

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

SIX-DAY TO FIVE-DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR AN ADVISORY OPINION
ON CHANGES IN THE NATURE OF POSTAL SERVICES
(March 30, 2010)

In accordance with 39 U.S.C. § 3661, the United States Postal Service hereby requests that the Postal Regulatory Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of title 39, United States Code.

The Planned Service Changes Are Carefully Conceived And Justified

In summary, the proposed changes relate to service provided on Saturdays. Post Office and other retail locations, as well as business mail entry units, will continue to provide service, sell products and accept mail Monday through Saturday. Express Mail service will continue to be provided seven days a week. However:

- Delivery of mail to street addresses on Saturday will be discontinued (except for Express Mail); Saturday delivery of mail to Post Office boxes will continue. Scheduled collection of mail from standard blue collection boxes and Pickup Service will be discontinued on Saturday; collections from dedicated Express Mail collection boxes will continue on Saturday.
- With the exception of Express Mail and qualifying destination entry bulk mail, the initial outgoing processing of mail accepted on Saturdays will generally not occur

until outgoing mail processing operations resume on the following Monday.

The proposed service changes are described in the accompanying Direct Testimony of Samuel Pulcrano On Behalf of the United States Postal Service (USPS-T-1).

The circumstances which compel this advisory opinion request are explained in the accompanying testimony of the Chief Financial Officer of the Postal Service.¹ Additional testimonies explain the delivery, mail processing, and transportation operational changes that are being planned.² Detailed estimates of the operational cost savings that could be achieved if the changes were in effect are also provided.³ Based upon quantitative and qualitative market research,⁴ the Postal Service estimates the potential revenue loss that could result from implementing these service changes.⁵

No changes are being proposed in the service standard day ranges and business rules that determine the delivery service expectations for each mail product and 3-digit

¹ See Direct Testimony of Joseph Corbett On Behalf of the United States Postal Service (USPS-T-2).

² See Direct Testimony of Dean Granholm On Behalf of the United States Postal Service (USPS-T-3); Direct Testimony of Frank Neri On Behalf of the United States Postal Service (USPS-T-4); and Direct Testimony of Luke Grossmann On Behalf of the United States Postal Service (USPS-T-5).

³ See Direct Testimony of Michael Bradley On Behalf Of the United States Postal Service (USPS-T-6); and Direct Testimony of Jeffrey Colvin On Behalf Of the United States Postal Service (USPS-T-7).

⁴ Direct Testimony of Rebecca Elmore-Yalch On Behalf of the United States Postal Service (USPS-T-8).

⁵ Direct Testimony of Gregory Whiteman On Behalf of the United States Postal Service (USPS-T-9).

ZIP Code origin-destination pair. However, for regular mail⁶ addressed to street addresses, Saturday becomes a non-delivery day for purposes of determining the expected delivery day and the eventual “stop-the-clock” event associated with service performance measurement. For some mail, other associated operational changes affect the day on which occurs the initial mail processing activity that constitutes the “start-the-clock” event for purposes of service measurement. Accordingly, the Direct Testimony of Thomas Day On Behalf Of the United States Postal Service (USPS-T-10) clarifies the changes in service performance measurement that ultimately will be implemented in connection with the operational changes associated with this request.

The service changes described in this request potentially affect every sender and recipient of mail served directly by the United States Postal Service, and are likely to affect most of them. Accordingly, the Direct Testimony of Stephen Kearney On Behalf of the United States Postal Service (USPS-T-11) summarizes the tools and techniques that the Postal Service will employ to effectively communicate vital information to customers in a timely fashion. This will maximize their ability to adjust mailing practices and delivery expectations before and after the service changes are implemented.

In recent years, the Postal Service has experienced steady and precipitous declines in mail volume, driven largely by an acceleration of the diversion of First-Class Mail and other communications to electronic media and exacerbated by the current economic recession. Delivery addresses continue to increase every year. In fiscal year 2009, the Postal Service was responsible for delivering mail to 130 million street addresses, compared to only 124 million in FY 2005. During the same period, annual

⁶ In this context, “regular” refers to all market-dominant and competitive mail products except Express Mail.

mail volume plummeted from 212 billion to 177 billion pieces and annual operating revenue has dropped from nearly \$69.8 billion to under \$68.1 billion. The Postal Service's cumulative financial losses during the last three fiscal years were approximately \$11.7 billion. Fiscal year 2010 is on track to produce a loss of in the vicinity of \$7 billion, despite another year of aggressive cost cutting. The Postal Service is delivering considerably less mail to more addresses at a time when the evolving mail mix has been generating less revenue and contribution to overhead per piece. This is an unsustainable mix of circumstances.

