

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268B0001

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

DOCKET No. N2012-1

INITIAL BRIEF OF UNITED STATES POSTAL SERVICE
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I. STATEMENT OF THE CASE.

When the United States Postal Service (“Postal Service”) determines that there should be a change in the nature of postal services that will generally affect service on at least a substantially nationwide basis, it is required by title 39, United States Code section 3661(b), to request that the Postal Regulatory Commission (“Commission”) issue an advisory opinion on the proposed service change. Pursuant to 39 C.F.R. § 3001.72, the Postal Service’s request must be filed with the Commission “not less than 90 days” before implementation. The Postal Service has determined that Mail Processing Network Rationalization changes (“MPNR”) potentially affect every sender and recipient of mail in the United States. Consequently, the Postal Service filed its request for an advisory opinion (“Request”) with the Commission on December 5, 2011, more than 90 days in advance of its originally proposed implementation date of early April 2012. Request at 14.

As this Initial Brief explains, the Postal Service has presented reliable, probative, and substantial evidence to support an advisory opinion from the Commission that the MPNR conforms to the policies of title 39. The MPNR’s service standard changes and underlying operational effects represent prudent, responsible, and proactive stewardship of the national postal system as declining volumes and mail mix changes create a chronic gap between revenues and operating costs.

The current postal processing and transportation infrastructure was developed over previous decades to handle significantly more First-Class Mail

volume than currently exists today. Unfortunately, in recent years the Postal Service has experienced steady and precipitous declines in mail volume, driven largely by the accelerated diversion of First-Class Mail to electronic media. While a recovery from the worst of the recent economic recession may slow the rate of decline, postal customers' increasing use of electronic communication ensures that this downward trend will continue into the foreseeable future.

Additionally, the decline in First-Class Mail volume has considerably altered the mail mix by increasing the proportion of less profitable mailpieces, further complicating the Postal Service's long term financial direction. Despite aggressive and comprehensive measures to close the gap between revenues and costs, the number of postal delivery addresses continues to grow each year, continually adding fixed costs and contributing to the sharp decline in the average number of mail pieces per delivery stop. Consequently, postal expenditures continue to significantly exceed revenues, pushing the Postal Service perilously close to its statutory borrowing limit.

In the face of trends largely beyond its control, Postal Service management must implement measures that preserve the long-term viability and relevance of the national postal system. Simply put, this is no time for strategies founded on half measures and hope. Rather, it is a time for expeditious action that strikes a reasonable balance between historical service levels and the need to eliminate the excess mail processing and transportation capacity that is fueling the imbalance between revenues and operating costs. If the Postal Service is to remain a relevant and viable part of the American economy, it must implement

service and operational changes that establish a stable operating platform. The MPNR is the single most critical and dynamic act that the Postal Service can undertake to accomplish these goals.

The Postal Service's market-dominant product service standards are published at 39 C.F.R. Parts 121 and 122. In its Request, the Postal Service proposes to revise the current service standards for First-Class Mail, Periodicals, Package Services, and Standard Mail. Request at 1. The most significant revisions would eliminate the expectation of overnight service for portions of First-Class Mail and Periodicals and, for each of these classes, enlarge both the two-day and three-day delivery ranges. *Id.* These revisions would allow for a significant consolidation of the Postal Service's processing and transportation networks. The resulting network would not only better match current and projected mail volumes, but would also generate significant cost savings.

The proposed Service Standard Changes will enable the Postal Service to continue to bind the nation together through the personal, educational, literary, and business correspondence of the people, but do so in a more operationally efficient manner. 39 U.S.C. § 101(a). The continuation of current retail and bulk mail entry operations is consistent with the mandate that customers have ready access to essential postal services and that adequate service be maintained. 39 U.S.C. § 403(b)(3). Additionally, pursuant to 39 U.S.C. § 101(e), the Postal Service's proposed Service Standard Changes preserve channels for the expeditious collection, transportation, and delivery of important letter mail by: (1) exempting Express Mail and Priority Mail from any material changes; (2)

retaining an overnight service standard for properly-entered Presort First-Class Mail, and; 3.) preserving the availability of Post Office Box and Caller Service to provide overnight service to a portion of the single-piece First-Class Mail stream. Finally, the proposed service standard changes will have, at most, a negligible impact on Standard Mail and Package Services.

As the Commission continues its review of MPNR, it is important to keep in mind that the Postal Service has been forced to reposition mail service numerous times in the past. As various forms of more expeditious communication have developed and flourished (the telegraph, telephone, and facsimile), the Postal Service has responded by making necessary adjustments to its processing and delivery networks. When viewed in the context of these historic developments, MPNR becomes just one more repositioning in the long and storied history of the Postal Service. Given the changing utility of physically transporting hard copy mail during the modern *information age*, it is not surprising that market research concerning MPNR indicates that the public can readily adapt.

As demonstrated below, the parties opposed to the MPNR fail to offer sufficiently reliable, probative and substantial evidence to warrant a contrary conclusion. Accordingly, the Commission should ignore appeals that it wait and hope for legislative prescriptions to relieve some of the short-term or long-term financial instability that is presently buffeting the Postal Service. Responsible stewardship of the postal system calls for the recognition of the past coupled with a vision that preserves the long-term viability and relevance of the institution. If

the Postal Service is to remain viable and relevant, it must implement operational and service changes consonant with those needs. The time for constructive and supportive advice is now.

II. PROCEDURAL HISTORY.

On December 5, 2011, the Postal Service filed with the Postal Regulatory Commission a Request for an Advisory Opinion on a plan, termed Network Rationalization,¹ to revise service standards with the purpose of facilitating a consolidation of the Postal Service's mail processing and transportation networks. In support of this Request, the Postal Service submitted the written direct testimonies of thirteen expert witnesses, including two executive officers of the organization, along with thirty-nine library references. The testimony examined MPNR and its fiscal impact by means of a conceptual, top-down analysis that estimated recurrent savings the Postal Service would achieve each year from efficiencies gained primarily in mail processing and transportation.

The Request followed on an Advance Notice of Proposed Rulemaking published by the Postal Service in the *Federal Register* on September 21, 2011; the Advance Notice solicited comments on Network Rationalization while the plan was still at a conceptual level. See 76 Federal Register 58433. Ten days after the filing of the Request, on December 15, 2011, the Postal Service published, in the *Federal Register*, proposed revisions to its market-dominant product service standard regulations, 39 C.F.R. Part 121, and solicited public comment. See 76 Fed. Reg. 77942 (December 15, 2011).

¹ Network Rationalization has often been characterized as *Mail Processing Network Consolidation* or "MPNR."

Following the filing of the Request, a total of twenty-seven parties filed notices of intervention. On December 7, 2011, the Commission issued Order No. 1027, which provided public notice of the filing of the Request, initiated this docket, appointed a representative for the public's interests, and established a date for a prehearing conference. Intervenors initiated written discovery on the Postal Service's direct testimony on December 13, 2011. The Commission convened the prehearing conference on January 4, 2012, and issued a procedural schedule on January 12, 2012. P.O. Ruling No. N2012-1/5.

During discovery, the Postal Service's direct case was supplemented by a technical conference on January 20, 2012,² the filing of an additional ninety library references, and responses to hundreds of formal written interrogatories and document requests from intervenors and the Commission. Evidentiary hearings were held at the Commission between March 20-23 for entry of the Postal Service's direct testimony, associated library references, and designated interrogatory responses into evidence, and for oral cross-examination of the Postal Service witnesses' direct testimony.

In response to the February 23, 2012, Postal Service announcement that it had made decisions regarding the several hundred facility and operational consolidation decisions that had been pending when the Request was filed, the

² In its Notice Regarding Attorney/Witness Assignments (December 5, 2011), the Postal Service solicited participant interest in technical conferences on the testimony and other documentation filed in support of the Request. The Presiding Officer also sought participant interest in a technical conference at the Prehearing Conference (Tr. 1/10, 17), and the Postal Service renewed its invitation. *Id.* at 17. Two parties promptly indicated interest in a technical conference for witness Rosenberg (USPS-T-3), whose modeling work was comparatively novel to regulatory postal experts. While no other technical conferences were requested or held, interest in technical details of the quantitative market research results emerged too late for a technical conference. See Tr. Vol. 12 at 4501-02.

Commission directed the Postal Service to file supplemental operations and costing testimony to update the testimony presented during the March 20-23 hearings. That supplemental testimony³ was filed on April 16, and 30, 2012, and entered into evidence and subjected to oral cross-examination at a hearing convened on May 9, 2012.

On April 20-24, 2012, the following intervenors filed a total of 15 pieces of written rebuttal testimony that challenged or expressed concern about the planned service changes and underlying operational changes, and/or alternative proposals: the American Postal Workers Union, the National Association of Letter Carriers, the National Newspaper Association, the National Postal Mail Handlers Union, and the Commission's Public Representative. In addition, the Postal Regulatory Commission itself sponsored the testimony of two witnesses. Cumulatively, these testimonies were supplemented by a total of thirty-one Library References. The Postal Service and intervenors were given an opportunity to direct written interrogatories to each of these witnesses.

On May 25, 2012, the Postal Service published final revisions to its service standard regulations in the *Federal Register*, and indicated that the revisions and attendant operational changes would be implemented in two phases, the first to commence on July 1, 2012, and the second to commence on February 1, 2014. See 77 Fed. Reg. 31190.

Hearings were held at the Commission on June 13-14, 2012 for the entry

³ In contrast to the "top-down" analysis on which the Request itself was based, updates entailed examination of facility-specific or "bottom-up" analyses that, by definition, would not incorporate network efficiencies beyond (usually pairs of) losing and gaining facilities.

of intervenor and Commission-sponsored testimony and designated interrogatory responses into evidence, as well as for oral cross-examination of those witnesses.

In response to portions of this testimony, the Postal Service filed the surrebuttal testimony of four expert witnesses on June 22, 2012. The hearing for oral cross-examination of surrebuttal testimony was conducted on June 28, 2012. The record in this docket closed on July 5, 2012. P.O. Ruling N2012-1/74.

III. THE POSTAL SERVICE INTENDS TO CAREFULLY REVIEW THE COMMISSION'S OPINION.

When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on at least a substantially nationwide basis, it is required by section 3661(b), within a reasonable time prior to the effective date of the proposed service change, to submit a formal request that the Postal Regulatory Commission issue an advisory opinion on the service change. Implementation of the first phase of the service standard and related service changes subject to the instant Request for an advisory opinion was initiated on July 1, 2012. A second phase of service standard and related service changes will commence on February 1, 2014. When concluded, the changes will be the most significant changes in the nature of service since the administrative review process in section 3661 was established as part of the 1970 Postal Reorganization Act. The changes are likely to affect every sender and recipient of mail in the United States and should be deemed "nationwide" within the meaning of section 3661(b).

Notwithstanding the legislative changes resulting from enactment of the Postal Accountability and Enhancement Act at the end of 2006, management of the national postal system and pursuit of its operational goals remain in the hands of the Board of Governors of the Postal Service. The statutory scheme preserves the primacy of postal management in determining the terms and conditions of postal services. However, section 3661(b) continues to reserve a very important role for the Postal Regulatory Commission by requiring that it have an opportunity to offer non-binding advice on substantially nationwide changes in service before implementation commences. That provision authorizes the Commission to provide non-binding advice in response to Postal Service requests concerning plans for changes in the nature of postal services that are at least substantially nationwide in scope. As it relates to such service changes, the United States Court of Appeals for the District of Columbia Circuit has affirmed that the Commission's review is "relatively passive" and "unadorned by the overlay of broad FCC-esque responsibility for industry guidance and of wide discretion in choosing the appropriate manner and means of pursuing its statutory mandate." *Governors of the United States Postal Service v. United States Postal Rate Commission*, 654 F. 2d 108, 117 (D.C. Cir. 1981).

The Postal Service respectfully submits that under section 3661, the role of the Commission is not to advise what it would do if it were authorized to step into the shoes of the Board of Governors or the Postmaster General and exercise the authority reserved to them. Section 3661 anticipates that changes in postal services pursued by postal management for rational reasons consistent with the

policies of the Act may be ones that other reasonable minds (not authorized to manage the Postal Service) might not elect to initiate. The Postal Service does not construe section 3661 as an invitation for the Commission to second-guess the judgment of postal management in selecting the particular service changes for which an advisory opinion is requested. The Postal Service views the role of the Commission under section 3661 as developing an evidentiary record relevant to the service change proposal submitted for its review, and opining whether the Board's and postal management's planned service change is permitted by the policies of title 39.

Likewise, the Postal Service does not agree that the Commission's task is to respond to a specified service change proposal under section 3661 by searching for or soliciting alternative service changes, product development initiatives, cost containment strategies, revenue enhancement opportunities or legislative prescriptions to recommend in lieu of the service change for which the Postal Service seeks advice. Section 3661 does not require that the service changes under review be pursued only if they enhance or embellish an existing service. Nor does it require that a reduction in a service feature be pursued only after every other alternative legislative prescription, revenue enhancement, cost containment, product development or alternative service change option has been exhausted or proven infeasible by the Postal Service.

Furthermore, the Postal Service does not agree that the Commission's task in response to each service change proposal under section 3661 should be to spend months reducing the cost or savings implications to the PRC's own best

estimate. Such a narrow focus seems to be a vestige of cost of service ratemaking, which has since been eliminated by the Postal Accountability and Enhancement Act. All service change proposals necessarily have financial implications that, howsoever quantified, are first and foremost the responsibility of the Board of Governors to evaluate in the context that service change presents. The level of financial detail required for a Board decision can be spelled out in its bylaws, but in any event is reflected by each service change decision it makes. Every particular cost analysis can be made more detailed, but if additional detail does not materially inform a decision the Board makes regarding whether the change comports with qualitative service policies of title 39, then such detail is essentially superfluous. Once the Board acts by determining that a substantially nationwide service change is necessary (which section 3661(b) then requires be the subject of a request for an advisory opinion) the potential financial implications of such a change have already been considered to the extent the law requires.⁴ One lesson of recent N-cases is that in-depth pursuit of the most precise quantification of a service change's financial implications provides a near endless opportunity to debate the merits of respective approaches. However, regardless of whatever number or numbers an advisory opinion may align itself behind, the utility of the resulting advice is diminished by the length of time between the Request and the eventual Advisory Opinion. Advice laden with more or different quantifications of a service

⁴ The Postal Service would agree that if fundamental flaws in the Board's financial analysis reveal that the overall sign (positive or negative) of a service change's financial consequences was estimated incorrectly, or perhaps if the magnitude of the cost/savings estimate were off in exponential terms, further financial analysis by the Commission could well be appropriate advice for the Board. Yet nothing of this magnitude has erupted in any recent N-case.

change's cost implications has not proven to be a priority for the party seeking advice: the Postal Service.

As implemented by 39 C.F.R. § 3001.72, section 3661(b) requires the Postal Service to file its advisory opinion request not less than 90 days before the scheduled implementation of the planned service changes, an advance time period not uncommon in federal regulatory oversight. The circumstances of this docket demonstrate that, under the Commission's longstanding approach to its section 3661 advisory responsibilities, the breadth and length of administrative litigation under section 3661 prevent the Commission from providing timely advice as contemplated under Rule 72. The Docket No. N2012-1 Request was filed on December 5, 2011. The Postal Service's forbearance in waiting – first until the middle of May 2012 – before implementing any service changes related to its Request is evidence of its interest in securing timely advice. However, the urgent circumstances that prompted the filing of the Request have compelled the Postal Service to act before an opinion is likely to be issued in this docket. Such a sequence of events may not be ideal, but is permitted by the statutory scheme. In any event, the Postal Service greatly appreciates the potential constructive value that may be derived from the Commission's exercise of its section 3661 responsibilities and will review and consider the Commission's advisory opinion with great care when it is issued.

IV. THE SERVICE CHANGES UNDER REVIEW IN DOCKET NO. N2012-1 COMPLY WITH APPLICABLE STATUTORY POLICIES.

A. Summary of Service Changes.

The market dominant product service standards of the Postal Service are codified at 39 C.F.R. Parts 121 and 122. On September 21, 2011, the Postal Service published an advance notice of proposed rulemaking to solicit public comment regarding the prospect of eliminating the overnight First-Class Mail service standard and making other related service changes. See, *Proposal To Revise Service Standards For First-Class Mail, Periodicals and Standard Mail*. 76 FR 58433 (September 21, 2011). After reviewing over 4200 public comments generated in response to that notice, the Postal Service filed its Request in this docket seeking an advisory opinion from the Commission regarding whether specific proposed changes⁵ to those regulations conformed to the policies of title 39. Shortly thereafter, the Postal Service initiated a formal rulemaking soliciting public comments on those proposed regulation changes. See 76 Fed. Reg. 77942 (December 15, 2011).

That rulemaking proceeded simultaneously with the litigation of Docket No. N2012-1 and concluded on May 25, 2012, with the publication of final rules revising 39 C.F.R. Part 121. After considering the more than 100 public comments received during the rulemaking, the Postal Service modified the proposed rules and elected to implement the service standard changes in two phases. Phase 1 service standard changes took effect on July 1, 2012, and will

⁵ The proposed changes were submitted as USPS Library Reference N2012-1/7 in conjunction with the Request.

be followed by a second phase to be implemented on February 1, 2014. The service changes are summarized below.⁶

1. Phased First-Class-Mail service standard changes.

a. Overnight First-Class Mail changes.

