

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Evolutionary Network Development)	Docket No. N2006-1
Service Changes, 2006)	

**COMMENTS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO IN RESPONSE
TO POSTAL RATE COMMISSION NOTICE OF INQUIRY NO. 1
(April 4, 2006)**

In accordance with the Commission's March 28, 2006 Notice of Inquiry No. 1, the American Postal Workers Union, AFL-CIO (APWU), hereby respectfully submits its comments on the scope of the Commission's inquiry in this proceeding. These comments first address the specific questions raised by the Commission's inquiry. We then discuss two closely related questions not specifically raised by the NOI but which must also be addressed.

The first is whether the Commission's Advisory Opinion in this case should address the fact that the Postal Service is violating Section 3661 of the Postal Reorganization Act by implementing service changes without first submitting its plan to the Commission for an advisory opinion. We observe that when the Postal Service develops a plan that will generally affect service unless it must submit them to the Commission a reasonable time in advance of implementation. This requirement of Section 3661 is a policy of the Act the Commission must address in its Advisory Opinion. In the normal course, it should be unnecessary to address the advance

submission requirement of § 3661. Where, as here, the Postal Service has chosen to implement its plans without first presenting them to the Commission, the advance submission requirement must be addressed.¹

The second additional point we address in this submission is the need for public input into the END process. The Postal Service plan provides for advice to the public about the results of END, but if private citizens wish to express their views about the impact of impending service changes, the Postal Service plan does not require that advice from the general public or small business mailers be weighed in the decision. As we discuss below in part III of this submission, the Commission should advise the Postal Service that it is not consistent with the policies of the Act to make a decision on network realignment that would affect service without first weighing the views of people who would be affected by the proposed changes.

I. ANSWERS TO THE COMMISSION'S SPECIFIC QUESTIONS

- 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?**

The Commission must advise the Postal Service whether its strategy for changing its mail processing network comports with the policies of the Postal Reorganization Act. 39 U.S.C. § 3661(b). The advisory opinion must include

¹ As *Buchanan v. United States Postal Service*, 508 F.2d 259 (5th Cir. 1975), illustrates, the Postal Service is placing its plans at risk by proceeding without first obtaining the Commission's advice. In this case, the Commission's advice should be that the Postal Service submit its plans to the Commission reasonably in advance of the intended implementation date.

“certification by each Commissioner agreeing with the opinion that in his judgment the opinion conforms to the policies established under [the Act]”. *Id.* at § 3661(c).²

After waiting four years to submit its plans to the Commission, the Postal Service now requests that the Commission limit its inquiry to only whether the goals and the process of network realignment are consistent with the policies of the Postal Reorganization Act. This ignores the policies expressed in Sections 101 and 403 of the Act that the Postal Service provide “prompt, reliable, efficient services to all communities...” including “rural areas, communities, and small towns where post offices are not self-sustaining.”³ The Commission must determine the proper balance between cost savings and other efficiencies and the impact of realignment on postal services. Because the Postal Service submission to the Commission is inadequate, it is currently unknown whether the Postal Service’s goals and process will result in a pattern of service changes affecting a particular type of mail or a particular type of community. It is entirely possible, for example, that the overwhelming majority of negative service changes will affect rural areas and small towns, or that the overwhelming majority of negative changes will impact collection mail, thus degrading service for individuals and small businesses. Results of this kind surely do not comport with the policies of the Act.

² Section 101 of the Act expresses the fundamental policy that

... The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to all communities...

39 U.S.C. §101(a); and

The Postal Service shall provide a maximum degree of effective and regular services to rural areas, communities, and small towns where post offices are not self-sustaining....

Id. at §101(b). In addition, Section 403 of the Act requires a balancing of the economies of postal operations and the public’s access to essential postal services. 39 U.S.C. § 403.

³ 39 U.S.C. §§ 101, 403.

Therefore, evidence regarding the impact on services and costs is necessary to determine conformity to the policies of the Act.

