

Cost savings estimates: The Postal Service estimates gross cost savings of \$3.3 billion from the proposal. The Commission accepts many of the Postal Service's new methods to estimate cost savings, but does not accept changes that are not supported in the record. Differences between the Postal Service's projections and the Commission's findings are set out in the following table.

**Financial Impact of Postal Service Plan
(millions)**

	Postal Service Savings Estimate	Commission Finding	Difference
City Carriers	\$2,263	\$1,503	\$760
Rural Carriers	\$484	\$484	\$0
Transportation	\$377	\$169	\$208
Mail Processing	\$123	\$67	\$56
Post Office Operations	\$53	\$53	\$0
Total Savings	\$3,300	\$2,276	\$1,024
Lost Revenue	(\$201)	(\$587)	\$386
Net Savings	\$3,099	\$1,689	\$1,410

Savings estimates for each category of costs are discussed separately. Delivery costs, including separate analyses for city carriers and rural carriers, are examined in chapter IV, mail processing and post office operations costs are reviewed in chapter V, and mail transportation is discussed in chapter VI.

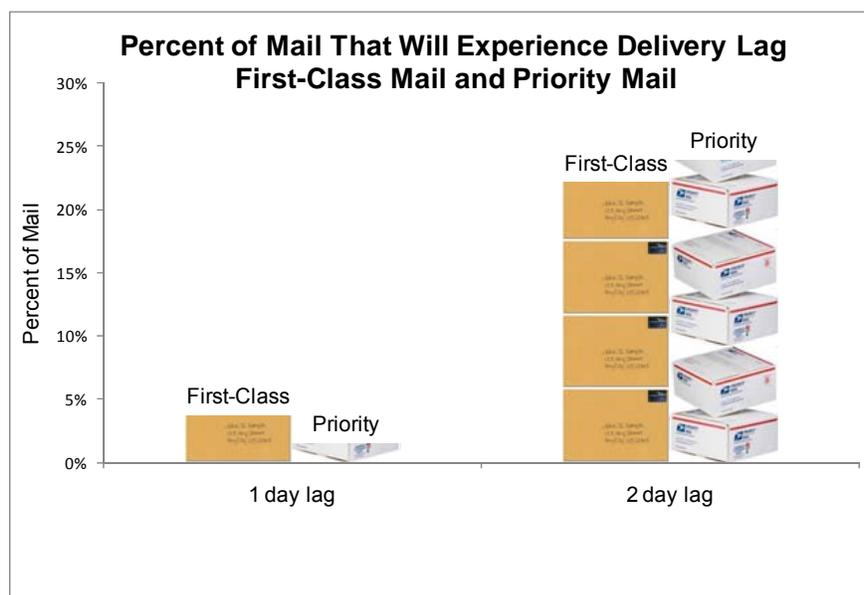
The Postal Service assumes that most mail currently processed, transported, and delivered on Saturday can be handled on Monday with only minimal additions to current Monday costs. Monday is already the heaviest delivered-volume day. The addition of Saturday volume could cause significant peak load effects impacting both costs and operations. The Commission does not alter its findings to reflect potential peak load problems, but presents a separate discussion of the potential impacts in

chapter VIII. The Commission urges the Postal Service to focus on avoiding these potential problems whether or not five-day delivery is implemented.

Volume response: The Postal Service used quantitative survey data to estimate mailers' likely volume response. The Postal Service improperly deflated mailers' reported volume decline projections. The Commission finds that the reported declines should not have been reduced, and determines, based on the Postal Service's survey data, that it is likely to lose almost \$600 million in net revenue due to mailer response to the proposal. Chapter VII reviews the projected revenue impact of volume losses due to the elimination of Saturday delivery.

Impact on service: The Postal Service characterizes the change in service as the elimination of a delivery day. The Postal Service notes currently Sunday is understood to be a non-delivery day. It contends customers will adapt to the change.

Senders and recipients of mail observe service performance in elapsed days-to-delivery. Under the Postal Service's proposal, over 25 percent of First-Class Mail and Priority Mail would be delayed, and almost all of that mail would be delayed for two days. Package services would experience similar or longer delays.



The Postal Service suggests that Express Mail and Post Office Box service might be used to continue to obtain receipt of important mail on Saturdays. These are not practical substitutes. Express Mail is more than 30 times the cost of a First-Class letter, while Post Office Box service is unavailable in some areas and imposes both a financial cost and an inconvenience on the consumer. The impact of the proposal on service is discussed in chapter IX.

The Commission also recognizes the possible impact of the Postal Service's proposal on the current service standards, which were developed by the Postal Service in consultation with the Commission. The service standards currently in place were conceived and implemented in a six-day delivery environment. Consideration is warranted as to whether these service standards should be re-evaluated in the event five-day delivery is implemented. If five-day delivery is implemented, the Commission shall carefully monitor the function of the current service standards as part of its Annual Compliance Determination, and determine if revisiting the issue is appropriate.

Service in remote areas: The Commission finds that the qualitative research the Postal Service used to gauge consumer reaction did not adequately consider rural and non-contiguous areas or garner feedback from any area more rural than suburban Atlanta, Georgia or Seattle, Washington.

The Postal Service's contention that broadband internet would fill in the gap in serving the population is unrealistic considering only 46 percent of rural residents, and only 35 percent of households with annual income of \$20,000 or less had broadband access in 2009.¹ Greater access to an adoption of new and emerging technologies should help address this gap overtime. Rural citizens who do not have access to post offices and rely on letter carriers for services available to urban citizens at post offices

¹ See Federal Communications Reports (F.C.C. 10-129), released July 20, 2010, at 16-17, finding that unserved areas appear to be disproportionately lower income and rural. Percentages provided by: Horrigan, John. A. Home Broadband Adoption 2009. Pew Internet & American Life Project, June 17, 2009, <http://www.pewinternet.org/Reports/2009/10-Home-Broadband-Adoption-2009/1-Summary-of-findings.aspx>, accessed January 14, 2011.

would be disproportionately affected. The Postal Service's qualitative market research and the likely impact on specific groups also is discussed in chapter IX. The Commission identifies areas where steps should be taken to ameliorate the impact of any move to five-day delivery.

The Postal Service, in developing its plan, consulted with its Mailers Technical Advisory Committee (MTAC)⁹ to brief the industry as plans were being developed. *Id.* at 7. As a result of the understanding developed from consultation with stakeholders, the Postal Service adjusted its plan. *Id.* The Postal Service removed both Express Mail collection and remittance mail acceptance and processing from its proposed service reductions.

Commission rules require that a request for an advisory opinion be filed not less than 90 days in advance of the date on which the Postal Service proposes to make effective the change in the nature of postal services involved. The Request indicates that the Postal Service intends to implement the service changes during FY 2011, which began on October 1, 2010. *Id.* at 10.

The Postal Service recognizes the need to provide adequate notice to the public before a change of this magnitude occurs and states that, assuming this advisory opinion is issued, if the Postal Service announces implementation of five-day delivery at the end of the year, the earliest implementation could occur would be six months later. Postal Service Brief at 44.

The Postal Service acknowledges that current appropriations requirements to maintain six-day delivery would need to be altered for it to proceed with its five-day delivery plan. Request at 8. The Postal Service also intends to “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.” *Id.*

In support of its Request, the Postal Service initially filed 11 pieces of direct testimony, 10 library references, and two nonpublic library references.

⁹ MTAC is a group composed of the major mailing associations and organizations working with the Postal Service to enhance the value of mail. It includes multiple groups that examine specific issues before the Postal Service, and is a forum for industry to provide input on important Postal Service plans and actions.

The Postal Service acknowledges that the service changes it describes in this docket are not solutions for all of its long-term financial ills, but it claims that the changes represent an opportunity for substantial improvement. Request at 4.

The Postal Service notes that despite the long tradition of six-day delivery, it is not mandated in title 39, or in either the Postal Reform Act of 1970 or the PAEA. *Id.* at 5-6. The Postal Service also points to conditional support for the proposition of five-day delivery from the President's Commission on the United States Postal Service which hypothesized that a reduction in demand may allow for the relaxation of the six-day delivery requirement.¹⁰

The Postal Service offers an overview of the plan and the outline for testimony of the supporting witnesses. The Postal Service indicates that Samuel Pulcrano (USPS-T-1) generally describes the changes it proposes. The financial background giving rise to the plan is set forth in the direct testimony of Joseph Corbett (USPS-T-2). Postal Service witnesses Dean Granholm (USPS-T-3), Frank Neri (USPS-T-4) and Luke Grossmann (USPS-T-5) explain the proposed changes to delivery, mail processing, and transportation, respectively.

Postal Service witnesses Michael Bradley (USPS-T-6) and Jeffrey Colvin (USPS-T-7) estimate the cost savings that could be achieved if those changes are implemented, totaling \$3,300 million. Witness Rebecca Elmore-Yalch (USPS-T-8) provides quantitative market research to gauge customer volume response to planned changes. Witness Gregory Whiteman (USPS-T-9) utilizes the quantitative market research to estimate the potential revenue loss the Postal Service may experience as a result of implementing its proposed changes. The Postal Service estimates approximately \$200 million in revenue loss resulting from implementation of five-day delivery.

¹⁰ President's Commission on the United States Postal Service: *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service*, July 31, 2003, at 29.

Witness Thomas Day (USPS-T-10) clarifies the effects of the changes in service performance measurement that would be implemented in correlation with the planned operational changes. Finally, witness Stephen Kearney (USPS-T-11) describes the tools and techniques the Postal Service would use to effectively communicate with stakeholders, acknowledging that the proposed service changes are likely to affect most senders and recipients of mail served by the Postal Service.

The Commission issued Order No. 436 to establish this docket, announce the filing of the Request, notice the proceeding in the *Federal Register*, and declare the Commission's intent to provide an opportunity for a formal, on the record hearing of the Request under the terms specified in sections 556 and 557 of title 5 of the United States Code.¹¹ Order No. 436 also established a deadline for intervention, set a date for a prehearing conference, and pursuant to 39 U.S.C. 3661(c), designated an officer of the Commission to represent the interests of the general public.

Twenty-nine users of the mail (as referenced in 39 U.S.C. 3661(c)), not including the Postal Service or the Public Representative, intervened in this docket. A list of all parties and associated counsel or representative, including party name abbreviations used throughout this document, appears in Appendix A.

The prehearing conference was held on April 27, 2010 to elicit views regarding establishment of a procedural schedule, including the length of the discovery period, the need for a hearing, and the possibility of participants filing rebuttal testimony. Based in part upon this input, the Presiding Officer issued a scheduling ruling to provide direction to the proceeding.¹²

During the prehearing conference, the Commission indicated its plan to hold public field hearings outside of the Washington, D.C. area "for the purpose of

¹¹ Notice and Order Concerning a Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 1, 2010 (Order No. 436); *see also* 75 FR 17789 (April 7, 2010).

¹² Presiding Officer's Ruling Establishing Procedural Schedule, April 28, 2010.

developing the record on the attitudes and needs of the postal stakeholders throughout the nation that might be impacted by” the Postal Service’s proposal. Tr. 1/38. Field hearings took place in Las Vegas, Nevada, on May 10; Sacramento, California, on May 12; Dallas, Texas, on May 17; Memphis, Tennessee, on May 19; Chicago, Illinois, on June 21; Rapid City, South Dakota, on June 23; and Buffalo, New York, on June 28. A list of panelists and public speakers referenced in the transcripts for each field hearing appears in Appendix B.

Hearings to enter the Postal Service’s direct case and provide an opportunity for participants to orally cross-examine Postal Service witnesses were held July 14, 16, and 20-22, 2010.

C. Field Hearings and Congressional Testimony

The Commission held field hearings at seven geographically diverse locations to garner feedback from the mailing community outside the Washington, D.C. area and to include those stakeholders that may not be able to participate in the docket in Washington. U.S. Senators Daniel K. Inouye (HI), Daniel K. Akaka (HI), Lisa Murkowski (AK), and Mark Begich (AK) requested that the Commission hold field hearings in Hawaii and Alaska to better understand the unique role postal services play in those states.¹³ The Commission was unable to travel to those states to hold field hearings. Senators Akaka and Murkowski were able to submit testimony to the Commission highlighting the special challenges residents of non-contiguous states face in relation to the mail. Congressman Danny K. Davis (IL) attended the Chicago field hearing. The Commission appreciates the participation in its field hearings and the Congressional testimony.

The Commission utilized the field hearings and testimony of United States Senators as background information to assist in the development of the record through

¹³ Testimony by Senators Akaka and Murkowski is summarized in Appendix E.