Under the First-Class Mail service standard business rules in effect when this docket was initiated, the overnight service standard was generally applied to all intra-Sectional Center Facility (SCF) mail, as well as to some inter-SCF mail if a specified minimum level of mail volume regularly flowed between the origin and destination SCFs and operational feasibility permitted.⁷ Under the the first phase of the rule adopted on July 1, 2012, the overnight service standard now applies to both Single-Piece and Presort *intra*-SCF First-Class Mail but not to any *inter*-SCF mail.⁸

When the final version of the First-Class Mail overnight service standard business rule takes effect on February 1, 2014, it will apply only to *intra*-SCF *Presort* mail that is entered at the SCF. On that date, the Critical Entry Time (CET) at the SCF for overnight *intra*-SCF Presort First-Class Mail will be 8 a.m., with a 12 p.m. exception available only to *intra*-SCF 5-digit Presort. The final overnight service standard will not apply to mail that is entered anywhere other

⁶ Although no changes to the service standards for competitive products such as Express Mail and Priority Mail are being proposed, the significant network changes being planned are expected to result in minor overall changes in expected delivery days between specific ZIP Code origin/destination pairs.

⁷ These business rules are subject to exceptions that exclude from overnight service certain mail outside the contiguous forty-eight states.

⁸ Both the current and new rules use the terms “*intra*-SCF” and “*inter*-SCF” as they are defined in the Domestic Mail Manual (DMM). So, with respect to a particular SCF, *intra*-SCF mail is mail that originates and destines within the 3-digit ZIP Code areas assigned to that SCF in the DMM, while *inter*-SCF mail is mail that originates or destines outside those 3-digit ZIP Code areas.

than the designated SCF, nor will it apply to mail that does not meet all of the preparation requirements for Presort mail. Thus, effective February 1, 2014, the overnight service standard for First-Class Mail will no longer apply to Single-Piece First Class Mail, regardless of where it is entered.⁹

b. Two-day First-Class Mail service standard changes.

Under the original modern service standards, a two-day First-Class Mail service standard applied to mail (not subject to an overnight standard) for which the driving time between the applicable origin P&DC/F and destinating Area Distribution Center (ADC) was twelve hours or less. Under the first phase of the service standard business rules now in effect, the two-day standard applies to such mail for which the drive time is six hours or less from origin P&DC/F to destinating ADC. The final February 1, 2014 rule will revise the drive time metric to six hours or less between the applicable origin P&DC/F and destinating SCF.¹⁰

c. Three-day, four-day and five-day First-Class Mail service standard changes.

The First-Class Mail three-, four-, and five-day service standard business rules in effect when this docket was initiated will remain unchanged. All First-Class Mail that qualified for a two-day service standard under the original modern

⁹ Some local Single-Piece First-Class Mail, as well as local Presort not entered by the overnight CET may, under limited circumstances, receive overnight service, but the applicable service standard will not be overnight. Such upgrades can be operationally routine but are insufficiently consistent to justify establishing customer expectations based on service standards.

¹⁰ After the post-February 1, 2014, Phase II operational consolidations, the Postal Service will be able to sort First-Class Mail at the origin to the SCF level, which is typically closer to the destination of the mail piece than the ADC level. Therefore, mail will generally bypass ADCs and be transported directly to SCFs. For this reason, the final version of the two-day business rule measures the driving time based on the destination SCF.

service standards, but that does not qualify for a two-day standard under the new rules because of the reduced drive time metric, is subject to a three-day standard under the July 1, 2012, service standards and the final February 1, 2014 standards.

d. There are no additional First-Class Mail International changes.

The service standards for the domestic leg of First-Class Mail International will mirror the service standards for domestic First-Class Mail, just as the original modern service standards for the domestic leg of First-Class Mail International mirrored the modern service standards for domestic First-Class Mail.

2. Phased Periodicals service standard changes.

a. End-to-end Periodicals service standards.

Under the original modern service standard overnight business rule established for end-to-end Periodicals in December 2007, an overnight standard applied to intra-SCF mail for which the origin P&DC/F and SCF were located in the same building. Effective July 1, 2012, the new service standard business rules do not apply an overnight service standard to any end-to-end Periodicals, though they do apply an overnight standard to qualifying destination-entry Periodicals, as described below.

The former two-to-four-day service standard business rules covered most end-to-end Periodicals mail within the contiguous forty-eight states that did not

qualify for the overnight service standard.¹¹ The rules calculated the specific standard for such mail by adding one day to the comparable First-Class Mail service standard for which the Periodicals mail would qualify if entered as First-Class Mail. The first phase of this rule took effect on July 1, 2012, and remains two-to-four days. However, the final version will be three-to-four days on February 1, 2014, when the reduced scope of the overnight First-Class Mail service standard is implemented in Phase II.

The five-to-nine day service standard day range for end-to-end Periodicals mailed within the contiguous forty-eight states in effect when the Request was filed covered mail that did not qualify for the overnight service standard, and could not be merged with First-Class Mail. This service standard day range has been retained.

The remaining service standard business rules for end-to-end Periodicals cover mail originating or destinating outside the contiguous forty-eight states. Effective July 1, 2012, the former eight- to-twenty day service standard day range has become a twelve-to-twenty-six day range, thus more accurately reflecting, and better informing customers of the service that the Postal Service's network is capable of providing for mail outside the contiguous forty-eight states. The other end-to-end Periodicals service standards are not changed.

Effective July 1, 2012, the Postal Service changed the one-to-nine day service standard range for end-to-end Periodicals mailed within the contiguous forty-eight states to two-to-nine days. On February 1, 2014, under the final rules,

¹¹ Mail pieces qualify for these service standards based on whether they can be merged with First-Class Mail, as determined by criteria set forth in Domestic Mail Manual.

this day range will be three-to-nine days. On July 1, 2012, the Postal Service also changed the one-to-twenty day delivery range for end-to-end Periodicals that originate or destinate outside the contiguous forty-eight states to two-to-twenty-six days in the first phase of the final rule. Effective February 1, 2014, the corresponding final service standard delivery range will be three-to-twenty-six days.¹²

b. Destination entry Periodicals service standards.

The Postal Service has changed the delivery day range for destination-entry Periodicals mailed within the contiguous forty-eight states from one-to-two days, to one-to-three days, in both phases of the new rules. The Postal Service is changing the service standard range for destination-entry Periodicals that originate or destinate outside the contiguous forty-eight states, from the current one-to-seven days, to one-to-eleven days in both phases of the new service standards.¹³

The new rules make significant changes to the service standards for destination-entry Periodicals. First, they revise the overnight service standard to exclude Periodicals entered at Network Distribution Centers (NDCs) and Auxiliary Service Facilities (ASFs). This revision has been made to reflect capabilities of the Postal Service's transportation network. Second, the new

¹² The proportion of mail affected by this change is less than one percent of total mail volume. The change was made so that the rules more accurately reflect, thus better informing customers of, the actual service that the Postal Service's network is capable of providing for such mail. Outside the contiguous forty-eight states, mail is often dependent on transportation that does not run daily (e.g., some boat and air-taxi services used by the Postal Service operate only on certain days of the week). For this reason, the service accorded to such mail varies widely and is often longer than stated in the current service standards.

¹³ See fn.9, *supra*.

rules revise the seven-day service standard to an eleven-day service standard. And third, the new rules revise the five-to-eight-day service standard range to an eight-to-eleven day range. The second and third changes are being made so that the rules more accurately reflect, and better inform customers of, the service that the Postal Service's network is capable of providing.

On February 1, 2014, the CETs for destination-entry Periodicals at facilities that do not employ the Flats Sequencing System (FSS) will change from 4 p.m. for mailings that require a bundle sort, and 5 p.m. for mailings that do not require a bundle sort, to 11 a.m. and 2 p.m., respectively. The CETs at FSS facilities will not change.

c. Standard Mail and Package Services are minimal.

The new rules do not revise the service standards for Standard Mail and Package Services pieces mailed within the contiguous forty-eight states. They do, however, revise service standards for pieces that originate or destinate outside the contiguous forty-eight states, thus more accurately reflecting the service the Postal Service's network is capable of providing.¹⁴ The new rules revise Standard Mail's maximum delivery expectation from the current twenty-two days to twenty-seven days. The end-to-end nine- to-twenty-two day service standard range for Standard Mail is revised to twelve-to-twenty-seven days, and the destination-entry nine-to-twelve day service standard range is extended to twelve-to-fourteen days.

¹⁴ See fn.9, *supra*.

Likewise, the new rules revise the maximum delivery expectation for Package Services from the current twenty days to twenty-six days. Within the business rules, the seven-to-twenty day service standard range for end-to-end Package Services has been changed to ten-to-twenty-six days, and the seven-to-eight day service standard range for destination-entry Package Services has been changed to eleven-to-twelve days.

d. The service changes reflect careful consideration of customer concerns.

A comparison between the service change concepts described in the September 21, 2011, advance notice of proposed rulemaking (76 Fed. Reg. 58433) and the regulation changes proposed on December 15, 2011 (76 Fed. Reg. 77942) reveals the latter's preservation of an overnight service standard for a portion of the Presort First-Class Mail stream and for destination entry Periodicals Mail. The advance notice described the complete elimination of overnight standards for First-Class Mail and Periodicals. Tr. Vol. 2 at 364-65. This preservation of overnight service as part of the proposed changes to 39 C.F.R. Parts 121.1(a) and 121.2(b) reflects postal management's considered response to comments received in response to the September 21, 2011 advance notice, as well as the market research results presented in the direct testimony of witnesses Elmore-Yalch (USPS-T-11) and Whiteman (USPS-T-12). Likewise, one can observe that the December 15, 2011 proposal for a First-Class Mail two-day service standard drive-time limit of four hours evolved to a six-hour limit in the May 25, 2012 final rule (77 Fed. Reg. 31190). This final rule reflects postal

management's acknowledgment of rulemaking comments that a greater degree of two-day service should be preserved than was originally proposed.

The operational consolidations made possible by the service standard changes being implemented enable elimination of mail processing at many locations that now house Business Mail Entry Units (BMEUs). However, rather than automatically eliminating BMEUs at those locations when mail processing operations are removed, the Postal Service has committed to retaining BMEUs either at those locations or nearby while providing sufficient local notice of specific changes. This will ensure that bulk mailers can adjust mail entry when consolidations relocate mail processing operations.¹⁵

The sensitivity of the Postal Service to stakeholder concerns about the magnitude and scope of the service changes is perhaps best exemplified by postal management's decision to implement service standard changes (and underlying mail processing consolidations) in two phases. The first phase commenced on July 1, 2012; the second phase is scheduled to begin February 1, 2014. To further minimize operational disruption within each phase, the Postal Service is planning to forgo any material operational consolidation activity during the usually heavy fall mailing season, during which surges in election mail, catalogs, and holiday mail are typical. Tr. Vol. 2 at 170, 343; 77 Fed. Reg. 31191-92.

¹⁵ Direct Testimony of Pritha Mehra on Behalf of the United States Postal Service, USPS-T-7 at 4); Tr. Vol. 2 at 364; Tr. Vol. 5 at 1553-54, 1558, 1562, 1570-73, and 1581.

B. The May 25, 2012 Service Standard Changes Reflect Responsible Stewardship In The Face Of Daunting Volume Trends And Financial Challenges.

1. Volume Declines and Financial Circumstances Compel Change.

The circumstances compelling this Request for an advisory opinion are explained in the Direct Testimony of Stephen Masse on Behalf of the United States Postal Service (USPS-T-2). Mr. Masse is the Vice President of Finance and Planning at the Postal Service and is now acting as Chief Financial Officer. As his testimony makes clear, the Postal Service has experienced steady and precipitous declines in mail volume through the past decade, driven largely by accelerated diversion of First-Class Mail and other communications to electronic media, and exacerbated by the deep recession from which the economy may slowly be recovering. Annual First-Class Mail volume peaked in 2001 at 103.7 billion pieces, and since then it has fallen by about 30 billion pieces, or 29 percent. The decline in single-piece First-Class Mail has been even more precipitous, falling 52 percent over the same time period. The Postal Service expects these declines to continue into the foreseeable future, with First-Class Mail forecast to drop from 74 billion pieces in 2011 to 39 billion pieces in 2020, a further 47 percent decline.

Because the Postal Service's mail processing network was principally designed to achieve First-Class Mail service standards, notwithstanding the continuing declines in First-Class Mail volume the service standards prevent the Postal Service from consolidating the network quickly enough to align with current volumes. Furthermore, the volume declines, combined with other factors,

have caused the Postal Service to experience multi-billion dollar losses for each of the past five years. The Postal Service expects another such loss in 2012, even if Congress defers the Retiree Health Benefits Fund payments coming due at the end of the fiscal year. These losses have occurred despite multi-faceted cost-reduction efforts, and have led the Postal Service to its current financial position of near-insolvency.

Unfortunately, nobody – the Postal Service included – expects First-Class Mail volume to reverse its decline in the foreseeable future. While an economic recovery could slow its rate of decline, the growing use of the Internet and other forms of electronic communication will likely ensure that the class continues to lose volume each year. And, given that the Postal Service generally cannot increase First-Class Mail prices beyond the Consumer Price Index cap, price increases cannot remedy the contribution loss resulting from the First-Class Mail volume loss. All these realities together compel the Postal Service to consolidate its mail processing network significantly, a task that is contingent on revisions to service standards. While Network Rationalization cannot, by itself, secure the Postal Service's financial stability, it constitutes a critical and necessary element, along with other initiatives.

2. The operational changes underlying the service changes have been carefully conceived and analyzed.

With some exceptions, postal mail processing and transportation network infrastructure¹⁶ and mail processing technology have been designed and

¹⁶ Exceptions include Network Distribution Centers and associated annexes established for Package Services, and operations supporting Express Mail, Priority Mail and International Mail.

configured to accommodate service standards applicable to First-Class Mail, with considerable emphasis on meeting overnight service standards. Direct Testimony of David Williams on Behalf of the United States Postal Service, USPS-T-1 at 4. However, as explained by witness Masse (USPS-T-2), the circumstances of the Postal Service have changed drastically since the establishment of the initial modern service standards in December 2007¹⁷ and implementation of the June 2008 Network Plan.¹⁸ Accordingly, witness Williams (USPS-T-1) explains from an operational perspective why postal management has made the difficult but necessary decision to change service standards, thereby accelerating the pace of network rationalization originally envisioned in 2008.

As Vice President, Network Operations, witness Williams has policy and program responsibility for the Postal Service's network of mail processing facilities, automation initiatives and logistics. While meeting applicable customer service obligations, Network Operations must pursue the economical and efficient processing and transportation of mail, ways to improve utilization of existing resources, and the elimination of excess capacity. Witness Williams explains that during 2010, it became clear that the scope and pace of mail processing operational consolidations underway as part of the June 2008 Network Plan were no longer sufficient to address the accelerating declines in First-Class Mail volume and revenue that have occurred since that plan was initiated. USPS-T-1 at 4-5. Ongoing concerns about excess capacity within the

¹⁷ 72 Federal Register 72228 (December 19, 2007).

¹⁸ See, USPS Library Reference N2012-1/3.

mail processing network together with the expectation of continued declines in mail volumes – particularly First-Class Mail – led postal management in September 2010 to initiate utilization of network modeling tools and techniques described in the Direct Testimony of Emily Rosenberg on Behalf of the United States Postal Service (USPS-T-3). The objective of this modeling exercise was to establish whether and how excess capacity could be reduced significantly within the network, assuming service obligations and operating constraints driven by current overnight First-Class Mail service standards might be changed. In June of 2011, senior postal management directed Network Operations to examine more closely the feasibility of a change in operations and how such a change could impact service standards and customers – with a focus on the service standards for First-Class Mail. The results of witness Rosenberg’s modeling exercise were then shared with Area and District level postal managers responsible for mail processing and transportation. Taking into account driving distances and times between plants, the geographic service areas of respective plants and the objective of significantly reducing excess network capacity, their local mail processing and transportation knowledge, expertise and judgment were applied through an iterative process involving multiple rounds of vetting to identify Processing & Distribution Centers that could potentially absorb operations from nearby plants. USPS-T-3 at 19-20. The product of this iterative review was a list of plant-to-plant consolidation proposals that could be subjected to the rigorous USPS Handbook PO-408 Area Mail Process (AMP) analysis to validate the feasibility of implementing each consolidation proposal as part of a

system wide network redesign. That list of consolidation opportunities was filed in this docket as USPS Library Reference N2012-1/6.

In conjunction with the operational modeling and to consider further related service and operational issues, a cross-functional Headquarters team was established that included program managers, analysts and economists with varying perspectives and subject matter expertise encompassing delivery, mail processing, retail service, transportation, engineering, employee and labor relations, financial analysis, customer relations, information systems, service measurement, market research, sustainability, government relations, and law. The team conferred with other Headquarters and field managers representing a broad array of functional responsibilities related to mail acceptance, collection, processing, transportation, as well as external experts in market research, postal costing and economic analysis. USPS-T-1 at 7. As a result of their efforts, the Request in this docket was filed, accompanied by the direct testimonies of 13 witnesses, including four executive officers of the Postal Service.

