

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

Complaint on First-Class Mail  
Service Standards, 2001

Docket No. C2001-3

TESTIMONY OF  
CHARLES M. GANNON  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE  
**(Revised March 15, 2004)**

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1           **AUTOBIOGRAPHICAL SKETCH**

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3           My name is Charles M. Gannon. I am currently a Transportation  
4 Specialist, within the Integrated Networks Development group, in the Networks  
5 Operations Management (NOM) department at United States Postal Service  
6 headquarters. I have served in this capacity since February 2002. As outlined  
7 earlier in this proceeding in the Declaration of Charles M. Gannon (July 30,  
8 2001),<sup>1</sup> my primary duty is to serve as the National Program Manager for USPS  
9 Service Standards. In this capacity, my responsibilities have included the  
10 development and implementation of Phase II of the First-Class Mail service  
11 standard changes that were the subject of Postal Rate Commission Docket No.  
12 N89-1 and that are the apparent basis for the filing of the Complaint that initiated  
13 the current case.

14           As National Program Manager for USPS Service Standards, I also am  
15 responsible for reviewing *ad hoc* proposals submitted by field units seeking to  
16 change First-Class Mail service standards between 3-digit ZIP Code service  
17 areas. In addition, I oversee the maintenance of the data that serves as the basis  
18 for information reflected in the Service Standards database of the Postal Service,  
19 updates of which are published quarterly in a USPS Service Standards CD-ROM.

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<sup>1</sup> And subsequently updated in the March 15, 2002, response to DBP/USPS-69. I hereby incorporate by reference that Declaration as part of this testimony.

1           **PURPOSE OF TESTIMONY**

2           The purpose of my testimony is to clarify certain specific matters discussed in  
3 the December 8, 2003, testimony of Douglas F. Carlson (DFC-T-1) filed in this  
4 proceeding. It is not the purpose of my testimony to respond to each assertion in Mr.  
5 Carlson’s testimony, as many of those assertions are either not factual in nature,  
6 have been addressed in previously filed interrogatory responses designated into the  
7 record, or are arguments more appropriately responded to in legal briefs.

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1           **I. Some Perspective Is In Order**

2           In his zeal to condemn the First-Class Mail service standard changes at issue  
3 in this case, Mr. Carlson's testimony (DFC-T-1) focuses almost exclusively on the  
4 downgrades that changed the service standards for numerous origin-destination pairs  
5 from 2-day to 3-day. It bears emphasizing that only nine percent of the 3-digit ZIP  
6 Code origin-destination pairs nationally were affected by implementation of Phase II  
7 of the First-Class Mail service standard changes. And it is worth repeating that, of  
8 this nine percent total, 5.81 percent experienced service upgrades from 3-day to 2-  
9 day, compared to 3.19 percent that experienced the downgrades from 2-day to 3-day  
10 that monopolize Mr. Carlson's attention. The overall impact of the changes was to  
11 reduce the number of 3-digit ZIP Code origin-destination pairs with a First-Class Mail  
12 3-day service standard and to increase the number of origin-destination pairs with a  
13 2-day service standard.

14           It also is worth noting that, when these changes were implemented, the  
15 national average for originating First-Class Mail volume targeted for delivery by Day 2  
16 was 71.2 percent. The comparable figures for First-Class Mail originating from 3-digit  
17 ZIP Code areas in California are as follows: 76.6 percent before Phase II and 73.5  
18 percent after Phase II. So, despite any inferences to the contrary, the volume of  
19 First-Class Mail originating in California with a 2-day service standard still exceeded  
20 the national average after the changes were implemented. There are a number of  
21 ways to describe the impact of the changes on First-Class Mail originating in

1 California. From the Postal Service’s perspective, “devastating”<sup>2</sup> seems  
2 inappropriate.

3 It is not my intent to understate the impact on customers of the service  
4 standard downgrades that we implemented or to exaggerate the impact of the  
5 upgrades. On the other hand, it seems a bit of a stretch to claim, as Mr. Carlson  
6 does at page 2 of DFC-T-1, that the only mailing option that I, as a postal customer,  
7 would have, when confronted with the prospect of a downgrade from 2-day to 3-day  
8 First-Class Mail service to a particular destination, would be to switch to Priority Mail  
9 or Express Mail. Putting aside any dissatisfaction I might have as a postal customer  
10 with such a downgrade, it would seem that my first reaction might, instead, be to mail  
11 my letter via First-Class Mail a day earlier than had previously been my custom.