At the prehearing conference held on March 24, 2006, Presiding Officer Tisdale observed that the “[Commission’s] advice will be far more valuable if it is based on a careful analysis of a fully developed evidentiary record.”⁴ A fully developed record must include evidence of the impact on service and the costs of network realignment, not simply its abstract goals and processes. The Commission cannot properly evaluate whether the program conforms to the policies of the Act if evidence pertaining to service and costs is excluded. In docket N1975-1, this Commission acknowledged as much when it stated

it is not enough for this Commission, in a § 3661 case, merely to approve or disapprove the stated goals of a Postal Service program; we must also attempt to predict how efficiently it will achieve those goals and offer suggested improvements as are supported by the record.⁵

If the impact of the plan on service levels cannot be determined from the evidence submitted, the Commission cannot perform the role Congress has assigned to it. As a solution to this problem, the Commission should direct the Postal Service to submit network changes in batches. For example, the 43 AMPs could be submitted after service changes are known, for the Commission’s consideration. Different batches could well raise significantly different issues. The examples included in Library Reference N2006-1/5 are primarily consolidations of originating collection mail. Postal Service witness Shah’s testimony regarding END indicates that there is a future expectation of consolidation of operations by shape and consolidation of destinating

⁴ Transcript p.11

⁵ Commission Policy Statement Establishing Guidelines Concerning the Filing of Future Requests for Advisory Opinions Pursuant to § 3661, p. 3907.

operations. These types of consolidations may have significantly different impacts on service levels from what is expected under those included in Library Reference N2006-1/5. The Commission must be able to examine these impacts. Otherwise, the Commission would be asked to bless a program without knowing its specific service impacts or at least potential impacts, something it could not do.

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 extent to which transportation or mail processing cost savings will result from network realignment?**

In Docket N1975-1 this Commission recognized that proceedings under Section 3661 of the Act are by their very nature prospective.⁶ Accordingly, the Commission must examine the process in sufficient detail to determine, at least on a general level, the outcome of network realignment. This examination should be conducted in detail sufficient to determine likely degradations and upgrades to overall services for certain classes of mail. This inquiry should include not only service as measured in time to delivery, but also measured by cost and convenience impacts on mailers and citizens.

One issue that must be examined by the Commission in determining the Postal Service's compliance with the Act is whether there is going to be a general pattern of service degradations for individuals and small businesses as a result of consolidations from mostly rural areas and small facilities that will be consolidated into larger facilities,

⁶ Commission Policy Statement Establishing Guidelines Concerning the Filing of Future Requests for Advisory Opinions Pursuant to § 3661, p. 3905.

while large mailers continue to receive excellent service. The Commission cannot condone a program that achieves efficiencies at the expense of rural and small communities. To avoid this, the process must be examined in sufficient detail to predict likely outcomes, thereby enabling the Commission to make recommendations that reduce this type of inequity thus ensuring compliance with the Act.

The Commission should also examine the process in sufficient detail to enable it determine the general extent to which transportation or mail processing cost savings will result from network realignment. In evaluating the Postal Service's proposal, the Commission must balance the costs against service impacts as required by Section 403 of the Act. Only when the cost savings are determined (or reasonably estimated) can the Commission make a reasoned determination of the overall benefit of network changes when balanced with service impacts. Certainly, a consolidation with negligible costs savings and major negative impacts on service, should not be sanctioned, yet the Commission runs the risk of doing just that if it fails to evaluate evidence of service impacts and costs, if only at a general level.

- 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, it is 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 estimate degree of service degradation, is it necessary or helpful to know what those decision rules are?

Under the Act, the Postal Service must balance postal operation economies against service impacts.⁷ In cases where, as here, it is likely that specific service impacts will be estimated, a detailed examination of the process used by the Postal Service becomes all the more important.

Examination of the process enables the Commission to predict generalized service impacts. The Postal Service claims that no decisions have been made regarding which facilities will be consolidated and therefore, any current facility could become any future facility. Yet the criteria for various types of future facilities rule out many current facilities from consideration. The Postal Service models the nationwide network when looking at individual changes, so it should have a good idea of which facilities will work well as future facilities, including Local Processing Centers (LPCs) and Regional Distribution Centers (RDCs). In fact, Postal Service witness Shah's response to Interrogatory OCA/USPS-T1-12 indicated as much when he stated that "one could expect to see somewhere in the neighborhood of 70 Regional Distribution Centers" in the new network configuration.