Facility-specific AMP analyses were well underway when the Docket No. N2012-1 Request was filed and resulted in the bulk of the operational consolidation decisions that were announced on February 23, 2012, and published in USPS Library References N2012-1/73 and NP16.

As reflected in that Request and supporting testimonies, the Postal Service has determined that continuation of the typical late night-to-early morning Delivery Point Sequencing (DPS) processing window precludes operational changes of sufficient magnitude to bend its operating cost curve significantly in

the direction of its declining revenue curve. Tr. Vol. 2 at 112. At the same time, the Postal Service has concluded that relaxation of the overnight service standards for First-Class Mail and Periodicals would permit a significant lengthening of the DPS processing window that would create an opportunity to capture considerable cost savings. USPS-T-1 at 10-14.

The proposed service standard changes are predicated on the volume realities now faced by the Postal Service. As witness Masse makes clear, long-term First-Class Mail is expected to continue significant declines in the future. USPS-T-2 at 2-10. First-Class Mail revenue has historically been the primary source of funding for mail processing and delivery infrastructure, so as First-Class Mail volume continues to decline, the Postal Service becomes ever more hard-pressed to cover these costs. In addition to the revenue impact, continued volume declines leave ever-increasing excess capacity within the mail processing network, unless action is taken by responsible postal leadership.

Responsible postal leadership has acted. Considerable effort has been invested in planning for the implementation of network-wide operational changes at all levels of the organization. Tr. Vol. 2 at 345. On May 25, 2012, postal management published the final regulations reflecting revisions to 39 C.F.R. Part 121 and implemented Phase I of those service standard changes on July 1, 2012. Thus, as explained by witness Williams, the Postal Service is facing reality head-on. To ensure sufficient financial stability to meet its customer service obligations, the Postal Service is developing a leaner, more flexible processing

network that will allow it to deal with both today's realities and challenges anticipated in the foreseeable future. Tr. Vol. 2 at 362-63, 375, 414-16.

Network Operations managers under the direction of witness Williams have thoroughly analyzed the impact that service change concepts examined in the fall of 2011 could have on mail processing, transportation and equipment maintenance operations at mail processing plants network-wide. The results of these analyses appear in the above-referenced testimony of witness Rosenberg (USPS-T-3), the Direct Testimony of Frank Neri on Behalf of United States Postal Service (USPS-T-4), Direct Testimony of Dominic Bratta on Behalf of United States Postal Service (USPS-T-5), and Direct Testimony of Cheryl Martin on Behalf of United States Postal Service (USPS-T-6). These testimonies, discussed in greater detail below, provided the foundation for the original cost savings estimates reflected in the Direct Testimony of Marc Smith on Behalf of United States Postal Service (USPS-T-9) and the Direct Testimony of Michael Bradley on Behalf of United States Postal Service (USPS-T-10).

In response to the Postal Service's February 23, 2012 announcement of the several hundred operational consolidation decisions that were unresolved when the Request and supporting pieces of testimony were filed on December 5, 2011, the Commission directed the Postal Service to update operational and cost analysis. PRC Order 1301 (March 29, 2012). Witnesses Bratta and Martin filed

supplemental testimonies on April 16, 2012,¹⁹ and witnesses Smith and Bradley followed suit (April 30, 2012).²⁰

The underlying realignment of mail processing operations is based on changes in the overnight service standards for First-Class Mail and Periodicals. When fully implemented, these service changes will permit a large reduction in requisite network capacity and associated mail processing costs. In this new network environment, some mail processing operating windows will function much differently than in the past. While cancellation and outgoing primary operations will be virtually unchanged, a fundamental shift in processing of incoming mail is now underway. Currently, typical cancellation and outgoing operations begin at approximately 5:00 p.m. and run until approximately 10:00 p.m. In addition, incoming primary operations typically run from 7:00 p.m. through 2:30 a.m., with DPS beginning as early as 10:30 p.m. and running until approximately 6:30 a.m.²¹ When the new operating plan is fully implemented, incoming primary operations will begin at 8:00 a.m. and run to 12:00 p.m. DPS sequencing of letter mail will occur between 12:00 p.m. and 4:00 a.m. for peak day processing. The DPS window will therefore expand to sixteen hours. This expanded operational window will allow the Postal Service to take fuller advantage of its capital assets throughout the entire operating day.

¹⁹ Supplemental Testimony of Dominic Bratta on Behalf of United States Postal Service (USPS-ST-1) and Supplemental Testimony of Cheryl Martin on Behalf of United States Postal Service (USPS-ST-2).

²⁰ Supplemental Testimony of Marc Smith on Behalf of United States Postal Service (USPS-ST-3) and Supplemental Testimony of Michael Bradley on Behalf of United States Postal Service (USPS-ST-4).

²¹ Each facility has its own specific operating plan based on its geographic service area and operational considerations, such as the location of plants that are overnight. The operating time windows used in my testimony present a general framework and will vary by location.

These changes to processing operations are detailed in the direct testimony of Postal Service witness Neri (USPS-T-4). Their impact on transportation patterns is explained in the direct and supplemental testimonies of Postal Service witness Martin (USPS-T-6 and USPS-ST-2). These operational changes, in turn, lead to reductions in mail processing equipment and maintenance requirements, as explained in the direct and supplemental testimonies of witness Bratta (USPS-T-5 and USPS-ST-1). Based on an analysis of fiscal year 2010 costs, the supplemental testimonies of witnesses Smith (USPS-ST-3) and Bradley (USPS-ST-4) estimate that the network configuration resulting from the operational consolidations announced on February 23, 2012, when fully implemented, will result in a gross reduction of approximately \$2.1 billion in annual operating costs.

While mail volume and revenue are declining steadily, the Postal Service expected that service standard changes affecting primarily overnight delivery of First-Class Mail and Periodicals mail would have a separate impact upon volume entered by its customers. The Postal Service accordingly commissioned comprehensive, state-of-the-art market research by leading market research firm ORC International to look at all customer segments and quantify what impact on mail volume to expect from Network Rationalization. Witness Rebecca Elmore-Yalch, Vice President of ORC International, (USPS-T-11) again working with witness Gregory Whiteman, Manager, Market Research, for the Postal Service (USPS-T-12) accordingly conducted that market research, using as a starting point the research they conducted in Docket No. N2010-1 in connection with 5-

Day Delivery, after consideration of the Commission's comments on that research in its advisory opinion in that docket.

Starting with witness Elmore-Yalch's estimates²² by customer segment²³ and postal product,²⁴ witness Whiteman then developed estimates of volume, revenue and contribution losses that Network Rationalization was expected to generate in the first year after implementation. USPS-T-12 at 22, Chart 1. Witness Whiteman estimated that Network Rationalization would generate a volume loss of 1.7 percent, a revenue loss of \$1.345 billion, and the most critical result, a contribution loss of \$501 million.

The estimated \$2.1 billion savings in operating costs, which would in effect be savings attained each year, are offset by the one-time (but permanent) \$501 million contribution loss. So, cumulative savings from Network Rationalization over the next few years should be many billions of dollars.

While a net annual reduction in the misalignment between postal operating costs and revenues of approximately \$1.6 billion will not cure all of the Postal Service's long-term financial ills, it constitutes such a substantial step in the direction of financial stability that the Board of Governors of the United States Postal Service authorized postal management to implement the service and

²² USPS-T-11 at 50-52, Figures 42-47.

²³ Customer segments include, from largest to smallest, three groups of managed accounts (National, Premier and Preferred Accounts), small businesses, home-based businesses and consumers.

²⁴ With some variation across customer segments, products included First-Class Mail (with Presort broken out separately), Express Mail, Priority Mail, Standard Mail (with regular distinguished from nonprofit); and Periodicals mail (also with regular distinguished from nonprofit).

operational changes beginning July 1, 2012, to hasten the time when full savings from the initiative can be realized.

C. Network Rationalization Constitutes A Careful Exercise By The Postal Service Of Its Obligation To Provide Customers With Effective And Regular Access To Economical And Efficient Services.

1. The Postal Service must operate in a manner that reflects consideration of numerous general policy objectives.

As explained below, the evidentiary record demonstrates that the service changes under review are the product of Postal Service's careful exercise of its authority to fulfill its customer service obligations in an economical and efficient manner.

Notwithstanding the longstanding overnight service standards for local First-Class Mail and Second-Class Mail that pre-dated the Postal Reorganization Act of 1970, Congress did not mandate any specific service standards when it reorganized the Post Office Department into the United States Postal Service at that time. Likewise, no specific market dominant product service standards can be found among the changes to title 39 wrought by the Postal Accountability and Enhancement Act of 2006. Accordingly, the Postal Service is authorized to establish such service standards as it determines are most consistent with the various service and efficiency objectives found in title 39.

In binding the nation together through the correspondence of the people, the Postal Service is obliged to provide prompt, reliable and efficient service to all communities. 39 U.S.C. § 101(a). Its responsibilities include the planning,

development, promotion and provision of adequate and efficient postal services that, as nearly as practicable, serve the entire population of the United States. 39 U.S.C. §§ 101(b), 403(a) and 3661(a). In fulfilling its mandate, the Postal Service is directed to provide effective and regular service and is authorized to establish and maintain postal facilities of such character and in such locations as are necessary to provide customers ready access to essential services, whether in urban or rural areas. 39 U.S.C. §§ 101(b) and 403(b)(3). Subsections 101(a), 403(a), 403(b)(1), 403(b)(3) and 3661(a) require the Postal Service to be efficient and to maintain reasonable economies in its operations. The Postal Service is directed to give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail using modern methods of containerization and programs designed to achieve overnight transportation of such mail to all parts of the nation. 39 U.S.C. §§ 101(d) and (f). The Postal Service is empowered to provide for the collection, handling, transportation and delivery of mail and to determine the need for Post Offices, facilities and equipment, and to determine the methods and deploy the personnel necessary to conduct its operations. 39 U.S.C. §§ 404(a)(1) and (3), and 1001(e). It is authorized to adopt, amend and repeal such rules and regulations that are consistent with its statutory charter as may be necessary in the execution of its authorized functions, and all other powers incidental, necessary and appropriate to the carrying on of its functions. 39 U.S.C. §§ 401(2) and (10). At all times, the Postal Service is required to avoid undue or unreasonable

discrimination among users and not grant undue or unreasonable preferences to any users. 39 U.S.C. § 403(c).

2. The service changes reflect a faithful pursuit of applicable statutory policies.

The phased reductions being implemented in the application of overnight service standards to First-Class Mail and Periodicals will permit the Postal Service to continue binding the nation together through the personal, educational, literary and business correspondence of the people, and to do so adequately, but in a more efficient and economical manner, consistent with 39 U.S.C. §§ 101(a), 403(b)(1), 3661(a). Tr. Vol. 7 at 2442. The service standard changes and related operational changes are consistent with the mandate in subsection 403(b)(3) that customers continue to have ready access to essential postal services. USPS-T-7 at 4; Tr. Vol. 2 at 236-37; Tr. Vol. 7 at 2441.

Relaxation of historic First-Class Mail service standards to a level more consistent with general customer expectations, as measured by witness Elmore-Yalch (USPS-T-11), creates an opportunity to reduce existing mail processing infrastructure significantly and align the mail processing network with continually declining First-Class Mail volumes. As the changes are implemented, a combination of factors contribute to the preservation of overnight delivery for important letter mail within the meaning of subsections 101(e-f). These include the exemption of Express Mail and Priority Mail from any service standard changes and the preservation of overnight service standards for properly prepared and entered Presort First-Class Mail. Tr. Vol. 7 at 2441-42. There is

also the continued use of the combination of Post Office Box delivery and Caller Service by recipients to preserve the opportunity for overnight delivery of local single-piece First-Class Mail that will otherwise be subject to a 2-day standard in Phase II when the intra-SCF overnight standard is limited to qualifying Presort mail effective February 1, 2014. Tr. Vol. 2 at 365. In addition, the testimony of witness Williams emphasizes that local mail processing managers will continue the practice of seizing opportunities to economically advance the processing of mail to achieve overnight service for mail even if it is subject to a 2-day standard. *Id.* at 365-66, 381.

Expansion of the Delivery Point Sequencing processing window to create the opportunity for achieving significant new efficiencies is consistent with the mandate to operate with reasonable economies of postal operations. See 39 U.S.C. §§ 101(a), 403(a), 403(b)(1), 403(b)(3) and 3661. The planned service changes may not affect all customers in a perfectly equal manner. There are rational, operations-based distinctions between mail for which an overnight service standard is being preserved and mail within the same class which is being subjected to a two-day standard. Tr. Vol. 7 at 2440. Accordingly, the service changes are not improperly discriminatory and reflect that no undue or unreasonable preferences have been granted. 39 U.S.C. § 403(c).

The statutory scheme governing the national postal system permits the Postal Service considerable flexibility to make rational adaptations to market and fiscal realities, while still fulfilling its public service obligations. That scheme does not require that longstanding products, service features, or operational practices

be maintained in the name of tradition, or to preserve some measure of continuity with the past or some iconic image of the agency or its employees.

Notwithstanding the service changes under review in this docket, and the related changes in mail processing and transportation, the Postal Service will continue to be effective in binding the nation together through its correspondence, as prescribed by section 101(a). The proposed changes do not diminish service in rural communities and small towns to any degree different than in urban and suburban areas. Tr. Vol. 7 at 2442. Service will continue to be adequate within the meaning of section 403(a), and access will continue to be effective and regular, within the meaning of sections 101(b) and 3691(b)(1)(B). Tr. Vol. 2 at 364. Express Mail and Priority Mail will continue to rely on modern methods of containerization and systems designed to achieve expeditious, overnight transportation and delivery of such mail to all parts of the nation where it is economical to do so, in accordance with sections 101(e) and (f), and 403(b). Tr. Vol. 7 at 2442. Consistent with sections 403(a) and 3661(a), the changes for First-Class Mail and Periodicals will result in service being provided more efficiently, for the reasons explained by witnesses Neri (USPS-T-4), Bratta (USPS-T-5 and USPS-ST-1), and Martin (USPS-T-6 and USPS-ST-2). And, although some mail volume and contribution to overhead costs will be lost as a result of the service changes,²⁵ the service changes under review facilitate pursuit of the mandate in section 302 of the Postal Accountability and

²⁵ See the market research performed by witness Rebecca Elmore-Yalch (USPS-T-11) and the volume and revenue impact analysis presented by witness Greg Whiteman (USPS-T-12).

Enhancement Act²⁶ that the Postal Service expeditiously consolidate its mail processing network to bring down costs by eliminating excess capacity.

3. The changes in service standard regulations reflect adherence to relevant objectives and consideration of appropriate factors.

Market dominant service standards must be consistent with the policies of title 39 discussed above, but also with the objectives set forth in subsection (b)(1) of 39 U.S.C. § 3691. Under subsection (b)(1), such service standards must be designed to:

- (A) enhance the value of postal services to both senders and recipients;
- (B) preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;
- (C) reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices; and
- (D) provide a system of objective external performance measurements for each market dominant product as a basis for measurement of Postal Service performance.

Furthermore, subsection 3691(c) states that, in revising its market dominant product service standards, the Postal Service shall take into account:

- (1) the actual level of service that Postal Service customers receive under previous and current service standards;
- (2) the degree of customer satisfaction with Postal Service performance in the acceptance, processing and delivery of mail;

²⁶ Pub. L. 109-435, Title III, § 302, Dec. 20, 2006, 120 Stat. 3219.

- (3) the needs of Postal Service customers, including those with physical impairments;
- (4) mail volume and revenues projected for future years;
- (5) the projected growth in the number of addresses the Postal Service will be required to serve in future years;
- (6) the current and projected future cost of serving Postal Service customers;
- (7) the effect of changes in technology, demographics, and population distribution on the efficient and reliable operation of the postal delivery system; and
- (8) the policies of Title 39 generally and such other factors as the Postal Service determines appropriate.

Adjustment of service standards in the context of a severe need to reduce operating costs for an important but rapidly declining product line is consistent with best business practices; it will, moreover, preserve reasonable rates in the long run, consistent with section 3691(b)(1)(C). In the context of a precipitous and apparently irreversible decline in First-Class Mail volume, and the financial consequences to the Postal Service, the proposed adjustments to First-Class Mail service standards maintain the relative value of that service, to both senders and recipients, within the meaning of section 3691(b)(1)(A).

Responsible management of the national postal system involves the pursuit of various service objectives in an efficient and economical manner. Developments in electronic communications technology and their widespread application are radically altering the Postal Service's role in the communications and delivery service markets. In leaps and bounds, many individuals, businesses, government agencies, merchants, publishers, banks, and charitable

organizations are increasing their reliance on such technology to conduct transactions instantaneously and transmit messages that, only a few years ago, would have existed in the form of hard-copy mail deposited with and delivered by the Postal Service. As a result, the steady increases in mail volume and revenue that historically funded the operations of the postal system in recent decades have been replaced by precipitous declines, impacts that have been intensified by the recent recession from which the economy appears to be recovering very slowly.