Chairman's Information Requests (CHIRs), and to gain better understanding of subjective views of individual mailers. Intervenors also propounded discovery based on issues developed in the field hearings. Although the Commission did not rely upon the field hearing transcripts as record evidence in this case, as is required by sections 556 and 557 of title 5, the testimony was useful.

The field hearings enhanced the Commission's understanding of the views of Postal Service customers, including individuals, small businesses, and large corporations, as well as Postal Service employees. The Commission heard from dozens of stakeholders from various parts of the country, all with diverse interests. Due to the field hearings, the Commission heard from communities and customers that may be particularly impacted by the Postal Service's proposal.

Many of the mailers participating in the Commission's field hearings testify that they would prefer a service reduction that leads to predictable and stable prices, rather than the possibility of a rate increase. See Dallas Field Hearing at 76, 79, 82; Chicago Field Hearing at 29, 99; Sacramento Field Hearing at 16, 33; Buffalo Field Hearing at 21, 24, 91; Rapid City Field Hearing at 15. Several witnesses urge the Commission to consider the Postal Service's plan, not as a standalone decision to move to five-day delivery, but as part of a comprehensive plan to ensure a viable Postal Service. See Buffalo Field Hearing at 24, 40, 98, 126, 133; Chicago Field Hearing at 32, 43. Many of the mailers support five-day delivery as an acceptable alternative to higher rates and a rational response to the Postal Service's financial condition. Dallas Field Hearing at 8-9, 72, 76; Memphis Field Hearing at 103, 108, 115; Chicago Field Hearing at 99; Sacramento Field Hearing at 16, 33; Las Vegas Field Hearing at 50; Buffalo Field Hearing at 20, 28, 30, 40, 80; Rapid City Field Hearing at 10, 15.

On the other hand, the Commission heard that the Postal Service's plan may have a negative impact on some mail order pharmaceutical businesses and customers. See Las Vegas Field Hearing at 32; Chicago Field Hearing at 38. One mail order pharmacy called six-day delivery "critical" for patients' health. Chicago Field Hearing

at 25. A large mail order prescription drug fulfillment company contends that five-day delivery would disproportionately impact the elderly and less mobile, in addition to rural residents. Las Vegas Field Hearing at 15.

Several newspapers, especially smaller rural publications, contend that the Postal Service's proposal will disproportionately affect newspapers. Dallas Field Hearing at 14-15, 43; Memphis Field Hearing at 38; Chicago Field Hearing at 143. Some newspapers state that they would probably establish private delivery to replace the loss of Saturday delivery, and may abandon the mail altogether for a newly established private delivery service. Dallas Field Hearing at 20, 36; Memphis Field Hearing at 38; Chicago Field Hearing at 144, 156. Some newspapers request that the Postal Service widen the exception to the mailbox monopoly that in limited circumstance allows newspapers to deliver to the mailbox on Sundays. See, e.g., Chicago Field Hearing at 144.

Several election officials raise concerns about the impact of the Postal Service's proposal on voter registration and voting by mail, and call for significant voter education or support from the Postal Service. Other election officials support the Postal Service's proposal, as long as they are given adequate notice to change their procedures. Dallas Field Hearing at 23, 29; Sacramento Field Hearing at 53-54.

Other witnesses representing associations of large mailers, printers and preparers of mail, and small business testified that the elimination of Saturday delivery would diminish the value of the mail and make it more difficult for mailers to use the mail in their businesses. Dallas Field Hearing at 62, 92, 128; Chicago Field Hearing at 28, 93, 99-100, 123; Las Vegas Field Hearing at 66; Buffalo Field Hearing at 138; Rapid City Field Hearing at 12, 24, 27, 50, 56.

One field hearing participant who runs a business specializing in measuring service performance with the Postal Service questions the Postal Service's ability to process and deliver Saturday volume without degrading service on other days. Chicago

Field Hearing at 167-68. Private post office box operators (CMRAs) also said that the Postal Service is diminishing the value of the services that they offer, while at the same time competing unfairly by retaining post office box delivery on Saturday. Las Vegas Field Hearing at 21; Chicago Field Hearing at 150-51.

A number of those appearing at the field hearings suggest that the Postal Service must re-evaluate its service standards in light of its proposed elimination of Saturday delivery. Specifically, the Postal Service should measure its service standard in elapsed days rather than “postal days.” Dallas Field Hearing at 100-01; Memphis Field Hearing at 86; Chicago Field Hearing at 87, 140; Buffalo Field Hearing at 107; Rapid City Field Hearing at 29, 31.

A rural carrier who serves Mennonite communities contends that those communities rely completely on the Postal Service for their communication needs. Buffalo Field Hearing at 150. Similarly, a rural carrier in South Dakota notes that some of his customers would have to drive 30 to 50 miles to a post office to conduct business on a Saturday. Rapid City Field Hearing at 50. Senator Murkowski provides insight into some unique challenges Alaskans face and the role the Postal Service fulfills in easing those challenges. Senator Murkowski notes the extreme isolation of rural communities in Alaska in comparison to rural and urban communities in the contiguous states, Tr. 10/2817, and contends that the Postal Service’s plan to reduce Saturday delivery would not just be an inconvenience for Alaskans, but a loss of a vital service that provides necessities for life. *Id.* at 2818.

Senator Akaka states, that due to a combination of “logistical, physical, and financial barriers,” including the need to distribute mail to six islands, mail service in the state moves more slowly.¹⁴ Senator Akaka also raises the point that non-First-Class Mail is moved over water on cargo vessels. *Id.* at 1. Despite these challenges, Senator

¹⁴ Senator Daniel K. Akaka, Prepared Remarks: The Impact of Eliminating Saturday Delivery Service on the People of Hawai‘i, October 4, 2010.

Akaka states that residents of Hawaii are dependent on the Postal Service to deliver important mail items. *Id.* Senator Akaka notes that small businesses, including community newspapers in Hawaii, would be impacted under the Postal Service's plan. *Id.* at 2. Senator Akaka notes that the Postal Service provides a predictable and affordably priced service compared to any of its competitors. *Id.*

Senator Akaka contends that the Postal Service's alternatives to Saturday delivery, namely post office box rental or express mail, are infeasible as a substitute for most of the residents of Hawaii to receive essential postal services such as prescription drug delivery or vote by mail mailpieces. *Id.* Senator Akaka encourages the Commission to gather more information and create sound, independent analysis balancing the savings the Postal Service would achieve, and the impact that the proposed service reductions may have on the USO. *Id.*

During her testimony before the Commission, Senator Murkowski pointed out that the impact of the Postal Service's proposal on Alaska exemplifies some of the concerns present in rural America. Tr. 10/2814. The Senator contends that reliance on mail delivery, in both Alaska and Hawaii, is for basic and necessary items and may not resemble the usage by people in other states. *Id.* Senator Murkowski notes that remote areas of Alaska face unique transportation, terrain, and weather challenges that combine to increase the amount of time needed for mail delivery. *Id.* at 2815. Specifically, Senator Murkowski notes that 82 percent of the communities in Alaska are not connected by road. *Id.* at 2816.

Notwithstanding these impediments to delivery, and the vast distances between communities in Alaska, the Senator notes that the Postal Service is a lifeline for residents that may not have access to a pharmacy in their communities. *Id.* at 2818. Senator Murkowski notes that renting a post office box to ensure delivery of such medication is not an acceptable alternative to Saturday delivery due to the cost of renting a box and the number of boxes available. *Id.* at 2819-31. Overall, Senator Murkowski states that the Postal Service's proposal will lead to "further breakdown of an

already strained system in our small communities...” and “further disintegration of the Postal Service[’s] market share....” *Id.* at 2822-23.

In summary, while many mailers accept the Postal Service’s proposed changes as a way to create savings without raising rates, many other stakeholders express concern for the impact that each would feel directly. Congressman Danny Davis addressed the Commission at its Chicago field hearing and summarized those concerns: “The notion of five-day delivery [is] in the hearts and minds of many people...” and “people express concerns.” Chicago Field Hearing at 9. The Commission’s Office of Public Affairs and Government Relations received over 20,000 informal comments on this docket, the most in the 40-year history of the Commission. While a significant majority of these comments oppose the Postal Service’s proposal, most of these comments appear to have been offered by Postal Service employees.

D. Rebuttal, Surrebuttal and Briefs

Four parties filed rebuttal testimony. NNA sponsors testimony by Max Heath (NNA-T-1) and Al Cross (NNA-T-2). See Appendix C. Medco filed rebuttal testimony by Thomas Moriarty (Medco-T-1), but subsequently withdrew the testimony citing burdensome discovery requests from the Postal Service.¹⁵ The Public Representative sponsors testimony by Oregon Secretary of State Kate Brown (PR-T-1) and Edward Luttrell (PR-T-2). See Appendix C. National Association of Letter Carriers sponsors testimony by Fredric V. Rolando (NALC-T-1), William H. Young (NALC-T-2), Stephen DeMatteo (NALC-T-3), Michael A. Crew (NALC-T-4), and Michael J. Riley (NALC-T-5). *Id.*

Hearings to enter the parties’ rebuttal cases and provide an opportunity for participants to orally cross-examine rebuttal witnesses were held September 13-14 and

¹⁵ Motion of Medco Health Solutions to Withdraw Testimony of Thomas Moriarty (T-1), August 13, 2010; see *also* Presiding Officer’s Ruling Granting Medco Motion to Withdraw Testimony of Thomas Moriarty, August 23, 2010.

16, 2010. The Postal Service indicated its intent to file surrebuttal testimony on September 10, 2010, and asked that the hearing date previously scheduled be moved to accommodate a Postal Service witness.¹⁶ On September 13, 2010, the Presiding Officer granted the Postal Service's request and scheduled the remainder of the docket.¹⁷

The Postal Service sponsors surrebuttal testimony by Peter Boatwright (USPS-RT-1), Alan Moore (USPS-RT-2), Melissa Starr (USPS-RT-3), and Samuel Pulcrano (USPS-RT-4). See Appendix C. A hearing to enter the Postal Service's surrebuttal testimony and provide an opportunity for oral cross-examination of surrebuttal witnesses was held October 4, 2010.

¹⁶ Motion of the United States Postal Service to Reschedule Surrebuttal Testimony Hearing and Filing of Briefs, September 10, 2010.

¹⁷ Presiding Officer's Ruling Adjusting the Procedural Schedule and Other Procedural Matters, September 13, 2010.

Briefs were filed by APWU, Carlson, GCA, NALC, NNA, NPMHU, Popkin, the Postal Service, the Public Representative, and Valpak.¹⁸ Reply briefs were filed by APWU, NALC, the Postal Service, the Public Representative, and Valpak.¹⁹

¹⁸ Initial Comments of the American Postal Workers Union, AFL-CIO, October 18, 2010 (APWU Brief); Douglas F. Carlson Initial Brief, October 15, 2010 (Carlson Brief); Initial Brief of the Greeting Card Association, October 15, 2010, as amended by Errata, October 18, 2010 (GCA Brief); Brief of Intervenor National Association of Letter Carriers, AFL-CIO, October 15, 2010 (NALC Brief); Initial Brief of the National Newspaper Association, October 15, 2010 (NNA Brief); Statement of the National Postal Mail Handlers Union, October 15, 2010 (NPMHU Brief); Initial Brief of David B. Popkin, October 15, 2010 (Popkin Brief); Initial Brief of the United States Postal Service, October 15, 2010 (Postal Service Brief); Public Representatives' Brief, October 15, 2010 (PR Brief); and Initial Brief of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., October 15, 2010 (Valpak Brief).

¹⁹ Reply Brief American Postal Workers Union, AF-CIO, October 25, 2010 (APWU Reply Brief); Reply Brief of Intervenor National Association of Letter Carriers, AFL-CIO, October 25, 2010 (NALC Reply Brief); Reply Brief of the United States Postal Service, October 25, 2010 (Postal Service Reply Brief); Public Representatives' Reply Brief, October 25, 2010 (PR Reply Brief); and Reply Brief of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., October 25, 2010 (Valpak Reply Brief).

III. FINANCIAL CONDITION AND PROJECTED COST SAVINGS

A. Introduction and Summary

This section of the advisory opinion summarizes the Postal Service's financial circumstances that give rise to the proposal. It then examines the Postal Service's cost savings proposal to determine the effect on the Postal Service's financial condition.