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13 **II. Mr. Carlson’s Analysis Is Flawed By A Mistaken**  
14 **Assumption About The National Critical Entry Time**

15  
16 In criticizing the mail processing and transportation model that was  
17 implemented in conjunction with Phase II of the First-Class Mail service standard  
18 changes, Mr. Carlson testifies that:

19 When the computer-projected truck drive time is more than 12 hours, the  
20 Postal Service continues to impose a three-day service standard even if  
21 the mail *actually* is scheduled to arrive at the destination ADC before the  
22 CET of 18:00.

23

24 DFC-T-1 at 12 (lines 5-8). Similar claims are made at other points in his  
25 testimony. See, DFC-T-1, at 16, (lines 16-17), 17 (lines 10-12, and 23-25).

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<sup>2</sup> See DFC-T-1 at 7(line 8).

1 Mr. Carlson apparently believes that a First-Class Mail Critical Entry  
2 Time (CET) of 18:00 (6:00 p.m.) applies to each destinating ADC. From there, he  
3 appears to believe that First-Class Mail with a 3-day service standard and arriving at  
4 ADCs between 17:00 and 18:00 is deferred for the purpose of allowing delivery  
5 to occur on the expected third day. This belief appears to be at the heart of some of  
6 Mr. Carlson's claims that the service standard changes implemented in 2000-01, and  
7 the mail processing operations and transportation model that support them, do not  
8 give enough consideration to expedition in providing First-Class Mail service. As I will  
9 demonstrate below, Mr. Carlson has simply jumped to a conclusion based upon his  
10 having confused the 18:00 (6:00 p.m.) National Critical Entry Time (CET) concept with  
11 the Expected Time of Arrival (ETA) that was been established for each destinating  
12 Area Distribution Center (ADC).<sup>3</sup>

13 For purposes of the transportation model employed in implementing the Phase  
14 II service standard changes, the ETA concept was designed to support a staggered  
15 arrival profile for the mail entering each destinating ADC. Development of the ETA  
16 concept is outlined in documents provided to Mr. Carlson in response to a Freedom  
17 of Information Act (FOIA) request before he filed his Complaint. These documents  
18 first appear in this proceeding as pages 20-22 of Enclosure 3 at the end of his

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<sup>3</sup> A CET is a fixed time concept wherein, theoretically, all mail could simultaneously arrive at the exact same time (say, 17:00) and still be "on-time", even though processing problems would surely be incurred from such a huge mail surge. On the other hand, ETAs for each arrival at an ADC will range from between 06:00 to 17:00, thus providing a "staggered arrival profile" which is much more conducive to processing large volumes of mail.

1 Complaint. As reflected in those documents, no ETA for an ADC could be calculated  
2 for later than 17:00 (5:00 p.m.).<sup>4</sup>

3 Mr. Carlson’s testimony appears to reflect a misinterpretation of one of the  
4 other documents provided to him in response to his FOIA request. This other  
5 document first appears in this proceeding as page 18 of Enclosure 3 at the end of his  
6 Complaint and is entitled “Established National Operating Parameters.” There, the  
7 final bulleted section reads:

8 Essentially replaced the Critical Entry Time (CET) method at ADCs with a  
9 new concept called ETA (Expected Time of Arrival), but National CET  
10 established as NET 18:00.