Nevertheless, the number of postal delivery addresses grows each year, steepening the sharp decline in average number of mail pieces per delivery stop. Changes in the mail mix have increased the proportion of pieces that contribute less revenue to cover postal costs. Despite aggressive cost-cutting, Postal Service costs continue to exceed revenues significantly and the Postal Service is perilously close to its statutory borrowing limit. All measures that can significantly reduce the financial instability of the Postal Service must be considered.

In accordance with 77 Fed. Reg. 31190, the first phase of the service standard rules were implemented on July 1, 2012, and the second phase will take effect on February 1, 2014. The testimony of Postal Service witness Williams (USPS-T-1), the testimony of witness Masse (USPS-T-2 at 2-10), the market research of witness Elmore-Yalch (USPS-T-11), and the service standard rulemaking completed on May 25, 2012 (77 Fed. Reg. at 31193-94) provide ample evidence that the new service standards were based on consideration of relevant factors in section 3691(c) and achieve the objectives of section 3691(b).

The above-referenced testimonies of postal managers Neri (USPS-T-4), Bratta (USPS-T-5 and USPS-ST-1) and Martin (USPS-T-6 and USPS-ST-2) provide substantial evidence regarding the impact of advances in mail processing and transportation on the efficient and reliable operation of the postal delivery system, and how operating changes associated with the new service standards and consolidated network will permit the Postal Service to continue serving the American public in the years ahead through a more flexible operational network. Tr. Vol. 7 at 2436-44.

V. THE REQUEST IS SUPPORTED BY RELIABLE, PROBATIVE AND SUBSTANTIAL EVIDENCE AND COMPLIES WITH APPLICABLE POLICIES.

A. The Service Changes Are The Product Of Carefully Conceived Analysis And Planning.

As explained above in section IV, the First-Class Mail and Periodicals service standard changes under review create opportunities to alter mail processing operations in ways that can significantly increase efficiency and cause operating costs to become more aligned with workload. Below, the Postal Service summarizes record evidence demonstrating that the operational changes it has begun to implement are the product of a well-conceived decision-making process. That process blends the outputs of several objective analytical tools, expert judgment of managers responsible for operations policy, and day-to-day management of the mail processing and transportation networks of the Postal Service.

Developmental discussion of the consolidated network concept is followed by a summary of the extensive cost analysis demonstrating that significant annual cost savings can be realized when the operational changes are fully implemented. The evidence demonstrates the immense complexity of determining the degree of mail processing and transportation consolidation that can be accomplished in conjunction with implementation of significant service standard changes.

1. **Witness Rosenberg's Scoring Tool And Optimization Model Outputs Create A Starting Point For Consolidation Decision-Making.**

- a. **The Microsoft Excel scoring tool.**

The testimony of Postal Service witness Emily Rosenberg (USPS-T-3) explains the Postal Service's use of a scoring tool and optimization modeling in developing a mail processing network concept based on the elimination of overnight First-Class Mail service standards. Witness Rosenberg explains how these decision support tools were utilized to develop a network concept that would then be further refined by the expert judgment and knowledge of processing and logistics managers who have day-to-day responsibility for the movement of mail. This refined operating concept served as the foundation for the modification of the mail processing network that is currently being implemented, largely as a result of the use of the USPS Handbook PO-408 Area

Mail Processing guidelines to make most of the several hundred facility and operational consolidation decisions announced on February 23, 2012.²⁷

Witness Rosenberg and her team of expert network analysts brought to the task more than 20 years of collective experience in postal network modeling. Tr. Vol. 4 at 1322. As a first step, assuming the elimination of overnight First-Class Mail service standards, they developed a scoring tool (USPS Library References N2012-1/14 and NP3) to evaluate the costs and benefits of expanding mail processing operating windows and travel times between mail collection points, processing centers and delivery units. USPS-T-3 at 4-5. The scoring tool allowed witness Rosenberg and her team to find efficiencies across many different mail processing operations as well as the transportation network. *Id.* at 5. Accounting for such factors as processing windows for various sortation operations, transportation to and from plants, facility square footage and equipment capacity, or local mail volume arrival profiles, the scoring tool provides proposed operating windows for various mail sortation steps, including Delivery Point Sequencing. *Id.* at 6-11. As witness Rosenberg succinctly summarizes it, the scoring tool was:

a rational way of developing a starting point for discussion to illustrate the opportunities presented by relaxing service standards. By relaxing service standards, operating windows can be expanded. Expanded operating windows allow for the same volume to be processed on fewer machines. Fewer machines mean less facility square footage is required to house the equipment.

²⁷ The network concept which emerged on that date informs the refined cost savings estimates presented by the Postal Service in supplemental testimony filed on April 30, 2012.

Id. at 11. The scoring tool's outputs were used as the baseline for consultations with postal mail processing and transportation managers to assess the feasibility of shortening the outgoing processing window and adjusting other operating window start times, with the Delivery Point Sequencing window set at 16 hours. This allowed for expansion of the 2-day First-Class Mail service standard that might otherwise have not been attainable. *Id.* at 12.

b. LogicNet optimization modeling.

Utilizing the operating windows established through the aforementioned management consultations, in combination with FY 2010 Management Operating Data System (MODS) workload data, witness Rosenberg and her team next used IBM ILOG LogicNet Plus 6.0 EX (LogicNet) least cost optimization software to determine potential mail processing plant locations, their corresponding 3-digit ZIP Code service area processing responsibilities, and the mail processing capacity at each processing site. Preliminary mail processing nodes, site-specific mail processing equipment sets, and 3-digit ZIP Code service area were assigned to each plant in the model after consultations with Postal Service Headquarters and field mail processing managers to assess and adjust model outputs. Obsolete, older, and least productive early-generation mail processing equipment was assumed to be excessed. Plant workload and equipment throughputs were considered. *Id.* at 12-19.

The resulting network concept was then subjected to feasibility review by headquarters and field mail processing and transportation managers in order to incorporate information and expert judgment reflecting their cumulative

knowledge and years of hands-on experience managing the diverse and complex operations of the United States Postal Service. This process took into account such factors as local geography, highway proximity and access, traffic, and the potential for cascading consolidation opportunities. *Id.* at 19-20.

c. Equipment modeling and staging requirement estimation.

The next step in the evolution of a network concept was to conduct a comprehensive and detailed analysis of mail processing facilities' capability to accommodate the types and quantities of processing equipment that would be needed to support the operations located at each site. In conjunction, it also was vital to determine the additional floor space needed to stage mail between and in connection with specific processing operations. This equipment analysis took into account the 3-digit ZIP Codes within each site's expected service area, equipment throughputs, expected operating windows, mail volumes, the expected arrival profile at each site for various mail products and, as necessary, variables unique to specific types of mail processing equipment. *Id.* at 21-33.

d. Model outputs provided a solid basis for downstream analysis and decision-making.

As emphasized earlier, the purpose of the analysis performed by witness Rosenberg and her team was not to determine the location of each future mail processing plant or the numbers of each type of equipment that would ultimately be located at each site. Witness Rosenberg engages in no pretense that the LogicNet model, as utilized by the Postal Service, has the necessary inputs or capability. Instead, she ably demonstrates that the Postal Service LogicNet

model outputs establish a foundation or starting point from which such determinations could be made, after consideration of valuable insight from experienced mail processing and transportation managers, and through application of the USPS Handbook PO-408 Area Mail Processing (AMP) guidelines. Tr. Vol. 4 at 1360, 1415. Witness Rosenberg's analysis provides a foundation for the equipment maintenance workhour reduction and related estimates performed by witness Dominic Bratta (USPS-T-5) and the estimates of workload adjustments achievable under the consolidated network concept sponsored by witness Frank Neri (USPS-T-4).

2. Network changes associated with the service standard changes proposed in this docket support the Request.

Changes to the physical mail processing network reflected in Area Mail Processing (AMP) studies support the Request and reveal benefits of the service standard changes proposed in this docket. As part of the changes proposed in this docket, the Postal Service conducted AMP studies that focused on centralization of mail processing operations, reduction of redundancies, and improved use of resources, space staffing, processing equipment, and transportation. Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS-T-4) at 14. AMP studies are a valid method of determining if a business case exists for consolidation in the mail processing network. *Id.* The business case for an AMP study is evaluated by a post-implementation review (PIR), which often finds that the actual net savings associated with an AMP study greatly exceed the savings projected in the AMP study. *Id.* at 15.

The AMP studies confirm that the changes to the mail processing network

proposed in this docket will generate cost savings because of the reduction in physical resources within the mail processing network and operations. The Postal Service proposal in this docket will reduce mail processing and mail transportation equipment in the network, and this reduced equipment set will require less physical space to operate. *Id.* at 21. As demonstrated in USPS-T-4, Figure 9, the mail processing equipment removed from service will retain value that might be recovered. *Id.* at 23.

Mail processing operational changes enabled by MPNR service changes will provide additional efficiency gains such as elimination of need for automated area distribution center (AADC) and area distribution center (ADC) processing in outgoing operations, and by expanding the incoming secondary primary window. USPS-T-4 at 16. Increased tray densities and use of full trays together with decreased use of half-full containers will mean that less cube space on air transportation, less mail transport equipment, and less tray handling are necessary. *Id.* at 17. After implementation of the service standards proposed in this docket, mail processing facilities will no longer need to wait for overnight First-Class Mail, and this will reduce mail processing idle time. *Id.* at 18.

On multiple occasions, witness Neri explained the productivities expected from the combination of service standard changes, and changes to the retail network. *Id.* at 27; Supplemental Testimony of Frank Neri on Behalf of the United States Postal Service, USPS-ST-5 at 3-4; Tr. Vol. 8 at 2667. Witness Neri pointed to various sources of productivity gains including a more consistent processing profile; more efficient use of mail processing equipment; sortation to

fewer destinations; and elimination of redundant processes such as platform (dock) operations, empty equipment processing, the handling of Registered Mail, and other mail processing support functions performed at each mail processing facility regardless of size. *Id.* at 27-29. A more consistent processing profile will enhance Postal Service planning capabilities, allowing the Postal Service to match workhours to workload and plan for peak load issues. *Id.* at 27. Enhanced planning and scheduling abilities will lead to the need for fewer mail processing personnel, facility managers, tour managers, supervisors, and support personnel, and an approximate 21.51 percent reduction in In-Plant Support. USPS-T-4 at 30; *see also*, USPS-ST-5 at 2.

Service standard changes will also generate a reduction in night-differential workhours, (USPS-T-4 at 24), which reflects the premium paid to eligible employees for all work performed between 6:00 p.m. and 6:00 a.m. *Id.* The Postal Service expects that fewer employees will be needed during the premium night period as a result of the expanded processing windows and the more consistent mail processing profile.

Witness Neri has thus provided extensive and reliable evidence of the operational benefits expected from the service standard changes. He has also explained how the AMP studies that appear in library references USPS-LR-N2012-1/NP12 and NP13 show facility-specific efficiencies likely to be generated.²⁸ As explained by witness Neri, Postal Service management at the district, area, and Headquarters levels contributed to the AMP studies and the

²⁸ However, as witness Williams cautions, cumulative facility-specific AMP study cost savings estimates cannot account for savings that arise from increased network efficiency since they are by nature not specific to facilities or facility pairs. Tr. Vol. 7 at 2448-61.

overall network plan. Surrebuttal Testimony of Frank Neri on Behalf of the United States Postal Service, USPS-SRT-1 at 2. The testimonies submitted by witness Neri and the AMP studies provide reliable, probative, and substantial evidence that the service changes create an opportunity to make substantial operational changes that will generate significant cost savings.

3. Witness Bratta Explained How the Changes Proposed in this Docket Will Reduce the Need for Maintenance Resources.

Based on the network changes expected from implementation of the February 23, 2012 AMP study results and the changes in utilization of mail processing equipment described by witnesses Rosenberg (USPS-T-3) and Neri (USPS-T-4 and USPS-ST-5), witness Bratta describes mail processing equipment and facility maintenance efficiencies that should also be achieved through network rationalization. Witness Bratta identifies and explains both labor and non-labor efficiencies. As he illustrates in Postal Service library references USPS-LR-N2012-1/32 and 59, maintenance labor resources are dictated by the amount of equipment and facility space in use. A reduction in equipment and facility space utilized thus reduces need for maintenance of mail processing and building equipment, and custodial maintenance of buildings themselves, plus fewer maintenance managers and supervisors. USPS-T-5 at 14-17. Although the service changes do not focus on delivery and retail operations, the realignment of the mail processing network may impact these operations to the extent that they are collocated with mail processing operations. *Id.* at 16-17. Consolidation of delivery and retail operations will reduce the maintenance

resources necessary to support these operations. *Id.* Witness Bratta provides measurements of the likely labor reductions in USPS Library References USPS-LR-N2012-1/80, 81, and 85.

Witness Bratta explains that the maintenance efficiencies will not be limited to labor reductions. He provides evidence of efficiencies based on non-personnel reductions arising from a reduction of spare parts, cleaning supplies and equipment, service contracts, utility needs, permits and other municipal requirements, training, and building systems inspection and minor repairs. *Id.* at 17-21. As reflected in Postal Service library reference USPS-LR-N2012-1/81, witness Bratta estimates the annual recurring savings attributable to spare parts at \$42 million. USPS-ST-1 at 2. With respect to electrical related expenses, witness Bratta separately analyzes heating, ventilation, and air conditioning (HVAC) as the largest component of electricity expense. *Id.* at 19. It is witness Bratta's expert opinion that running mail processing equipment over a longer period of time will not generate a significant increase in total electrical consumption. *Id.*

As described above, witness Bratta has provided extensive expert testimony in support of the Request, and has identified the sources of maintenance efficiencies expected to result from adoption of the operational changes being implemented in conjunction with the service changes under review in this docket.

4. Network rationalization will enable the Postal Service to achieve a net reduction in transportation activity by improving the efficiency of the transportation network.

The service standard changes proposed in this docket will enable the Postal Service to rationalize the mail processing and transportation networks. “The size of the transportation network is dependent upon the size of the processing and distribution network” because the Postal Service must “ensure that mail volumes can be transported between postal facilities...in accordance with the applicable processing windows and service standards.” Direct Testimony of Cheryl D. Martin on Behalf of the United States Postal Service, USPS-T-6 at 1-2, Tr. Vol. 4 at 1003. Witness Martin explains that the expansion of the mail processing network during the period of mail volume growth necessitated a corresponding augmentation of the transportation network. However, current economic realities now require the Postal Service to reevaluate the mail processing and transportation networks. *Id.* at 1. Because “current service standards limit the distance, and therefore, the amount of time trips can operate,” the service standard changes proposed in this docket are a necessary precondition to streamlining the transportation network. See Tr. Vol. 4 at 1053.

The proposed reduction in mail processing facilities described in this docket provides the Postal Service with a unique opportunity to streamline the transportation network in a manner that will increase its efficiency through the elimination of excess capacity. USPS-T-6 at 1 and 6. As witness Martin describes in her testimony, excess capacity in the transportation network can be eliminated by reducing the number of trips in the plant-to-plant network and

moving existing mail volumes over the remaining routes. See *id.* at 8-9. Additionally, an expanded mail processing window will create opportunities for the Postal Service to place outgoing and incoming mail traveling between the plants and destination delivery units (DDUs) on single trips, rather than separate trips, thereby reducing the number of operating miles in the plant-to-Post Office network. Witness Martin has also identified an additional cost-savings opportunity created by the elimination of Postal Vehicle Service (PVS) operations at Processing and Distribution Centers that will be deactivated under Network Rationalization. *Id.* at 13; see also Tr. Vol. 4 at 1174; Tr. Vol. 8 at 2595. Cost-savings based on the estimated reductions in transportation activity and PVS locations are described in the testimony of USPS witness Bradley (USPS-T-10).

The elimination of plants from the mail processing network will require the Postal Service to convert certain mail volumes traveling between specific origin/destination pairs from surface transportation to air transportation. USPS-T-6 at 15. Witness Martin acknowledges that this conversion will increase the handling costs of such mail. *Id.* However, she nonetheless anticipates a net savings in transportation costs from the realignment of the transportation network overall. *Id.*

In sum, Network Rationalization provides the Postal Service with opportunities to streamline the transportation network.