B. Business Model and Financial Condition

The Postal Service contends that the model of using revenues from expanding volumes to cover rising costs is no longer viable. USPS-T-2 at 3. The Postal Service suggests that due to its financial condition and prospects, the move to five-day delivery is "inevitable." Tr. 2/254.

Due to a combination of declining mail volume and the mandates placed on the Postal Service by Congress, the Postal Service has reported a net loss in each of the last four fiscal years. USPS-T-2 at 3. In FY 2009, the Postal Service experienced a 26 billion piece drop in mail volume, the largest decline in its history. *Id.* The Postal Service states that it has a cumulative net loss of \$11.7 billion over the last three fiscal years. *Id.* The losses are in spite of aggressive cost cutting by the Postal Service, which has yielded an average annual savings of over \$1 billion since 2000. *Id.* at 4-5.

The Postal Service experienced negative cash flow in the last three fiscal years, and anticipates that its borrowing cap of \$15 billion may not be sufficient to see it through FY 2011. *Id.* at 6. In spite of a 2008 rate increase, the Postal Service experienced a revenue decrease in FY 2008, in part due to a precipitous decline in the use of First-Class Mail. *Id.* at 10.

The Postal Service contends that its "legislated postal business model" is dependent upon the assumption that citizens' use of mail will continue to grow each year. *Id.* at 7. The Postal Service claims that the price cap constraint, combined with

high standards of service performance and an expanding network of delivery points, makes it challenging to respond to declines in mail volume. *Id.* at 8. The Postal Service explains that costs rise with an expanding delivery network. Tr. 4/762-63. The Postal Service reports that it has experienced a decline in volume per delivery point (five pieces per point in 2000, to below four pieces in 2009) along with a corresponding decline in revenue around 25 percent. USPS-T-2 at 10-12.

The Postal Service concludes that its financial outlook for the next 10 years is dire. It expects that mail volumes and revenue will steadily decline and result in large cumulative losses. *Id.* at 13-14. The Postal Service contends that no single action or concession by stakeholders can solve its dilemma, and it must seek a multifaceted solution including the changes proposed in this docket. *Id.* at 14. The Postal Service claims that reduction of delivery days from six to five “is the only structural change...that can reasonably [and] promptly provide needed relief on a multi-year basis in amounts which begin to close the gap.” *Id.*

The Postal Service emphasizes the “steady and precipitous declines in mail volume” experienced over the past few years. Request at 3-4. It contends that the evolution of the industry has placed the Postal Service in an unsustainable position despite aggressive cost cutting. *Id.* at 4. That position is a direct catalyst for the service changes proposed in this docket. *Id.* The Postal Service states that there is no basis for expecting any reversal of the underlying non-cyclical industry trends. *Id.* at 8-10. It cites as an example, a customer that makes a transition to automatic payments is unlikely to revert. Tr. 3/566.

NALC states that although revenue per delivery point fell 23 percent from 2000 to 2009, cost per delivery point fell 19 percent. NALC Brief at 9. This complimentary decline, NALC states, is evidence that the Postal Service’s financial position is not as dire as it portrays. *Id.* NALC points out the uncertainty of volume estimates, and points to many previous inaccurate projections that mail volume would peak and decline at various times in the Postal Service’s history. Tr. 3/637-47. NALC contends that there is

no evidence to support the Postal Service's prediction of long-term volume declines. NALC Brief at 16; see *also* NALC Reply Brief at 5-6. NALC also urges caution because it views the Postal Service's transition to five-day delivery as irreversible. NALC Brief at 48.

The Postal Service responds that the decline of delivery costs per delivery point reflects improved automation productivities, but does not take into account systemwide costs that have grown, such as the requirement to prefund retiree health benefits. Postal Service Reply Brief at 23-24. The Postal Service also states that a better measure of its financial position is provided by a comparison of real total revenue and real delivery costs. That gap has grown significantly faster. *Id.* at 24. Further, the Postal Service answers NALC's criticism that sustained volume losses are speculative by pointing to the trend of electronic diversion. *Id.* at 27-28.

The Commission is aware that the Postal Service faces severe long-term financial challenges and discussed these issues at length recently in Order No. 547, evaluating the Postal Service request for an exigent rate increase. See Order No. 547 at 33-37, 49-53.

C. Alternative Sources of Cost Savings

NALC contends that during its last contract negotiations, it proposed a package that it estimated would save hundreds of millions annually. The Postal Service did not accept those proposed savings. Tr. 8/2297-98. NALC also claims that the Postal Service should consider alternatives to the drastic decision of eliminating Saturday delivery. *Id.* at 2375. NALC suggests that the Postal Service consider targeted price increases, increasing rates for products that are below costs, and reassessing worksharing discounts. *Id.* at 2376.

The Postal Service responds that NALC's proposed savings included conditions that the Postal Service and NALC were unable to agree upon. Tr. 11/3091-92.

However, the Postal Service states that through the agreement made in 2006, value equal to or greater than NALC's proposal was attained through the ability to use Transitional Employees. *Id.* at 3092.

NALC also contends that the elimination of Saturday delivery is not necessary because the Postal Service's financial predicament is due to the PAEA's requirement to prefund health benefits and the recession. *Tr.* 8/2307. NALC characterizes the prefunding requirement as "unfair" and suggests that Congress change that requirement. *Id.* Similarly, NALC states that the Postal Service has been unfairly overcharged \$75 billion in retiree pension costs, and that a refund of that overpayment would be enough to prefund all of the Postal Service's retiree health obligations and pay off the Postal Service's outstanding debt. *Id.* NALC also calls for reasonable rate increases to improve the Postal Service's financial condition. *Id.* at 2308-09.

NALC notes that the Postal Service's financial instability would not be remedied by a shift to five-day delivery. NALC Reply Brief at 3-4. NALC notes that if Congress acts to lift the requirement to prefund retiree health benefits, a shift to five-day delivery would not be necessary. *Id.* at 4. Overall, NALC encourages the Postal Service to focus on meeting the needs of its customers to remedy its financial ills. *Id.* at 11-12. NALC sees expanded services and services targeted to customer needs as a viable alternative to cutting costs. *Id.* at 12.

The Postal Service responds that its financial instability is a long-term problem of accrued expenses exceeding accrued revenues, and a long-term solution is required. Postal Service Reply Brief at 20-21. The scope of the problem, the Postal Service contends, is far broader than just a short-term cash flow issue. *Id.* The Postal Service believes its proposal is necessary to have an operating structure that is sustainable and allows it to systematically pay down its accrued debt. *Id.* at 23.

The Postal Service states that if it had not been for the obligation to prefund its retiree health benefits, it would have broken even over the last three fiscal years

(2007-2009). Tr. 2/267. The Postal Service confirms that if it were credited with the \$75 billion estimated overpayment of retirement benefits that it made to the Civil Service Retirement System (CSRS), the impetus for a shift to five-day delivery would be unnecessary for the foreseeable future. Tr. 3/571. The Postal Service states that it is expending every effort to get that relief from Congress. *Id.* at 590. The Postal Service acknowledges that the most important mechanism to return to financial viability is to restructure its retiree health benefit prefunding. *Id.* at 682.

Valpak asserts that due to a September 24, 2010 development in which the Office of Personnel Management stated it did not have the authority to reallocate CSRS payments, relief from the Postal Service's overpayment to the CSRS will not be forthcoming unless explicitly authorized by Congress. Valpak Brief at 3. Similarly, Valpak asserts it appears unlikely the Postal Service will be afforded relief from its obligation to prefund its retiree health benefits because Congress did not provide any end-of-year relief at the close of FY 2010. *Id.* at 4.

Valpak encourages the Commission not to base its advisory opinion on speculation that Congress may act to lift the requirement that the Postal Service prefund its retiree health benefits. Valpak Reply Brief at 3-4. Valpak instead contends that the proposal must be examined based on the fact that it is an attempt to align its business model in light of volume changes. *Id.* at 4.

This advisory opinion examines the cost savings identified by the Postal Service in its proposal. Any action by Congress to address the Postal Service's prefunding retiree health benefits or CSRS overpayment is outside the scope of this docket.

D. Cost Savings Associated with Implementation of Five-Day Proposal

In this Request, the Postal Service calculates cost savings from eliminating Saturday delivery as the difference between actual FY 2009 costs and estimated costs under a five-day scenario. The Postal Service assumes that savings can be realized

within a year of implementation of the proposed changes. Its analysis assumes that FY 2009 market and operating conditions would be replicated year after year; therefore, the cost savings estimated would recur annually.

The Postal Service's methodology for calculating city delivery savings differs from the methodology it uses to calculate rural delivery savings. The Postal Service concludes that 90 percent of the total city carrier workhours currently used to deliver mail on Saturday would be saved upon elimination of Saturday delivery. For rural carriers, only the fixed workhours are assumed to be saved due to the structure of rural carrier compensation.

Because the Postal Service is proposing to eliminate outgoing mail processing on Saturday, it also calculates cost savings related to mail processing and transportation. For mail processing, the Postal Service uses expert opinion to determine the estimated savings. The Postal Service estimates transportation savings with the assumption that no extra trips would be needed on weekdays to transport volume currently moved on Saturday and Sunday. The Postal Service incorporates costs related to Saturday post office box delivery and the continuation of Express Mail delivery in its savings estimate.

Taken as a whole, the proposed method differs substantially from previous methods used by both the Commission and the Postal Service to estimate cost savings related to five-day delivery. In the USO Report, the Commission assumed that only non-volume variable costs related to delivery would be saved. Consequently, the savings were calculated as one-sixth of delivery-related institutional costs plus indirect costs calculated using a piggyback factor. No savings related to mail processing or transportation were estimated.

The Commission analyzes the Postal Service's cost savings estimate in the context of previous analysis done by both the Commission and the Postal Service in their respective USO reports. The Commission reviews each component of the Postal

Service's costing methodology, and determines whether each new proposed method represents an improvement over the previous methods used by the Commission and the Postal Service. In instances where the costing methodology, or a portion of that methodology represents an improvement, the Commission adopts and incorporates it into the cost savings calculations. In instances where there is not enough evidence in the record to show that the new methodology is an improvement, the Commission utilizes the previous methodology used by the Postal Service or the Commission.

The Commission estimates city delivery cost savings incorporating the Postal Service's improvements to the wage rate and the indirect costs (piggyback) effects but including only fixed cost savings. The Commission's estimate differs from the Postal Service's proposal in the areas of mail processing and transportation. For mail processing, the Commission does not find the Postal Service's estimates for allied operations persuasive and instead calculates the savings using the volume variability analysis presented in the 2009 Annual Compliance Report (ACR). For transportation, the Commission finds added weekday highway trips would be needed to transport added weekday volume. Detailed discussions of these differences follow in this section. The table below provides a summary comparison of the two savings estimates by cost segment.

Comparison of Estimated Cost Savings

Activity	USPS	PRC	Difference
City Carriers	\$2,263	\$1,503	\$760
Rural Carriers	484	484	0
Transportation	377	169	208
Mail Processing	123	67	56
Post Offices	53	53	0
Total Operations	\$3,300	\$2,276	\$1,024
Foregone Contribution	(\$201)	(\$587)	\$386
Total Operations	\$3,099	\$1,689	\$1,410

The following three chapters set forth the cost savings under the Postal Service's analysis and the Commission's analysis. Chapter IV outlines the delivery cost savings, which comprise the bulk of the savings under the Postal Service's proposal. Chapter V shows the savings from mail processing activities. Chapter VI derives the mail transportation savings. Chapter VII discusses the Postal Service's quantitative market research, and the projections of the volume and revenue impact of eliminating Saturday delivery derived from that research. Chapter VIII does not impact the cost savings estimate, but discusses the peak load issues that may have a significant impact on the Postal Service's operations if it moves to five-day delivery.

Each chapter sets out the Postal Service's savings estimates and methodologies for calculating the savings estimates. Following the Postal Service's methods and estimates, the Commission's analysis and alternative calculations are shown.

The Commission finds that the Postal Service undertook the task of estimating the cost savings from its five-day delivery in a comprehensive manner. The Postal Service made significant improvements to estimates of savings resulting from five-day delivery that were undertaken in the past. However, the Commission finds that the Postal Service's estimates of delivery savings and mail processing savings are overstated. The Commission incorporates the improvements offered by the Postal Service along with its own analysis, and determines that the likely gross annual cost savings from the five-day proposal, before any offset in revenue reduction is applied, is \$2,276 million. Further, the Commission's analysis shows that this annual savings figure will likely not be reached before FY 2014, even if the Postal Service implements five-day delivery in 2011.

