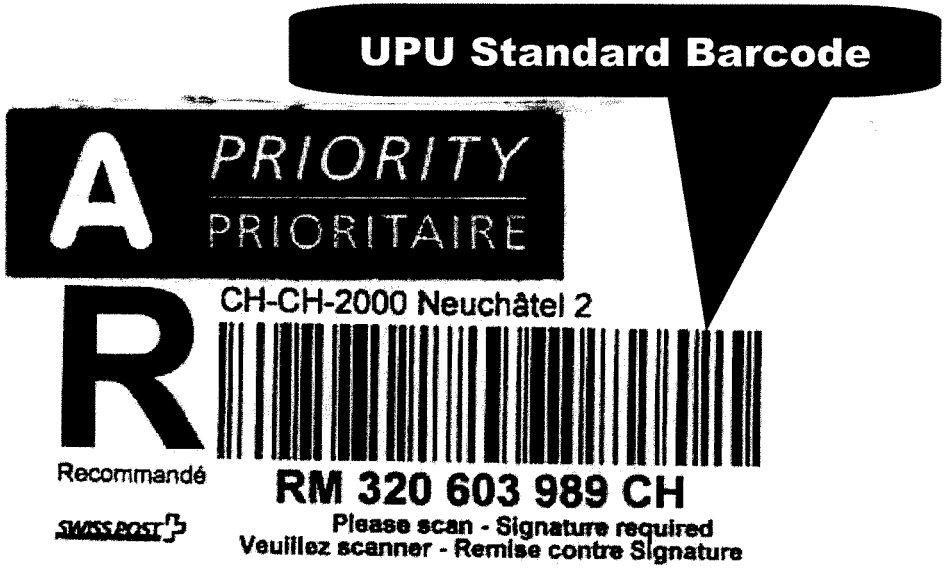
How to measure performance

International Post Corporation

- Count actual items meeting specified objectives
- Each item must have a unique identifier (text, barcode, RF-ID,…)
- Passage of item through mail pipeline is recorded event by event
- Events are collected in central system
- Reporting systems
  - On-time delivery
  - On-time return of delivery information

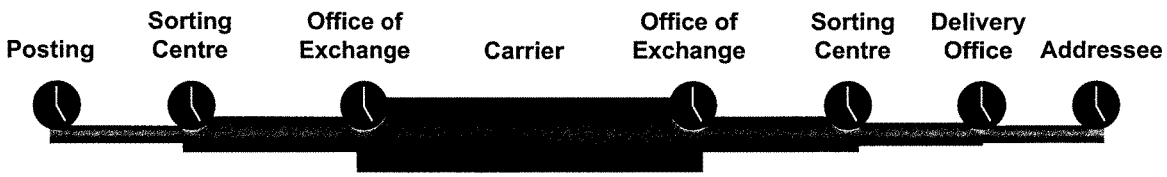
Identifying a mail item

International Post Corporation



Mail pipeline instrumentation

International Post Corporation



Postal Item	Technology
Registered letter Parcel, Express…	Barcode scan

IPC measures for identified items

International Post Corporation

- Over 130 postal services performance for EMS (Courier) service worldwide
- Similar measures for Parcels, registered and insured letters
- Objective is to ensure target level performance is achieved
- Payments between Posts based on performance in IPC reports
- Data flow is continuous 24 hours X 7 days

© ' ?, 2007

Where no identifier exists
Statistical sampling techniques

International Post Corporation

- Sample the mail pipeline using the date stamp
  - Simple, cheap and doubtful
- Post test mail and record posting & receipt date, giving end-to-end
  - Effective if posting & receipt by independent people
  - Not useful for postal operations diagnosis
- Post test mail with RF-ID tags
  - Segment by segment analysis for operations
- Sampling issues
    - What characteristics of mail to measure?
    - Is the sample representative & what precision?

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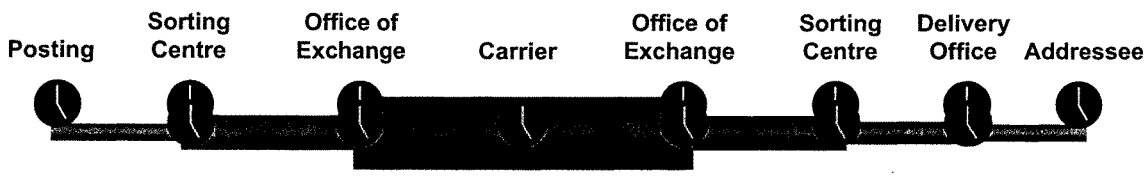
Mail pipeline instrumentation

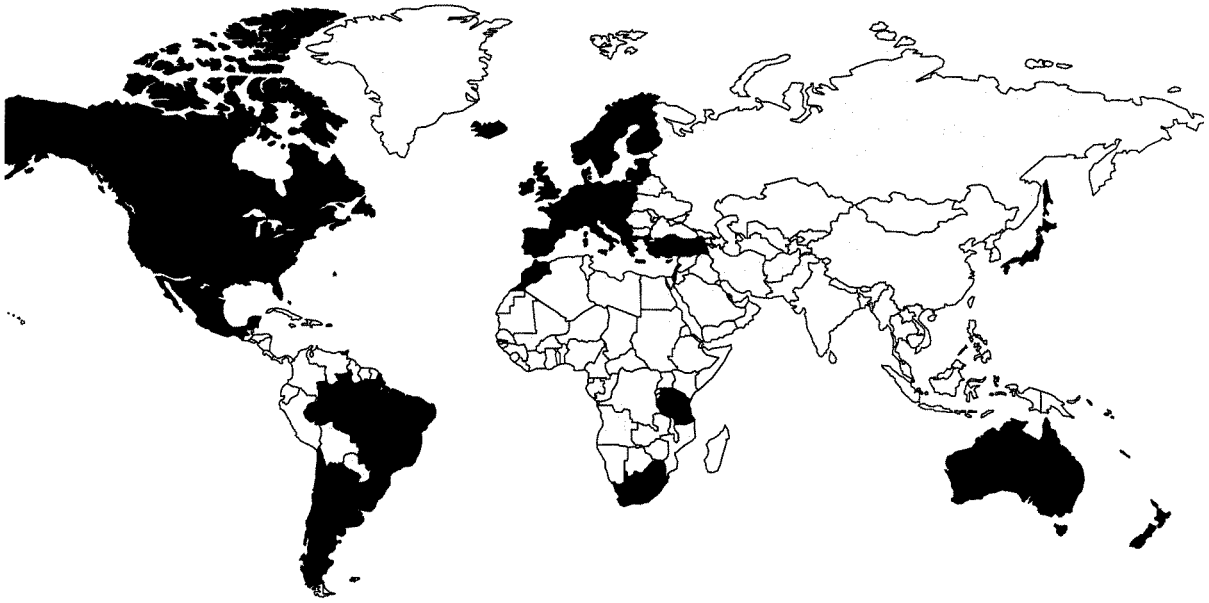
International Post Corporation



Postal Item	Technology
Registered letter Parcel, Express…	Barcode scan
Test letter	RF-ID reader

Postal RF-ID Network

International Post Corporation



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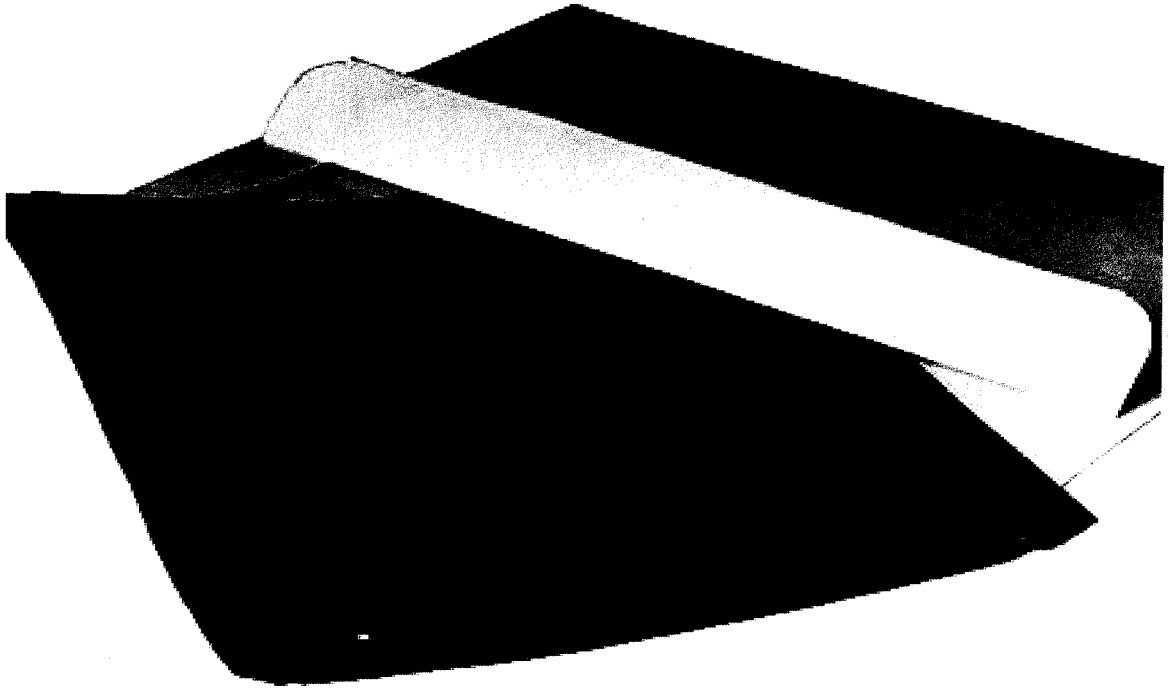
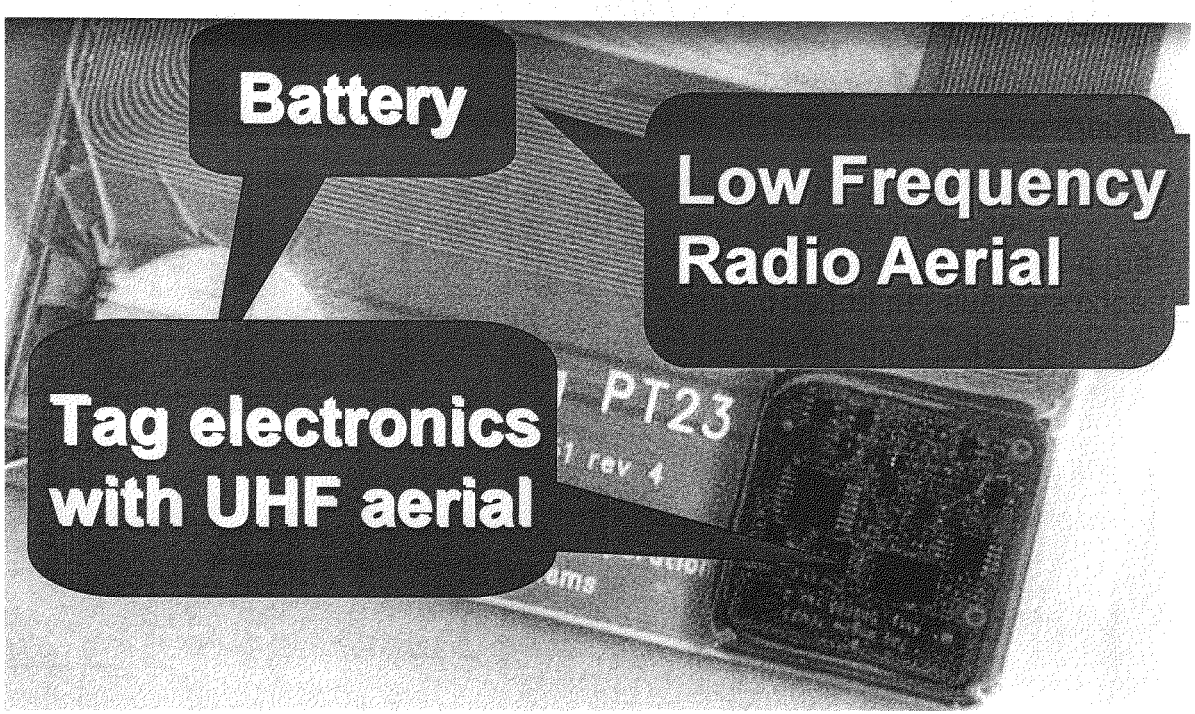
RF-ID IPC/Lyngsoe postal tag