- a. **Reductions in plant-to-plant trips are achievable.**
 - i. **Plant consolidations will lead to fewer links in the plant-to-plant network.**

In her direct testimony, witness Martin provides a conceptual description of how Network Rationalization will enable the Postal Service to streamline the plant-to-plant network. She explains that “[a] reduction in the number of processing facilities in the postal network will significantly reduce the number of individual ‘links’ in the transportation network” due to the elimination of links (*i.e.*, transportation connections) between deactivated and remaining facilities. *Id.* at 6. To illustrate how transportation links may be eliminated through the consolidation of plants, witness Martin provides two figures that show a hypothetical plant-to-plant arrangement in the current network and a hypothetical plant-to-plant arrangement in a rationalized network. *Id.* at 7-8. Public Representative (PR) witness Subramanian Raghavan criticizes Ms. Martin for presenting “the worst-case scenario in terms of the number of required links.” Direct Testimony of Subramanian Raghavan on Behalf of the Public Representative, PR-T-2 at 24, Tr. Vol. 10 at 3125. Witness Martin acknowledges that the potential for reducing the number of links through network rationalization is dependent on the number of links in the current network and that the actual reduction in links may not be as extreme as the reduction depicted in the illustrative example provided in her testimony. See Tr. Vol. 4 at 1106. Nevertheless, she expects a significant reduction in transportation links because the Postal Service has the potential to deactivate approximately fifty percent of the processing facilities in the current network. *Id.*

Witness Martin acknowledges that the number of trips that comprise the *remaining* plant-to-plant links in the network could increase to accommodate the transportation of mail volumes that had been traveling over links that have been eliminated. USPS-T-6 at 8. However, witness Martin also explains that some of the increases in mail volume may be absorbed by trips with excess capacity. *Id.* (“[T]he opportunity to rationalize transportation in the new network will involve both reductions in trips and some increase in volume, hence capacity utilization, on remaining trips.”); see also Tr. Vol. 4 at 1107 (indicating that excess capacity exists throughout the transportation network). Witness Martin further explains that the Postal Service will be able to increase the capacity utilization of trucks that operate between remaining plants because the proposed service standards and the corresponding expansion of current mail processing windows will provide the Postal Service with more time to accumulate mail at an origin processing plant for eventual transport to a destination processing plant. USPS-T-6 at 9. Witness Martin concludes that increases in utilization will have a “suppressive effect” on the number of trips between the remaining plants because the Postal Service will be able to schedule fewer trips between the remaining plants *than would otherwise be required* under a more restrictive window. *Id.* (Emphasis in original). Additionally, witness Martin states that even if a processing facility was not completely deactivated, the elimination of outgoing or incoming operations from a facility would enable the Postal Service to optimize the transportation scheduling for that facility, possibly including the elimination of some trips. Tr. Vol. 4 at 1188-89. Witness Martin’s testimony therefore provides a solid

conceptual basis for her estimates of the percentage reduction in plant-to-plant trips that could be expected from network rationalization.

ii. The estimated reductions in plant-to-plant trips are supported by substantial record evidence.

Witness Martin estimates that the number of plant-to-plant trips in the current network could be reduced by nearly 13 percent through network rationalization. Supplemental Testimony of Cheryl D. Martin on Behalf of the United States Postal Service (USPS-ST-2 at 3, Tr. Vol. 8 at 2568). To generate this estimate, witness Martin undertook an extensive review of the entire Plant-to-Plant network to identify routes that could be eliminated: (1) through the reallocation of volume from one route to another route with sufficient excess capacity, (2) through the deactivation of processing plants, or (3) because the route exists solely to support current service standards. *Id.* The utilization data upon which witness Martin relies reflect an average utilization over a fourteen-day period in early October 2011, a period that was chosen because it represents a “normal-volume” period that is not generally affected by seasonal variation. Tr. Vol. 4 at 1108-09, 1082, 1256-57. Witness Martin’s analysis employs a “bottom-up” approach that incorporated feedback from each Area office concerning which routes should be considered candidates for elimination. USPS-ST-2 at 3; Tr. Vol. 8 at 2580. The results of her analysis are supported by the documentation contained in USPS-LR-N2012-1/77.

iii. Intervenor testimony does not undermine witness Martin's analysis.

Witness Martin's testimony is robust and provides a solid basis for finding that network rationalization will lead to a reduction in plant-to-plant trips, despite attempts by intervenors to prove otherwise through discovery or their own testimony. PR witness Raghavan observes that witness Martin did not use a weighted average to calculate the percentage reduction, that the estimated reduction is only based on the number of trips eliminated, and that the analysis does not incorporate any increases in trip frequency or new transportation links. PR-T-2 at 25 through 26, Tr. Vol. 10 at 3126-27. Witness Raghavan's observations do not, however, undermine witness Martin's central thesis, *i.e.*, that reductions in plant-to-plant transportation activity are possible and that they may be achieved through the elimination of trips, as shown in USPS-LR-N2012-1/77. Moreover, neither the Public Representative nor any other intervenor has submitted evidence to directly refute witness Martin's findings or conclusions. Witness Martin's approach to calculating the reduction in plant-to-plant transportation activity is reasonable and her estimate supported by substantial record evidence.

b. Reductions in plant-to-Post Office operating miles are achievable.

i. An expanded mail processing window creates the opportunity to increase efficiency of plant-to-Post Office trips.

In her direct testimony, witness Martin provides a conceptual description of how Network Rationalization will enable the Postal Service to streamline the

plant-to-Post Office network. She explains that “[b]y reducing the number of plant-to-Post Office links within a defined geographic area and collapsing two service areas into one, the Postal Service will be able to reduce the number of operating miles within that area.” USPS-T-6 at 11. Additionally, she explains that, “[a]n expanded mail processing window, combined with a reduction in the number of plants, [will] enable the Postal Service to decrease the number of surface transportation trips required to service a particular area.” *Id.*; Tr. Vol. 4 at 1110 (“I anticipate a reduction in operating miles due to the deactivation of certain processing operations combined with an expanded mail processing window that will enable the Postal Service to reduce the amount of trips within a particular service area.”). Reductions in surface transportation trips are possible because an expanded mail processing window will enable the Postal Service to schedule trips between plants and Post Offices throughout the day and into the evening when collection mail will be available for transport from Post Offices to plants. USPS-T-6 at 11-12; *see also*, Tr. Vol. 4 at 1160-61.

Witness Martin concludes that these changes “will create new opportunities for the Postal Service to transport [processed] mail to delivery units and transport collection mail to the processing plant in combined trips, as opposed to separate trips, thereby improving the efficiency of the plant-to-Post Office network.” *Id.*; Tr. Vol. 4 at 1058-59, 1209-10. Contrary to PR witness Raghavan’s speculations (Tr. Vol. 10 at 3128-29), the operating plan underlying the service changes being reviewed in this docket is designed to ensure that the incoming primary operation will end at noon, so that delivery point sequencing

can begin at noon and mail will be available for transport to delivery units early in the day. See USPS-T-1 at 12-13; USPS-T-4 at 19. Accordingly, there is no reason to doubt witness Martin's conclusion that network rationalization will provide the Postal Service with a unique opportunity to streamline the plant-to-Post Office network while eliminating excess capacity.

ii. The estimated reductions in plant-to-Post Office operating miles are supported by substantial record evidence.

Based on the AMP consolidation decisions announced on February 23, 2012, witness Martin estimates that the Postal Service will achieve a 3.18 percent reduction in operating miles as a result of network rationalization. USPS-ST-2 at 4-5; Tr. Vol. 4 at 1111. This estimate is documented in Library Reference USPS-LR-N2012-1/77, which contains an analysis of current operating miles and proposed operating miles from all losing and gaining facilities identified in the AMP studies. Tr. Vol. 4 at 1141.²⁹ PR witness Raghavan's speculation that increases in plant-to-Post Office transportation costs should be expected (Tr. 10/3127) is contradicted by the combined testimony and analysis of witnesses Martin and Bradley. USPS-T-6 at 10-13; USPS-ST-2 at 4-5, Tr. Vol. 8 at 2590; USPS-T-10 at 33-38; USPS-ST-4 at 11-14. Witness Martin acknowledges that the transportation portions of some, but not all, AMP packages included only routes that would be affected by the consolidation, as opposed to the total

²⁹ During oral cross-examination, witness Martin acknowledged that an analysis that accounted for all of the annual miles (current and proposed) identified in AMPs would be a superior method for calculating the estimated reduction in plant-to-Post Office operating miles than averaging the percent impact of a subset of facilities. Cf. Tr. Vol. 4 at 1193. In preparing her supplemental testimony, witness Martin undertook this suggested approach. USPS-ST-2 at 4, lines 20 through 23.

number of routes currently serving the gaining and losing facilities. Tr. Vol. 8 at 2585, Tr. Vol. 13 at 4560.³⁰ Although the inclusion of unaffected routes could have a suppressive effect on witness Martin's estimated reduction in plant-to-Post Office operating miles, this potential effect is mitigated by witness Martin's testimony that the estimated reductions in transportation costs are conservative to begin with due several factors that create incentives for Area transportation managers to schedule excess transportation during the initial phase of implementation. USPS-ST-2 at 4.

Witness Martin further acknowledges that certain routes that are not considered plant-to-Post Office routes (intra-P&DC routes) were nonetheless included in her plant-to-Post Office analysis, although they were excluded from the plant-to-plant analysis. Tr. Vol. 13 at 4559. However, witness Martin explains that no route that was listed in an AMP study was included in the analysis supporting the estimated reduction in plant-to-plant trips. *Id.* Therefore, she concludes that the estimated reductions in plant-to-plant and plant-to-Post Office transportation activity, when considered together, provide a reasonable estimate of the overall reduction in transportation activity attributable to network rationalization. *Id.* at 4559.

Although the parties may not agree that the 3.18 percent figure represents the *best* estimate of the reduction in operating miles anticipated from network rationalization, all of the relevant evidence in this docket continues to support the conclusion that reductions in plant-to-Post Office operating can be achieved.

³⁰ Moreover, approximately half of the AMP packages that were analyzed did include both affected routes and non-affected routes.

c. Network rationalization provides the Postal Service with the opportunity to assess PVS transportation costs with an eye towards cost-reduction.

Witness Martin explains in her testimony that the deactivation of processing plants with PVS sites provides the Postal Service with an opportunity to evaluate whether the Postal Service could reduce costs by using private contractors to perform mail transportation services. Tr. Vol. 4 at 1166-67. Witness Martin identifies 32 PVS sites that would close when their associated P&DC is closed. USPS-ST-2 at 5; USPS-LR-N2012-1/79. Witness Martin explains that “the Postal Service will provide a fair evaluation of PVS as a possible alternative to highway contracting as...new routes are staffed.” Tr. Vol. 8 at 2574-75. Witness Martin’s testimony, in conjunction with witness Bradley’s costing analysis, provides a solid basis for concluding that network rationalization will provide opportunities for additional reductions in transportation-related costs.

5. Network rationalization creates an opportunity for significant labor savings.

Witness Kevin Rachel (USPS-T-8) explains how the Postal Service can achieve significant reductions in complement through network rationalization. He observes that the AMP process will lead to changes in the mail processing network that will enable the Postal Service to increase network efficiency. USPS-T-8 at 3, Tr. Vol. 2 at 82. These changes create the opportunity for the Postal Service to reduce its employee complement and to do so in a manner that is consistent with the Postal Service’s statutory and contractual obligations. See *id.* at 2, 3, 6-11, and 15. Witness Rachel explains that complement reduction

can be accomplished through attrition,³¹ reductions in non-career employees, involuntary reassignments, voluntary early retirement (VER),³² management reductions in force (RIFs), retirement incentive options, and bargaining unit layoffs pursuant to Article 6 of the Agreements with APWU and NPMHU. *Id.* at 15. Witness Rachel further explains that complement reduction plans, which involve a consideration of various factors that could impact the Postal Service's ability to move or reduce the number of employees at a plant, will be developed for each consolidation. *Id.* at 15-16. Witness Rachel states that "the various tools available to the Postal Service for the movement of personnel and reduction of complement will allow for the capture of savings from plant consolidations." *Id.* at 16; *see also* Tr. Vol. 2 at 94. Accordingly, the Commission should concur with his conclusion that "the Postal Service will reap considerable labor cost savings over time as a result of Network Rationalization." USPS-T-8 at 20; *see also* Tr. Vol. 2 at 98.

B. Witnesses LaChance and Mehra Explained How the Postal Service is Planning A Smooth Transition for the Commercial Mail Channel.

The service changes under review in this docket potentially affect every sender and recipient of mail served directly by the United States Postal Service. Accordingly, the Direct Testimony of Susan LaChance on Behalf of the United States Postal Service (USPS-T-13) summarizes the tools and techniques that the Postal Service will employ to communicate vital information effectively to

³¹ See Tr. Vol. 2 at 90-91.

³² See *id.* at 96.

customers in a timely fashion. Her testimony makes clear that the Postal Service has a comprehensive, multi-media plan for informing the public and maximizing the ability of mailers and recipients to adjust mailing practices and delivery expectations before and after the service changes are implemented. That plan will be utilized during both phases of the network plan implementation, and adjusted as necessary to be effective.

As part of the changes proposed in this docket, the Postal Service has worked to inform and educate customers -- from major mailers to individual consumers -- about the service changes under review in this docket. USPS-T-13 at 4. While complying with the communication requirements under the USPS Handbook PO-408 Area Mail Processing guidelines, the Postal Service has gone further and developed and implemented a plan to provide all stakeholders with information that is timely, clear and sufficient to facilitate informed customer feedback while helping customers prepare for and adjust to the service changes proposed in this docket. *Id.* at 7. Communication efforts have encompassed a broad array of methods, including press releases, meetings with mailer groups such as the Mailers' Technical Advisory Committee (MTAC) and at events such as the National Postal Forum (NPF), and information provided to individual and small business customers by front-line employees and customer contact centers. *Id.* at 4-5; *see also*, Tr. Vol. 3 at 458, 462-68. As it implements the service standard changes, the Postal Service will continue to communicate with customers, both on a national level for those using the mail and on a local level for those communities directly affected by the AMP process. USPS-T-13 at 14-

15.

With respect to commercial mail entry, the Direct Testimony of Pritha Mehra on Behalf of the United States Postal Service (USPS-T-7) explains how the Postal Service has ensured, and will continue to ensure, that the service changes under review in this docket and related operational changes will have a minimal impact on mailers. *See generally*, USPS-T-7. Specifically, witness Mehra explains that, where practicable, Business Mail Entry Units (“BMEU”) located in facilities identified for closure will remain in the impacted facility. *Id.* at 4; Tr. Vol. 5 at 1571. When this is not feasible, BMEUs will be located within a relatively close proximity to the impacted facility, and mailers will be allowed to retain their SCF discounts for the foreseeable future. USPS-T-7 at 4; Tr. Vol. 5 at 1553, 1571. Further, witness Mehra explains that the Postal Service will work to understand the changes in mailing patterns as a result of the changes proposed in this docket, and will make necessary adjustments accordingly. *See, e.g.*, Tr. Vol. 5 at 1554, 1580-81.

The Postal Service has also worked carefully to ensure that all business mailers will receive adequate notice regarding any changes that may be necessary to business mail entry and assistance necessary to adapt to such changes. USPS-T-7 at 4-5. Specifically, the Postal Service has developed standard operating procedures to ensure 120 days’ notice before relocating, consolidating, or changing the hours of operation of a BMEU or Detached Mail Unit (DMU). *See, e.g.*, Tr. Vol. 5 at 1554-55. The Postal Service will also provide notice 120 days prior to adjusting Plant Load Agreements or Customer

Supplier Agreements. *Id.* at 1555. Additionally, the Postal Service has, and will continue to, regularly update mailers on the ongoing changes through various communication methods. *See, e.g., id.* at 1566.

Witness Mehra also explains efforts the Postal Service has undertaken to improve the customer experience relating to payment and acceptance processes in the future. USPS-T-7 at 6-7. Specifically, the Postal Service is building automated tools for small and medium business mailers, and a centralized account management structure to allow Full-Service Intelligent Mail users to enter mail in a more efficient manner. *Id.* Finally, the Postal Service is working to automate verification and induction processes through eInduction and automated verification. *Id.* at 7.

C. MPNR Is Consistent With the Policies Of Title 39.

The Postal Service encourages the Commission, when reviewing this and related evidence, to bear in mind that there is no one mail processing network configuration that, to the exclusion of all other potential variations, provides the sole operational basis for achieving the second phase goal for the service standards and configuration that the Postal Service plans to implement on February 1, 2014. Various network configurations, each with different facility numbers, locations and equipment distributions, could be utilized to accomplish that objective. As Postal Service witness Rosenberg put it, the objective of the Postal Service's network redesign effort was not to find the best answer, but to find a reasonable answer that meets customer and stakeholder needs. Tr. Vol. 4 at 1476.

The Commission should also acknowledge expressly that there are limits to the degree of precision that can be achieved in identifying and projecting all of the minute changes likely to result from consolidating operations at hundreds of interconnected mail processing plants, regardless of the methodology employed. Moreover, the Postal Service plan has always aimed at overall efficiency, without attempting to model or identify all one time costs that are incurred, for example, in a specific implementation.

The record evidence demonstrates that a network configuration has been developed and is being implemented with a high degree of confidence by expert managers, and that it will provide the infrastructure and logistical connections necessary to pursue efficient achievement of the interim service standard changes that were recently implemented and the final changes to be implemented on February 1, 2014. As explained in the next section below, the Postal Service's expert cost analysts have developed reasonable and reliable estimates of potential costs and savings, considering that such estimates must be calculated at a high level well in advance of implementing actual network changes, even as a network concept evolves, and before the emergence of all the various issues that arise only during implementation, at which time they can and will be identified and resolved.