E. Cost Savings Impact on Provision of Adequate and Efficient Services Aspect of the USO

As part of its USO, the Postal Service is required to provide adequate and efficient postal services. The concept of efficiency appears in several places in title 39 in relation to the provision of postal services.²⁰

Other provisions require the Postal Service to provide types of service that meet the needs of different categories of mail and mail users. See 39 U.S.C. 403(b)(2). The requirements of efficiency and meeting customers' needs, coupled with the service requirements discussed in the previous subsections, provide that the Postal Service must efficiently offer necessary service to its customers at fair and reasonable rates.

Title 39 generally describes the requirements that the Postal Service provide adequate service,²¹ avoid closing small post offices solely because they may operate at a deficit,²² and a proceeding for users of the mail to raise concerns if the Postal Service elects to change its service.²³

In its proposal, the Postal Service maintains that customer demand for and use of Saturday delivery do not justify its cost. It believes that in order to best balance the needs of all its customers, Saturday delivery should be eliminated. Otherwise, users of the postal system are paying for network capacity that the Postal Service contends is

²⁰ 39 U.S.C. 101(a), setting forth the postal policy of the Nation, requires the Postal Service to "provide prompt, reliable, and efficient services to patrons...." Likewise, section 403(a) requires the Postal Service to provide "adequate and efficient postal services at fair and reasonable rates...." Similarly, section 3661(a) directs the Postal Service to "develop and promote adequate and efficient postal services." See USO Report at 31-32 n.12.

²¹ Annual appropriations acts for 28 years require that "six day delivery and rural delivery of mail shall continue at the 1983 level."

²² 39 U.S.C. 101(b), which requires that the Postal Service provide a maximum degree of effective and regular postal services to rural areas, and where post offices are not self-sustaining. Congress articulates its specific intent that "effective postal services be insured to residents of both urban and rural communities."

²³ 39 U.S.C. 3661(b), which requires an advisory opinion with formal hearing requirements, such as this opinion, when the Postal Service proposes to change service on a nationwide or substantially nationwide basis.

unnecessary. The Postal Service contends its proposal is a way to make its system more efficient, and to provide relief from the financial instability that accompanies the precipitous decline in volume it experienced over the last decade.

The Commission supports the Postal Service in its attempt to regain financial stability. In Docket No. R2010-4, the Commission discusses the cause of the liquidity problem—the aggressive prefunding of the Postal Service’s Retiree Health Benefit Fund (RHBF). Order No. 547 at 68-74. The Commission also endorses the restructuring of the Postal Service’s requirement to prefund the RHBF.²⁴

The benefit conferred by the Postal Service’s plan is a significant reduction in operating costs. If the Postal Service is unable to secure a restructuring of the RHBF prefunding payments, the elimination of six-day delivery will contribute a portion of the savings required to keep the Postal Service solvent. The question, in terms of the USO, that Congress and the Postal Service will examine, is whether the long-term cost savings from eliminating Saturday delivery justify the service reductions resulting from this plan.

²⁴ See Testimony of Chairman Ruth Y. Goldway, Postal Regulatory Commission Before the U.S. House of Representatives Committee on Oversight and Government Reform and the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, April 15, 2010.

IV. CALCULATION OF DELIVERY COST SAVINGS

A. Introduction and Summary

For delivery cost savings, the Postal Service separately estimates savings related to city carrier street time, city carrier in-office time, rural carriers, and indirect savings. The Postal Service uses methodologies that differ from previous attempts by both the Commission and the Postal Service to determine its likely savings from five-day delivery. In this chapter, the Commission presents each of these methodologies, analyzes them, and determines whether to incorporate the new methodology, part of the new methodology, or to use the method previously used by the Commission and the Postal Service.

The Commission finds the Postal Service is likely to have an annual delivery savings of \$1,987 million. This differs from the Postal Service estimate of \$2,747 million by \$760 million. The principal difference in the Commission and Postal Service cost savings estimates is the calculation of workhour savings related to city carriers. The Commission finds the Postal Service's estimates related to wage rates, rural carriers, and indirect costs to be improvements over previous methods.

The Postal Service estimates that 90 percent of the city carrier hours spent delivering mail do not change with volume for mail shifted from Saturday to Monday. Therefore, it reasons, concentrating volume into fewer delivery days is almost cost free. The Commission finds that operational and engineering factors are unlikely to explain such a high proportion of fixed carrier hours. The Commission analyzed the productivity data presented by the Postal Service in support of its estimate and reached a different conclusion than the Postal Service. It concludes that the Postal Service overstates potential savings by assuming that no additional carrier trips would be needed to deliver the expected increase in volume on Mondays, and not including offsetting cost effects over the balance of the week. Table IV-1 shows the delivery cost savings by the Commission and the Postal Service distributed by segment.

Table IV-1
Comparison of Postal Service and Commission Savings Estimates for Delivery Costs
(Millions)

	Commission Estimate	Postal Service Estimate	Difference
City Carriers Direct Street Time Cost Savi	\$1,162	\$1,690	(\$528)
City Carriers Direct In-Office Costs	\$102	\$261	(\$159)
Adjustment for Saturday Express Mail	(\$7)	(\$7)	\$0
Subtotal City Carrier Direct Savings	\$1,257	\$1,944	(\$687)
Rural Carrier Direct Costs	\$341	\$341	\$0
EMA Savings	\$85	\$85	\$0
Adjustment for Saturday Express Mail	(\$1)	(\$1)	\$0
Subtotal Rural Carrier Direct Savings	\$425	\$425	\$0
Indirect Carrier Costs	\$305	\$378	(\$73)
Total Carrier Savings	\$1,987	\$2,747	(\$760)

B. City Delivery Street Savings

1. Postal Service Approach to Estimating City Street Delivery Savings

To estimate the city delivery carrier street time costs that it would save by eliminating Saturday street delivery, the Postal Service departs from the analytical approach taken by both the Postal Service-sponsored study and the Commission-sponsored study of the delivery frequency dimension of the USO. Where those studies relied on analyses that emphasized longer-run variation of costs with volume, modeled econometrically, the Postal Service focuses on how productivity varies with day-to-day fluctuations of volume, using raw productivity data which it interprets from the perspective of postal operations managers. This analytical approach produces cost savings estimates that are dramatically higher than those produced by the volume variability studies.

The basic mechanics of the Postal Service's calculation starts with Delivery Operations Statistical Information System (DOIS) data on city delivery carrier hours and delivered volume. The Postal Service apportions the FY 2009 daily hours and volume

totals to days of the week, breaking them out by in-office and street time.²⁵ This structuring of the data enables the cost effect of day-of-the-week fluctuations in workload to be analyzed.

Overall, the Postal Service estimates direct street cost savings from the elimination of Saturday delivery of \$1,690 million. This estimate includes savings for network travel, delivery activities, and delivery support. Network travel is the amount of time it takes the carrier to travel between delivery segments on the route. Delivery activities include the time it takes to leave the route and reach the receptacle, fingering the mail, and loading the mail into the receptacle. Delivery activities support is time needed for returning to vehicles and refilling satchels. Table IV-2 summarizes the Postal Service's estimate of city carrier delivery savings.

²⁵ The Postal Service apportions the FY 2009 DOIS daily hours to Saturdays and other days separately for street and in-office portions of city carrier hours. Percentages of total carrier hours are then calculated for Saturday street time, other day street time, Saturday in-office time, and other day in-office time. These percentages are applied to total FY 2009 CRA hours to derive CRA hours according to the same four categories. The CRA hours, at this level of detail, are then further segmented into cost components. The cost savings analysis is performed at the component level.

Table IV-2
Postal Service Estimate of City Carrier Direct Street Cost Savings
(000)

	Network Travel	Delivery Activities	Delivery Activities Support	Total
Six-Day Direct Delivery Costs	\$1,383,270	\$8,592,860	\$1,276,502	\$11,252,631
Five-Day Direct Delivery Costs	(\$1,154,171)	(\$7,320,588)	(\$1,087,501)	(\$9,562,260)
Subtotal	\$229,099	\$1,272,272	\$189,001	\$1,690,371
Saturday Express Mail Costs		(\$6,878)		(\$6,878)
Total Direct Savings	\$229,099	\$1,265,393	\$189,001	\$1,683,493
Source: USPS-T-6.				

The Postal Service estimates the hours that would be saved in each component by eliminating Saturday delivery. It then multiplies hours saved by the FY 2009 average carrier wage rate and multiplies that by an adjustment factor. The adjustment factor is the ratio of the full-time regular carrier wage rate to the average wage rate for FY 2009. Table IV-3 shows that the Postal Service estimates that 100 percent of the costs of Saturday “network travel time” and approximately 90 percent of the costs of both Saturday “delivery activities” and “delivery activity support” time would be saved if Saturday volumes were delivered on Mondays.

Table IV-3
Postal Service Estimate of City Carrier Street Hours Saved

	Network Travel	Delivery Activities	Delivery Activity Support	Total
M-F Hours Six-Day Delivery	29,812,090	185,192,442	27,511,037	242,515,568
Saturday Hours Six-Day Delivery	5,620,851	34,916,675	5,187,004	45,724,530
Total Hours Six-Day Delivery	35,432,940	220,109,117	32,698,041	288,240,098
Calculation of Hours Saved				
Saturday Hours in Six-Day Environment	5,620,851	34,916,675	5,187,004	45,724,530
Percent of Saturday Hours Needed in Five-Day Environment	-	10%	10%	
Delivery Hours Needed in Five-Day Environment	-	3,491,668	518,700	4,010,368
Collection Hours		210,373	31,252	241,625
Express Mail Delivery Hours	-	188,497	-	188,497
M-F Hours Five-Day Delivery	29,812,090	189,082,980	28,060,989	246,956,058
Hours Saved	5,620,851	31,026,138	4,637,052	41,284,040
Percent of Saturday Hours Saved	100.0%	88.9%	89.4%	90.3%

Source: USPS LR 6

As the table shows, Saturday hours saved are calculated as the difference between Saturday hours needed to deliver average Saturday volumes in FY 2009 (45,724,530) and average hours that the Postal Service assumes would be needed to deliver that same volume when added to Monday volumes in a five-day environment (4,010,368 + 241,625 + 188,497 = 4,440,490).

When estimating the cost savings from reducing delivery days as part of its study of the costs of the USO, the Postal Service used the accepted volume variability analysis of carrier street time costs as its starting point. The volume variability analysis

categorizes all carrier street time costs as volume variable or institutional (fixed). The Postal Service assumed that one-sixth of total delivery costs that are shown to be fixed by that analysis would be saved by avoiding Saturday delivery. It then assumed that 50 percent of the volume-variable costs would be “absorbed” if Saturday mail were delivered on weekdays because the added volume would take advantage of “economies of density.”²⁶ It later revises its estimate of the amount of variable delivery costs that would be absorbed to between 20 and 25 percent.²⁷

In this docket, the Postal Service took a different analytical approach to estimating the street delivery costs that would be saved by eliminating Saturday delivery. To infer how much of these costs would be incurred if current Saturday volumes were delivered on Mondays under the five-day delivery environment, the

²⁶ A more common term for “economies of density” is “economies of fill.” This refers to reductions in unit cost that occur when the cost of a resource whose capacity is fixed is spread over additional units of output. A relevant example is the cost of transporting a letter in a carrier’s satchel. The labor cost of carrying the satchel may be viewed as fixed. The unit cost of carrying the first letter is high. As the satchel fills with mail, the unit cost of carrying each piece declines until the satchel is full. The first overflow piece will require an added trip to the source of mail (parked vehicle or relay box). This will cause the cost of carrying the satchel to be replicated, and the unit cost of carrying a letter to go back up abruptly and decline until the satchel is full again. As the volume of mail delivered on the route by the carrier each day rises, the cost of carrying the mail will cycle between these economies and diseconomies of fill.

²⁷ Docket No. PI2009-1, Initial Comments of the United States Postal Service on the Commission Report, February 17, 2009, at 26.

Postal Service looked for historical data that would show how the productivity of these activities change when there are large day-to-day shifts in volume.²⁸ It found that there are five or six instances each year when Tuesdays follow a Monday holiday. On post-holiday Tuesdays, delivered volume is approximately 64 percent higher than on normal Tuesdays. The Postal Service considers this added workload on post-holiday Tuesdays to be analogous to a shift of current Saturday volumes to Mondays under a five-day delivery scenario. It says

Mondays in a five-day environment are similar to Tuesdays after Monday holidays, as: (1) volume from a previous day is shifted to that day; and (2) they are days with larger volume than the “typical” Monday (that is Mondays in a six-day environment).