International Post Corporation



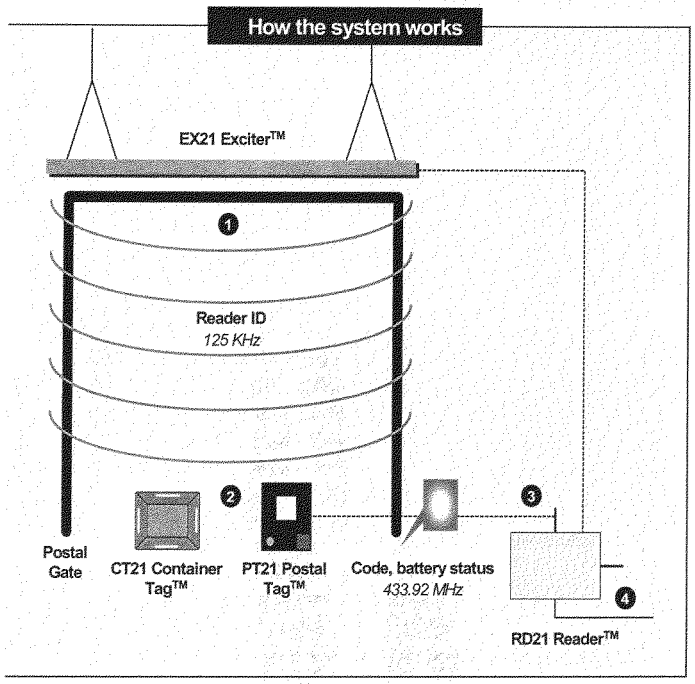
RF-ID IPC/Lyngsoe postal tag now generation 6 after 10 years

International Post Corporation



RF-ID measurement point

International Post Corporation

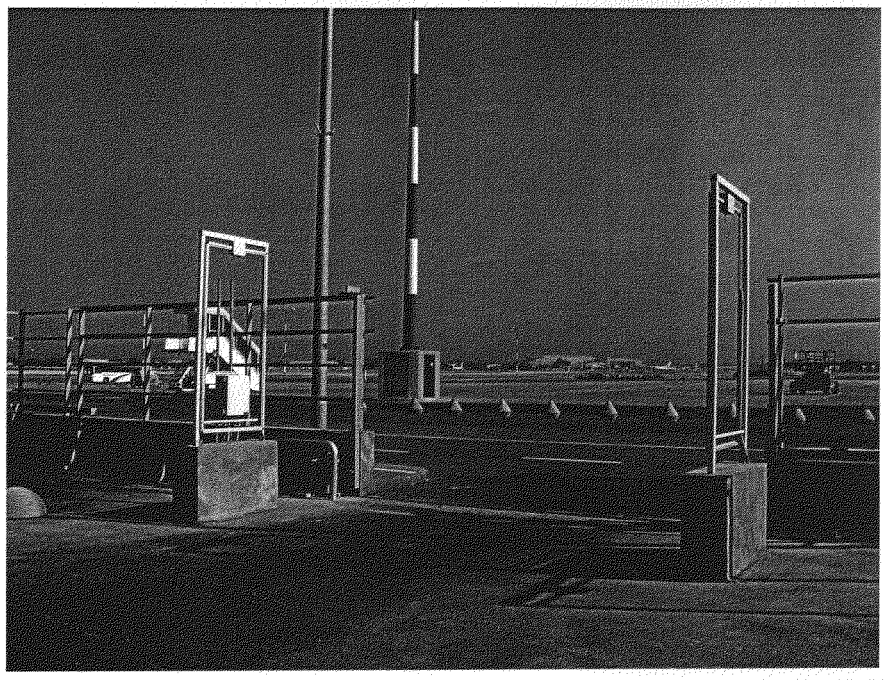


1. The **Exciter** continuously generates a magnetic field at 125 kHz
2. Activated, when a **Postal Tag** enters the field.
   The tag transmits its code and battery status and the embedded reader ID.
3. The **Reader** receives the signal and adds reader ID and time stamp to the tag data.
4. The **Reader** transfers the collected data to the **Site Server**.

© IPC, 2007

RF-ID Reading Points

International Post Corporation



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RF-ID Reading Points

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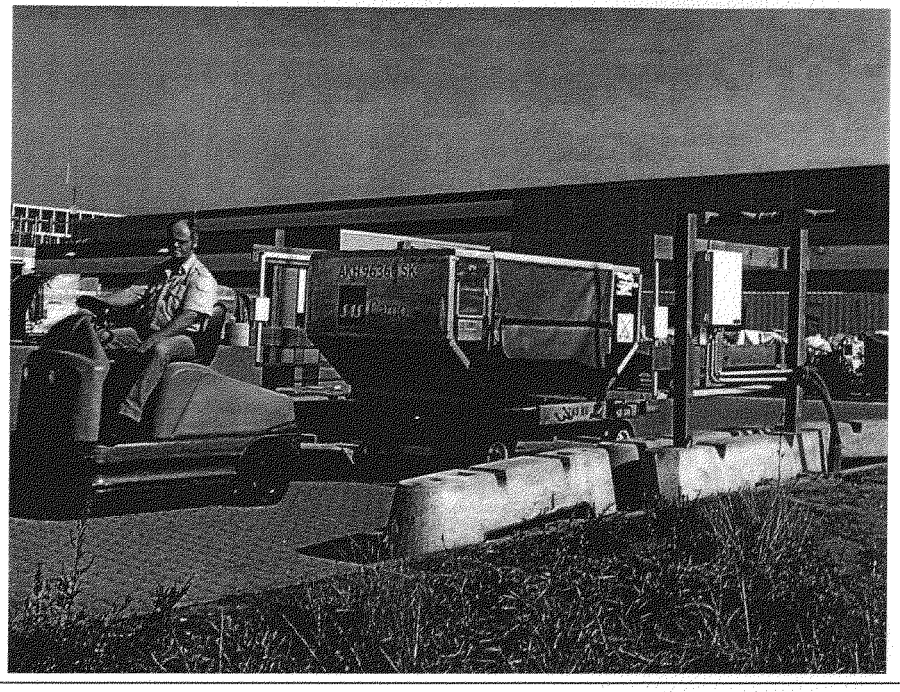

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RF-ID Reading Points

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RF-ID Reading Points

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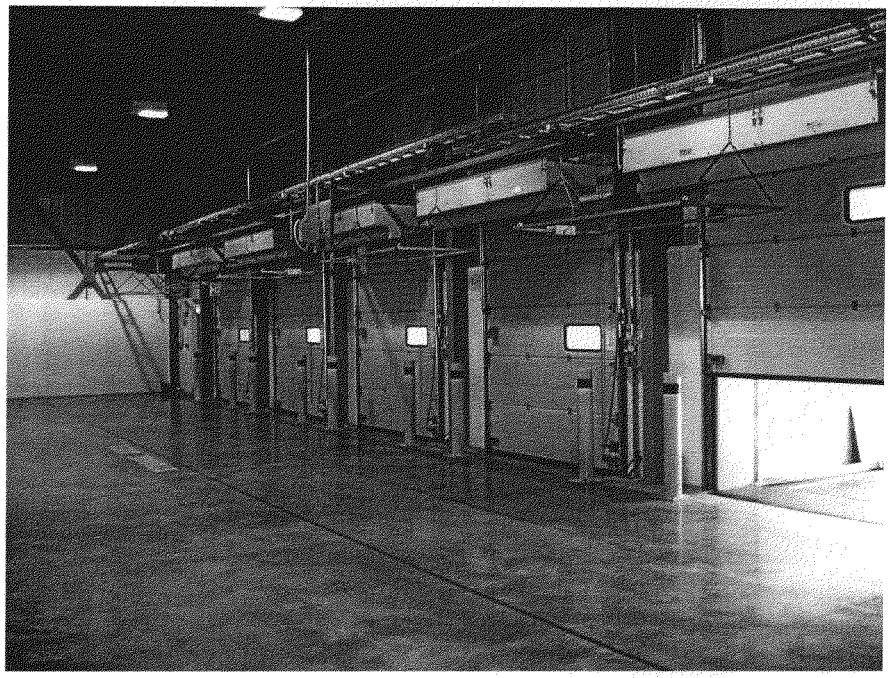