11  
12 Mr. Carlson appears to have assumed that the National CET referenced here  
13 applies to each destinating ADC. In reality, it applies to no ADCs. When designing  
14 the 2 & 3-Day Realignment Model, we included the historical 18:00 (6:00 p.m.)  
15 National CET as an option, in anticipation of a few situations where it was expected  
16 that available transportation might not allow mail to meet the latest (17:00/5:00 p.m.)  
17 ETA for a few particular ADCs. At the time, we theorized that there could be some  
18 rare instances where there was inadequate volume to justify surface transportation  
19 to a designated 2-day destination, and air transportation involving multiple airline  
20 transfers might have to be utilized, precluding any possibility of meeting some  
21 destinating ADC’s 17:00 ETA . This extra hour (between 17:00 and 18:00) was then  
22 to have been used to avoid a “downgrade” to a 3-day service standard, while

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<sup>4</sup> Page 20 of Enclosure 3 of the Complaint provides the formula for calculating Estimated Time of Arrival:  $ETA = \text{Dock Clearance Time} + \text{Drive Time} + \text{Buffer}$ . Using this formula, along with the rest of the Model parameters, the latest time that an ETA could possibly be established is 17:00, not 18:00. Pages 21 and 22 of Enclosure 3 provide examples of how ETAs are calculated.

1 alternative transportation solutions were explored. Our thinking at the time was that,  
2 in subsequent reviews of the outcomes produced by the model, we could use this  
3 factor as a basis for granting exceptions to a 2-day standard, in circumstances  
4 where such “air transfer” mail could only get to the ADC between 17:00 and 18:00.

5 In fact, as it turned out, after we implemented the model, this hypothetical  
6 situation was never identified to Headquarters for any office that was designated, a  
7 2-day service standard under the Model. Thus, to-date, the 18:00 National CET  
8 option has never been utilized at any ADC. The ETA concept, the latest arrival time  
9 being 17:00 at any ADC, has proven adequate across the network, delivered  
10 including all California ADCs. Thus, contrary to a constant theme of DFC-T-1, there  
11 are no ADCs to which the 18:00 National CET is applied. There is also no deferral of  
12 mail arriving before 18:00 for the purpose of preventing it from being for prior to the  
13 established 3-day standard. If 3-day mail is delivered within 2 days, we consider that  
14 to be a good thing.

15 Mr. Carlson’s confusion of concepts aside, he has had the opportunity to  
16 review data produced at his request in USPS Library Reference C2001-3/14 before  
17 deciding whether to claim that the Postal Service is deferring First-Class Mail with a  
18 3-day service standard to prevent it from being delivered before the expected delivery  
19 date. Even though the disaggregated EXFC data which serve as the basis for USPS  
20 Library Reference C2001-3/14 have their limitations,<sup>5</sup> at a minimum, they would seem

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<sup>5</sup> The data are derived from USPS Library Reference C2001-3/12 which, at page 1, cautions that the small sample sizes limit the uses to which the disaggregated EXFC data can be put with confidence to draw conclusions about service performance between specific origin-destination pairs. I am

1 to discourage the claim that mail with a 3-day service standard is being deferred to  
2 prevent delivery before the third day.

3

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5 **III. The California “Pseudo-ADC” Issue Is a “Red Herring”**

6 In pages 18-31 of DFC-T-1, Mr. Carlson expends a lot of energy in an effort to  
7 disparage the designation of “pseudo-ADCs” as part of the postal mail processing  
8 network in California. In other places, he urges expansion of the concept. Below, I  
9 explain when and why the concept was developed. And I explain why it could not  
10 serve as a model for adjusting service standards elsewhere in the mail processing  
11 network.

12 The four California “pseudo-ADCs” were established sometime in the early  
13 1990’s, long before we designed the 2 & 3 Day Realignment Model.<sup>6</sup> These four are  
14 the only such ADCs in the country. It was not the purpose of the 2 & 3-Day  
15 Realignment Model to change the USPS processing and distribution structure, but to  
16 work within the framework of the existing networks while developing reasonable and  
17 achievable 2-day and 3-day First-Class Mail Service Standards. For this reason, it  
18 was necessary that we find a way to incorporate this existing structure into the model.

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*(footnote 5 continued)* informed by the managers of the EXFC system that it is not designed to produce statistically reliable estimates of service performance between specific origin-destination pairs.

<sup>6</sup> The four facilities in question are Area Distribution Centers in the same sense as the other 84 ADCs in the lower 48 states. Those of us involved in implementation of the Phase II service standard changes designated these four ADCs as “pseudo-ADCs” to distinguish them from “traditional” ADCs that do not share sort schemes, as described in further detail below.