Understanding the likely look of the entire network – even if several facilities change their roles from a current look to the final design – gives a good measure of the size of potential savings and service impacts. It also enables a better understanding of how the Postal Service will decide where in the new network various current facilities fall. Thus, if a specific network configuration is used by the Postal Service as a guide

⁷ 39 U.S.C. § 403.

to its consolidation program, examination of it will be helpful and necessary.

Accordingly, it must be identified.

Likewise, if the Postal Service's network realignment relies on a specific set of assumptions to measure the effect of consolidation on costs or service levels, it is necessary and helpful to know what that set of assumptions is. Knowing the assumptions used by the Postal Service is important in assessing the reasonableness of any cost estimates and savings projections. That reasonableness in turn impacts the integrity of the Postal Service's plan and its compliance with the Act. For example, the APWU has inquired about some of the productivity assumptions that appear to be based on something other than actual experience. If these assumed rates are not achieved, much of the calculated savings might be eliminated. Therefore, these assumptions clearly affect the outcome and justifications for the Postal Service's network realignment strategy and the Commission must consider them in evaluating the program's compliance with the Act.

The Commission needs to be informed of how the Postal Service will balance its costs savings against service to mailers and citizens as required by the Postal Reorganization Act. Presumably, the Postal Service employs some decision rules to determine whether to move forward with a consolidation. These rules then, are of central importance to the implementation of the network reconfiguration and therefore must be examined to ensure that they are in compliance with the Act.

- 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 impact 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, 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?

As recognized by this Commission in Docket N1975-1, the Postal Reorganization Act requires that the Commission "question whether the program has been designed as soundly as possible."⁸ Accordingly, the Commission should evaluate all aspects of the network realignment program to enable it to make recommendations for improvements to the program, thus ensuring its compliance with the Act.

Decisions made on assumptions that are not plausible are arbitrary and could hardly meet the requirements of the Postal Reorganization Act. For example, volume assumptions are of critical importance in evaluating the network realignment. It appears that the Postal Service uses daily volume averaged over a significant period time to calculate costs. Given that peak daily volumes can easily double the average and potentially exceed processing capabilities, then the average daily volume assumption will not measure real costs (moving mail to manual operations, overtime,

⁸ Commission Policy Statement Establishing Guidelines Concerning the Filing of Future Requests for Advisory Opinions Pursuant to § 3661, p. 3907.

etc.) and service impacts. The Commission must be cognizant of assumptions, such as these, that radically alter savings or costs assessment.

Any decision rules employed by the Postal Service in its network realignment plan must be disclosed to the Commission and their objectivity examined as part of the Commission evaluation of the overall realignment plan. Decision rules likely affect whether the Postal Service decides to move forward with a consolidation in that they provide a basis for assessing whether a particular level of cost savings justifies decreased service. Therefore, their objectivity is central to the determination of whether the consolidation program complies with the Act. If for example, decision rules produce outcomes that consistently favor large mailers over rural communities, the Commission would find a violation and advise the Postal Service accordingly. However, the Commission would be unable to adequately perform its advisory role without this disclosure.

The Commission must evaluate the quality of the data and methods used by the Postal Service in its AMP process that measure service and cost impacts of its network realignment plan. At a minimum, the Commission must ensure that the Postal Service is using accurate methods employing the best data available.

In this evaluation, the Commission should assess the accuracy of the AMP process in predicting the impacts of consolidations that have already begun. This is the best measure of the integrity of the process. Furthermore, such an examination may lead to recommendations to improve the process so that it is in compliance with the Act

With respect to END, it is both necessary and helpful for the Commission to know how END identifies an optimal network configuration, what alternatives it considers,

what constraints it employs and how it simulates the impact of changes in the existing network. Each of these factors play a vital role in the END process in that they impact the ultimate network consolidations recommended by END. Therefore, such inquiries would be helpful in assessing the compliance of END with the Postal Reorganization Act.