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RF-ID Reading Points

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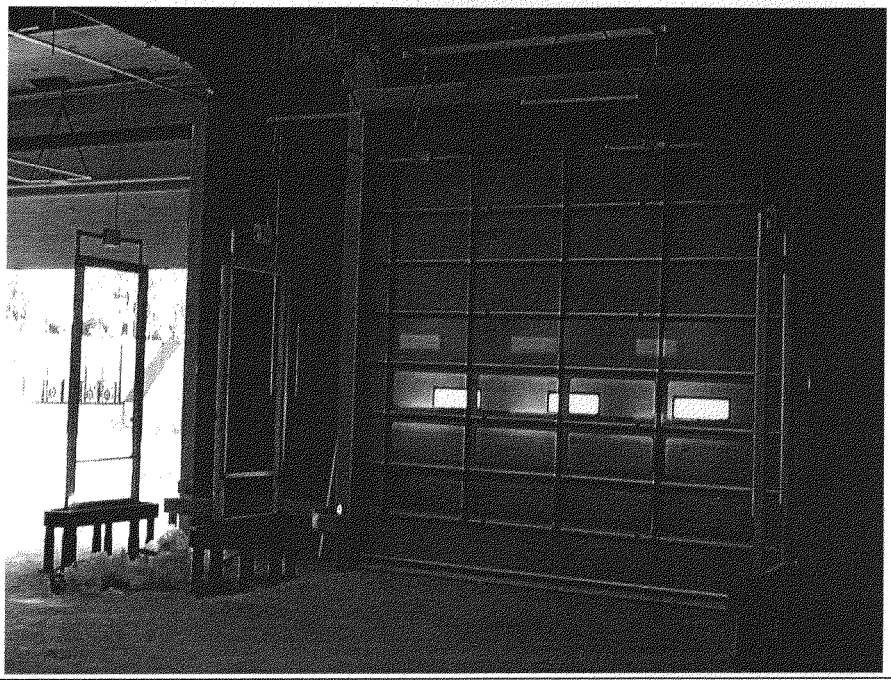

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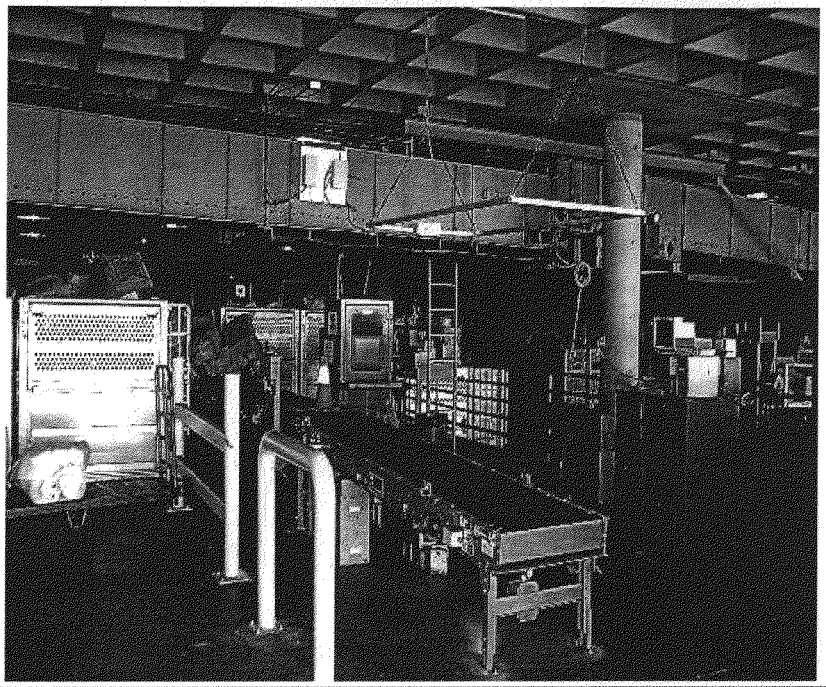
RF-ID Reading Points

International Post Corporation



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Postal RF-ID experiences

International Post Corporation

- Over 10 years in use for measurement
  - Automates data collection with no change to postal operations, & readings invisible to staff
- A niche use of RF-ID
  - 500,000 tags total to date
- Components have been continuously enhanced :

	Generation
RF-ID tag	6
Reader	6
Local server	3

- Patents owned by Posts through IPC
  - Lyngsoe of Denmark & Canada develop and manufacture as IPC partner

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Letter Service Performance Measurement

International Post Corporation

- UNEX Country System
  - Complex specification varying urban/rural, payment method, induction method, envelope size and weight, machine and handwritten addresses
- City system
  - Simple specification of key cities, stamped, street or post office posting box, up to 50 gm letter with machine written address
- UPU Terminal Dues Target system
  - Inbound only measure with City specification

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UNEX System

International Post Corporation

IPC Members

Other Posts participating in a UNEX System

New: Bosnia-HZ (part), Bulgaria, Croatia, FYROM, Turkey 2008

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Experiences in sampling

International Post Corporation

- Tendency to over-complicate the measures
- Accuracy needs postal operations scrutiny
- Panellists not always careful in data entry
- Future directions
  - RF-ID reader in recipient letter box (trial 4Q07)
  - GPS/RF-ID reader at posting box (trial planned)
- Precision to be approached with care – one driver of cost
- Measurement perturbation
  - Test mail the major flow on small volume routes?

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European Union

International Post Corporation

- Key facts
  - 27 member states
  - 490m people (US 301m)
  - Land area 4.3m sq km (US 9.8 sq km)
- Legislation
  - European Commission makes proposals
  - Council of Ministers and Parliament discuss and amend proposals but can not initiate them
  - Directives implemented by national legislation
  - Proposed 3rd Postal Directive at Parliament now
  - Aim is free postal market but with a Universal Service Obligation for some postal operators

EU Postal directives 1997 & 2002

International Post Corporation

- Universal service obligation
  - 5 days per week minimum
  - Letters to 2kg, packets to 10kg minimum (20kg max)
  - Reserved to Universal Service Provided below 50gm or 2.5 times first weight step of fastest service
  - Uniform tariff optional to each member state
- Service objectives
  - Cross-border objectives for fastest standard service
    - Speed J+3 85% 94% actual 2006
    - Reliability J+5 97% 99% actual 2006
  - Publish results every year

Domestic service objectives

International Post Corporation

- Variety of domestic service objectives
  - Most changed from content-based pricing
  - Priority (J+1) & non-priority service (J+2,3..)
  - Weight or shape based pricing too
- Services differ
  - Italy introduced Prioritaria service forJ+1 & later moved single piece mail to Non-Massivo new service
  - Ireland to one service for single piece mail
  - Portugal has Priority (Azul) service J+1 and non-priority J+3
- Different rules: non-priority only at post office and not in street letter boxes

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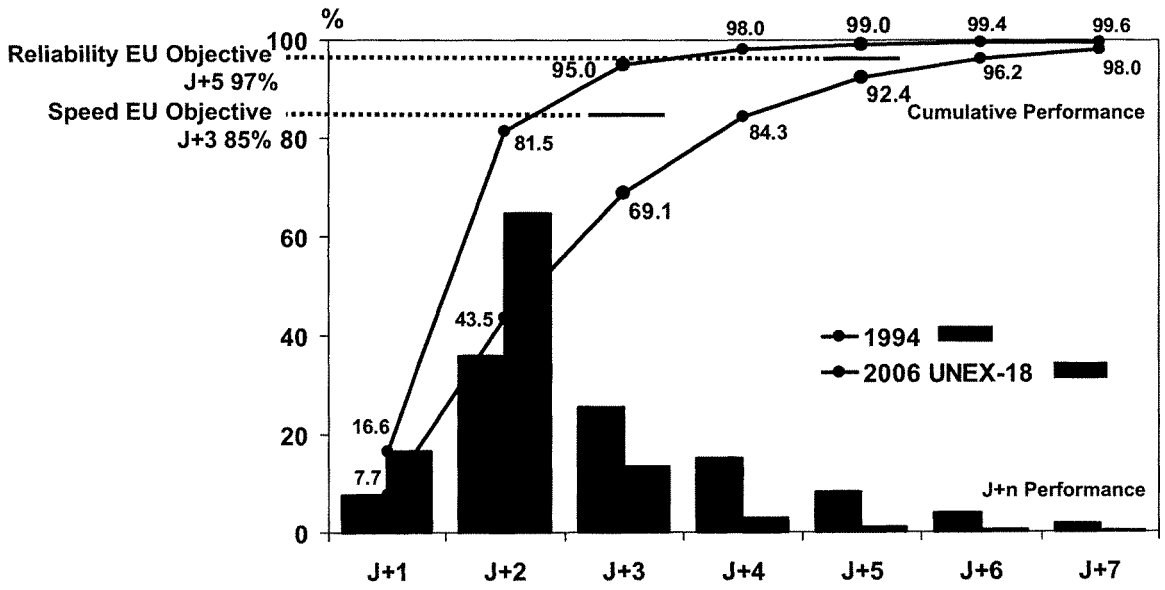
International Post Corporation

UNEX-18 Official Europe 2006-1994



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Measurement Standards of CEN (EU ANSI)

International Post Corporation

EN13850	Single piece priority mail transit time
EN14508	Single piece non-priority transit time
EN14534	Bulk mail end-to-end transit time
EN14012	Complaints
EN14137	Loss of registered mail
EN15511	Information on postal services

EN13850 is mandatory for domestic & cross-border

Current status in Europe

International Post Corporation

- EN 13850 (Priority) used in all EU & EEA
- EN14508 (Non-priority) use increasing
- J+1 the basic objective for priority (First Class) mail, with J+2….J+6 objective too in many cases
- CEN aims to simplify measures to reduce cost
- Trend to have Universal Service Provider manage the measures
- International objectives included in some national regulatory requirements