Thus, Tuesdays after Monday holidays are a natural experiment for anticipating what will happen on Mondays in a six-day environment.

Tr. 2/416.

To estimate the portion of city carrier hours for street delivery that would be saved, the Postal Service compares average delivered volumes and hours for normal Tuesdays with those on post-holiday Tuesdays using DOIS data for FY 2008 and FY 2009. As shown in Figure IV-1, below, the Postal Service subtracts normal Tuesday volumes from post-holiday Tuesday volumes to calculate incremental volumes on post-holiday Tuesdays (229,668,031). Similarly, it subtracts normal Tuesday hours from post-holiday Tuesday hours to calculate incremental hours on post-holiday Tuesdays (54,751).

To find the productivity associated with delivering normal Tuesday volumes, the Postal Service divides normal Tuesday volume (361,074,661) by normal Tuesday hours (912,471). That productivity is 396. To infer how many hours would have been needed

²⁸ As the accepted volume variability analysis and the USO work conclude, the cost of network travel time is fixed. If carriers no longer engage in network travel on Saturdays, all of that cost will be saved. The Postal Service’s approach to calculating its 90 percent absorption factor, however, makes no use of the distinctions between network travel time, delivery activity, and delivery support.

to deliver the incremental Tuesday volume *at normal productivities*, the Postal Service divides the incremental Tuesday volume (229,668,031) by normal Tuesday productivity (396). At normal Tuesday productivities, 580,394 hours would be needed. However, only an average of 54,751 hours were needed on post-holiday Tuesdays. The ratio is larger than 10 to 1. According to the Postal Service, all but 9.4 percent of incremental post-holiday volume is absorbed on post-holiday Tuesdays. It assumes that Saturday volume would be absorbed at the same rate when delivered on Mondays in a five-day delivery environment.²⁹

Figure IV-1

Postal Service Calculation of Percentage of Saturday Delivery Activities and Delivery Activities Support Hours Needed to Deliver Saturday Volume in a Five-Day Environment During the Week

	A	B	C
	Normal Tuesday	Tuesday Following Monday Holiday	Difference
1 Average Volume from DOIS	361,074,661	590,742,692	229,668,031
2 Average Street Hours from DOIS	912,471	967,223	54,751
3 Street Productivity (Ln. 1 / Ln. 2)	396	611	
4 Hours Needed at Average Productivity (Col. C Ln.1 / Col. A Ln. 3)			580,394
5 Proportion of Hours Not Absorbed (Col. C Ln. 2 / Col. C Ln. 4)			9.4%
6 Percentage of Additional Hours Needed to Handle Saturday Volume (Col. C Ln. 5 rounded up)			10.0%

Source: USPS-LR-6

²⁹ Tr. 2/416. The productivity relationship between incremental Tuesday mail and normal Tuesday mail is related to the cost relationship. New post-holiday Tuesday volume (222,668) ÷ new post-holiday hours (54,751) = 4,195. Normal Tuesday volume (361,074,661) ÷ normal Tuesday hours (912,471) = 396. The productivity ratio is then 396 ÷ 4,195 = 9.4 percent, which the Postal Service rounds up to 10 percent.

2. Commission Analysis of Postal Service Methodology

The Postal Service employed a new approach—using hours from Tuesdays after holidays—to determine the impact on city delivery direct hours of reallocating Saturday volume to the rest of the week. The Commission welcomes the Postal Service’s efforts to explore methods other than traditional volume variability analysis to estimate savings from large day-to-day shifts in delivered volume. Examining productivities that fluctuate with volume across days of the week and attempting to discern the cause of these fluctuations is a new and important area of research. The operational judgments as to what broad categories of activities would be fixed with respect to day-of-the-week fluctuations in volume are welcome as well. The Postal Service has made a positive contribution to this aspect of the task of estimating the cost impacts of changing the frequency of delivery. This analysis goes partway toward bridging the gap between the established method of estimating volume-variable street time costs and the “different model,” discussed in chapter VIII, that the Commission suggested in its USO Report.

However, the Commission concludes that treating the difference in productivity between normal Tuesdays and post-holiday Tuesdays as the equivalent of the productivity difference that would be observed between Saturday and Monday delivery in a five-day delivery environment is an oversimplification that leads to a substantial over-estimate of the street delivery costs that would be saved by eliminating Saturday delivery.

The Postal Service’s new analysis is based on a combination of managerial experience, intuition, and limited productivity data. The Postal Service estimates the amount of Saturday hours that would be saved in the street delivery operation by calculating productivity that it associates with the large increment of volume that occurs on post-holiday Tuesdays and comparing it to the productivity of volume on normal Tuesdays. The approach implicitly assumes that there is one street delivery cost curve (hours/volume relationship) that characterizes Tuesday mail delivery, regardless of conditions on Tuesdays, and that the increment of volume that occurs on post-holiday

Tuesdays moves the delivery operation further out on that cost curve where marginal costs decline. When the Postal Service compares the productivity that it associates with the increment of mail delivered on high-volume Tuesdays with the productivity that it associates with delivering mail on Saturdays, it is implicitly assuming that the cost curve that characterizes high-volume Tuesday delivery is the same one that characterizes Saturday delivery. The assumption is that Saturday delivery is performed on the inward portion of that curve where marginal costs are higher (in fact, 10 times higher).

This conceptual approach, however, is inconsistent with the analysis that the Postal Service conducted to estimate savings for direct distribution operations in mail processing plants. There, the Postal Service focuses on the productivity associated with all mail processed on a current average Monday. It compares this with the productivity associated with processing mail on a current average Saturday. It assumes that in a five-day delivery environment, all Saturday mail that shifts to Mondays would be processed at the average (not the incremental) Monday productivity. By comparing average Monday productivities with average Saturday productivities, the Postal Service implicitly assumes that the cost curve (the hours/volumes relationship) that characterizes outgoing processing on Mondays is different from the cost curve that characterizes outgoing processing on Saturdays. The Postal Service implicitly assumes that processing costs will be saved by shifting volume from a Saturday cost curve with a relatively steep slope to a Monday cost curve with a relatively shallow slope.

The Commission used the conceptual approach that the Postal Service uses for mail processing (that mail processed on the Saturday average cost curve would shift to an average cost curve associated with a different day of the week) and applied it to the street delivery operation to investigate what cost savings in street delivery that approach would imply. The Commission calculated the average productivity of delivering mail on Saturdays and compared it to the average productivity associated with other days of the

week. Table IV-4 uses DOIS data provided in response to CHIR No. 1, question 3³⁰ to calculate the average delivery productivity associated with different days of the week under the current six-day delivery environment.

Table IV-4
FY 2009 City Delivery Volumes and Carrier Street Hours by Weekday

	Col. 1 Volume	Col. 2 Hours	Pcs. Per Hr. Productivity (Col. 1 / Col. 2)
Monday	421,077,876	933,941	451
Tuesday	326,474,124	921,006	354
Wednesday	329,095,036	919,062	358
Thursday	334,472,819	908,866	368
Friday	335,126,740	900,748	372
Saturday	322,839,071	855,548	377
Total	2,069,085,665	5,439,171	380
Day After Holiday	487,192,012	952,020	512

Source: PRC-LR-N2010-1/2.

Figure IV-2 shows, that the results of applying different average day-of-the-week productivities differ markedly from the Postal Service's estimates of street delivery hours that would be saved by eliminating Saturday delivery. When Saturday mail is assumed to be delivered at the average productivities associated with Mondays, the implied hours saved are eight percent. At average productivities associated with days that follow a holiday, the implied hours saved are 19 percent. At average weekly productivities, the implied hours saved are negative nine percent. The negative savings indicates that if the Postal Service is not able to increase its productivity beyond the current weekly average, moving Saturday volume to Monday could increase rather than decrease costs.

³⁰ Tr. 2/405.

Figure IV-2**Commission Analysis of DOIS Data**

Hours Needed to Process Average Saturday Volume on Monday

Assuming Monday Productivity:

Average Monday + Saturday Volume	743,916,947
Average Monday Productivity	451
Hours Needed at Monday Productivity	1,649,991
Average Monday + Saturday Hours	1,789,489
<hr/> Hours Saved (Increased)	<hr/> 139,498
Percent of Average Saturday + Monday Hours Saved	8%

Assuming Day After Holiday Productivity:

Average Monday + Saturday Volume	743,916,947
Average Day After Holiday Productivity	512
Hours Needed at Day After Holiday Productivity	1,453,685
Average Monday + Saturday Hours	1,789,489
<hr/> Hours Saved (Increased)	<hr/> 335,805
Percent of Average Saturday + Monday Hours Saved	19%

Assuming Average Weekly Productivity:

Average Monday + Saturday Volume	743,916,947
Average Weekly Productivity	380
Hours Needed at Average Weekly Productivity	1,955,594
Average Monday + Saturday Hours	1,789,489
<hr/> Hours Saved (Increased)	<hr/> (166,105)
Percent of Average Saturday + Monday Hours Saved	-9%

The Commission also estimated the hours needed to deliver Saturday volume on Monday using an incremental productivity approach similar to the Postal Service's analysis, but using average Monday productivity. Monday productivity is more relevant to the analysis than Tuesday after a holiday productivity because Monday is the day that will be receiving the bulk of Saturday volume under the Postal Service's proposal. In conducting this analysis the Commission calculated the differences in average volumes and hours between Monday and Saturday. The incremental productivity was derived by dividing the difference in volume by the difference in hours. The results are shown in Table IV-5.

Table IV-5
Estimated Hours Needed for Deliver Saturday Volume on
Monday Using an Incremental Productivity Approach

	Average Volume	Average Hours	Incremental Productivity
Mon	421,077,876	933,941	
Sat	322,839,071	855,548	
Difference	98,238,806	78,393	1,253
Monday + Saturday Volume	743,916,947		
Incremental Productivity	1,253		
Hours Needed at Incremental Productivity	593,634		
Monday + Saturday Hours	1,789,489		
Hours Saved	1,195,855		
Percent of Monday + Saturday Hours Saved	67%		

The Commission's incremental productivity analysis implies substantial savings, although they fall well short of the savings that the Postal Service calculates. The Commission cautions, however, that the productivity derived from its incremental analysis is 329 percent greater than the actual average weekly productivity, 278 percent greater than actual average Monday productivity, and 245 percent greater than the average day-after-holiday productivity. The incremental productivity implied by the Postal Service's post-holiday Tuesday analysis³¹ is even greater—4,195, which is 820 percent higher than the average day-after-holiday productivity.

While the Postal Service has achieved remarkable productivity increases intermittently on five or six days each year, it has not presented evidence that it will be able to achieve similar increases on a sustained basis. If Saturday delivery is

³¹ 229,668,031 ÷ 54,751 = 4,195.

eliminated, the volume surge on Mondays would be permanent. To accurately predict the effect of ending Saturday delivery on costs, the Postal Service would have to measure the effect of sustained volume changes.

a. Delivered Volume During the Remainder of the Week
After a Monday Holiday Shows Productivity Declines