1           At the time of the establishment of the ADCs in question, the plan was for each  
2 of the processing facilities under a designated “pseudo-ADC” to have the same ADC  
3 sort schemes available on their mail processing equipment. Unlike a traditional ADC,  
4 which is only one designated facility, having the ADC schemes in  
5 each of the subordinate facilities would allow the Area to “dynamically” manage mail  
6 volumes on a daily basis, so that workloads could be balanced, and unexpected high  
7 volumes could be shifted and spread among facilities within the Area that might have  
8 additional processing capabilities at specific times. Based on this philosophy, the  
9 “pseudo-ADCs” were established.

10           Since the 2 & 3-Day Model required a facility with a Longitude & Latitude from  
11 which to develop the Drive Times, the Pacific Area was asked to select a facility that  
12 would represent the ADC within the Model. The Pacific Area made its selections  
13 and the Model used that information to develop the 2-Day standards. It should be  
14 noted that the Pacific Area, at any time, could have designated Los Angeles and  
15 San Francisco as the “host city” from which to establish the service standards.  
16 However, they did not.

17           There is no basis for Mr. Carlson’s claim that anyone was “fooling the model”  
18 (DFC-T-1, at 25) or engaging in “sleight of hand” (*Id.* at 26) or “tricked the computer”  
19 (*Id.* at 27) in building the service standards. As was the mission of the project, the  
20 methodology allowed for Area Office input. We sought Area input. The Pacific Area  
21 selections were completely above-board and were incorporated into the Model as

1 they requested. In fact, had Los Angeles and San Francisco been selected as the  
2 sole ADC locations, California would have ended-up with fewer 2-day origin-  
3 destination pairs than it did in the actual final Model.

4 Hindsight now informs us that the mail in question is not normally  
5 “dynamically” managed, as originally planned in the design of these “pseudo-ADCs.”  
6 Had we known then (when designing the Model) what we know now,  
7 we probably would have designated Los Angeles and San Francisco as the sole  
8 physical plants for calculating Drive-Time Mileage for all four of the “pseudo-ADCs.”  
9 Further, should we modify the 2 & 3-Day Model at some time in the future, we would  
10 probably consider this option as more representative of reality. This operational  
11 wrinkle, along with other minor issues, became clear upon implementation of the  
12 Model. In undertakings as complex as this, there are always going to be things that,  
13 in hindsight, one might have done differently. In the overall scope of the Model, this  
14 very minor situation is no exception.

15 In any event, there is no basis for Mr. Carlson’s claims that the “pseudo-ADC”  
16 concept was “illogical and detrimental” (*Id.* at 25) or for his other characterizations.  
17 The concept was incorporated in the model to accommodate this pre-existing  
18 network feature, as part of the process of trying to be consistent and logical in  
19 determining 2-day and 3-day First-Class Mail service standards.

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1           **IV. The Reduced Reliance On Air Transportation To Effect 2-**  
2           **Day Service Is Consistent With The Original Phase II**  
3           **Parameters**

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5           At the time that the Service Standards team was developing plans for the  
6 admittedly belated completion of Phase II of the Docket No. N89-1 service standard  
7 changes, the commercial airline industry on which the Postal Service had long relied  
8 was in a state of flux. This made it very difficult for us to expect to continue to  
9 depend on commercial airliners as a chief source of transportation for mail with a  
10 day-two service standard. At the same time, the team also was aware that the  
11 Postal Service was phasing out regional contracts for dedicated air service that was  
12 being used primarily to fly mail between points in the West and Southwest. Further,  
13 since dedicated air was not used, or available, on a nationwide basis, the team did  
14 not consider it to be a viable, primary element for the 2-day portion of the National 2  
15 & 3-Day Model that we were trying to build. As with Hub and Spoke Program  
16 (HASP) facilities and other postal transportation hubs, which were predominately  
17 used on the East Coast and Midwest, we did not consider dedicated air to be a  
18 requirement for the National Model. We took the approach that existing dedicated  
19 air would simply continue being a transportation method available, when  
20 appropriate, to get 2-day mail to an ADC destination, when surface transportation  
21 was locally deemed not practical, just like commercial air could continue to be used  
22 when appropriate.