Some effects of liberalisation

International Post Corporation

- Multiple postal operators in each country
  - UK, Germany, Netherlands
- Unitary price not obligatory
  - Pricing by delivery address characteristic
  - Geographical pricing
- Market to determine the delivery standards
  - If not satisfied use a different supplier
- Universal Service still required by law
- Measurement aimed at postal services for the consumer

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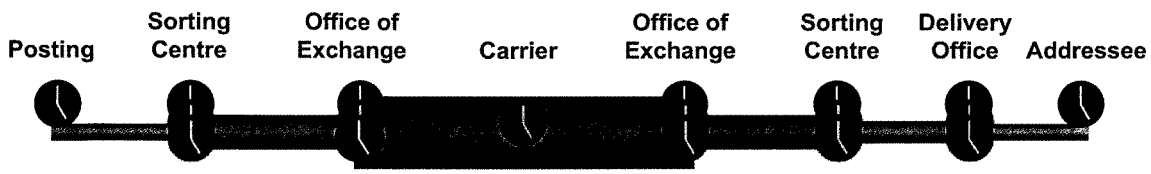
Mail pipeline instrumentation

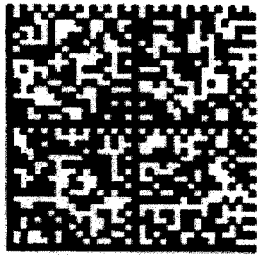
International Post Corporation



Postal Item	Technology
Registered letter Parcel, Express…	Barcode scan
Test letter	RF-ID reader
Normal letter	High speed barcode scan

Letter 2-D barcodes

International Post Corporation



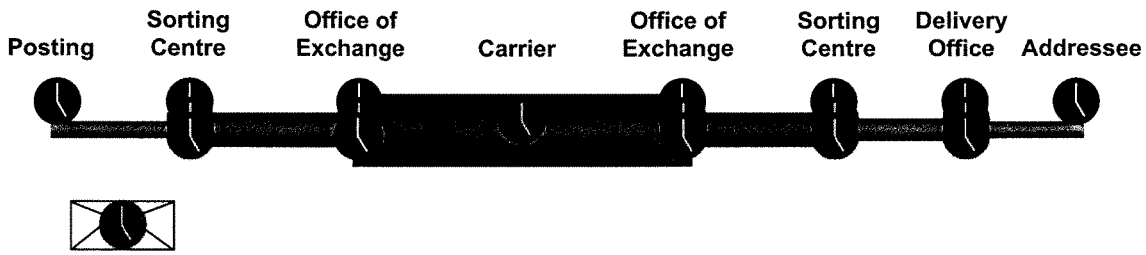
Deutsche Post 20.12.04

FILIALE F101001007 **1,00 EUR**

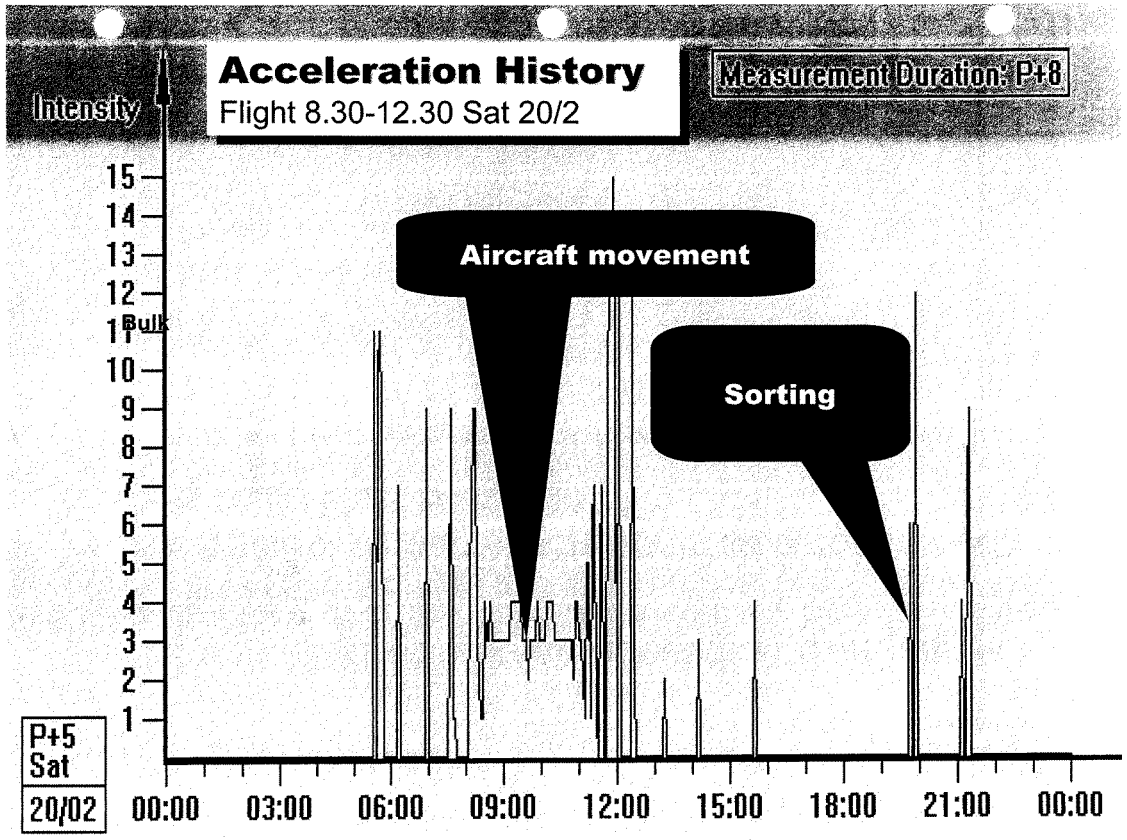
97

Mail pipeline instrumentation

International Post Corporation



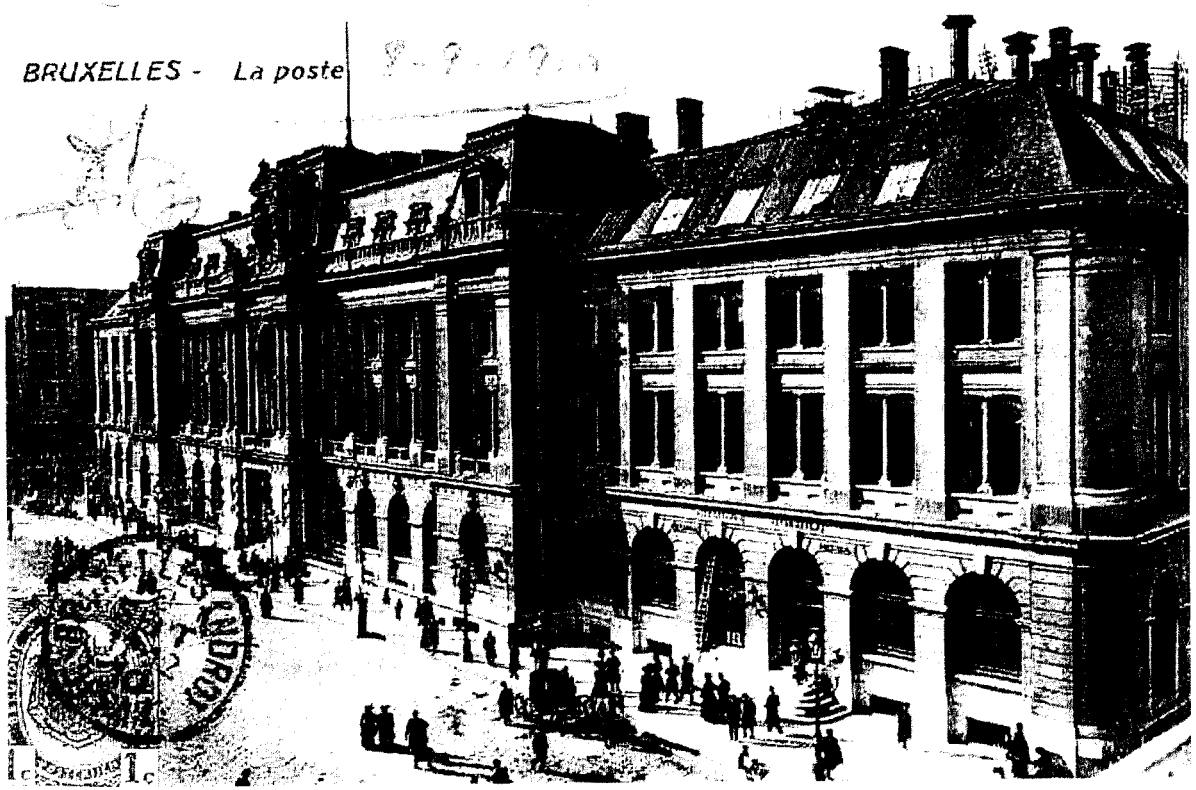
Postal Item	Technology
Registered letter Parcel, Express…	Barcode scan
Test letter	RF-ID reader
Normal letter	High speed barcode scan
Test letter	Acceleration History


Acceleration History
Flight 8.30-12.30 Sat 20/2
Measurement Duration: P+8
Intensity
Bulk
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
Aircraft movement
Sorting
P+5
Sat
20/02
00:00
03:00
06:00
09:00
12:00
15:00
18:00
21:00
00:00

Averages – a note

International Post Corporation

- Large mailers concerned about their own mail not average
- For tracked products individuals also concerned only about their own mail
- For small mailers without tracking need average numbers
- Averages are only that
  - May not reflect anyone's experience
  - Useful for trends



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Summary

International Post Corporation

- Many different approaches to measurement
- Counts are better than sampling in principle but
  - As a by-product of operations
- IPC has over 10 years experience of many of the issues and is happy to make it available

TESTIMONY OF ANTHONY CONWAY
ALLIANCE OF NONPROFIT MAILERS
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY
OF THE
SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

AUGUST 2, 2007

Mr. Chairman and members of the Committee, my name is Anthony Conway. I am the Executive Director of the Alliance of Nonprofit Mailers. Thank you for inviting me to testify on behalf of the Alliance about the importance of mail, service standards, and performance measurement.

