

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

**MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012**

Docket No. N2012-1

**AMERICAN POSTAL WORKERS UNION, AFL-CIO,
STATEMENT IN OPPOSITION TO PROPOSED CHANGES
(April 23, 2012)**

In accordance with Rule 30(e)(1), the American Postal Workers Union, AFL-CIO hereby summarizes its reasons for urging the Commission to recommend against the changes proposed by the Postal Service in this case. The Postal Service is proposing to dismantle its nationwide mail processing network so substantially that it will be required to degrade service standards for First Class letter mail. In support of its proposals, the Postal Service has introduced evidence that substantially overstates the savings that can be achieved by the proposed facility closures and service changes, and that substantially understates the loss of revenue that will be likely to result from the degradation of service.

The Postal Service's case omits analysis of the damage the proposed change will do to Priority Mail, an emerging source of additional revenue, and omits analysis of the opportunity cost that will be incurred as the Postal Service loses its competitive position in growing parcel markets. The Postal Service has not justified, and cannot justify, the degradation of First Class letter mail service and the collateral loss and damage the Service will suffer if this Plan were to be carried out.

Today APWU is filing the following three testimonies in support of its position in this case:

1. Rebuttal Testimony of Kathryn Kobe on Behalf of the American Postal Workers Union, AFL-CIO (APWU-RT-1).
2. Rebuttal Testimony of Marc Schiller on Behalf of the American Postal Workers Union, AFL-CIO (APWU-RT-2).

3. Rebuttal Testimony of Pierre Kacha on Behalf of the American Postal Workers Union, AFL-CIO (APWU-RT-3).

The Rebuttal Testimony of Kathryn Kobe, Director of Price, Wage and Productivity Analysis for Economic Consulting Services, Inc. (APWU-RT-1), will explain how the Postal Service has significantly overstated savings it could achieve by its proposed network consolidation. The Postal Service estimates err by:

- the use of the FY2010 mail processing network to determine the value of the savings,
- the use of the FY2010 mail volumes,
- including in the savings estimates closings of facilities whose consolidation was not part of the network rationalization initiative and whose savings were achieved without changing the prior service standards,
- failing to include the flexibilities provided by the APWU 2010 national contract in assessing the baseline costs,
- failing to subtract from the savings estimate savings projected from the closing of facilities that the Postal Service determined should remain open, failing to incorporate the costs of the transportation hub in the analysis and
- failing to consider transitional and transaction costs that will be incurred.,

The Rebuttal Testimony of Marc Schiller, CEO of Shorter Cycles, LLC. (APWU-RT-2), will detail concerns about market impacts and opportunities:

- Market research suggests that customers will make decisions on mailing and shipping based on their overall view of the Postal Service condition as well as the specific changes in service. This indicates that revenue losses will likely be substantially higher than USPS predicts.
- Although USPS does not propose to change service standards for packages – other than first class – mailed packages, including those in Priority Mail, will likely see degradation in service and performance.

- The degradation of standards and disinvestment in its network will very likely result in loss of significant revenue growth opportunities.

Finally, the Rebuttal Testimony of Pierre Kacha, Director of the Postal Practice at decision/analysis partners, LLC (APWU-RT-3), provides a modeling tool to help evaluate the performance capabilities of the Postal Service network.

APWU asked decision/analysis partners (“dap”) to model the current Postal Service network and test opportunities to better size the network without changing service standards both with and without the use of capital. Models are not the basis on which to decide what facilities should remain open or close. Neither APWU nor dap is making any recommendation as to specific plants or the number of plants that should be consolidated. Such decisions should only be made through an improved AMP process that does a better job of measuring all costs and is more transparent. However, models can provide a sense of direction and possibilities.

Dap has used FY2010 postal data in its work to make its analysis comparable to the analysis presented by the Postal Service in this case, and because FY 2010 data was readily available in this docket. Because the dap analysis uses FY 2010 data provided by USPS, the modeled costs are subject to the same criticisms made by Ms. Kobe in her testimony. These cost data are submitted by the APWU for the purpose of showing directional change.

Decision/analysis partners has been able to build and validate the model of the Postal Service mail processing network. But, given the time constraints for producing testimony, they were only able to run “idealized” scenarios on the model that assume a normal and regular mail flow and that assume there is no capital available for investment. Dap is continuing its work by running more realistic scenarios and seeing what effect the use of capital might have.

The initial service performance results reported in the testimony are idealized because they do not reflect the inherent variability of the mail processing and distribution environment – variability which is caused by a host of factors including the unpredictability of labor-intensive operations, fluctuations in machine throughput and/or

downtimes, labor shortages, unpredictable variation in demand, variation in time in transit. Moreover, many processes are not represented (e.g., yard and dock operations, opening unit operations, bulk mail acceptance, etc.) each of which contributes to overall service performance.

Due to lack of time, the model has not yet tested the effects of more stringent, but quite plausible, operating conditions. The additional conditions dap intends to analyze include:

- Evaluating service performance under peak processing volumes, based on FY2010 data
- Adding a 'tail of mail' for originating outgoing mail to depart the originating ZIP3 at 8pm (in the reported results, the second and final dispatch departs the originating ZIP at 6pm)
- Considering a 7am target entry time at the destination ZIP3 (in the reported results, the cutoff time is set to 8am)

Nevertheless, even the first stage of this modeling work strongly indicates that USPS still has opportunities for consolidations and can achieve cost savings without changing service standards. Continuation with consolidations and other cost savings initiatives through individual AMP studies is a more certain and safe alternative to the high risk Network Rationalization initiative.

For these reasons, the Commission should recommend that the Postal Service not carry out its network rationalization plan as proposed.

Respectfully submitted,

Darryl J. Anderson
Jennifer L. Wood
Counsel for American Postal Workers Union, AFL-CIO