VI. EXTENSIVE COST ANALYSIS PROVIDES RELIABLE ESTIMATES OF THE POTENTIAL OPERATING COST SAVINGS.

A. The Cost Analysis Adheres To Commission Methodology And Is Based On In-Depth Operational Analyses.

The methodology employed by the Postal Service for calculating the potential cost savings associated with Network Rationalization is consistent with the costing principles established by the Commission. Witness Bradley explains:³³

This methodology should reflect sound economic costing principles and should be based upon the operational reality that guides the Postal Service's use of resources. Fortunately, there is a well established set of costing principles and methods that have been developed and can be applied to this costing exercise. This set of principles and methods were originally developed by the Postal Service and Postal Rate Commission, under the Postal Reorganization Act, in a series of rate cases. More recently they have been refined and improved by the Postal Regulatory Commission (PRC) through a series of rulemakings in its Annual Compliance Determination (ACD) process.

These principles are followed by the Postal Service in calculating the cost changes caused by the proposed change in service standards. In some instances, the application is straightforward because the change in activities falls within the types of costing changes routinely contemplated by the ACD [Annual Compliance Determination] process. In these cases, the established ACD costing relationships can be directly applied. However, the ACD process is focused on product costing, not operational costing, so there are some instances in which an anticipated operational change falls outside the costing relationships employed in the ACD. In these instances the ACD structure and principles can be applied, but they must be refined and adapted to appropriately analyze the activity changes.

³³ Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service (USPS-T-10) ("Bradley Direct Testimony"), at 2.

The starting point for the Postal Service's cost savings calculations is the detailed operational analysis performed by witness Williams and the various operational witnesses. Witness Bradley explains why this is the appropriate starting point:³⁴

As explained by witnesses Williams, Martin, and Neri, the proposed service standard changes will instigate a substantial restructuring of the Postal Service's mail processing and transportation networks. These structural changes will allow the Postal Service to gain efficiencies and reduce cost in some areas, but will cause it to incur additional cost in other areas. When making these structural changes, the Postal Service will be changing its organization and use of the various activities required to sort and transport mail and, as a result of these changes, the cost of sorting and transporting that mail will change. Because changes in these activities are the source of the cost changes, it is appropriate to begin the cost change measurement with an analysis of the activity changes.

Moreover, as pointed out by witness Bradley:³⁵

It is important to note that this operational analysis also serves as the basis for the actual planning and implementation of the realigned networks. This means that the operational analysis is not just a speculative "what if," but is developed with actual implementation in mind. As a result, it must be accurate, reasonable, and feasible.

Witnesses Bradley's and Smith's initial cost savings estimates, contained in their testimonies filed on December 5, 2011, are based on the original operational changes described in the testimonies of witnesses Williams, Rosenberg, Neri, Bratta, and Martin. Later, some of these witnesses supplemented their operational analyses, based on results from AMP studies.

³⁴ *Id.* at 10.

³⁵ *Id.* at 2.

Witnesses Bradley and Smith then filed revised cost savings calculations, based on the newly available operational analyses.

Both the original and the supplemental cost savings calculations use FY 2010 costs, as documented in Docket No. ACR2010, as the baseline.³⁶ The calculated cost savings represent the reduction in mail processing labor, transportation, mail processing equipment and facility related costs that the Postal Service would achieve by implementing the new service standards and network structure. As such, the calculations do not include transition or adjustment costs, but rather represent “full-up savings”:³⁷

The term “full-up savings” refers to the annual savings available after the completion of all adjustments needed to reduce staffing and adapt contracts, plants, and equipment to the changed operational environment. Put differently, the estimates in this testimony are expressed as the annual savings that would occur if the processing network described by witnesses Williams, Rosenberg, Neri and Bratta had been fully implemented for handling FY 2010 volumes at FY 2010 wages and other input costs.

As discussed below, the use of the Docket No. ACR2010 costing framework as the baseline for estimating cost savings provides both well-defined costs for processing and transportation activity analysis and well-defined methods of relating operational changes to both direct and indirect costs. In addition, detailed data on operations and costs by facility were used for FY 2010 to provide in-depth consideration of the impacts of operational changes on costs.

³⁶ Bradley Direct Testimony, at 2.

³⁷ Direct Testimony Marc A. Smith on Behalf of the United States Postal Service (USPS-T-9) (“Smith Direct Testimony”), at 6.

B. The Changes In Mail Processing Facilitated By The Service Standard Revisions Will Result In Significant Cost Savings.

The most important place that cost savings will arise as a result of Network Rationalization is mail processing labor. Mail processing cost savings arise in five areas:³⁸

- Transfer of Workload.
- Productivity gains
- Restructuring of management, supervision, and technical support
- Reduction in premium pay
- Reduction in indirect costs

Witness Bradley points out that the consolidation of facilities involves a sorting workload transfer, which leads to a savings of institutional costs in sorting operations at inactive facilities. Using the established Commission methodology for measuring mail processing labor costs, he calculates the cost impact of this workload transfer. In the revised network, workload transfer causes a saving of \$58.3 million.³⁹

The transferred workload will be processed, along with the original workload, at the sites remaining active. Because of the change in the service standards, the Postal Service can refine its operating strategy leading to productivity gains at the active sites. Postal Service experts studied the resulting changes in operational structure and, based upon those changes, witness Neri was able to estimate the percentage gain in productivity, by operation, at active sites.

³⁸ Bradley Direct Testimony, at 5.

³⁹ Supplemental Testimony Michael D. Bradley on Behalf of the United States Postal Service (USPS-ST-4) ("Bradley Supplemental Testimony"), at 2.

According to witness Neri, the change in service standards will allow the Postal Service to run its mail processing operations longer. Not only will this permit a reduction in the number of locations at which the operations are run, but it will also permit a better utilization of both machine and labor resources within those operations. As explained by witness Neri, a smoother workflow will allow the Postal Service to have fewer “stops and starts,” less waiting for volume to process, and a better utilization of mail processing labor.⁴⁰

To determine the savings due to the productivity gains, witness Bradley utilizes the existing ACD mail processing “activities” or cost pools. For each cost pool, witness Bradley uses witness Neri’s estimated productivity gains to determine the associated cost savings, which total \$968.2 million.⁴¹

The Postal Service will also have mail processing labor cost savings in areas other than direct labor. It will achieve savings in the areas of management, supervision and technical support. As explained by witness Bradley:⁴²

The transfers of workload and mail processing labor hours from inactive to active sites imply that the Postal Service will also have to restructure their use of plant management, supervision, and technical support. Each of these types of labor will see changes in its structure as a result of the change in service standards and those structural changes will lead to cost changes.

The Postal Service and the Commission agree that supervisory costs vary in fixed proportion to direct labor costs. This approach is used by witness

⁴⁰ Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS-T-4).

⁴¹ Bradley Supplemental Testimony, at 6.

⁴² Bradley Direct Testimony, at 18.

Bradley in calculating the supervisory cost savings. Based upon direct labor cost savings of \$1.03 billion, he calculates a supervisor cost saving of \$65.1 million.⁴³

The Postal Service will also save labor costs from network realignment through a reduction in the number of plant managers;⁴⁴

Each facility has only one plant manager regardless of the number of employees working in the facility, and a reduction in the number of facilities necessarily implies a reduction in the number of plant managers. This also means that there will be a reduction in total plant manager hours.

Based upon the revised list of inactive facilities, witness Bradley uses FY 2010 data on plant management hours to calculate that the Postal Service will save \$15.1 million in plant management costs.⁴⁵ Finally, witness Bradley relies upon an analysis of in-plant support labor by witness Neri to calculate the Postal Service's cost saving in this area of mail processing labor.⁴⁶ Witness Neri calculates that the Postal Service will save 21.5 percent of its in-plant support hours and witness Bradley calculates that this will lead to a cost savings of \$35.3 million.⁴⁷

The Postal Service will be able to reduce its premium pay costs in the realigned network because the Postal Service will be able to reduce the proportion of hours eligible for the nighttime premium by shifting hours from nighttime to daytime.⁴⁸ Witness Neri analyzed the pattern of nighttime hours in

⁴³ Bradley Supplemental Testimony, at 8.

⁴⁴ Bradley Direct Testimony, at 20.

⁴⁵ Bradley Supplemental Testimony, at 3.

⁴⁶ Supplemental Testimony Frank Neri on Behalf of the United States Postal Service (USPS-ST-5), at 1.

⁴⁷ Bradley Supplemental Testimony, at 4.

⁴⁸ *Id.* at 8.

the realigned network and estimated the proportion of hours subject to the pay premium under the new service standard. Based on witness Neri's determination of the reduction in the proportion of nighttime hours worked, witness Bradley calculates that the resulting cost savings would be \$72 million.⁴⁹

Finally, the Postal Service will save some indirect mail processing labor costs. Witness Smith analyzes indirect costs and determines that the Postal Service will save two types of indirect costs: service-wide benefits and miscellaneous supplies savings. Based upon this assessment, witness Bradley calculates that the Postal Service will save \$136.3 million in indirect costs.

C. The Service Changes Will Also Lead To Significant Savings In Maintenance And Facilities Costs.

One of the important benefits of the service standard revisions is that, by lengthening processing windows, they reduce the amount of processing equipment needed by the Postal Service. Given this, witness Bratta, USPS-T-5, and USPS-ST-1, determined the processing equipment maintenance labor staffing reductions and supplies savings associated with the reduction in processing equipment. Using witness Bratta's estimates, witness Smith calculates the mail processing equipment-related savings in maintenance labor, parts and supplies to be \$334.7 million.

In addition, witness Bratta determined the savings in custodial and building maintenance personnel and non-personnel made possible by Network Rationalization. Based on these determinations, witness Smith calculates \$250.5 million in savings in building and custodial labor, utilities and heating fuel,

⁴⁹ *Id.* at 9.

custodial supplies and services, rents, and annual earnings associated with the utilization of facility sales proceeds.

D. The Service Changes Will Also Lead To Significant Savings In Transportation Costs.

There are also a number of changes in transportation costs that arise from the proposed change in service standards. As explained by witness Bradley:⁵⁰

The proposed change in service standards will alter the way the Postal Service configures portions of both its air transportation network and its highway transportation network. These alternations will cause the Postal Service's transportation costs to change.

As in other operational areas, the Postal Service estimates the impact of the service standard change on transportation costs by relying upon an analysis of the operational changes flowing from the service standard change. Because of the change in operating windows, witness Martin anticipated a movement of three-day First-Class Mail from highway transportation to air transportation.⁵¹ Witness Bradley calculates the additional air transportation cost created by the movement of volume from highway to air. To do so, he uses witness Martin's estimate of the additional pounds of mail that would be moved to air transportation, calculates the additional tare weight for the containers required to carry that mail, and uses the rate per pound by carrier to calculate the expected additional air transportation cost of \$124.9 million.⁵²

⁵⁰ Bradley Direct Testimony, at 29.

⁵¹ Direct Testimony Cheryl D. Martin on Behalf of the United States Postal Service (USPS-T-6), at Section III.

⁵² Bradley Direct Testimony, at 29-30.

The operational analysis of the change in service standards identified three areas of highway transportation in which costs would change: plant-to-plant highway transportation, plant-to-Post Office highway transportation, and Postal Vehicle Service transportation.

In the area of plant-to-plant transportation, witness Martin estimated the reduction in moving capacity caused by the service standard change both for the December 5 operational concept and the proposed network based on the February 23 AMP studies.⁵³

Witness Martin originally estimated that through better utilization, the Postal Service will be able to reduce its required capacity in the plant-to-plant portion of the network by 24.4 percent. In her supplemental testimony, witness Martin now indicates that her estimate of the reduction in transportation capacity is 12.8%.

Based upon witness Martin's supplemental testimony, witness Bradley calculates the reduction in cost caused by the reduction needed capacity and finds that the Postal Service would save just over \$100 million in plant-to-plant highway transportation.⁵⁴

Part of the process of network realignment is the closing of some Processing and Distribution Centers (P&DCs). Some P&DCs have Postal Vehicle Service (PVS) sites collocated with them. The Postal Service anticipates that when a P&DC is closed, the associated PVS site will also be closed.⁵⁵ In her supplemental testimony, witness Martin identified the 32 PVS sites the Postal

⁵³ Bradley Supplemental Testimony, at 10.

⁵⁴ *Id.* at 11.

⁵⁵ Direct Testimony Cheryl D. Martin on Behalf of the United States Postal Service (USPS-T-6), at Section II-B.

Service expects to close as a result of the service standard change.⁵⁶ Witness Bradley explains that when a PVS site is closed, the Postal Service will save both labor costs and vehicle costs.⁵⁷ Based upon the list of 32 PVS sites designated for closing, witness Bradley calculates that the Postal Service will save \$85.2 million in labor costs and \$12.8 million in vehicle costs.⁵⁸ However, he calculates that those cost savings will be partially offset by an additional \$37.8 million in purchased highway transportation costs associated with the transfer of transportation responsibility from PVS transportation to contract transportation.

Finally, witness Martin calculated the reduction in moving capacity caused by the service standard change in the plant-to-post portion of the transportation network:⁵⁹

Previously, witness Martin estimated that there would be a 13.7 percent reduction in capacity in the plant-to-post office portion of the network. She presents a revised estimated percentage reduction in her supplemental testimony. That revised estimate is 3.18%.

Witness Bradley calculates that the 3.18 capacity percentage reduction will reduce plant-to-post office transportation cost by \$22.9 million.⁶⁰

E. Network Rationalization Will Lead To \$2.1 Billion In Savings Annually.

In summary, the cost savings calculations outlined above total to \$2.1 billion on a full-up, annual basis. As described above, the calculations are

⁵⁶ Supplemental Testimony Cheryl D. Martin on Behalf of the United States Postal Service (USPS-ST-2), at 5.

⁵⁷ Bradley Direct Testimony, at 34.

⁵⁸ Bradley Supplemental Testimony, at 13.

⁵⁹ *Id.*

⁶⁰ *Id.*

grounded in extensive operational analyses performed by Postal Service operations experts, and they employ methodologies preferred by the Commission.

VII. VIGOROUS QUALITATIVE AND QUANTITATIVE RESEARCH INFORMS MANAGEMENT’S JUDGMENT REGARDING CUSTOMER REACTION TO MPNR.

The Postal Service presented reliable and valid market research that examined customer response to the proposed changes in First-Class Mail and Periodicals service standards through the testimony of two witnesses, Rebecca Elmore-Yalch (USPS-T-11) and Gregory Whiteman (USPS-T-12). Ms. Elmore-Yalch is a Senior Vice President at ORC International, while Mr. Whiteman is Manager, Market Research for the Postal Service. The research design utilized closely resembles what the same witnesses sponsored on behalf of the Postal Service in Docket No. N2010-1, in which the Postal Service sought an advisory opinion pursuant to section 3661 regarding Six-Day to Five-Day Street Delivery (5-Day Delivery).

In summary, witness Elmore-Yalch describes in her testimony the research design and procedures utilized for, respectively, the qualitative and quantitative research. Witness Whiteman develops from the research results quantitative projections of MPNR’s impact upon mail volume, revenue and contribution both in summary and broken down into various product categories.⁶¹ Witness Whiteman’s projections rely upon expertise in how respective customer

⁶¹ Witness Whiteman provides estimates for total, single-piece and presort First-Class Mail; Standard Mail, Periodicals, Express Mail, Priority Mail, Parcel Select, Parcel Post, Media & Library mail, parcels, and bound printed matter (BPM). USPS-T-12 at 22.

segments use the mail, essentially replicating the approach utilized for 5-Day Delivery. USPS-T-12 at 21.⁶²

The market research was commenced in the summer of 2011 on parallel qualitative and quantitative paths.⁶³ Qualitative research utilized separate focus groups with consumers and small businesses, and in-depth interviews (IDIs) with representatives of National, Premier and Preferred Accounts (mailers whose mailing activity is tracked in postal data systems). IDIs were also conducted with consumers and small businesses in Alaska and Hawaii. Both the qualitative and quantitative phases relied upon state-of-the art market research standards. All materials were developed in advance by experts in the field of marketing research; respondents and participants were screened and segmented, ensuring that all customer segments were involved in both phases. Customers involved in respective focus groups, IDIs, or quantitative data collections met all requisite criteria and were properly informed in all material respects. The focus group moderators and depth interviewers conducting the research were experienced professionals with extensive training who conducted the qualitative research in accordance with the established standards. Similarly, the quantitative research was conducted through ORC International's in-house call center, using interviewers trained to conduct both executive and customer interviews; interviewers received project-specific briefings and were supervised throughout

⁶² Financial estimates provided by the Postal Service in this docket use FY2010 data for the baseline since those were the most recent available when the analysis was conducted.

⁶³ As explained in greater detail below, the initial quantitative phase of research was biased through use of the broad concept statement; this conclusion was established by a subsequent quantitative phase of the research that became the foundation for the Postal Service decision to go forward with MPNR, and was accordingly the subject of the testimony of witnesses Elmore-Yalch and Whiteman. The initial phase of quantitative research was ultimately abandoned.

the process. Finally, the research is fully documented and the processes used completely transparent. USPS-T-11 at 4-5 (subject of study for both qualitative and quantitative); 6-14 (conduct of qualitative research); and 15-52 (conduct of quantitative research). See *also*, USPS-T-11 at 53-65 (screening of participants in qualitative research); 66-72 (focus group participant profiles); 73-80 (moderators' guides); 80-83 (written documents used in focus groups: First-Class Mail service standards exercise and broad concept statements); 84-88 (IDI interview guides; and 89-147 (quantitative survey instruments: Large Commercial organizations, Small and Home-Based businesses, and Consumers; and (148-51) the CARAVAN Sampling Methodology.⁶⁴ Additional materials regarding the market research were made available in library references USPS-LR-N2012-1/26 (Market Research Materials (Public)) and USPS-LR-N2012-1/NP1 (Market Research Materials (Non-public)).