The Alliance is a coalition of nonprofit organizations that is dedicated to the preservation of affordable postage rates and dependable mail service. Established in 1980, the Alliance is comprised of over 300 nonprofit organizations and commercial service providers that have an interest in nonprofit mailing issues. Our members include many of the Nation's best-known charitable, religious, educational, scientific and other nonprofit organizations. These members rely heavily on Nonprofit Standard Mail and Nonprofit Periodicals Mail to generate necessary support and to communicate with existing and potential members, beneficiaries, and other stakeholders.

Consistent, predictable and measurable delivery of mail is critical to the mission of nonprofit organizations. Like most businesses that use Standard Mail to solicit actions from the public, nonprofit mailers have learned that the response rate to a mail campaign depends on delivery within a predictable window of time. This is particularly true for campaigns that are coordinated with follow-up campaigns or seasonal events.

The same is true of nonprofit publications. The timeliness and predictability of mail delivery not only affects the timeliness of our members' publications for their readers, but is also critical to the effectiveness of advertisers' campaigns. Advertisers rely on the estimated in-home dates of nonprofit publications to know when to staff call centers. Many nonprofits in turn rely on their printers to identify when the critical "in home windows" occur. And the nonprofit, their printer, and advertisers all rely on the predictability of mail delivery to establish these windows. Mail that arrives late—or unexpectedly early—can wreak havoc with these plans.

The Alliance recently surveyed our members about service issues and received reports of an unevenness of service. Here are some of the comments from some of our members in the nonprofit community. We offer them not in a spirit of criticism—we believe that the United States Postal Service is the finest postal system in the world and is managed by dedicated professionals who work hard to achieve good outcomes within a difficult set of constraints—but to illustrate the importance of reliable and predictable service to mailers:

Boston University: A postal manager at Boston University reports that, while mail entered at the Boston Bulk Mail Entry Unit ("BMEU") is usually processed in a timely manner, service after the mail leaves the BMEU is more unpredictable. Letter-shaped Nonprofit Standard Mail can take five to twenty days for delivery. Standard Nonprofit flats can take up to 25 days. Last year, 24,000 pieces of First-Class auto presort metered mail entered by the university took five days for delivery to *local* addresses. While Boston University believes that it receives excellent service overall from the Boston Post Office, the lack of accountability after the mail leaves the Boston BMEU is a problem.

Consumers Union: Consumers Union ("CU") also relies on the USPS to carry out CU's mission. Occasionally CU personnel must notify the Postal Service's Business Service Network representatives in Westchester, New York, about a problem that CU would like to bring to the Postal Service's attention. Sometimes the problem needs immediate attention; other times,

it may need to be researched and then resolved. CU generally finds that the BSN staff are responsive and attentive, but that resolutions or explanations are often elusive.

In February 2007, CU notified the Westchester BSN that "seed" (i.e., sample) pieces from CU's large national December and January mailings were taking an inexplicably long time to be delivered—roughly a month from the BMC in Jersey City, New Jersey, to CU's headquarters in Yonkers, New York (a distance of about 20 miles). CU provided all the relevant data so that the USPS could investigate the problem. Although CU has seed pieces collected at an outside concern, the organization's internal marketing and production staff routinely examine seed pieces received at CU headquarters as another quality control check. Three weeks later, CU received the following communication:

> This issue was elevated through the ranks to get the best possible resolution, as it stands thru far, this issue has no resolution.
>
> According to our BMC and Westchester P&DC there we no processing delays listed from 12/1/06 to 1/31/07 and no explanation to determine what could have caused such a delay. Due to the time factor of this mailing, we believe at this time that these were isolated incidents.

Diocese of Metuchen, New Jersey: The Diocese reports that it does some large mailings for their events. An increasingly common phenomenon is the return of mailpieces carrying correct and current addresses. This requires some time and investigation about the address only to find it is correct. It also requires additional postage to resend the mail.

Diocese personnel have also noticed that some of the returned mail is astonishingly old. Indeed, some returned mail had been held for *four years*. Just a few months ago, the Diocese reports receiving three mail pieces from a mailing for an event that took place 2003.

Easter Seals, Inc, Chicago, IL: The history of Easter Seals is closely linked to the mail and supporters place "seals" on envelopes and letters. The organization reports that service problems in Chicago resulted in significant delivery delays for their February and March mailings

of the organization's signature Easter "seals." The mailing is an important source of philanthropic funding for their new Therapeutic School and Center for Autism Research in Chicago, as well as other services provided in the area. With the delivery delays, response rates and revenues were down almost 30 percent this year. These are resources Easter Seals will not have to help families in Chicago.

Elks Lodge No. 46, Milwaukee, WI: The Milwaukee, Wisconsin, Lodge of Elks mails approximately 500 copies of its monthly newsletter. The Lodge formerly sent the newsletter by Nonprofit Standard Mail. As postal delivery performance deteriorated in recent years, the promotion of events and fundraising suffered. The Lodge engaged the Postal Service for an extended period in search of answers to resolve the poor delivery performance but, unfortunately, the problem persisted. Eventually the Lodge was forced to switch from Nonprofit Standard Mail to First-Class Mail in order to receive acceptable service performance. The Lodge views this as an unacceptable compromise caused by a degradation of Postal Service performance which, in effect, resulted in a postage rate increase.

Marian Helpers Center, Stockbridge, MA: The Manager of Donor Development from the Marian Helpers Center reports that, despite the time sensitivity of its direct mail campaigns, the organization cannot project an in-home delivery date. The seed pieces from a given mailing can arrive up to two weeks apart, even to two residence addresses *in the same town.*

The Marist Brothers, Chicago, IL: This organization reports that it has experienced delivery times of more than *six weeks* for Standard Nonprofit Mail; in other instances, delivery takes only six days.

Pepperdine University, Malibu, CA: Pepperdine reports that it has experienced delays since the closing of the Postal Service's Marina del Ray Processing Plant several years ago. Delivery times for mailings of Standard Mail to addresses in the Los Angeles area itself have ranged from one day to a full month. Average time to delivery has been ten days. The

unpredictability of Standard Mail delivery times has caused departments to use First-Class Mail more often.

Word&Way. *Word&Way*, a bi-weekly newspaper published by the Missouri Baptist Convention, also reports service problems. Each issue of the newspaper is entered in Columbia, Missouri, on Tuesday or Wednesday to achieve delivery by Thursday, the stated publication date. Subscribers often report, however, that they do not receive the paper until the following week, especially in the St. Louis and Kansas City metropolitan areas.

Delays of this kind harm the churches that rely on the newsletter to disseminate information to their members. Individual churches print their specific information on the back page of *Word&Way*. Subscribers rely on the back page to get the information regarding upcoming events at their churches for the weekend. When the paper does not arrive at the home until the following week, the news is dated. In addition, the church is disappointed because members did not know about the events, making *Word&Way* an unreliable means of communication.

Word&Way has lost subscribers because of poor delivery service over the last several years. The publisher has worked diligently with the Postal Service, particularly with the manager of the business entry mail unit ("BMEU") in St. Louis. Though the delivery has improved to some extent, it is not enough for cancelled newsletter users to resubscribe with confidence.

* * *

These illustrations of service problems at multiple locations throughout the United States underscore the importance of establishing a more current and granular measure of actual service performance than is now available to mailers.

Data should be broken down by 3-digit ZIP Code pairs, or at least the ones carrying sizeable amounts of volume. Frequent reporting of service performance data by geographic region will not only help us plan our mailings, but will also allow us to work collaboratively with the Postal Service to resolve service performance issues.

Further, since the Postal Service intends for its class-specific service standards to be developed, expressed, and maintained on a detailed basis by origin-destination pairs of three-digit ZIP Code prefixes, it is important that the service measurement system report on the Service's performance on the same consistent basis. Only then can mailers and the Commission properly evaluate service performance against the service standards of each class.

Finally, these detailed service reports should help protect the Postal Service against reports of poor service that are unfounded. With the increase in fuel costs during the past two years, some private consolidators or trucking companies have delayed transportation of mail tendered for entry at the Postal Service until a full truck load has been entered. Reliable and detailed reports on actual mail delivery performance should help protect the Postal Service against bearing the blame for delays that were caused by others.

Service standards must be linked with rate levels. The Postal Service should not be allowed to comply with the rate index of the Postal Accountability and Enhancement Act simply by reducing service levels. If service standards are reduced or critical entry times are shifted earlier, those changes in service quality are tantamount to a rate increase. Changes in service quality that are substantial and systematic warrant an offsetting adjustment to the rate index.

In conclusion, the nonprofit community relies on the Postal Service for universal delivery of mail. Nonprofit organizations work hard to meet all regulations and look forward to working with the USPS to not only develop and improve service standards but also to develop service measures that can be reported in the aggregate to the "printer" but also reported in detail to the customer.

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MAILERS COUNCIL

TESTIMONY

BEFORE THE

SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

AUGUST 2, 2007

TESTIMONY OF

ROBERT E. MCLEAN, CAE

ON BEHALF OF THE

MAILERS COUNCIL

Good afternoon, Mr. Chairman, and members of the subcommittee. The Mailers Council appreciates the opportunity to testify on postal issues. My name is Bob McLean, and for the past decade I have been the Council's executive director.

BACKGROUND

The Mailers Council is the largest group of mailers and mailing associations in the nation. We represent for-profit and nonprofit mailers (large and small) that use the United States Postal Service to deliver correspondence, publications, parcels, greeting cards, advertising, and payments. Collectively the Council accounts for approximately 70% of the nation's mail volume.

The Mailers Council believes that the Postal Service can be operated more efficiently, supports efforts aimed at containing postal costs, and has the ultimate objective of lower postal rates without compromising service.

We welcome this opportunity to testify on the Postal Service's creation of delivery service standards and performance measurement systems. We also comment on plans for closing and consolidating postal facilities.