Postal Service witness Shah has relied sufficiently on the END analysis to obligate the Postal Service to comply with the Commission's Rule 31(k)(3) concerning computer analysis. Mr. Shah's testimony summarizes the goal of the network realignment program and explains how END is used to determine the basic features of the future mail processing network. END is an essential component of the decision-making process to the extent that END generates targets for consolidations, identifies potential cost savings and network efficiency, and assists in deciding whether to proceed with a consolidation.⁹ Additionally, in response to Interrogatory APWU/USPS-T2-1(a), Postal Service witness Williams testified that a number of AMP proposals were put on hold as a result of the development of END.¹⁰

Because of the clear importance of END in the Postal Service's overall network realignment strategy, the Postal Service must be required to produce, at minimum, the methods and procedures employed by END, as well as a listing of input and output data and source codes as mandated by Rule 31(k)(3).

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

⁹ Direct Testimony of Pranab M. Shah p. 7-12; Response of USPS Witness Shah to Interrogatory APWU/USPS-T1-1.

¹⁰ Response of USPS Witness Williams to Interrogatory APWU/USPS-T2-1(a).

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

Changes in days to deliver for 3-digit Zip-Code pairs are an important facet of the changes in service levels. Yet examination of changes to delivery standards alone is not sufficient for a thorough evaluation of changes in service levels. Service levels, as perceived by mailers, are also affected by changes in cut-off times for depositing mail as well as changes in delivery times.

Changes in cut-off times and delivery times can seriously affect mailer costs. For example, earlier cut-off times for collections and dispatches will require that a consolidator move operations up. To the extent that it cannot, items will have to be mailed at higher rates. A business that currently drops mail at the close of the business day will have to adjust its mailing procedures to ensure that its mail is prepared, collected and dropped earlier. Earlier cut-off times will certainly delay some mail by at least a day. Barring a change in its procedures, a business will have to accept that delivery times will increase by an additional day. This is a real change in service for a portion of the mail. Unless these changes are specifically measured as part of a study like AMP, these changes in service will be hidden. Thus, the actual impact on service as a result of network realignment will be unknown. Because the Postal Reorganization Act requires that the Commission examine the impact on service standards, in evaluating the USPS's network realignment process, the Commission must consider all changes in service standards, including changes in cut-off times for depositing mail and changes in delivery times.

It is also important that the Commission understand all of the potential types of changes that might take place due to network realignment; not just those changes that

may occur when destinating mail is changed to a new venue. These changes may also impact service and thus must be a part of the Commission's evaluation of the Postal Service's network realignment program.

II. THE COMMISSION SHOULD DETERMINE WHETHER THE POSTAL SERVICE HAS VIOLATED THE POLICIES OF SECTION 3661 OF THE POSTAL REORGANIZATION ACT

Section 3661 requires that the Postal Service submit its proposed plan to the Commission "within a reasonable time prior to the effective date of the proposal... ." The Commission is required to provide a "hearing on the record" to "users of the mail and an officer of the Commission who shall be required to represent the interests of the general public."¹¹ The purpose of the submission and the hearing is to permit the Commission, and the Commissioners individually, to issue an Advisory Opinion that "comports with the policies established under" the Act.

One of the policies of the Act is that the Postal Service should not implement a plan that generally affects service until it has given the Commission a reasonable opportunity to provide advice on the plan and the Commission has provided a hearing to interested parties, including representatives of the general public.

The Postal Service has at times in this proceeding suggested that the network changes currently being implemented, without awaiting the Commission's advice, are not part of the proposed plan submitted to the Commission. However, Postal Service witness Shah's Answer to Interrogatory OCA/USPS-T1-5, belies this contention.

Witness Shah has testified that

[T]he NIA process has been renamed to END (Evolutionary Network Development), as the new name reflects the evolutionary network development

¹¹ 39 U.S.C. 3661(b),(c)

process the Postal Service has adopted. Both processes use the same methods, data, and models for designing the Postal Service's futures network strategies. Additionally, the core objectives of both NIA and END remain the same.