The overall objective of the research was to measure the impact of changes to First-Class Mail and Periodicals service standards on customer behavior—the volume of mail they send via First-Class Mail and other products. Specific objectives for the qualitative research were to improve understanding of how and why customers would respond to the proposed service standards changes, whether customers would change their mailing patterns or switch to alternate providers and why, how difficult adjustment to the changed service

⁶⁴ CARAVAN is a weekly telephone survey performed by ORC International that has long been used before and by the PRC. Consumers were interviewed by telephone using ORC International's CARAVAN® Telephone Omnibus Survey product. The Postal Service uses this product regularly: it was first presented to the Postal Rate Commission in 1997 (PRC Docket No. R97-1) by the testimony of Dr. Timothy Ellard (USPS-RT-14). Most recently it was described by witness Elmore-Yalch to the Commission in PRC Docket No. N2010-1 (USPS-T-8 at 27-28, 186-89). It is also utilized in witness Day's testimony, USPS-T-1, Docket No. N2012-2.

standards might be and the challenges faced, and to assess perceptions of the Postal Service reasons for making the changes. USPS-T-11 at 6. The qualitative market research utilized a broad concept statement (see, e.g., USPS-T-11 at 82-83, for Consumers and Small Businesses, respectively) that placed MPNR in a larger context which included various initiatives that had recently been the object of extensive press / media coverage.⁶⁵

While the broad concept statement opened the door to discussion beyond MPNR, skilled moderators were able to steer discussion back to a specific focus upon the impacts driven by changes to First-Class Mail service standards. However, the same broad concept statement when used in connection with the quantitative market research introduced a source of unexpected and unwanted variance, or noise. Tr. Vol. 3 at 676, 681. Based on feedback from the qualitative research conducted at the same time as the first phase of quantitative research, the research team became concerned whether the effort to quantify changes in First-Class Mail volume in response to MPNR might be biased by response to other initiatives identified in the concept statement.

Questioning by counsel for National Postal Policy Counsel illustrated this point:

Q And my question is the changes to First Class Mail, Question 3 reads, “changes to First-Class Mail,” it does not say service standards, and likewise Question 4, and I’m wondering if a respondent might fairly have understood that

⁶⁵ These include the need for legislative reform now pending with the Congress, possible elimination of Saturday delivery (the subject of 5-Day Delivery), closing of thousands of small Post Offices, and budget deficits of over \$8 billion.

question to be referring to all of the changes that are summarized on page 11 in the description.

A Well, I would say yes, it is very possible they did, and as I said earlier, that it was clear in the qualitative research that we were doing at the same time that people indeed were factoring in all of the changes, and that was the reason behind, you know, revamping the concept statement, slightly changing the flow of the questionnaire, revamping the questionnaire to make sure that in the second phase that we got the numbers, you know, that had the respondent focused on the changes to First Class Mail service standards. I mean, the objective of the study all the way along was First Class Mail service standards, and so Phase II really got them to focus on that.

Tr. Vol. 3 at 641-42. The tight time schedule on which all of the phase one research was conducted did not allow for procedural changes. However, witness Elmore-Yalch testified that “I would say it was probably within a one-to-two week timeframe after we had presented [the] preliminary results” that work on the phase one results was abandoned and work on “more focused” phase two quantitative market research commenced.” Tr. Vol. 3 at 648.

The quantitative market research was designed to assist development of forecasts regarding the potential impact of changes to service standards on volume of specific products: First-Class Mail (Single-Piece, Presort and total), Standard Mail, Priority Mail, Express Mail, Periodicals, Parcel Select, Parcel Post, Media & Library Mail, Parcels, and BPM. USPS-T-12 at 22. However,

thanks to existing knowledge of how customers in each segment⁶⁶ make use of the mail for specific purposes (and since customers in some segments might have imperfect understanding of distinctions among the products), the quantitative market research did not need to ask respondents from each customer segment about every product.⁶⁷ Instead, respondents were asked about their use of the mail for “applications” such as (1) bills, invoices or statements, (2) payments, (3) advertising, (4) general communications, and (5) key documents (with some variation across customer segments) and specific products: First-Class Mail (Single-Piece and Presort), Express Mail, Priority Mail, Standard Mail (Regular and Nonprofit), and Periodicals (Regular and Nonprofit). See, e.g., USPS-T-11 at 5, 17.

The Postal Service did not base its Request in this docket on the quantitative research results obtained in parallel with the qualitative market research. As explained above, it became concerned while the research was being conducted that the attempt to encompass in the concept statement all of what most customers had been hearing / seeing / reading about the Postal Service over the last year or so distracted customers from the study’s focus upon the specific impact of MPNR alone on mail volume and resulted in a biased estimate. While skilled moderators could still steer discussion to the requisite focus in focus groups and IDIs, no such opportunity existed in the quantitative research where interviewers read a standard script.

⁶⁶ Customer segments include National Accounts, Premier Accounts, Preferred Accounts, small businesses (fewer than 100 employees), home-based businesses (at least 25 hours per week), and consumers. USPS-T-11 at 15.

⁶⁷ Use in this docket of the crosswalk between quantitative responses and particular products is the same one used in 5-Day Delivery, where the Commission accepted its use.

Witnesses Elmore-Yalch became aware during the conduct of the qualitative research that the concept statement being used “was broad enough that the respondents then focused on other factors than just what we are asking of what’s the impact of the changes to First-Class Mail service standards on how you send your mail.” Tr. Vol. 3 at 616-17.

Fortunately, an empirical method was identified for determining whether the broad concept statement was problematic, albeit one that required extra time to conduct. That empirical test consisted of replicating in a second phase the procedures employed in the quantitative market research while using a concept statement and revised questionnaire that narrowed respondent focus exclusively upon MPNR. Postal management thus chose to repeat the quantitative phase while using a concept statement tailored narrowly to MPNR. See USPS-T-11 at 100. If the phase two results simply replicated the phase one results, then one would have an empirical basis for concluding that use of a broad concept statement was not problematic and the strength of the quantitative results would be strengthened.

However, the phase two quantitative market research results were quite different, showing volume, revenue and contribution losses driven by implementation of MPNR that were approximately one fourth of the phase one results. *Compare* witness Whiteman’s Chart 1 (USPS-T-12 at 22) *with* the

preliminary results from phase one shown in exhibit APWU-XE-1 (Tr. Vol. 4 at 906).⁶⁸

With this empirical demonstration that the broad concept statement used in phase one of the quantitative market research resulted in a biased estimate of the impact of MPNR alone, the preliminary results of phase one were abandoned and ORC International was instructed not to perform all of the outlier analysis and data cleansing necessary for finalizing the phase one results.

A. Most Customers Understand That Changes In First-Class Mail Service Standards Do Not Alter Its Reliable And Consistent On-Time Delivery So They Can Readily Adapt Their Own Use Of The Mail.

In summary, the qualitative research demonstrated that “customers will accept the changes [in First-Class Mail and other service standards] with the understanding that it is necessary for long term Postal Service financial stability.” USPS-T-12 at 9. Customers understand that a significant price increase in the context of various challenges illustrated in the broad concept statement cannot by itself ensure the long term financial stability of the Postal Service. *Id.* In partial response to NALC witness Crew’s assertions (NALC-T-1) that speed of First-Class Mail delivery (or transit time) is critical to customers’ use of it, witness Elmore-Yalch details in her surrebuttal testimony research findings which confirm that the key values of First-Class Mail customers are its reliable, consistent on-time delivery at a low price relative to other services. USPS-SRT-4 at 6-9. For non-time sensitive mailings or those that are pre-planned, changes in First-Class

⁶⁸ Specifically, phase two results projected a volume impact totaling -1.7 percent, revenue loss of \$1.345 billion and contribution loss of \$501 million. The phase one results showed a total volume impact of -7.7 percent, with revenue loss of \$5.261 billion and contribution loss of \$1.963 billion.

Mail service standards would require little or no change in current customer behavior. For time-sensitive mailings that are not pre-planned, adaptation to the changes in First-Class Mail service standards would require customers to mail these items a day sooner. USPS-T-12 at 9-10. Results from the qualitative research clearly indicate that most customers currently have low expectations for First-Class Mail transit times so adjustments would be minimal or unnecessary. In those cases where participants indicated that they counted on existing transit times (e.g., small businesses mailing within their local market), most indicated that while they would be disappointed, they would simply modify their behaviors. Changing operations at the small and home-based business level is significantly less onerous than for large mailers.

Qualitative customer response to service standard changes consisting of an extra day before delivery of some mail conforms generally with customer acceptance of changes in mail service over time. Inclusion in Article 1, Section 8, of the U.S. Constitution of Congressional power “To establish Post Offices and post roads” occurred at a time when the challenge of communication across the broad geography of a new nation was well understood. Action by Congress and the Postmaster General steadily expanded mail service over the next century and a half; Post roads and Post Offices expanded as population and commerce grew. Delivery service was instituted and later made free;⁶⁹ delivery frequency was as much as five times daily in 1863 (*id.*) and reached at least seven per

⁶⁹ Free delivery of letters commenced in July 1862 at 49 larger offices utilizing 449 carriers. Annual Report of the Postmaster General, 1863 at 8.

day.⁷⁰ Mail was expanded to include parcels and almost anything under 70 pounds. But over the last nearly two centuries as the information age saw its first glimmers of dawn, alternate communications technologies arrived, including telegrams, telephones, and facsimile, and more recently email and other web-based channels, mail's utility especially for near real-time communication has diminished with consequent impacts upon delivery frequency per day,⁷¹ and in many international posts the days of delivery. This docket entails a similar decrease in the immediacy of mail delivery, with less First-Class Mail and Periodicals mail delivered overnight. Various participants in this docket simply oppose the decrease in overnight mail delivery (as the law allows), but their claims that a cutback in the overnight delivery of certain mail constitutes a critical decrease in the speed of mail delivery for First-Class Mail customers is not supported by the evidence of record or the ongoing history of how mail is used.

B. Use Of Well-Documented Forecasting Methods Provides Reliable And Valid Estimates Of Customer Response To MPNR, Thereby Providing The Best Possible Input To Inform Postal Service Judgment Regarding The Financial Implications Of MPNR.

As stated in Witness Boatwright's testimony for 5-Day Delivery,⁷² market research is often conducted to support the basic "go" / "no go" decision about

⁷⁰ Annual Report of the Postmaster General, 1922, at 22-23.

⁷¹ By 1949 the frequency of city delivery for businesses was down to thrice per day, and residential delivery down to twice. Annual Report of the Postmaster General, 1949 at 20-21. The following year, residential delivery frequency was reduced to a maximum of once per day as were both residential and business parcel post routes (a few exceptions outstanding); city business deliveries on Saturdays were cut to one less than on weekdays. Annual Report of the Postmaster General, 1950 at 27-28.

⁷² Professor Boatwright testified on behalf of the Postal Service in 5-Day Delivery, USPS-RT-1, Docket No. N2010-1, at 5.

making changes to existing products or launching new ones, especially when historical data are not available. He further points out that customer views constitute critical input to product decisions, so both qualitative and quantitative research methods are typically employed to obtain customers' perspective.

There has been considerable discussion in the 5-Day Delivery and now this docket regarding the applicability of some type of weight to address the tendency of respondents' to accurately represent their actual behaviors. The focus of these discussions has focused primarily on the application of a respondent level weight based on an individual's stated likelihood (probability) of changing behavior(s) in light of a change to service.

Witness Crew states that "the quantitative market research performed by ORC International on behalf of USPS contains flaws that bias downward USPS's estimate of lost mail volume" (Tr. Vol. 11 at 3549) due to the inappropriate application of a "probability of change" factor (page 8). He cites as the basis for this statement his own testimony in the 5-Day Delivery docket (Tr. Vol. 11 at 3548) and the advisory opinion issued by the Postal Regulatory Commission for that docket (Advisory Opinion on Elimination of Saturday Delivery, Docket No. N2010-1 (March 24, 2011), at 112-13). When asked whether he was aware of any articles supporting the use of the Juster Scale, he responded "no" and further stated "I did not believe it necessary to review any literature cited by USPS or its witnesses." (Tr. Vol. 11 at 3582).

In contrast, Witness Elmore-Yalch built on the already substantial technical and academic support for application of a weight to each respondent's

estimate based on that respondents' stated intention to perform specific behaviors, as recommended by Witness Boatwright in the 5-Day Delivery docket. She also provides additional support in the form of peer-reviewed journals and industry publications calling for the use of weighted estimates in the absence of historical data.

ORC International has provided comprehensive support for the use of the Juster Scale, which asks respondents to indicate their intentions or probability of performing a specific behavior. Moreover, ORC International has identified research that clearly demonstrates the use of the Juster Scale or its comparable application to weight estimates of stated individual behaviors (e.g., voter behavior, charitable donations, and product purchase) by their stated probability that they will actually engage in the behaviors (USPS-SRT-4, at 17, 19) and described the potential ramifications for decisions that would be made if this weight was not applied.

Witness Elmore-Yalch also provided support for the use of the Juster scales rather than other approaches, citing an article by Day, Gan, Gendall and Esslemont which concluded that Juster's 11-point purchase probability scale provides substantially better predictions of purchase than other types of intentions (USPS-SRT-4 at 20).⁷³ She further provided specific examples where purchase level estimates were weighted by the probability of buying any amount of the product (USPS-SRT-4, page 20).

⁷³ Day, D., Gan, B., Gendall, P., & Esslemont, D. (1991). Predicting purchase behavior. *Marketing Bulletin* 2, 18–30

The literature supporting the use of this approach is so extensive that a further review provides even more support that self-reported intentions are some of the most widely applied proxies of actual future behavior (Alexander et al. 2008,⁷⁴ Van Ittersum and Feinberg 2010⁷⁵) providing strong support for the belief that intentions are accurate indicators of behavior (Young, *et al.* 1998⁷⁶). Consumer psychology research further supports the use of this line of questioning, asserting that self-reported intentions enable individuals to incorporate and balance relevant factors that influence their actual behavior.⁷⁷ Moreover, self-reported intentions provide valuable input for predictions of purchase behavior and sales forecasts,⁷⁸ and meta-analyses confirm that intention measures relate to behaviors.⁷⁹

The advisory opinion rendered by the Postal Regulatory Commission in Docket No. N2010-1 in regards to the use of the Juster Scale did not reflect the vast array of academic research supporting this methodology while the extensive background research conducted by ORC International clearly does.

⁷⁴ Alexander, D. L., Lynch, J. G., Jr., & Wang, Q. (2008). As time goes by: Do cold feet follow warm intentions for really new versus incrementally new products? *Journal of Marketing Research*, 45 (June), 307–319.

⁷⁵ Van Ittersum, K., & Feinberg, F. M. (2010). Cumulative timed intent: A new predictive tool for technology adoption. *Journal of Marketing Research*, 47, 808–822

⁷⁶ Young, M. R., DeSarbo, W. S., & Morwitz, V. G. (1998). The stochastic modeling of purchase intentions and behavior. *Management Science*, 44(2), 188–202

⁷⁷ Ajzen, I., & Fishbein, M. (2005). The influence of attitudes on behavior. In D. Albarracín, B. T. Johnson, & M. Zanna (Eds.), *The handbook of attitudes* (pp. 173–221). Mahwah, NJ: Erlbaum

⁷⁸ Armstrong, S. J., Morwitz, V. G., & Kumar, V. (2000). Sales forecasts for existing consumer products and services: Do purchase intentions contribute to accuracy? *International Journal of Forecasting*, 16(3), 383–397

⁷⁹ Albarracín, D., Johnson, B. T., Fishbein, M., & Muellerleile, P. A. (2001). Theories of reasoned action and planned behavior as models of condom use: A meta-analysis. *Psychological Bulletin*, 127, 142–161

C. Use Of A Stratified Sample Provides A More Representative Sample With Lower Variability Around The Quantitative Projections For A Lower Cost And Illustrates That Customer Reaction To MPNR Varies.

Stratifying the sample by customer type and size in the MPNR market research is similar to the sampling methodology used in 5-Day Delivery, except that the consumers and smaller businesses were separated into three groups. Home-based businesses (with a minimum of 25 hour work week) were separated from both consumers and small businesses with locations outside the home (maximum 100 employees). Stratified sampling segments the population into more homogeneous subgroups before sampling. It often improves the representativeness of the sample by reducing sampling error and can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population (Tr. Vol. 3 at 661). While it would be possible to conduct the research without a stratified sample, the error surrounding the estimates could be greater and the sample might not be as representative (even if that would also allow calculation of a single confidence interval). Confidence intervals around respective volume estimates for each customer segment were provided, together with descriptions of and the actual calculations. Tr. Vol. 3 at 521-27; Tr. Vol. 3 at 569-70. Witness Elmore-Yalch stated that, were the research conducted again (and without budgetary limitations), she would first focus upon the Preferred Customer segment due to its size and responses in that group showed a good deal of variation. *Id.* at 660. But a single confidence interval around the responses of all customers would be less informative than the confidence intervals around respective segment estimates. And combining the

respective customer segment confidence intervals would be contrary to established statistical science.⁸⁰ Tr. Vol. 3 at 590-91.