DELIVERY SERVICE STANDARDS AND PERFORMANCE MEASUREMENT SYSTEMS

The need for delivery service standards and new measurement systems are exceptionally important issues for the Mailers Council, whose members include corporations, nonprofit organizations and major mailing associations that collectively account for approximately 70% of the nation's mail volume. Delivery service standards and performance measurement systems were issues of singular importance to mailers who lobbied for their inclusion in the Postal Accountability and Enhancement Act (PAEA), the postal reform bill signed into law last December. Whatever differences mailers may have had on other sections of the bill, our members were, and are, unified in their support for standards and a meaningful performance measurement system.

A number of our members have submitted class-specific comments to the Postal Regulatory Commission on the topic of delivery standards. As an organization whose members encompass every mail class, our comments will be more general and reflect areas of concern shared by the majority of our members.

There are several reasons why mailers are so interested in new delivery standards. For example, many mail classes the Postal Service has delivery guidelines, not standards, and its measurement systems fail to measure the type of mail that comprises most of the volume it delivers.

Although Title 39 USC directs the Postal Service to operate like a business, in this area the Postal Service is doing quite the opposite. Private sector companies—including postal competitors—would not conceive of functioning without standards for one fundamental reason: Setting standards and measuring the organization's success in achieving them make the organization better. Only by measuring performance can an organization, whether in the public or private sector, identify where problems exist—and then correct them, and reward managers for their improvements.

As problematic, current postal measurement systems monitor general attitudes of individual postal customers and the Postal Service's success in delivering their mail, typically single-piece letters and cards. This approach monitors only one category of mail and overlooks mail sent by companies that produce more than two-thirds of postal revenue.

We believe that creating new delivery service standards and performance measurement systems can be done in a way that will satisfy mailers for four reasons.

First, because of improvements in the technology found at every postal mail processing facility, we believe that much of the data needed to determine delivery performance already exists. The Postal Service may, in fact, already be collecting much of it, although failing to share the data with its customers.

Second, data collection for delivery measurement in classes that affect most of the Postal Service's largest mailers can be developed without large new expenses. It is true that the current measurement systems (External First-Class Measurement System and the Customer Satisfaction Index) are costly. However, that cost occurs because a third-party vendor must be engaged to collect the data. We believe the Postal Service could collect, and in most cases already is collecting, the data mailers need, using its own systems.

Third, if there are additional costs they would be due to additional work created for postal employees. Such costs, however, would be an insignificant portion of the postal budget.

Fourth, mailers will dedicate time to working with the Postal Service to design a process for setting performance standards and measuring the Postal Service's success in meeting them because such processes will help management improve its efficiency. That efficiency, in turn, will help hold down postage rates.

Of course, one of the biggest reasons why some postal officials are concerned with new delivery standards is that once set, mailers would expect them to be met. We recognize that consistently meeting delivery standards creates numerous operational challenges for postal managers. Meeting standards could be especially difficult in high-growth areas, where postal managers already struggle to add thousands of new deliveries annually. But without reliable, consistent deliv-

ery, mailers who have the option of using alternative media, or alternative delivery means, will leave the postal system—permanently.

Now that you can appreciate the importance of these issues to our members, let me next focus on the features we expect to see in new delivery standards and performance measurement systems.

Many of our members are working with the Postal Service on delivery service standards as members of the Mailers Technical Advisory Committee, or MTAC. In those meetings our members have told postal officials that regardless of the class of mail under discussion, we need standards that are realistic and reliable. We also have emphasized the need to avoid lowering existing service standards in any significant way. We may agree on limited service changes, but will strongly oppose major downward service redefinitions without independent review.

Once the Postal Service establishes new delivery service standards, we look forward to new and more complete reporting of delivery performance. Mailers are interested in both the speed and consistency of delivery, so we need a system that will tell us if the Postal Service is achieving both goals.

More specifically, new delivery performance reports must have several qualities, none more important than timeliness. Infrequent performance reports handicap mailers from protecting themselves by changing their mail entry times or locations, and allow regional service problems to evade public scrutiny.

The data must be detailed by geographic location. Moreover, the performance reports should indicate not only the average time for mail delivery between two points, but the distribution of the variance from standard for the portion of the mail that is delivered late (sometimes referred to as the "tail of the mail").

We understand that there may be situations where high growth or other factors temporarily skew postal performance. Absent these situations, which we believe represent a small percentage of all postal operations, mailers deserve to know if they are receiving the service for which they are paying. Today, no business can succeed without measurement systems. We believe the same approach must be taken by postal managers.

The Mailers Council opposes the concept of fining the Postal Service should it fail to meet delivery standards. Because the Postal Service receives 100% of its revenue from mailers, the imposition of a fine would actually be a fine on mailers. There are better forums for addressing such problems, most notably oversight hearings such as this one.

The Postal Service's Board of Governors must encourage creation of new executive compensation systems that reflect senior management's ability to meet those standards. These systems must offer greater compensation where consistent, on-time delivery is met. The PAEA has given the Postal Service some additional and much-needed latitude in the way it compensates its managers. We strongly encourage the Board of Governors to use the results of any new performance measurement system in determining who will receive the additional compensation the PAEA makes possible.

CLOSING AND CONSOLIDATING POSTAL FACILITIES

In its efforts to improve delivery performance, and in response to ongoing and future changes in mail volume and composition, the Postal Service will inevitably need to consider closing and consolidating some mail processing facilities. The Postal Service has already begun this process, so far with mixed results. However, we believe such situations can and will be handled more efficiently in the future.

First, the Mailers Council will support the Postal Service in realigning its mail processing and delivery network. Given the number of new deliveries in many cities, and the changes underway in the mailing industry, alterations to the network are the best possible way of containing postal rates without compromising service—which is the Mailers Council's mission. Of course, these same changes may also require the construction of new facilities or the expansion of existing ones.

Any decision to close a postal facility is a difficult one because it affects the lives of many individuals. However, right-sizing the postal network as the mailstream changes is an essential step to keeping down the cost of postage. Therefore, we hope Members of Congress will support such decisions that are essential to improving the efficiency of the Postal Service.

Where consolidations have been handled successfully, postal managers communicated—with mailers, employees, and the public served—early and often. They also allowed sufficient time to plan related delivery and transportation changes. Where such consolidations have been handled poorly, postal managers have moved too quickly and failed to sufficiently discuss the implications with its customers and employees.

The Mailer Council's members have spoken with postal officials at the highest levels, including Postmaster General Jack Potter, about its network realignment, expressing our concerns about how it will be handled in the future. As a result, we are confident that mailers will be brought into the process earlier, and that field managers will receive the time and resources needed to manage such difficult yet necessary changes. We believe mailers will be kept informed consistently so that we can plan changes to our own systems accordingly.

Mr. Chairman, thank you again for the opportunity to present our view on these important postal issues. I would gladly answer any questions you and your colleagues may have.

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENT AFFAIRS

SUBCOMMITTEE OF FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES AND INTERNATIONAL SECURITY

UNITED STATES SENATE
Washington DC

August 2, 2007

Written Testimony of
James West
Director, Postal and Government Affairs
Williams-Sonoma Inc.
3250 Van Ness Avenue
San Francisco CA 94109

Mr. Chairman and members of the Subcommittee:

I am James West, Director of Postal and Government Affairs for Williams-Sonoma, Inc. Thank you for the opportunity to present testimony on the implementation of new regulations as required by the Postal Accountability and Enhancement Act (PAEA). We highly commend the Committee on its continuing attention and interest in this legislation and the USPS in general. In addition my oral testimony to this hearing I have submitted this written testimony that I request be entered into the official record.

My company, Williams-Sonoma Inc., was founded in 1956. When we first started mailing catalogs 35 years ago we made about $4 Million in annual sales and had just one store in San Francisco. We have since grown to have annual sales of approximately $4 billion and become an inter-nationally known brand with 585 stores in 43 states and Canada, and employing up to 45,000 associates. We have achieved this growth in large part by using catalogs as our exclusive advertising vehicle, and our strategic partnership with the Postal Service is an essential part of our execution

strategy in making this happen.

We will mail approximately 390,000,000 catalogs this year, making us one of the largest catalog mailers in the United States. Our annual postage expense is approximately $140 Million and USPS our largest single vendor.

Our continued growth and success depends largely on the continued ability of the Postal Service to provide effective and cost efficient mail delivery.

Williams-Sonoma Inc. shares the view of the direct marketing industry of viewing the PAEA as the foundation that will insure the continued vitality of the USPS. It will provide the tools for future growth and flexibility to meet the needs of a changing business environment.

Essential to making this happen, we believe that the Postal Service must focus on three key areas: customer service, management of its operating infrastructure and service standards and measurement:

First, the USPS must become a customer centric organization by being responsive to its customers' changing needs. Our response to our customers' needs, as well as maintaining the highest level of customer service, has been the key reason for the success of Williams-Sonoma, Inc. We listen and make every effort to understand and anticipate what our customers will need next. The Postal Service now has the tools to do the same and must begin to put it's customers changing needs ahead of it's own.

Speaking as a large mailer, to help facilitate this I would propose that the National Account Management organization and the responsibility of the National Account

Managers be expanded in a manner that positions them to be the lead representative of the entire USPS organization. They should be fully briefed and knowledgeable to work with customers on the entire range of rate changes, products, and services within the USPS. This relationship should be encouraged to evolve into the primary channel of communication between the Postal Service and its largest customers

Second, the requirements that are placed on the Postal Service by both commercial and private mailers are changing faster than ever before. As such, the Postal Service must be allowed greater flexibility to change and modify its own operating network and services. Without the ability to manage its infrastructure, free of the influence of outside bodies, it cannot be expected to fully control the costs which have a direct impact of on its ability to continue to offer efficient and cost effective services and products.

I do have concern however that the USPS not make such changes in a vacuum or without comprehensive consultation with those organizations that prepare the bulk of the mail. The various industry organizations and mailing service bureaus that provide mail preparation are often positioned to provide excellent advice on the advisability of network and or processing changes as considered. They may not be operating within the postal service itself but their intimate knowledge, actual experiences and visibility to changing trends can provide valid and objective opinion.

As an example, my exposure to FSS is sufficient to know that it will have a massive impact on standard class mailers, their service providers and the entire Postal Service network. I am certain that full consultation and communication with industry and mailers is essential for it's success.