Based on an analysis of fiscal year 2009 costs, the Postal Service has determined that a combination of service changes centered on the elimination of six-day delivery could generate an annual net improvement to postal finances of approximately \$3.1 billion on an annual basis. While this would not cure all of the Postal Service's long-term financial ills, this represents an opportunity for such a substantial improvement in financial stability that the Board of Governors of the United States Postal Service has directed postal management to pursue implementation in fiscal year 2011, should no legal impediment to doing so be enacted.

The Postal Service Must Exercise The Operational Flexibility In Its Charter

The United States Postal Service is operated as a basic and fundamental service provided to the people by the Government of the United States. Its basic function is to bind the nation together through the personal educational, literary and business correspondence of the people. The Postal Service is expected to provide prompt, reliable and efficient services in all areas and communities. 39 U.S.C. § 101(a). Its mandate includes the planning, development, promotion and provision of adequate and

efficient postal services. 39 U.S.C. §§ 403(a) and 3661(a). And, as nearly as practicable, it shall serve the entire population of the United States. 39 U.S.C. § 403(a).

The Postal Service is responsible for maintaining an efficient nationwide system of mail collection, handling, sorting, transportation and delivery. 39 U.S.C. §§ 403(b)(1) and 404(a)(1). Consistent with reasonable economies of postal operations, it is responsible for ensuring that its patrons have ready access to essential postal services. 39 U.S.C. § 403(b)(3). In providing services, the Postal Service shall avoid undue or unreasonable discrimination among users and not grant undue or unreasonable preferences to any users. 39 U.S.C. § 403(c).

In determining its policies, 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. 39 U.S.C. § 101(d). 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. 39 U.S.C. § 401(2). To achieve these goals, the Postal Service is empowered to determine the methods and deploy the personnel necessary to conduct its operations. 39 U.S.C. § 1001(e). And it has been granted all other powers incidental, necessary and appropriate to the carrying on of its functions. 39 U.S.C. § 401(10).

To significantly improve its unstable and unsustainable financial status, the United States Postal Service intends to implement operational changes on a system-wide basis during fiscal year 2011 that will have the effect of changing the nature of certain of its services, as described above.

Some general features of the national postal system, such as regular mail delivery to virtually every street address Monday through Saturday, trace their origins to the 19th century. Notwithstanding the long history of providing six-day delivery, Congress did not mandate any specific number of days per week that mail delivery generally be provided when it reorganized the Post Office Department into the United States Postal Service in 1970. Likewise, no similar specification will be found among the changes to title 39, United States Code, wrought by the Postal Accountability and Enhancement Act of 2006, 120 Stat. 3198, Public Law 109-435 (December 20, 2006).

On December 11, 2002, Executive Order 13278 established the President's Commission on the United States Postal Service. Its mission was to examine the state of the Postal Service, and to prepare and submit to the President a report articulating a proposed vision for the future of the Postal Service and recommending the legislative and administrative reforms needed to ensure the viability of postal services. See 67 Fed. Reg 76671 (December 13, 2002). The President's Commission ultimately observed:

Postal Service leaders have indicated that the rising popularity and sophistication of email correspondence may ultimately lead to a reduction in the demand for mail services and may allow for the relaxation of the six-day delivery requirement. If that time does arrive, the Commission believes that the Postal Service should have flexibility to adapt with the changing postal needs of the nation.

President's Commission on the United States Postal Service: *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service* at 29. (July 31, 2003).

The "six-day requirement" referenced in that report is the annual rider affixed to each fiscal year appropriations bill enacted and signed into law in successive years for over a quarter of a century which forbids the Postal Service from implementing a change from

general six-day delivery during the applicable fiscal year. For instance, by operation of Public Law 111-117, 123 Stat. 3034 (December 16, 2009), the Postal Service is presently barred from implementing a change in regular six-day mail delivery during FY 2010, which concludes on September 30, 2010.

Uncodified section 702 of the Postal Accountability and Enhancement Act directed the Postal Regulatory Commission to consult with the Postal Service and submit a report to the President and Congress on universal postal service and the postal monopoly in the United States.