D. Witness Elmore-Yalch Provides Estimates Of Customer Segments' Response To MPNR That Are More Than Sufficient For The Purposes Of This Proceeding.

Witness Elmore-Yalch presents estimates of volume changes projected from MPNR by the quantitative market research in her testimony. USPS-T-11 at 50-52. In general, because so many respondents indicated their volume would not change, the results were not normally distributed and calculation of confidence intervals using classic formulas was difficult.

Suggestions to censor or truncate data to fit an unsupported hypothesis that all customers will change their behavior based on a purported decrease in service quality are not supported by research or standard industry practices.⁸¹

All customer segments are aggregated by witness Whiteman and a weighted estimate of the volume change is computed, which necessarily takes into account the respective customer segments' mail volume to arrive at his Chart 1 (USPS-T-11 at 22). Had the research design not stratified the sample by customer type and size, visibility into the distinctions across customer segments would not be available.

⁸⁰ Customer segment estimates were collected using two different techniques, telephone interviews and via the internet. This distinction further complicates any effort to combine segment-specific estimates for purposes of extracting a single confidence interval around such point estimates as the 1.7 percent loss in mail volume.

⁸¹ Cowen, S. and Ellison, S., "Reporting Measurement Uncertainty and Coverage Intervals Near Natural Limits," *The Analyst*, May 2006.

Questions to witness Elmore-Yalch about confidence intervals around the quantitative research estimates variously focused upon inclusion of zero and statistically significant difference from zero. Implicitly, such questions argue that the market research estimates should have higher statistical precision. Of course, that is true of any statistical estimate: confidence intervals can always be made smaller by simple strategies such as increasing sample size or further sample stratification. Tr. Vol. 3 at 693. Yet examination of the real context of this docket also illustrates that these truisms really do not matter.⁸²

First, as witness Elmore-Yalch points out, if, for example, estimates are not statistically distinguishable from zero, what that leaves is a conclusion that the estimated change in mail volume projected by the changes in First-Class Mail and Periodicals service standards is so small that it cannot be measured. But look at what MPNR is all about: by eliminating a peak load challenge that today dictates how many facilities and machines the Postal Service needs to process mail for delivery the next day, large savings would seem to be available that would reduce significantly what it costs to process mail *every year*. On its face, MPNR holds the potential for the most substantial cost savings of any initiative the Postal Service has ever implemented with little or no impacts on volume beyond what is occurring as a result of other changes in the marketplace and demand for mail services.

E. The Quantitative Market Research Provides An Accurate And Reliable Basis For Estimating Volume, Revenue And Contribution Impact, Notwithstanding The

⁸² In keeping with the high quality of the market research, its cost as of the time witness Elmore-Yalch first took the stand approached seven figures. Tr. Vol. 3 at 614.

Tautological Reality That Market Research Can Always Be Improved.

ORC International provided the Postal Service an estimated percent change in volume for each product studied for each of the segments identified in witness Whiteman's Chart 1 (USPS-T-12 at 22). Customers in all segments were asked to provide estimates on their volumes for Single Piece First-Class Mail, Priority Mail and Express Mail. Customers in the National, Premier and Preferred Account segments also were asked to provide estimates on their volume for Presort First-Class Mail, Standard Mail (Regular and Nonprofit) and Periodicals (Regular and Nonprofit). For each product, customers were asked for an estimate for the last year, for the next year, and for the next year if the service standard changes were implemented. These estimates allowed ORC International to calculate the percent change for each product, using the volume estimates for "the next year (no change in service standards)" and "the next year if the service standard changes were implemented. USPS-T-12, section III; Library Reference USPS-LR-N2012-1/NP14.

Then, the Postal Service, using internal data sources such as the Revenue, Piece and Weight (RPW) system for each product's FY2010 volume data and the Customer Business Intelligence (CBI) system for each product's FY2010 volume, calculated volume changes within each of the National Account, Premier Account, and Preferred Account customer segments. By using these two systems together, witness Whiteman was able to calculate the volume for Single Piece First-Class Mail, Priority Mail and Express Mail for the office-based small businesses, home-based small businesses, and consumer segments

combined. Using the volume estimates produced by ORC International for each of these three products for the office-based small businesses, home-based small businesses, and consumers segments, he then estimated the distribution profile of the volume for each of these three products across the three segments and thereby also calculate the volume for each of these three products for each of the three small business and consumer segments. Using specific FY2010 volume estimates for each product and segment and applying the percent volume change for each product and segment from ORC International, witness Whiteman then calculated specific volume change estimates for each product and segment. Finally, to calculate the total estimated volume change across all segments, witness Whiteman summed the individual volume change estimates for each product and segment. By this method, he calculated final volume change estimates for FY2010. *Id.*

The Postal Service estimate of half the financial equation, contribution losses from lost mail volume, has been produced at tremendous cost by world class experts using the best available research design it could devise. While room for criticism cannot be extirpated, no market research can be unimpeachable in all respects. Statistical precision can be improved; more than a million dollars could be spent; and/or corroborative studies could be commissioned. But no such steps will alter the basic equation; nor can they alter the legal question before the Commission: is the Postal Service decision to go forward with MPNR consistent with the policies of title 39.

F. The Quantitative Market Research, Informed As They Are By the Qualitative Market Research Results, Provide Definitive Evidence of Network Rationalization's Impact Upon Future Mail Volumes.

The qualitative and quantitative market research testimony demonstrates that it was developed using supportable sampling and questionnaire design methods and moreover was conducted according to the highest standards and in full conformity with standard industry practice. The best of procedures were utilized and adjustment for respondent tendency in research to overstate future behavior has been carefully and properly controlled by weighting to generate reliable projection of respondent behavior. The qualitative research also signaled that the original concept statement was overly broad, leading to an empirical investigation of that potential in a second phase of quantitative research that became the foundation for the Postal Service projection of customer response to MPNR. The qualitative research also provided a foundation for understanding why some customers may see MPNR as heralding improved consistency of delivery, a core value to First-Class Mail customers that could reasonably lead them to project volume increases after MPNR is implemented. Hence the market research provided a sound foundation for the Postal Service decision to go forward with MPNR. While some volume decreases will follow, the magnitude is small, especially in light of the financial gains that MPNR will provide year after year.

VIII. THE INTERVENOR AND COMMISSION TESTIMONY IN THIS DOCKET DESERVES LITTLE WEIGHT.

In the rebuttal phase of this docket, intervenors representing the interests postal employee unions submitted written testimony of 11 witnesses. A

newspaper publishing trade association sponsored testimony of two witnesses concerned about the impact of service and operational changes on its members' publications. The Commission's Public Representative sponsored the testimony of two witnesses, and the Commission sponsored the testimony of an additional pair of witnesses. Below, the Postal Service reviews these testimonies and explains why none of it presents record evidence sufficient to justify an advisory opinion from the Commission that the Postal Service not proceed with the service changes under review in this docket. The testimony does not credibly rebut the Postal Service's explanations of the operational changes it will implement or the estimates of the costs expected to be saved when the operational and personnel changes are fully implemented. As explained below, for these and other reasons, the parties' testimony should be accorded little weight by the Commission.

A. Network Modeling Testimony.

The testimony of two intervenor witnesses, Subramanian Raghavan on Behalf of the Public Representative (PR-T-2)⁸³ and Pierre Kacha on Behalf of the American Postal Workers Union (APWU-RT-3)⁸⁴ discuss the Postal Service's use of network modeling tools in support of its redesign of its mail processing network. Both witnesses offer a respectful acknowledgment for the complexity of the task faced by witness Rosenberg and the Postal Service in rationalizing tis network. Witness Kacha's recognition of the talents of the team employed by the Postal Service is appreciated. Tr. Vol. 11 at 4055. Both suggest ways that

⁸³ Tr. Vol. 10 at 3100 *et seq.*

⁸⁴ Tr. Vol. 11 at 3927 *et seq.*

future modeling could be enhanced, but neither provides substantial evidence to support a conclusion that the network redesign effort conducted by the Postal Service has led to the development of service changes that fail to conform to applicable policies of title 39.

1. Public Representative witness Raghavan.

At page 3117 of Tr. Vol. 10, Public Representative witness Raghavan expressed dismay that the rationalized network may not be as efficient as possible. Fortunately, for the Commission and the Postal Service and its customers, the standard for review of proposed service changes does not require a determination that the underlying operational network achieve the highest level of efficiency possible. The most efficient network possible may leave much to be desired with regard to service. And even if service levels are not in dispute, the most efficient network possible may not provide sufficient flexibility to deal with routine contingencies.

Professor Raghavan alluded to an “ideal” approach for determining whether the proposed service changes are the “best option” for the Postal Service. Tr. Vol. 10 at 3134. However, the Postal Service submits that criticizing its approach to determining what service changes to implement as less than “ideal” does not distinguish that approach or its results from the methods used or results that flow from any number of critical policy decisions made in the nation’s capital, postal or otherwise. The Postal Service readily concedes that it would be “ideal” for it (and all other public policy decision-makers) to base all opinions and decisions on complete and perfect information about all variables, options, risks

and benefits, with the luxury of such time as may permit the fullest possible exploration and resolution of all issues. But even after such “ideal” reflection, reasonable minds can and do disagree about what is “best” for the Postal Service. Section 3661 review was not established by the Congress to serve as platform for debate to resolve what is “best” for the Postal Service or whether each and every aspect of its complex decision-making qualifies as “ideal.” The purpose of this docket is to provide a basis for the Commission to opine whether the service changes submitted for review by postal management are ones that the general service policies of title 39 permit postal management to make, and whether, in pursuing changes in service standards, the Postal Service has considered the factors in section 3691(c) and will achieve the objectives of section 3691(b).

Public Representative witness Raghavan criticized the scoring tool utilized by Postal Service witness Rosenberg (USPS-T-3) because, in his view, it did not accurately assess the number of facilities required to process mail processing workload. Tr. Vol. 10 at 3109. As witness Rosenberg testifies, the scoring tool was used only to provide a starting point for expert and experienced mail processing managers to make determinations about future mail processing operation windows. USPS-T-3 at 11. Professor Raghavan conceded that “further calculations were done at later steps to validate the final proposed solutions in later stages of the Postal Service and witness Rosenberg’s analysis.” Tr. Vol. 10 at 3113. In the end, he did not challenge the results as unreasonable. His criticism boils down to a preference for greater reliance on the

scoring tool alone to produce those results, which he views as possible if the scoring tool were refined accordingly. Professor's Raghavan's preference for the most robust models possible to make decisions and his criticism of reliance on the collective wisdom of mail processing managers may be due in part to his lack of experience or familiarity with mail processing operations altogether. After all, he conceded that he has never observed any. Tr. Vol. 10 at 3153.⁸⁵ The Postal Service would submit that, even if the use of modeling or expert judgment, each to the exclusion of the other, has limitations, the effect of those limitations can be diminished when both are used in concert and one is not relied upon to the exclusion of the other. This is consistent with the approach taken by the Postal Service in the complicated process of determining the degree to which its mail processing network can be rationalized in conjunction with the new service standards.

Professor Raghavan criticized the Postal Service's use of the LogicNet optimization model for failing to incorporate transportation costs between plants. In his view, using a model with such transportation costs incorporated would have identified a "better" starting point for discussions with domain experts. *Id.* at 3115. Similarly, he opined that, in lieu of the 95th percentile peak analysis performed by witness Rosenberg in her detailed equipment modeling, she could have incorporated peak load considerations into the LogicNet model. He testified

⁸⁵ This lack of familiarity reveals itself in his belief, expressed at pages 3131, 71-72 of Tr. Vol. 10 that it is unlikely that cancellation volume could be spread evenly across the typical seven-hour processing window simply because such mail, unlike Delivery Point Sequenced mail, is not all available in advance of the start of the cancellation operation. It apparently is inconceivable to witness Raghavan that the spiky arrival profile of cancellation mail is routinely managed by feeding such mail into available cancellation equipment throughout the duration of the cancellation window even if the bulk of it arrives early in the window.

that it “might” have yielded a better starting point for discussion with Area management. *Id.* at 3118. In neither case does he testify that a “better” starting point guaranteed a “better” or even a materially different end result after consideration of the input of domain experts.

Likewise, witness Raghavan criticized witness Rosenberg for not using the LogicNet model to perform iterative analysis of the consolidation opportunities that were identified in September 2011 (USPS Library Reference N2012-1/6) after consideration of the input from domain experts. *Id.* at 3116. Running the resulting network concept through the LogicNet model again (and subjecting those results to another round of domain expert review, followed by successive rounds of modeling and domain expert review) might be preferable if the network redesign process was not subject to time constraints, was intended to be driven primarily by model outputs, did not involve a significant application of management judgment and expertise, and the USPS Handbook PO-408 AMP guidelines were not going to be employed to perform granular analysis of the business case for each proposed facility-specific consolidation. Professor Raghavan chastised the Postal Service for not incorporating management expertise into the model. *Id.* At 3117. There is no evidence to suggest that this would be a simple undertaking. He acknowledged the value of domain knowledge and the vital role it can play in identifying feasible consolidation opportunities. With a preference is that such information be incorporated into the model, he could not resist criticizing the Postal Service – not for failing to rely on domain knowledge -- but for failing to bake its domain knowledge into the

LogicNet model. This is a criticism more about form, not substance or result.

2. APWU witness Kacha.

APWU witness Kacha's direct testimony (APWU-RT-3) presented a model-based assessment of how service performance and costs might change under alternative mail processing network scenarios. Tr. Vol. 11 at 3935. He described it as a potential decision-aid to stakeholders for making strategic, business or operational choices. *Id.* at 3936. His supplemental testimony (APWU-ST-2) offered an assessment of potential service impacts expected from implementation of the summer 2012 wave of facility consolidations identified by Postal Service witness Rosenberg in response to Commission Information Request No. 1, Question 4.⁸⁶ He concluded that the impact of the operational consolidations underway in the summer of 2012 on inter-SCF overnight delivery will be minimal, and that the Postal Service could implement these consolidations while maintaining the pre-July 1, 2012 service standard in effect at the time of his testimony. Tr. Vol. 11 at 4001.

Witness Kacha's analysis examined what degree of network consolidation might be possible, given the service standards in effect before July 1, 2012. Tr. Vol. 11 at 4029. Thus, his testimony offers no insight regarding what degree of consolidation might be possible if service standards were changed to the extent proposed by the Postal Service out at the outset of this docket, or to any degree resembling the service standard changes announced on May 25, 2102.

By and large, his testimony extols the virtues of an alternative tool for

⁸⁶ Tr. Vol. 9 at 2721.

generating additional data postal management could examine as it considered the myriad factors inherent in determining how and to what degree it should rationalize a network ripe for rationalization. At the current stage of the process, such input may have limited utility, but the Postal Service can be expected to consider exploring additional sources of analysis and information should it undertake a similar task in the future.

IX. CONCLUSION.

Pursuant to its December 5, 2011 Request, the Postal Service seeks in this docket an advisory opinion from the Postal Regulatory Commission pursuant to section 3661 of title 39, United States Code confirming that Mail Processing Network Rationalization is consistent with the policies of title 39.

At its heart, Network Rationalization consists of the single most comprehensive effort the Postal Service has ever undertaken, to ensure that its mail processing network can continue to meet the needs of all users. Hence the Postal Service seeks to facilitate the universal and cost effective availability of postal services to all users, thereby continuing to bind together the people of this Nation to the personal, educational, literary and business correspondence of the people.

Also at its heart, Network Rationalization consists of a reevaluation of the service policies of title 39 by the Postal Service Board of Governors for the purpose of best positioning the Postal Service so that it can continue to provide ready access to essential postal services at cost effective prices. First-Class Mail, whose contribution to institutional costs has long supported the availability

of postal services, is no longer able to bear the financial load it has borne so successfully; First-Class Mail volume is dropping rapidly and is expected to continue doing so. Network Rationalization is thus intended to usher in a new era of postal stability, one in which good business judgment helps ensure the viability of the Postal Service as it exists today and into the future.

Network Rationalization constitutes the judgment of senior postal management and the presidentially appointed Postal Service Board of Governors that a new way of serving the public, with different guideposts and goals, are necessary if the Postal Service is to prove able to fulfill its mission.

In conclusion, Network Rationalization constitutes a business judgment made by those charged with making such judgments. It is a decision made with an eye on the long term future of postal services, and this Nation, in mind. No record evidence indicates that the basic policy decision is flawed. The Postal Service accordingly requests that together with all the various types and levels of advice the Commission provides in its advisory opinion, that it begin by recognizing that implementation of the service changes made possible by Network Rationalization is within the authority of the Postal Service to do, and

consistent with the applicable policies of title 39. The Commission should accordingly opine that the Postal Service continue with the related service changes.

Respectfully submitted,

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