As a mailer I have seen of many instances where the failure to properly consider, communicate, or advise of network and preparation changes, has resulted in late delivery of mail and avoidable expense.

Third, in order for any business to know how well it is doing it must have effective measurements by which to judge it's performance, and we believe that measurement of performance provides the direction for improvement. The service standards that the Postal Service is now required to put in place must be fair, accurate and achievable. The measurement of performance against these standards must be timely and actionable to the extent that it can consistently maintain and improve the service performance that is realized by its customers. The performance evaluation of this process should not focus on penalty but rather be designed to encourage and reward improvement.

It is essential the standards include the following:

- The standards must consider and provide guidance for mailers of varying size, various points of entry and mail distributions from regional to national.
- The standards must be fair, accurate and realistic. Standards cannot be accepted that could permit frequent early or late delivery. However attractive or unattractive the standards may appear, they must reflect the actual capability of the postal service.
- Standards must be flexible and allow easy modification to reflect the efficiencies gained by further automation in the USPS system.
- Performance to the standards must be measured by means that provide for proactive action and correction by both the USPS and mailers. I would ask for real time measurements are at the Postal Service Area level, which would guide corrective action by the USPS and modification to schedules by mailers.

Failure to meet standards should not be met with punitive fines but rather requirements for detailed steps to corrective and preventative actions.

The process of measurement must follow the implementation of standards as soon as possible. This may require the use of external sources until current programs are implemented, but I feel speedy implementation to be essential for the overall successful acceptance and building confidence in the process

There are other parts of PAEA that I would like to comment on:

Established Frequency and Size of Rate Increases

Notably, one of the significant benefits of PAEA is the established timing, frequency and size of rate adjustments. I must commend the PMG Potter, the PRC and their respective staffs for their efforts in meeting the requirements set forth within PAEA. Following the implementation of new rates in May of this year, any additional increase in postage is an untenable proposition that would be further devastating to catalogs and other standard class mailers already reeling from unprecedented and unanticipated increases. We believe it is essential that they complete their work and eliminate the need for an omnibus rate case under the old regulations and protect standard class mailers from another increase for as long as possible.

Advance Notification of Rate Increases

Advance notification of any scheduled rate adjustment or seasonal variation is especially important to catalog and direct marketing mailers. Direct marketing program and campaign planning, and particularly catalog production schedules, typically require

commitments for paper and other production elements far in advance of actual mailing – often in excess of 120 days. The programming and software requirements of our vendors and suppliers can easily exceed 120 days for development and testing and the consideration and programming for any mail preparation and entry changes ads even more complexity and planning.

In recognition of this, we believe that a similar commitment to formal advance notification on the part of the USPS is appropriate.

Additionally, I feel that this notification schedule should not preclude consideration of advance communication and discussion of proposed rate considerations with key mailers and industry organizations. This early discussion, without commitment, would position the USPS as a partner with its customers much in the manner of all other suppliers and vendors in corporate business. A goal of PAEA is the establishment of the USPS as a customer centric organization and this would be a big first step.

Complaint Process

The new legislation calls for establishing guidelines for the complaint process in several different areas. I would caution that these guidelines must be established in such manner that the process cannot evolve back into the often-contentious rate case system we are trying to leave behind. The rules must be defined such that the basis for complaints and their resolution is clear and quickly resolved.

Exigency

I would like to make a note regarding the "exigency clause". We support the position that it would not be prudent to try and define the circumstance beyond "extraordinary and exceptional" but we firmly believe that there MUST be rules that

dictate timely evaluation for the continued need of any adjustment AND that any such adjustments not be considered in any part of the baseline rate consideration.

Shifting Cost Burdens

Finally, as a final point I cannot overstate the fact that there is great concern among many of my peers rising from the threat of shifting cost burdens to mailers as a consequence of USPS imposed changes. There are considerable changes imminent to both entry and preparation qualifications – mostly as a result of the network redesign and FSS - and we need to be assured that those resulting costs will not become hidden rate increases or reasons for failure to meet service standards. The industry fully supports and encourages the changes proposed, but we have to participate in the planning and share in the savings.

Conclusion

The USPS has a long and admirable history. It has grown to become the largest Postal service in the world. Both private and commercial customers have contributed to and benefited from this growth. But as its customers' needs are changing so must the culture and the operating focus of the postal service. The greatest promise of PAEA is that it encourages the USPS to evolve into a truly customer oriented organization. It raises the standards and provides the tools to meet this challenge. We hope that the USPS fully realizes the opportunity it is presented.

Again, I would like to thank you for the invitation to appear before you today.

Post-Hearing Questions for the Record
Submitted to John E. Potter
From Senator Thomas R. Carper

"Service Standards at the Postal Service: Are Customers Getting What They Paid For?"

August 2, 2007

1. **We heard a good deal of testimony at our last hearing about the Postal Service's recent efforts to contract out certain mail delivery routes. It's clear that, while the percentage of routes awarded to contractors is still very small, that percentage is growing. There may soon be a moratorium on the contracting out of mail delivery if your tentative contract agreement with the National Association of Letter Carriers is finalized, but I suspect that you would like to continue contracting out where it makes sense to do so. My question for you, then, is what you think an appropriate amount of contracting out is? At what point do you think that contracting out could have a negative impact on service or of the Postal Service brand?**

Using contractors for basic postal delivery and transportation services is not a new concept; the Postal Service has used contractors to deliver the mail since 1785. In 2002 the Postal Service contracted out about 1.6 percent of total deliveries; in 2006 the figure was only slightly more at 2 percent of total deliveries.

The recently ratified collective bargaining agreement with the National Association of Letter Carriers includes a prohibition against contracting out city delivery work in offices with only city delivery. For other offices, the parties entered into a memorandum which establishes a six-month moratorium (effective September 11, 2007) which prohibits contracting out city delivery. Under this agreement, existing contract delivery service (CDS) may be maintained or renewed. The agreement does not apply to growth on rural routes.

When considering contracting delivery services, our field managers are to use the following criteria when determining if new deliveries should be assigned to a contractor: cost, efficiency, public interest, availability of equipment, and qualifications of employees. Whether contracting is appropriate would depend on the outcome of this consideration with due respect for the legitimate interests of the public, the Postal Service, and our employees.

Regarding your point about contractors' impact on service and/or the USPS brand, I would like to suggest that mail delivery is one of the core competencies offered by the Postal Service and that our mission is to provide reliable, universal mail service at affordable prices to the American public. It is our fiduciary responsibility to provide an integrated, national system of mail collection, sortation, transportation, and delivery using a combination of resources, which includes our 700,000 employees, as well as relying upon outsourcing strategies where it makes sense.

2. **Your tentative contract agreement with the National Association of Letter Carriers, if finalized, would create a joint union-Postal Service committee that would seek to develop new policies for how to handle the contracting out of mail delivery going forward. What do you hope to accomplish through this process? What, if any, limits or controls on contracting out would you be willing to accept?**

The Postal Service is very pleased that it was able to successfully negotiate a new collective bargaining agreement with the National Association of Letter Carriers. The agreement, which affects approximately 222,000 career employees, was ratified by the union membership and is effective through November 20, 2011.

Among other topics, the new agreement addressed contracting out. As you know, the parties established a joint committee to consider contracting delivery service with a mission to "seek to develop a meaningful evolutionary approach to the issue of subcontracting, taking into account the legitimate interests of the parties and relevant public policy." Consistent with that purpose, the Postal Service hopes that the committee will facilitate agreement on all contracting issues.

The collective bargaining process is the appropriate forum for discussion on any limit or control on contracting delivery service. Since 1973 our collective bargaining agreements have recognized the authority of the Postal Service to use contractors. This authority resulted from the give and take of collective bargaining. Any modification to that agreement would need to come from the same process.

Post-hearing Questions for the Record
Submitted to Postmaster General John E. Potter
From Senator Pete Domenici

"Service Standards at the Postal Service: Are Customers Getting What They Paid For?"
August 2, 2007

Question 1: I would like your commitment to send a member of your senior staff to New Mexico to assess whether or not the addition of career employees on the newly created third shift at the processing facility is indeed benefiting southern New Mexicans. I would also add that I believe that your designee should also review areas such as Rio Rancho, Santa Fe, Albuquerque, Las Cruces, and Roswell because I receive the most complaints from these cities.

I would also ask that at the same time your staff is reviewing the success of the third shift, that they also review any plans to expand the postal facilities in New Mexico and that all of the findings are reported back to both you and my office.

Answer: On September 10, the Deputy Postmaster General, Pat Donahoe (DPMG), and the Vice President of Government Relations and Public Policy, Marie Therese Dominguez, are scheduled to travel to New Mexico to review operations. As you may know, the DPMG previously had been scheduled to visit New Mexico, but the trip had to be rescheduled. I have asked Mr. Donahoe and Ms. Dominguez to report on their findings to me and I will share with you information regarding any plans to expand postal facilities in New Mexico. Please know that you have our commitment to retain the third shift in Las Cruces as long as it is needed to provide quality service to southern New Mexico.

Question 2: Utilization of retired postal employees: Would you encourage your staff to continue to work with my office in order to ensure that the final language of this bill is ready for introduction?

Answer: Yes, I have alerted our Government Relations staff to this concept and think that this would be helpful in assisting the Postal Service in recruiting experienced retirees for critical projects.

Post-hearing Questions for the Record
Submitted to Postmaster General John E. Potter
From Senator Daniel Akaka

"Service Standards at the Postal Service: "Are Customers Getting What They Paid For?"
August 2, 2007

Question 1: At a hearing on July 24, the American Postal Workers Union advanced the idea of mandating collective bargaining on contracting out, rejecting the idea of Congress legislating an end to contracting out almost all deliveries, as would happen under the Harkin Bill (S.1457). What is the Postal Service position on the idea of mandating that contracting always be an on the table for collective bargaining?

Answer: In 1971, the Postal Service began negotiating collective bargaining agreements with its four major unions: The American Postal Workers Union (APWU), the National Association of Letter Carriers (NALC), the National Postal Mail Handlers Union (NPMHU) and the National Rural Letter Carriers Association (NRLCA).