23           Given the nature of the Postal Service's overall mission, the agency is  
24 sensitive to matters involving the timeliness of service. The data in USPS Library

1 Reference C2001-3/2 indicate that there were significant differences between  
2 airlines' published schedules and the level of service they were providing during the  
3 period between 1998 and early 2001. During this period, as a commercial airline  
4 customer whose cargo consists of mail that can be deferred in order to give priority  
5 to passengers, their luggage, and other cargo carried by the airline, the Postal  
6 Service was increasingly concerned about the degree to which its needs were being  
7 met. While drawing up plans for the implementation of Phase II of the service  
8 standard changes, the Service Standards team was in regular contact with air  
9 transportation managers at headquarters, as well as their counter-parts in every  
10 postal administrative area. Service bottlenecks and backlogs on mail traveling by  
11 air, such as the one documented in USPS Library Reference C2001-3/8, were all too  
12 common and were disruptive to daily postal mail processing plans at many postal  
13 plants. We had regular access to data showing the degree to which the Postal  
14 Service's needs were being met by commercial airlines that carried mail. At the  
15 same time, we were aware of the generally more consistent nature of surface  
16 transportation.

17         Although our mission was not to cut costs, we were not unaware, based on  
18 our internal contacts and experience, that there were significant cost differences  
19 between such options as surface transportation, dedicated air, and commercial air.  
20 Taking all of these factors into account, it was clear to our team that we would need  
21 to make adjustments to service standards based upon the availability of what we  
22 considered to be reliable and economical transportation alternatives.

1           At the time that we were developing and implementing the Phase II service  
2 standard changes, postal air cargo capacity was purchased on a contract basis from  
3 multiple carriers. Not only did our fragmented supplier base not meet  
4 our service objectives, its very nature made it difficult to develop a centralized air  
5 transportation information technology capability. Airline on-time performance  
6 was not meeting the Postal Service's needs, and was expected to continue to  
7 deteriorate.

8           Effective August 27, 2001, the Postal Service entered into an agreement with  
9 Federal Express to create two distinct networks (one for daytime and the other for  
10 night) that replaced multiple providers of dedicated networks. The daytime network  
11 was designed primarily for the transportation of Priority Mail and 3-day First-Class  
12 Mail. This agreement was seen as an opportunity to improve service, to take  
13 advantage of the FedEx shared-lift network, and to reap the benefits of working with  
14 a single network provider. In addition, the agreement allowed the Postal Service to  
15 avoid maintenance and upgrade costs anticipated under the old dedicated air  
16 networks. It also enabled us to expand our air transportation network reach and  
17 allowed for advanced information technology capabilities.

18           At the time that we were developing the 2 & 3-Day Service Standard Model,  
19 the Service Standards team was unaware of the negotiations that resulted in the  
20 FedEx contract. Until the agreement was finalized, the possibility of a contract with  
21 FedEx was a matter known only to those within the Postal Service who were  
22 deemed to have a need to know. The senior manager most knowledgeable both

1 about our service standards realignment project and the FedEx project determined,  
2 correctly, that there were no operational conflicts or overlaps between the two and,  
3 therefore, no compelling need to inform my team about the FedEx project.

4 For these reasons, there is no basis for the claim at page 15 (lines 26-28) of  
5 DFC-T-1 that the Postal Service was implementing the disputed service standard  
6 changes “during the early days of implementation of the contract with FedEx.” Even  
7 if the Service Standards team had known that the FedEx discussions were  
8 underway, we could not have assumed anything other than the *status quo* during the  
9 January 2000 to May 2001 time frame in which we were devising and implementing  
10 the service standard changes.

11 In any event, the range of arrival times at destinating mail processing plants  
12 for mail traveling on the FedEx network is typically later than the latest ETA time for  
13 2-day First- Class Mail that could be scheduled at an ADC (17:00), as designed by  
14 the 2 & 3-Day Model. The majority of the FedEx arrivals at plants throughout the  
15 country are usually after 19:00, and many extend into the 21:00-22:00 time frame.  
16 While these later arrivals can be accommodated for Express Mail and Priority Mail  
17 volumes, such arrival times, usually, are too late to achieve a 2-day standard for  
18 First-Class Mail.

