

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

George Omas, Chairman;
Dawn A. Tisdale, Vice Chairman;
Ruth Y. Goldway; and
Tony Hammond

Evolutionary Network Development
Service Changes

Docket No. N2006-1

NOTICE OF INQUIRY NO. 1

(Issued March 28, 2006)

The Postal Service's Request in this docket asks the Commission to issue an advisory opinion on changes in service that are "expected to result from a system-wide review and realignment of the Postal Service's mail processing and transportation networks."¹ As a result of this network realignment program, Postal Service witness Shah says that "most mail classes are likely to experience varying levels of changes in service" (in terms of the number of 3-digit ZIP Code pairs receiving a particular speed of delivery), but the magnitude cannot be predicted in advance. USPS-T-1 at 12-13. He indicates that First-Class and Priority Mail will be most affected, and that Periodicals will share in that effect. *Id.* at 14.

There is substantial disagreement concerning the scope of the issues upon which an advisory opinion has been requested. The Postal Service says that it seeks advice only on whether the goals, the process, and the criteria that it employs in its process of network realignment, are consistent with the policies of the Postal Reorganization Act. It suggests that it would be appropriate for the Commission to base

¹ Request of the United States Postal Service for an Advisory Opinion on Changes in Postal Services, February 14, 2006, at 1.

such advice on the generalized level of information already provided.² It argues that information designed to determine the actual impact of future network realignment on either service levels or costs is not relevant to the advice that it seeks. It asserts that its program to consolidate the functions of plants is mostly prospective, and that its impact cannot be known until each proposed facility consolidation is approved and implemented. *Ibid.* The American Postal Workers Union (APWU), among others, argues for closer scrutiny of the process of network realignment as well as its impacts.³

The Postal Service's Evolutionary Network Development (END) model plays two important roles in determining how to reconfigure the postal network. Witness Shah says that it is designed to identify optimal configurations of processing plants and transportation nodes in future networks. This feature of the END model, according to Postal Service witness Williams, will be used to select candidate facilities whose consolidation is expected to be consistent with the way that the "future network" should be configured. He points out that the Postal Service's use of the optimization feature of the END model to select a facility for potential consolidation does not determine the outcome. Before consolidation is approved, alternative consolidation scenarios are tested using the simulation feature of the END model. The feasibility of the scenario selected is then evaluated in detail through the multi-level staff review that the Postal Service conducts under the Area Mail Processing (AMP) procedure.⁴

Under the AMP procedure, the effect of consolidating a facility's outgoing and/or incoming processing functions into an adjacent facility is analyzed. Using standardized worksheets, local plant managers analyze impacts on operations, volumes, and work hours at both the consolidating and the gaining facility, before and after consolidation.

² United States Postal Service Reply in Opposition to American Postal Workers Union Motion to Compel Responses to Interrogatory APWU/USPS-T1-9 (Postal Service Opposition), March 7, 2006, at 3-5.

³ See, e.g., Motion of American Postal Workers Union, AFL-CIO, to Compel United States Postal Service to Answer Interrogatories APWU/USPS-T1-9 and APWU/USPS-T2-1(a,f,g,h), 3(b), 6(k), and 8, February 28, 2006, at 1-7.

⁴ See Response of United States Postal Service Witness Shah to OCA Interrogatory OCA/USPS-T1-1(c), March 24, 2006.

Impacts on staffing levels, transportation routes, and machine placement are analyzed as well, as are impacts on service levels between 3-digit ZIP Code pairs. The local analysis is reviewed at the District, Area, and Headquarters levels before the consolidation proposal is accepted. USPS-T-2 at 5.

The Postal Service's presentation raises the following questions on which the participants are asked to comment. Responses are due on or before April 4, 2006.

1. Can the Commission perform the role that Congress has assigned it under 39 U.S.C. § 3661 if the evidence submitted bears primarily on the goals of network realignment and the processes by which it is implemented, and the impact on service levels and costs cannot be ascertained from that evidence?
2. Is it appropriate for the Commission to examine the process of network realignment in sufficient detail to determine whether the outcome of network realignment might be predicted, at least on a general level? For example,
 - a. Should the Commission examine the process in sufficient detail to determine the extent to which network realignment is likely to degrade overall service for certain classes of mail, or upgrade overall service for others?
 - b. Should the Commission examine the process in sufficient detail to determine the general extent to which transportation or mail processing cost savings will result from network realignment?
3. In order to know whether a program involving widespread facility consolidation will be consistent with the Act, does the appropriate scope of the Commission's inquiry depend on the particular approach that the Postal Service has taken to network realignment? For example,

- a. If the Postal Service has identified a specific network configuration that it intends to use to guide its consolidation program when it begins, is it necessary or helpful for the Commission to know what that configuration is? Would this knowledge increase the Commission's ability to estimate what service and cost impacts are likely to occur?
 - b. If network realignment relies on a specific set of assumptions to measure the effect of consolidation on costs, or on service levels, is it necessary or helpful to know what that set of assumptions is?
 - c. If network realignment relies on a specific set of decision rules to determine when an estimated level of cost savings justifies an estimated degree of service degradation, is it necessary or helpful to know what those decision rules are?
4. In performing its evaluation of the goals of the Postal Service's network realignment program and the processes by which those goals are implemented, what aspects of the process should the Commission consider?
 - a. With respect to the AMP process, should the Commission evaluate

- (i) the plausibility of the assumptions used?
 - (ii) the objectivity of the decision rules?
 - (iii) the quality of the data and the accuracy of the methods by which service and cost impacts are measured?
 - (iv) the accuracy of this process in predicting the impacts of consolidations that have already been implemented?
- b. With respect to the END model,
- (i) Is it necessary or helpful to know how it identifies an optimal network configuration, what alternatives have been considered, and what constraints are built into the model?
 - (ii) Is it necessary or helpful to know how it simulates the impact of changes in the existing network?
 - (iii) Do the Postal Service witnesses rely sufficiently on the END analysis to obligate the Postal Service to comply with the Commission's rules of practice concerning computer analyses?⁵

5. In evaluating changes in service levels, should the Commission look only at changes in days to delivery for 3-digit Zip-Code pairs, or should it consider related

⁵ See 39 CFR § 3001.31(k)(3). That rule requires that computer analyses that support record evidence be sufficient to replicate and validate the computer program used. Requirements include "a general description of the program that includes the objectives of the program, the processing tasks performed, the methods and procedures employed, and a listing of the input and output data and source codes (or a showing ... as to why such codes cannot be so furnished)

changes such as cut-off times for depositing mail, and changes in delivery times, that might result?

By the Commission

(S E A L)

Steven Williams
Secretary