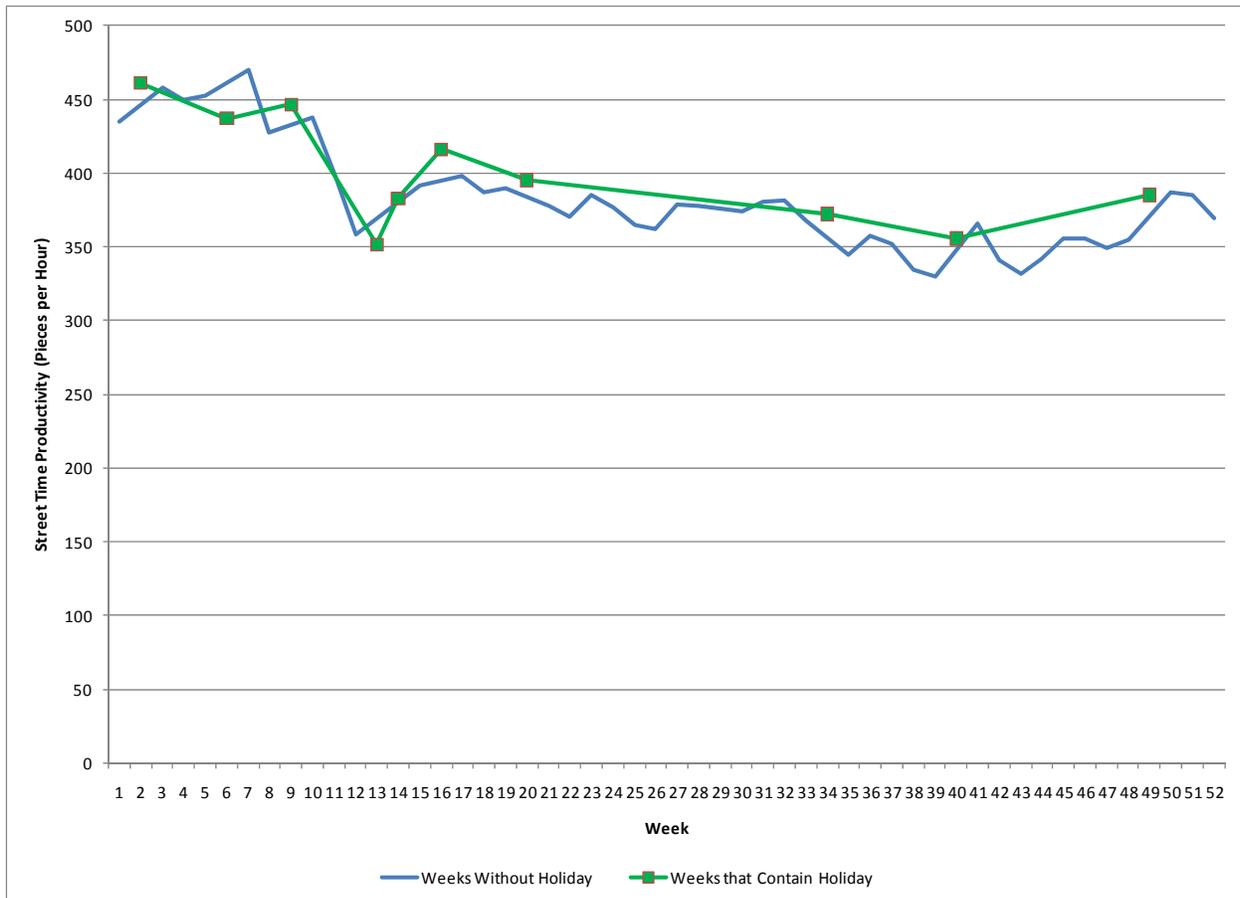
The impact of volume surges on particular days of the week should also be analyzed in the broader context of what happens during the remainder of that week. As witness Granholm states, “The preferred solution to increased workload would be to curtail non-committed mail. If mail is not available for curtailment, supervisors will have to utilize the other tools available to them such as any undertime on another route, auxiliary assistance and overtime.” Tr. 2/293.

To determine the extent to which these methods may be used to accommodate holiday-related volume surges, the Commission compared weekly productivity for weeks that included a holiday with weeks that did not. Figure IV-3, displays average productivity over the entire week for weeks with and without holidays.³² The data show no apparent differences in productivities. The chart implies volume is distributed over an entire holiday week to smooth the workload. When asked to comment on this finding, witness Bradley stated, “I think it is an issue of how the Saturday mail volume will be distributed across the other days that would affect the productivity....” Tr. 4/967. If there is no systematic difference in productivities, then minimal or no cost savings are suggested.³³

³² Developed from raw data provided in Responses of the United States Postal Service to Questions 2-10 of Chairman’s Information Request No. 3, May 14, 2010 at CHIR.3Q.10.DOIS.Attach.xls. See Tr. 4/814.

³³ Intuitively, if the productivity the Postal Service puts forward for a Tuesday after a Monday holiday is sustained, the weeks with holidays would have a significantly higher productivity, *ceteris paribus*. Figure IV-3 shows that there is no obvious difference between a week with a holiday and a week without. Therefore, when the volume surges there is no evidence suggesting gains in productivity when the hours and volume response over the entire week is examined.

Figure IV-3
Relative Productivities by Holiday and non-Holiday Weeks, FY 2009



Source: PRC-LR-N2010-1/2.

One reason why productivities may be higher on certain days of the week than on other days is the type of mail (mail mix) being delivered. Some mail, such as delivery sequenced letters (which do not need to be carrier sorted), requires less time to deliver than other types of mail, such as cased flat mail (which must be carrier sorted), or parcels. The Postal Service’s use of total daily volume to measure productivity does not reflect differences in product mix from day to day. The Commission investigated the effect of changes in the mix of mail across the week during holiday weeks.

Table IV-6
Percent of FY 2009 City Carrier Average Daily Volume by Mode and Day

	Weeks Without Holidays			
	DPS Letters	Cased Flats	Sequenced Mail	Deferrable Mail (Cased Flats + Sequenced)
Monday	67.6%	21.9%	3.7%	25.6%
Tuesday	54.2%	24.5%	14.7%	39.1%
Wednesday	56.7%	23.5%	12.9%	36.4%
Thursday	62.2%	22.9%	7.8%	30.7%
Friday	63.3%	22.3%	7.3%	29.5%
Saturday	64.6%	22.8%	4.9%	27.7%

	Weeks With Holidays			
	DPS Letters	Cased Flats	Sequenced Mail	Deferrable Mail (Cased Flats + Sequenced)
Tuesday	67.4%	21.4%	4.5%	25.9%
Wednesday	53.8%	24.5%	15.1%	39.5%
Thursday	59.1%	24.4%	9.4%	33.8%
Friday	61.9%	22.9%	8.0%	30.9%
Saturday	64.3%	23.3%	4.9%	28.3%

Source: PRC-LR-N2010-1/2.

Table IV-6 shows large differences in the percentages of delivered DPS and deferrable mail (sequenced mail and cased flats) on Mondays and Tuesdays. The data suggest that delivery of a large portion of sequenced mail is deferred from Monday to Tuesday to moderate the effects of the current Monday volume peak. Monday currently has the highest productivity of any day of the week as measured by total pieces delivered per hour. This measure does not account for the work required to deliver different types of mail. For example, DPS letters are taken directly to the street by the carrier requiring minimal office and street time. In contrast, cased flats require in-office casing, and are more labor intensive. Cased flats require two to four times more carrier work than DPS letters.

Compared to normal Tuesdays, productivity is higher on Tuesdays after a Monday holiday. This difference is, in part, driven by a change in the mix of mail types. The mail mix of Tuesdays after Monday holidays nearly matches the mail mix of a

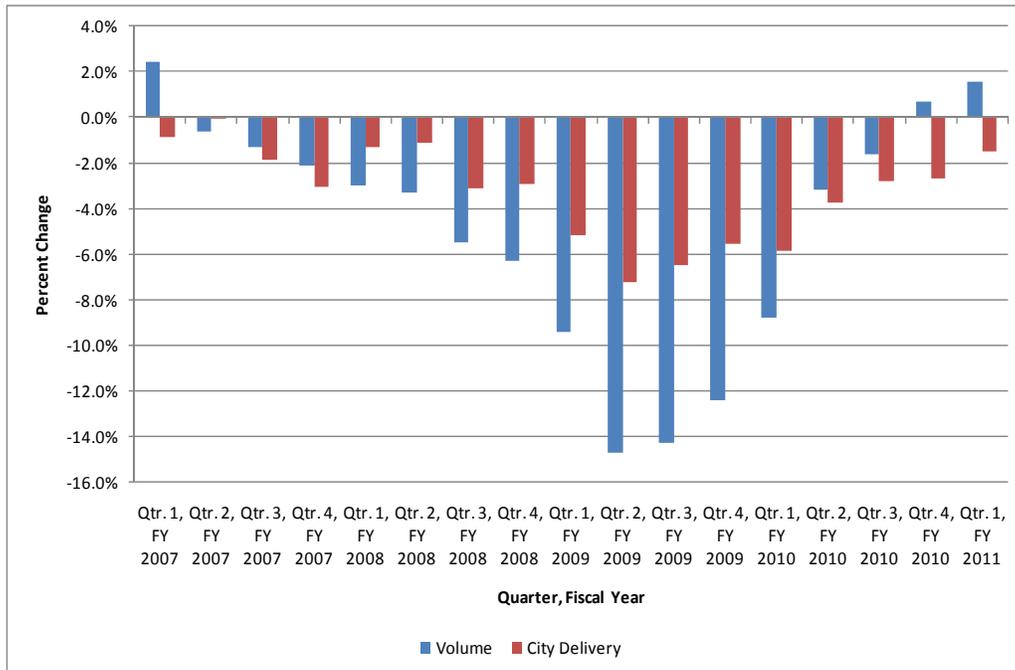
normal Monday. This means that the deferrable (and expensive) mail normally delivered on a Tuesday must be delivered on another day of the week. On a normal Tuesday, nearly 40 percent of the mail delivered is deferrable mail. Much of the labor intensive mail is normally deferred to Tuesday, and while fewer pieces are delivered, these pieces require more work to deliver. The same trend occurs when there is a Monday holiday. The deferrable mail is shifted from Tuesday to Wednesday and Thursday. While Tuesdays after Monday holidays exhibit increases in productivity, not all of this productivity gain will lead to a decrease in cost over the course of a full week.

b. Savings From Existing Excess Capacity Should Not Be Attributed to Five-Day Delivery

The Postal Service has acknowledged that absent five-day delivery, it would continue to realign delivery resources to match expected volume levels. Tr. 2/408. The Postal Service considers the elimination of excess capacity and the movement to five-day delivery as separate cost reduction initiatives. In the indefinite future, it is reasonable to assume that the sharp dip in volume that accompanied the recent recession in FY 2008 and FY 2009 would moderate, and that the trimming of the carrier workforce would, over time, catch up with the decline in volume.³⁴

³⁴ The Postal Service seems to agree. In interpreting carrier workhour trends in the first half of FY 2010, it argues that they show employee attrition catching up with the earlier steep decline in volume associated with the recession of late 2008 and early 2009. Postal Service Reply Brief at 26.

Figure IV-4
Changes in Volume and City Delivery Workhours by
Quarter FY 2007 – Quarter 1, FY 2011



Source: USPS quarterly financial statement FY 2007; USPS Form 10-Q FY 2008 through FY 2010; USPS Form 10-K FY 2008 through FY 2010.

There is no reason to believe that whatever overstaffing of the carrier operation that currently exists would be carried into the indefinite future, given the Postal Service’s intention to realign delivery resources to match expected volumes. Once the Postal Service makes necessary staffing adjustments to match future volume levels, the realized cost savings from eliminating Saturday delivery could be lower.

Data indicate that current carrier operations are not overstaffed to a degree that carriers could absorb the increased workload inherent in a future five-day delivery environment even in the short-term. As discussed in section IV. C., it currently takes eight hours, on average to deliver mail on a city route. In addition, the amount of overtime being incurred by carriers on city routes has risen substantially in the most recent quarter. In quarter 1 of FY 2011, overtime hours in the carrier operation were 11.8 percent of total carrier hours, up from 9.8 percent of total carrier hours in quarter 1

of FY 2010. The reduction in carrier straight time hours (2.2 million) was almost entirely offset by the increase in overtime hours (2 million). This suggests that carrier staffing levels have declined to near capacity levels, even with the recent declines in delivered volume. As of February 26, 2011, overtime for full-time city delivery carriers was up 17 percent over last year.³⁵

In its USO Report, the Commission stated that because an empirical model for determining how volume variable costs behave over large volume changes has not been developed, it remained essentially “agnostic” regarding the density effect assumption used by the Postal Service to explain its positive absorption rate. USO Report at 127. The Commission therefore assumed that variable street delivery costs would respond in a linear fashion to large changes in volume, and Saturday variable costs are fully transferred to weekdays. *Id.* at 129. There the Commission noted that

In order to be comfortable with the conclusion that “economies of density” in the delivery function accelerate as volume increases, the Commission would need to see whether this conclusion can be verified by an appropriate econometric model that is corroborated by either operational experience or intuition.³⁶

The Postal Service asserts that it relied on operational experience to estimate its street delivery savings, but as explained above, the Postal Service’s estimated savings are actually based on a comparison of productivity data for low-volume and high-volume Tuesdays. The Postal Service offers its operational judgment as corroboration of those results. However, this analysis is not an acceptable substitute for a statistically

³⁵ Figures from National Payroll Hours Summary Report, Pay Period 01-FY2011, ending date 12-31-2010; National Payroll Hours Summary Report, Pay Period 01-FY2010, ending date 01-01-2010.

³⁶ *Id.* at 130. The Commission’s reference to acceleration of economies of density needs to be read in context with its statement on the previous page. There, the Commission states “[A]ssuming that marginal costs (not average costs) decline as volume rises is the equivalent of assuming that the efficiency with which mail is sorted and delivered by carriers not only rises, but accelerates, as volume increases.” *Id.* at 129. Clearly, acceleration in this context refers to declining marginal costs.

validated study as suggested by the Commission in the section of the USO Report quoted above.