19 Despite the unlikelihood of 2-day First-Class Mail being significantly aided by  
20 the new FedEx network, during a meeting with senior management on September 6,  
21 2001, I was directed to contact the headquarters postal managers implementing the  
22 recently announced FedEx contract to verify that analysis. I was instructed to

1 determine whether its implementation might present any opportunities for  
2 reconsideration of any of the 2-day to 3-day First-Class Mail service downgrades  
3 that had recently been implemented. As we began to establish internal lines of  
4 communications to explore that question, the Postal Service found itself facing  
5 unprecedented processing and transportation network challenges arising from the  
6 aftermath of the tragic events of September 11<sup>th</sup>, followed by the consequences of  
7 the bioterrorist attacks that killed two postal workers and required medical treatment  
8 for thousands more. During the fall and winter of 2001, the postal processing and  
9 transportation network was being tested like never before. My team ultimately was  
10 directed to avoid burdening our transportation and mail processing managers with  
11 requests for the consideration of matters that were unrelated to the crises at hand.

12 Establishment of service standards is a dynamic undertaking, in the sense  
13 that there is constant internal review and reconsideration. As has been documented  
14 during this case, we imposed a moratorium on requests from the field for  
15 adjustments in First-Class Mail service standards we were implementing, until we  
16 had completed all of the Phase II changes in 2000-01. Since the end of that  
17 moratorium, my office has received requests for changes, such as the one relating to  
18 Reno, Nevada that is discussed at page 41 of DFC-T-1. From our perspective, it  
19 was a routine matter that was handled as routinely as other requests we have  
20 reviewed since the moratorium was lifted. No doubt, we will review even more  
21 requests, from whatever part of the country they may arise. We will consider each

1 on its merits, in accordance with the procedures and policies outlined in the USPS  
2 Policy For Requesting A Service Standard Change.<sup>7</sup>

3           Given the state of commercial air at the time that we were building the 2 & 3-  
4 Day Model, and given our knowledge that the limited dedicated air, which was  
5 sometimes used in the West and Southwest, was being reduced, our objective was  
6 to establish feasible service standards, for the whole nation, in a systematic fashion.  
7 Understanding the ongoing decline in available, dependable air transportation, we  
8 decided to use surface transportation as a basis for determining the scope of 2-day  
9 service standards. Accordingly, the “Two-Day Model Parameters” slide in Library  
10 Reference DFC-1<sup>8</sup> reflects that one of the Service Standards team’s objectives was  
11 to:

12           Minimize the planned movement of Two-Day Mail by Air Transportation.

13 This result is consistent with the Postal Service’s original Docket No. N89-1 Phase II  
14 expectations.<sup>9</sup> The 2 & 3-Day Model only built the surface network model to ensure  
15 the feasibility of transporting 2-day mail by surface when establishing the service  
16 standard. While the general reliability and economy of surface transportation made  
17 it an attractive option, there has never been a mandate that only surface  
18 transportation can be used between 2-day origin-destination pairs. And there has

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<sup>7</sup> See USPS Library Reference C2001-3, OCA-1.doc. in the electronic file.

<sup>8</sup> Included as page 28 of the PDF file in the electronic version.

<sup>9</sup> See Docket No. N89-1, Direct Testimony of George A. Shipman On Behalf Of United States Postal Service, USPS-T-3, at 10.

1 been no mandate that air transportation not be used as a justification for adjusting  
2 any current 3-day standards to 2-day.

3           Implementation of service standard changes on a national scope is a two-  
4 stage process: implementation and adjustment.<sup>10</sup> What we rolled out in 2000-01  
5 was the implementation part. The subsequent changes that affect Reno are an  
6 example of potential adjustments. As with the case in Reno, the final decision on  
7 transportation mode, in relation to service standard modifications requests, rests  
8 with the Area Offices, as those offices are in the best position to consider all local  
9 variables. Area Offices have had the opportunity, since the lifting of the moratorium,  
10 to propose service standard upgrades and downgrades. In doing so, they may  
11 propose utilization of different transportation modes. Proposals for adjustment have  
12 and will continue to be reviewed on a case-by-case basis.

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<sup>10</sup> As summarized in paragraph 6 of my July 30, 2001 Declaration.