During those consultations, the Postal Service reiterated its view that the aforementioned recurring annual appropriations riders worked to prohibit it from reducing the six-day frequency of general mail delivery. It also observed that:

Evaluating customer needs and interests for a given level of delivery frequency must be balanced against the requirement that the Postal Service provide its products in a cost-effective and market-responsive way. Considering whether to provide fewer (or more) days of delivery cannot be answered without considering the cost and revenue effects, including the impacts on pricing and operations. . . . [A] universal service requirement generally should provide for adequate and affordable levels of service. "Adequate" can only be evaluated in the context of both customer needs and the ability to fund the provision of service meeting those needs.

United States Postal Service: Report On Universal Service Obligation and the Postal Monopoly at 20-21 (October 2008).⁷

In its report, the Commission offered the view that the recurring appropriations language could be subject to a number of interpretations, including requiring 6-day delivery in all areas which had it in 1983. Docket No. PI2009-1, PRC Order No. 152,

⁷ See <http://www.usps.com/postallaw/pdf/USPSUSORepor.pdf>

Report on Universal Service and the Postal Monopoly at 29, n.8, and 196 (December 19, 2008). The Commission also observed:

However it is interpreted, this language constrains one aspect of the USO, which may lead to an imbalance in other aspects of the USO since it prohibits the Postal Service from any cost or efficiency adjustments to this element. Full consideration of all relevant interests by Congress would allow for robust debate and political participation, and allow for the design of a systemic national postal policy which balances all elements of the USO.

Id. at 196.

Accordingly, the Postal Service will strive to inform the Congress why the enactment of any barrier to the general implementation of regular five-day mail delivery in fiscal year 2011 would not be in the public interest. Such interposition would deprive the Postal Service of the operational flexibility necessary to balance its service obligations and fiscal responsibilities effectively.

Five-Day Delivery And The Associated Changes Must Be Pursued

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, which have been intensified by the ongoing

economic recession. Even when the recession eases, there is no basis for expecting any reversal of the underlying non-cyclical trends.

Nevertheless, the number of postal delivery addresses grows each year, contributing to a sharp decline in the 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.

A plan to change regular street address mail delivery from six days to five days per week would permit the Postal Service to bind the nation together more efficiently through its personal, educational, literary and business correspondence of the people, but would not diminish the fulfillment of that objective. The continuation of Saturday retail and bulk mail entry operations, as planned, would be consistent with the mandate that the customers have ready access to essential postal services. The exemption of Express Mail from any of the changes being planned here preserves the expeditious collection, transportation, and delivery of important letter mail. Deferral of some mail processing activities from Saturday to Monday would be consistent with reasonable economies of postal operations. The planned service changes may not affect all customers in a perfectly equal manner. Achievement of such a goal is virtually impossible. However, the service changes planned here are not improperly discriminatory and reflect that no undue or unreasonable preferences have been granted.

When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide basis, it is required by section 3661(b) to request that the Postal Regulatory Commission issue an advisory opinion on the service change, and to submit that request within a reasonable time prior to the effective date of the proposed service change. If implemented, the changes within the scope of the instant request potentially affect every sender and recipient of mail in the United States. There should be no doubt that the service changes described in support of this request will be “nationwide” within the meaning of section 3661(b).

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. Assuming no disabling legislative enactment, the Postal Service intends to implement its Docket No. N2010-1 service changes in fiscal year 2011, which begins on October 1, 2010. Accordingly, the filing of this request today satisfies the section 3661(b) requirement that it be filed “a reasonable time prior to the effective date” of the proposed changes.

The statutory scheme governing the operation of the Postal Service permits the agency to make rational adaptations to market and fiscal realities, while still fulfilling its public service obligations. That scheme does not require that long-standing products, service features, and operational practices be maintained primarily for the purpose of preserving a tangible link to an iconic past, or to perpetuate a nostalgic image of the agency or its employees. It would be troubling for the future of the Postal Service if stakeholders responsible for its stewardship allowed their vision to be so clouded by nostalgia that, through omission or commission, they undermined or prevented

significant adaptations that could help to preserve the long term viability and relevance of the postal system. The needs of postal customers are changing. If the Postal Service is to remain viable and relevant, it must be permitted to implement operational and service changes consonant with those needs.

Therefore, in accordance with 39 C.F.R. § 3001.71 *et seq.*, based upon the testimonies and materials otherwise reflected in the record of this proceeding, the Postal Service requests that the Commission expeditiously issue an advisory opinion concluding that the elimination of regular Saturday delivery to street addresses and other associated changes in the nature of postal services conform to the policies in title 39, United States Code.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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