As you know, these wide-ranging contracts deal with postal employee pay, employer contributions to certain benefits, and work rules. In addition, since 1973, collective bargaining agreements with the four largest unions have contained provisions concerning the use of contractors.

Contracting issues are traditional mandatory subjects of bargaining, and the Postal Service has negotiated with each of its unions over contracting issues. Indeed, Article 32 of each agreement contains the contracting out process negotiated with each of the unions. Consequently, it is not necessary to enact a law to mandate collective bargaining on the issue of contract delivery services. Rather, the union proposal would appear to have the primary purpose of attempting to rescind, by statute, existing negotiated procedures on contracting out. I believe that the proper way to achieve a change in the agreement on this matter if one is sought, however, is through negotiations rather than by statutory amendment.

I note that the Postal Service recently reached an agreement with the NALC, without the need for arbitration—or legislation. The agreement contains several provisions concerning contract delivery services. The agreement gives a Joint USPS-NALC committee six months to review contracting-out policies. There is a moratorium on certain contracting out activities during the six-month period, and certain other restrictions for the life of the 5-year agreement

Collective bargaining in the Postal Service is the established statutory process for dealing with these work rule issues. The continued viability of the process requires that the Postal Service retain its ability to bargain collectively on agreements that are reached through good-faith negotiations, and to know that the results of those negotiations and agreements will be respected in the legislative process.

Question 2: During an answer to a question from Senator Carper regarding the recently settled rate case, you stated that some mailers are experiencing "rate-shock" affecting the Postal Service budget. However, you have also stated at past hearings that another rate case before the end of 2007 could be in order. Do you anticipate that an additional final rate case could further complicate or compound the rate shock that you said the Postal Service has observed?

Answer: As I indicated in my testimony at the August 2 hearing, an increase in postage can cause mailers to reduce the amount and frequency of their mailings, thus reducing Postal Service revenue. I believe this is what occurred in the last quarter.

On August 15, the Postal Regulatory Commission issued an "*Order Proposing Regulations to Establish a System of Ratemaking,*" which outlines how the PRC intends to administer various provisions of the Postal Act of 2006. The Governors of the Postal Service will review the proposed regulations, and consider the views of all stakeholders and the financial requirements of the Postal Service before deciding whether to file a final rate case. However, they have not made that decision regarding the next price change. I can assure you, however, that they will make a decision that they believe is in the best interests of the Postal Service and its customers.

Question 3: At many hearings, you have stated that one reason for the Postal Service looking at using more contractors for city routes is because of the new budgetary environment that the Postal Service is operating under the Postal Accountability and Enhancement Act (PAEA). However, I have been told that Contract Delivery Service was already being implemented before the PAEA was signed into law. If the PAEA is one of the major contributors to the need to contract out, why was the Postal Service starting to contract city deliveries before the PAEA was signed into law?

Answer: Since the Postal Service assumed operations from the heavily-subsidized Post Office Department in 1971, it has been required to operate like a business. Over the past 36 years, we have consistently looked for ways to reduce costs and improve productivity, including the use of contract delivery service. In fact, since 1973, collective bargaining agreements with the four largest unions have contained provisions concerning the use of contractors.

The Postal Accountability and Enhancement Act, while providing additional flexibility and an opportunity to retain earnings, also presents an unprecedented challenge for the Postal Service to operate within the restraints of a price cap applied at the class level, without offsetting restraints on our cost drivers. Consequently, we must redouble our efforts to reduce costs and increase productivity. The exploration of contracting out has just been one part of a multi-pronged approach to achieve cost reductions and increased productivity.

Management must retain the flexibility to explore and implement cost-reduction initiatives that support the fulfillment of our mission of providing high-quality, affordable, universal mail service. In doing this, we are also protecting the interests of all postal stakeholders, including our employees, by offering the attraction of minimal rate adjustments, to maximize mail volume in a competitive communications and delivery marketplace.

Post-Hearing Questions for the Record
Submitted to Postmaster General John E. Potter
From Senator Susan M. Collins

"Service Standards at the Postal Service: Are Customers Getting What They Paid For?"
August 2, 2007

Question: I understand that a number of other countries, including the United Kingdom, Ireland, France, Norway, Japan, India, and Singapore provide discounts for customers who use postage meters, recognizing that this reduces costs and creates efficiencies. I understand the United States offers a postage discount for international mail postage purchased over the Internet. Are you considering meter and online discounts for the U.S.? Will your plan address it?

Answer: The Postal Service currently allows online discounts for international packages products if the postage is purchased through an online system (PC Postage) and meets shipping label requirements. These discounts are realized directly at the point of sale and are reflected in the postage indicia. We consider the cost efficiencies and the additional data received from PC Postage products to validate these discounts. This additional data includes (in electronic form), customs information, transactional data, and operational data. The customs information allows the USPS to transfer customs data directly to customs in both hard and soft copy. Transactional data allows the USPS to perform certain fraud detection methods, and the operational data provides planning and other USPS benefits. These discounts have not been extended to postage meters because current postage meter technology does not provide the additional data to achieve any of the benefits mentioned above. Additionally, although often discussed, these online discounts are not available for domestic postage because the benefits have not justified the discounts. We will continue to evaluate the value of providing different prices to our customers based on how they access domestic postage and enter mail into our postal network.

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Post-Hearing Questions for the Record
Submitted to Dan G. Blair
From Senator Thomas R. Carper
"Service Standards at the Postal Service: Are Customers Getting What They Paid For?"
August 2, 2007

1. Our witnesses on the second panel today talked about the need to somehow link rates and service standards so that the Postal Service – because of the CPI rate cap – is not encouraged to dramatically cut back on service in order to meet its obligation to live within the cap. What are your thoughts on this proposal?

The Act itself does not call for such a linkage, and I would suggest it is too early to address this because we first need meaningful service standards and measurements in place. However, the Commission has received some comments to its August 15, 2007 proposed regulations for a new ratemaking system that encourage the Commission to include a statement that the CPI calculation be based on the assumption that there is no change in service standards and that any such changes will result in an adjustment to that number.

2. Some of our later witnesses also discussed their opposition to potential efforts in the future to fine the Postal Service for not meeting the service standards it sets. They are apparently concerned about the negative financial impact fines would have on customers. But fines are one option the Regulatory Commission will have available to it for punishing the Postal Service. How do you envision using the Commission's new authorities, including the authority to levy fines, to ensure compliance with service standards and any other aspects of the reform bill?

Although Congress provided the Postal Service with the flexibility to behave like a business, Congress also invested the Postal Regulatory Commission with new authorities, such as subpoena power and the authority to levy fines, when appropriate. However, I do not sense any inclination among the Commissioners to assess fines without significant cause. In particular, it would not be my intent to do so. In my view, the imposition of fines should be reserved for flagrant abuse of the PAEA or persistent disregard by the Postal Service of orders issued by the Commission. It is important to note that payment of fines by the Postal Service would go to the Treasury, as opposed to the aggrieved party.

3. I understand that the Regulatory Commission has been working with the Postal Service in recent months – or at least been in the room – while they've sought comments from the mailing community on the service standards they are developing. Are you happy so far with the level of involvement you've been offered?

We have been working directly with the Postal Service, and we are pleased with the frequent briefings and meetings we have had to date. Postmaster General Potter designated Deputy Postmaster General Pat Donohoe as the lead on these meetings. Mr. Potter attended our most recent meeting, which was held on October 2, 2007. It is our expectation that the Commission's input will be reflected in the final proposal from the

Postal Service. I would like to add that we look forward to a continuing consultation with the Service, which must establish service performance goals by June 2008.

4. Also, I believe that at least some of the work being done on the service standards has been taking place within the Mailers Technical Advisory Committee. The American Postal Workers Union expressed some disappoint at our hearing last at the fact that they – and I assume other employee groups – are not permitted to participate in this group's meetings. Do you think the Postal Service is being as inclusive as it should be in this process?

I am aware of the concerns raised by the American Postal Workers Union. The Postal Service has advised the Commission that it has sought input from mailers, unions, and management associations as well as working with an MTAC service standards subcommittee. In addition, the Postal Service has briefed us on its review of existing measures of customer satisfaction with service. I have been told that the Postal Service has visited the Commission's website to review comments we received from the public in response to our solicitation of public input on both the new rate system and service standards, as well as testimony received at our three field hearings in June and July.

5. I understand that the Postal Service is working on a so-called "intelligent mail" project to begin in 2009 that will make it easier to track mail throughout the postal system. I believe this project is supposed to be the basis for the performance measurement system that the Postal Service is required to develop under the postal reform bill, even though it will not be up and running for some time. What can the Postal Service do between now and 2009 to give their customers some data on how the Postal Service is performing and whether it is in compliance with its service standards?

The Commission believes that reliable, accurate, and timely data is critical to carrying out our statutory responsibility under the PAEA to ensure that the Postal Service is meeting its service standards. As you know, the Act calls for an external measurement system. If approved by the Commission, internal measurement systems may be substituted for external measurements. The Postal Service has briefed the Commission on several external systems being used now, as well as the potential for using a hybrid of both an external and internal measurement system until the Intelligent Mail Barcode (IMB) is fully operational. The Postal Service may also wish to develop a system for service measurements for mail that bypasses automated processing and for other mailstreams that will not be tracked by barcode technology.

6. I've always said that the development and enforcement of strong service standards at the Postal Service was an important because it could help make postal products more valuable and more relevant to its customers. I know you and the rest of the Regulatory Commission have taken extensive testimony from the mailing community on service and how this part of the postal reform bill we're talking about today should be implemented. What, in your view, is it most important for the Postal Service to do to make this effort a successful one?

The need for consistent and reliable mail service is what the Commission hears most often when mailers have commented on service standards and performance measurements. To ensure the continued value of the U.S. Mail, there needs to be a system-wide performance measurement that provides detailed, timely, and accurate information, which is available to the public. Understanding the various components of the delivery and processing cycles, such as critical entry or cut-off time for business mail, the last collection times for neighborhood mail boxes, and the length of what is called "tail of the mail," are important factors that must be considered by the Postal Service as it develops its service standards and performance goals.

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