In response to CHIR No. 3, question 9, the Postal Service developed an econometric analysis, using the FY 2009 DOIS data, estimating that daily total costs were only 13 percent volume variable with daily volume. Tr. 4/853-71. However, that analysis did not reflect the impact of network variables such as the number of possible deliveries on costs. Nor was it structured to capture long-term effects caused by large, sustained daily volume changes that would follow elimination of Saturday delivery. The Commission believes that capturing the network variables and the long-term effect, would have raised variability levels in the analysis to levels much closer to those indicated in the FY 2009 Cost and Revenue Analysis (CRA).

C. City Delivery In-Office Savings

1. Postal Service Method of Estimating City Delivery In-Office Savings

The Postal Service utilizes an operational approach to estimate city carrier in-office savings. It estimates total in-office savings of \$261 million. This estimate includes In-Office Direct Labor, In-Office Support Overhead, and In-Office Support Other, as summarized in Table IV-7.

Table IV-7
Postal Service Estimate of City Carrier Direct In-Office Cost Savings
(000)

	In-Office Direct Labor	In-Office Support Overhead	In-Office Support Other	Total
Six-Day Direct Costs	\$3,298,256	\$637,600	\$599,801	\$4,535,657
Five-Day Direct Costs	\$3,108,563	\$600,930	\$565,305	\$4,274,798
Total Direct Savings	\$189,693	\$36,670	\$34,496	\$260,859
Source: USPS-LR-6.				

Similar to its calculation of street time savings, the Postal Service begins by distributing in-office hours to days of the week using DOIS data. The Postal Service starts with hours taken from its FY 2009 ACR, finds the portion applicable to in-office hours, and distributes those hours using the DOIS-developed percentages for days of the week. As seen in Table IV-8, 34 percent of Saturday In-Office Direct Labor hours are estimated to be saved.

Table IV-8
Postal Service Estimate of In-Office Hours Savings

	In-Office Direct Labor	In-Office Support Overhead	In-Office Support Other	Total
M-F Hours Six Day Delivery	65,019,058	12,569,113	11,823,980	89,412,151
Saturday Hours Six Day Delivery	12,571,059	2,430,165	2,286,098	17,287,323
Total Hours Six Day Delivery	77,590,117	14,999,279	14,110,078	106,699,474
Calculation of Hours Saved				
Saturday Hours in Six Day Environment	12,571,059	2,430,165	2,286,098	17,287,323
Percent of Saturday Hours Needed in Five-Day Environment	66%	66%	66%	
In-Office Hours Needed in Five-Day Environment	8,296,899	1,603,909	1,508,825	
M-F Hours Five Day Delivery	73,315,957	14,173,022	13,332,805	100,821,784
Hours Saved	4,274,160	826,256	777,273	5,877,690
Percent of Saturday Hours Saved	34.0%	34.0%	34.0%	34.0%

Source: USPS-LR-6.

In estimating these hours, the Postal Service introduces the concept of “Fixed Office Time” and “Variable Office Time,” segregating carrier activities into each category

based on whether the time of the activity varies with volume. The Postal Service concludes that 34 percent of in-office time is Fixed Office Time and 66 percent is Variable Office Time. As with the Postal Service's estimate of how much street delivery cost would be saved by ending Saturday delivery, the central operational judgment that it makes with respect to the variability of in-office time is that it could deliver 58 to 77 percent greater volume on Monday without reconfiguring routes.

With respect to street delivery time, the Postal Service assumes that 90 percent of variable hours incurred on Saturdays would be absorbed when delivery is shifted to Mondays. In contrast, the Postal Service assumes that all variable in-office hours incurred on Saturdays would be transferred to Mondays (none would be absorbed). Therefore, the Postal Service estimates that only the Fixed Office Time would be saved by eliminating Saturday delivery. The Postal Service estimates Fixed Office Time by multiplying total annual Saturday office hours from DOIS by the Fixed Office Time percentage from DOIS. This yields an estimate of 5.8 million hours saved. Multiplying those hours saved by the same full-time regular wage rate applied in the Postal Service's street time analysis yields a savings of \$261 million.

2. Commission Analysis of In-Office Savings

Most of the in-office time that the Postal Service considers Fixed Office Time is for activities that take the same amount of time each time a carrier makes a trip to deliver a route. These include such things as clocking in, getting the keys, and inspecting the delivery truck. It is fixed in the short run because the number of trips a carrier makes to deliver a route is fixed in the short run. In the longer-run, however, such activities vary with volume. Enough new volume will require rebalancing of workload within a delivery unit by creating a new partial route (an auxiliary route) or a regular route. A new route will require an additional carrier trip each day. This will require replication of the activities that the Postal Service characterizes as Fixed Office Time.

The Postal Service agrees that its principal response to changes in delivered volume lasting a year or more is to rebalance the workload among routes. It states

The most important way the city carrier delivery network adjusts to changes in volume is through route reconfiguration—changes in the number of routes. This means that certain amounts of time that are fixed on individual routes will vary with volume through adjustment in the number of routes.

USPS-T-6 at 13.

Recent data confirm this. In FY 2009 alone, the number of city carrier routes decreased seven percent, largely in response to volume declines associated with the recent recession.

The Postal Service did not present any analysis showing that routes on Mondays would remain fixed if Saturday delivery is eliminated, other than to assert that the Monday peak volume in a five-day delivery environment would be fully accommodated through the use of short-run management techniques, including the use of overtime, flexible carrier hours, and deferral of Standard Mail for delivery on other days. However, the Postal Service proposal does not identify any new costs associated with such management techniques. Given the importance of route reconfiguration in coping with volume changes in all other contexts, the Postal Service is under an obligation to thoroughly explain why it rules out this response entirely in responding to large and predictable changes in volume by day of the week.

The Postal Service's assumption that routes will not be rebalanced in the face of large transfers of volume from Saturday to Monday implies that there is a great deal of excess capacity in current routes. The Postal Service states that due to the precipitous volume decline and slowly recovering volume levels, excess capacity exists in its present route structure, and will continue to exist in the future. *Id.* at 16-17. The Postal Service defines excess capacity as "situations where a city carrier's expected workload is less than eight hours daily." Tr. 2/408. It clarifies that when workload is between 7:50 and 8:10, routes are considered eight hours. Tr. 2/469. By that criterion, the Postal

Service does not have significant excess capacity. Table IV-9 shows that the average hours per route for city carriers from FY 2008 to FY 2010 are generally within the eight-hour criterion. As for the future, the Postal Service has stated that absent a shift to five-day delivery, it expects to realign delivery resources to match expected volume levels. Tr. 2/408.

Table IV-9
Average Hours Per Delivery Route by Fiscal Year and Quarter

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2008	8.43	8.1	7.76	7.81
2009	8.16	7.92	7.62	7.79
2010	8.18	8.02	N/A	N/A
Source: Tr. 2/428.				

The above discussion of the costs of the street delivery function indicates that it is unlikely that any current excess capacity in the street delivery operation will carry over to the “full up” five-day delivery environment. It also indicates that from an operational and cost standpoint, there are benefits to reconfiguring routes in response to large additions of volume in a five-day delivery environment. If routes are reconfigured, most of what the Postal Service characterizes as Fixed Office Time would increase as well, as routes are divided among more carriers to cope with the Monday volume peak. Therefore, the Commission concludes that the Postal Service would continue to add carriers and reconfigure routes in a five-day delivery environment. A major portion of what the Postal Service considers Fixed Office Time would increase as a result.

D. Rural Carrier Savings

1. Postal Service Method of Estimating Direct Savings in Rural Delivery

Overall, the Postal Service estimates direct delivery cost savings for rural routes of \$425 million. This estimate includes savings for evaluated routes, other routes and

equipment maintenance. For evaluated routes, carriers pay is based on workload. Evaluated routes are “H routes,” that are carried all six-days-a-week by a regular carrier; “J routes,” that are carried 11 out of 12 days by a regular carrier and one-day every other week by a replacement carrier; and, “K routes,” that are carried five out of six-days by a regular carrier and one-day-a-week by a replacement carrier. If there were no workload peak in a five-day delivery environment, rural relief employees that provide coverage for routes during scheduled and unscheduled leave periods, would be largely unnecessary, except where needed to fill in for carriers on leave, to serve auxiliary routes, or deliver Express Mail on Saturdays. USPS-T-3 at 13. Other routes are mileage routes and auxiliary routes. Table IV-10 summarizes the estimation of rural delivery savings from the Postal Service’s proposal.

Table IV-10
Postal Service Estimated Savings for Rural Carriers
(000)

	Evaluated Routes	Other Routes	Equipment Maintenance	Total
Six-Day Direct Delivery Costs	\$5,548,541	\$401,080	\$509,893	\$6,459,514
Five-Day Direct Delivery Costs	\$5,231,017	\$377,661	\$424,911	\$6,033,589
Saturday Express Mail Costs	\$1,365			\$1,365
Total Direct Savings	\$316,159	\$23,419	\$84,982	\$424,560
Source: USPS-LR-6.				

The Postal Service asserts that some rural delivery hours now incurred on Saturdays would not transfer to other days if Saturday delivery were eliminated. However, due to the compensation structure for rural carriers, no savings for those hours would be captured. USPS-T-6 at 25-26. As with city carriers, there would be a shift in the labor mix accompanying five-day delivery that would affect costs. Because

replacement carriers would be eliminated under five-day delivery, all weekday hours would be paid at the higher regular carrier wage rate.

This means that variable hours on Saturdays that were formerly paid at the replacement carrier wage would be paid at the higher regular wage in a five-day delivery environment. Therefore, except for “H routes” (where there are no replacement carriers), this shift in the labor mix for variable hours would reduce any savings that would come from eliminating the various forms of non-volume workload on Saturdays and their associated evaluation factors. *Id.* at 27-30.

The percent of total hours that vary by route type differ somewhat by route type. Therefore, these percentages are applied separately by route type to the corresponding total Saturday hours to estimate the Saturday variable hours transferred to weekdays under the five-day profile. Saved hours are multiplied by the average rural carrier wage rate and an adjustment factor of .5753. This factor is comprised of the ratio of direct rural carrier costs saved per hour to the average rural carrier wage. The rural carrier costs saved per hour, which forms the numerator of the ratio, includes the effects of the labor mix adjustment. This procedure yields total unadjusted direct savings of \$341 million. This figure is adjusted to \$425 million by adding equipment maintenance allowance savings and subtracting costs for Saturday Express Mail delivery on rural routes.

2. Commission Analysis of Rural Carrier Direct Savings

Transferring all Saturday variable hours for rural delivery to weekdays, as the Postal Service does, is consistent with the fact that rural carriers are paid essentially by the piece count of mail that they deliver. Therefore, if Saturday volume is transferred to other days, total weekly Saturday variable costs must remain the same because volume remains the same. Only Saturday hours associated with non-volume-related workload and the associated evaluation factors would be saved by eliminating Saturday delivery.

The Commission also recognizes that the change in the labor mix accompanying five-day delivery reduces savings by 57.5 percent (the adjustment factor). The Commission commends the Postal Service for explicitly considering the new labor mix resulting from five-day delivery and the consequential cost effect. The analysis accounts for savings reductions that would have been omitted using previous methods. The use of route type variability factors also increases the overall accuracy of the savings estimate.

E. Wage Rate to Be Applied to Hours Saved

1. Postal Service Method

The Postal Service applies the full-time regular carrier wage rate to the estimated hours saved to estimate the total dollar savings. The use of the full-time regular wage rate differs from past approaches that used the average wage rate for all carriers, including part-time flexible.

The Postal Service contends that its carrier technicians, usually the employee that fills in for a regular carrier on the sixth delivery day, would no longer be necessary with regard to the wage rate. USPS-T-3 at 12. The Postal Service estimates that the hours saved for those positions that are eliminated would be priced at the average full-time regular wage for carriers. *Id.* The Postal Service notes that the wage rate for carrier technicians is higher than the average wage rate for carriers. *Id.* The Postal Service contends that it is not appropriate to use transitional employee wage rates (which are significantly lower than the average wage) to capture full-up savings because the positions eliminated will be carrier technician positions. Tr. 2/367. However, the Postal Service admits that some workhours would be eliminated by moving carrier technicians into regular positions and eliminating transitional employees in the short-term. *Id.* at 436.