Renaming a program that has been in existence since 2002 does not negate the program's prior existence. Nor does it allow the Postal Service to ignore the requirement that the Postal Service seek an advisory opinion **before** implementation of a program that will affect service on nationwide basis. Since END is simply NIA renamed, the Postal Service should have sought an advisory opinion from the Commission before implementation of NIA. Yet, the Postal Service failed to seek the Commission's advice on this program for four years.

In response to the Interrogatory APWU/USPS-T2-1(a), Postal Service witness Williams acknowledged that approximately two dozen AMP studies that were in progress while END modeling was being developed were put on hold "until such time as a decision was made about overall network strategy." Mr. Williams went on to state that the decision had now been made and the AMP candidates under NIA would be subjected to the AMP process.

Although the present record is less than clear on this point, there is ample evidence to support the inference that a number of network realignment decisions have already been made and implemented using the NIA/END program. If, after discovery, this proves to be the case, then the Commission will be obligated to find that these implementations did not comport with the policies of Section 3661 of the Act. If, as we propose to prove, the Postal Service submission made under Section 3661 thwarts that provision of the Act and when the Postal Service implements its proposed plan without giving the Commission or other interested parties a sufficient opportunity to examine it,

the Commission will find that the implementation of the Postal Service plan does not comport with the policy of Section 3661.

Accordingly, the Commission should find that the question of whether the Postal Service has implemented its network realignment strategy without submitting it to the Commission a reasonable time prior to implementation in violation of Section 3661 of the Act, is within the scope of the Commission's inquiry in this case.

III. THE COMMISSION SHOULD DETERMINE WHETHER THE SERVICE THAT ITS PROPOSAL VIOLATES THE POLICIES OF THE ACT BECAUSE IT DOES NOT MAKE CITIZEN INPUT A MEANINGFUL PART OF THE DECISION PROCESS

The importance of public participation in determinations about postal service cuts is best exemplified by the requirement in Section 3661 that the OCA "represent the interests of the general public." No one observing any rate proceeding, including this one, can doubt that the interests of large mailers and postal competitors are very well represented in postal governance. Virtually nowhere does the Postal Service seek to find and consider the interests of the general public or small businesses in their postal services. Most particularly, it is clear that the END process is designed to issue conclusions to the public; it does not permit the general public or small businesses to participate in the deliberative process.

In response to this point, the Postal Service will likely contend that statements by the general public made in response to Postal Service network consolidation actions are collected and considered. But, if this is done at all, it is done after the fact. If consideration is given to such citizen complaints it is, quite frankly, to determine whether the level of community outrage is so great that the Postal Service should reconsider its actions. The key point here is that the Postal Service considers citizen input in order to

decide whether to reconsider a decision already made. The general public and small business mailers are not permitted to participate in the process until the data has been collected, an analysis has been performed, and a decision has been made to proceed. At that point, the creative process has ended and postal officials have a vested interest in seeing their decisions carried out.

Thus, the END model, while it may be a creative and powerful decision-making tool, is flawed. It is an ivory tower model that does not admit and weigh the views of the general public. Although confirmation of this view must await Postal Service responses to our interrogatories, it seems perfectly clear that the views of the general public are treated by END as something to be influenced and managed instead of considered and weighed.

This omission of any real consideration of public opinion is just as egregious as the omission of any real consideration of service changes. The Commission should find that consideration of this omission is within the scope of its inquiry in this case.

IV. CONCLUSION

The Commission should undertake a careful examination of END along the lines suggested by its Notice of Inquiry No. 1, as further discussed above.

The Commission should find that it is within the scope of this inquiry to determine whether the current implementation of network realignment decisions were made under NIA or END without a Commission Advisory Opinion, is violating Section 3661 of the Act.

The Commission should find that it is within the scope of this inquiry to determine whether END comports with the policies of the Act given that it fails to provide

meaningful participation by the general public before any network realignment decision is made that would affect service.

Respectfully submitted,

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