The Public Representative questions the Postal Service's assumption that the average full-time city carrier wage is the correct rate on which to base savings. PR Brief at 18. The Public Representative and GCA contend that the Postal Service, due to collective bargaining restrictions, may be required to replace transitional employees (at their lower wage rate) before full-time carriers, which would reduce the savings. *Id.*; GCA Brief at 14-15. The Public Representative also notes that the Postal Service assumes it will not have to expand the number of routes currently deployed, and that it may have underestimated the overtime hours required. PR Brief at 19.

NALC states that the Postal Service's assumptions regarding the amount of letter carrier overtime are incorrect. NALC Brief at 21. NALC notes the significant increase in overtime hours utilized on Tuesdays after a Monday holiday. *Id.* at 22.

The Postal Service responds that even if any additional costs are substantially understated, the magnitude of the cost savings dwarf any costs arising from the five-day plan. Postal Service Brief at 71. The Postal Service also notes that criticism by parties of its estimated cost savings are not quantified or estimated. Postal Service Reply Brief at 37-38. Further, the Postal Service states that the use of overtime as compared to regular time "actually lowers the average cost per work hour, since no additional leave or other benefits are earned." *Id.* at 54. If the Postal Service had the ability to estimate the amount of overtime hours it would require under five-day delivery, it claims, it could actually increase its savings estimate. *Id.* at 55.

The Postal Service contends that its "full-up" savings identify savings ultimately achieved after all transition periods. *Id.* at 46. The Postal Service criticizes GCA's contention that it would only save a lower transitional employee wage rate as shortsighted because that only considers the "first step" of five-day implementation. *Id.* at 47. The Postal Service states that even if the average Saturday wage is employed to determine cost savings, it only results in a four percent decrease in its estimated cost savings. *Id.* at 52. The Postal Service acknowledges that in the short-term, it may shed

transitional employees, but that in the long-term, it will again add transitional employees to replace retiring full-time employees to keep flexibility in the system. *Id.* at 52-53.

2. Commission Analysis of the Appropriate Wage Rate

Using the average city carrier wage rate to determine cost savings implicitly assumes that there will be no change in the mix of the carrier labor force (percent of full-time regular carriers relative to temporary and part-time and transitional employees). By estimating savings at the full-time carrier wage rate instead, the Postal Service anticipates reducing the level of full-time regular carrier staff while retaining non-full-time staff at current levels to shoulder future delivery workloads. At “full-up” savings, non-full-time regular hours would remain at current levels (FY 2009), and the full-time regular hours would be reduced by the estimated hourly savings.³⁷ The Postal Services expectation concerning the composition of its future labor force is reasonable. Therefore, it is appropriate to use the full-time regular wage rate to estimate the savings.

F. Estimate of Indirect Carrier Cost Savings

The final step in the Postal Service’s estimation of total delivery savings is the calculation of indirect costs. In previous analyses, the Postal Service relied on piggyback factors from the cost roll forward process to estimate indirect costs. In the five-day proposal, the Postal Service estimates indirect cost savings by examining indirect costs, element-by-element, and then assessing how costs would be affected by eliminating Saturday delivery. The Postal Service estimates that eliminating Saturday delivery would result in indirect delivery savings of \$378 million.

³⁷ USPS-T-6 at 19. The Postal Service defines “full-up” savings as “the annual savings less associated volume reductions available after the completion of all adjustments needed to reduce staffing and adapt contracts, plants and equipment to the changed operational environment.” USPS-T-7 at 2.

1. Postal Service Presentation

In the established piggyback analysis, city carriers are allocated a portion of supervision, vehicle maintenance and depreciation, building maintenance and depreciation, and other indirect costs. These costs are assumed to change in response to total volume changes in the same proportion as city carrier direct labor costs. However, because five-day delivery would result in a volume shift rather than a volume change, the Postal Service estimates that some of the indirect cost changes would be minimal and not affect other indirect costs. Therefore, while the Postal Service estimates that only some indirect costs, such as supervision and vehicle maintenance, would change, it anticipates no changes to other indirect costs, such as building maintenance and depreciation, or vehicle depreciation. For servicewide benefits that vary with direct labor costs such as workers compensation and annuitant health benefits, the Postal Service develops and then applies a servicewide 10 percent piggyback factor to the direct city carrier savings estimates to determine how much of these costs would be saved. *Id.* at 4-10.

2. Commission Analysis of Indirect Cost Savings

The Commission agrees with the Postal Service's new approach for calculating indirect costs. In the traditional piggyback analysis, city carriers are charged for their portion of supervision, vehicle maintenance and depreciation, building maintenance and depreciation, and other indirect costs. These costs are assumed to change in response to total volume changes, in the same proportion as city carrier direct labor costs. However, because five-day delivery results in a volume shift rather than a volume change, the Postal Service recognizes that not all costs are affected in the way assumed by the traditional method, and therefore decided to analyze the effect on each indirect cost separately. However, the Postal Service uses the traditional piggyback approach to estimate service-wide benefits, such as workers compensation and annuitant health benefits, because these costs are tied directly to variations in direct labor costs. *Id.*

The Commission finds that the Postal Service's element-by-element analysis is the appropriate approach to take in the context of changes to the frequency of delivery. It evaluates how the changed operating environment would affect costs at the level of detail necessary to yield more accurate cost estimates.

Commission estimates that total indirect costs are \$305 million.

G. Commission Estimate of Delivery Savings

The Commission's estimate of city carrier street time savings is based on the Postal Service's analysis and the adjustments that the Commission describes above. The Commission estimates savings in hours for the street delivery cost segment using the FY 2009 CRA component-level variabilities. Those variabilities are based on an econometric model that measures cost effects from sustained volume changes and includes network variables.

The Commission estimated net hourly savings from five-day delivery, first, by multiplying the FY 2009 estimate of total Saturday street hours distributed by segment 7 cost component by the respective CRA volume variabilities. The resulting values indicate the portion of Saturday street hours added to weekdays to support delivery of Saturday volume. These hours are then subtracted from the total Saturday hours to estimate net savings by component. The Commission estimates net savings of 28.1 million city carrier street hours as the sum of component level savings.

The Commission's calculation of street cost savings is shown in Table IV-11. The costs and savings are calculated using the average wage rate, the last row converts the average wage rate savings to full-time regular wage rate by applying the adjustment factor.

Table IV-11
Commission Estimate of City Route Street Cost
Savings From Eliminating Saturday Delivery
(000)

	Network Travel	Delivery Activities	Delivery Activities Support	City Carrier Street Savings
Six-Day Totals	\$1,383,270	\$8,592,860	\$1,276,502	\$11,252,631
Five-Day M-F	\$1,154,171	\$7,790,898	\$1,145,242	\$10,090,311
Saturday Express	0	\$6,878	0	
Savings	\$229,099	\$795,084	\$132,259	\$1,155,442

Source: PRC-LR-N2010-1/1.

This estimate assumes that there would be no density effect beyond that reflected in the Commission's econometric models. In other words, it assumes that the Postal Service would incur all of the variable costs that it now incurs on Saturday on other weekdays after Saturday delivery is eliminated. In that case, the absorption rate would be zero. This savings estimate provides an approximation of the result that would have been obtained from applying the established econometric model directly, which already includes any density effects to be expected in a longer-run or "full-up" environment. This approach can be expected to yield volume variabilities at or close to the CRA variabilities used by the Commission.

The Commission re-estimates in-office savings using the FY 2009 CRA volume variabilities. The Commission's analysis indicates savings of \$102 million, as indicated in Table IV-12.

Table IV-12
Commission Estimate of City Route Office Cost Savings
from Eliminating Saturday Delivery
(000)

	In-Office Direct Labor	In-Office Support Overhead	In-Office Support Other	City Carrier In-Office Savings
Six-Day Totals	\$3,298,256	\$637,600	\$599,801	\$4,535,657
Five-Day M-F	\$3,253,945	\$629,034	\$550,975	\$4,433,953
Savings	\$44,311	\$8,566	\$48,827	\$101,704
Source: PRC-LR-N2010-1/1.				

H. Timeline to Full Savings

1. Postal Service Estimate of the Time Required to Achieve “Full Up” Savings

The Postal Service states that after absorbing approximately \$110 million in implementation costs in the first fiscal year, it could reach “full-up” savings one fiscal year later.³⁸ USPS-T-2 at 16. Subsequently, the Postal Service revised its estimate of the length of the transition, and estimated that if five-day delivery is implemented in FY 2011, “[i]t would be more realistic to expect savings to begin to approach ‘full-up’ levels in FY 2012.” Tr. 2/114.

NALC contends that the Postal Service is underestimating the transition costs that would be incurred in connection with the proposal. Tr. 8/2373. NALC claims that given the organizational complexity and size of the Postal Service, transition costs of only \$110 million represent too small a figure to be credible. *Id.* at 2373-75. NALC also states that transition in an organization as large as the Postal Service would likely take more than one year as route adjustments and processing adjustments are made, delaying the date of “full-up” savings. *Id.* at 2375.

³⁸ All of the gross savings estimates are “full-up” savings expressed in terms of FY 2009 dollars. These “full-up” savings assume implementation and completion of all operational adjustments needed to bring about these savings. See USPS-T-7 at 2.

The Postal Service responds that while transition costs to the five-day delivery environment are in the millions of dollars, the projected savings are in the billions. Postal Service Brief at 52. Consequently, the Postal Service claims that even fairly large errors in estimating the costs associated with the transition would not change the financial justification for the proposal. *Id.* It asserts that further expenditure on research or study of transition costs, given their magnitude relative to the expected savings, would be wasteful. *Id.* at 77.

GCA criticizes the Postal Service's cost savings estimates because they are based upon one single year of data. GCA Brief at 2, 5-6. GCA states that this criticism is compounded by the fact that the year used as a basis for all the Postal Service's savings and capacity analysis is "an abnormal one in terms of postal volumes and revenues...." *Id.* at 2. GCA contends that since the Postal Service utilized a "snapshot" of FY 2009 to determine capacity and savings, and did not roll forward estimates concerning staffing, expenses, and other data, its savings estimates cannot be relied upon. *Id.* at 5-6. GCA also contends that the Postal Service's cost savings may be inflated due to its estimate of the amount of excess capacity available in the network to deliver mail shifted from Saturday. *Id.* at 7-12.

The Postal Service responds to GCA's contention that FY 2009 was an abnormally low volume year by stating that the Postal Service has continued to experience volume loss since FY 2009. Postal Service Reply Brief at 33. The Postal Service also relies on its consultants who forecast that in the next 11 years, there will not be volumes approaching FY 2009 levels. *Id.* at 34. If anything, therefore, the Postal Service contends that FY 2009 might be unsuitable to use as a base year due to abnormally high volumes in comparison to years moving forward. *Id.* Similarly, the Postal Service also defends its use of a base year rather than a roll-forward to estimate costs because a roll-forward would require historical data to model mailer behavior in response to the change—data that do not exist. *Id.* at 38-39. The Postal Service states that GCA's concern about excess capacity is groundless since the Postal Service

estimates that only 10 percent of Saturday's delivery time would be transferred to other days. *Id.* at 44.

2. Commission Estimate of the Time Required to Achieve "Full-Up" Savings

Using data provided by the Postal Service, the Commission calculates that the Postal Service could achieve "full-up" savings in the third year after implementation of five-day delivery. If implementation took place in July of 2011, the Postal Service could reach "full-up" savings in FY 2014. These "full-up" savings would equal the Commission's estimate of \$1,257 million in total direct city carrier savings. The Commission uses the average retirement rate from FY 2008 and FY 2009 of 3.72 percent for city carriers in bargaining status.

Of the total savings, the Commission estimates that \$944 million or approximately 75 percent would be reached in the first year. This assumes that the "full-up" hours savings are reached in the first year through a combination of attrition of full-time regular carriers and reductions in non-career carrier hours. However, to reach that target in the first year, would require a 66 percent reduction in non-career hours.³⁹ These reductions may not be possible because of the loss in scheduling flexibility. In that case, first year savings would be reduced, but the reduction would not affect full dollar savings achieved in the third year. The hours saved over three years remain constant, but the savings increase as non-career carriers are substituted for full-time regular carriers, as the latter retire.

The Commission also examines the effect of using the retirement rates of 2.97 percent and 4.47 percent for FY 2008 and FY 2009 for carriers in bargaining status. Using the former, first year savings would be lowered to \$901 million and the full amount would be reached in the fourth year. The non-career work hours would be

³⁹ The reduction is relative to FY 2009 hours.

reduced by 74 percent to reach full workhour savings in the first year. The higher FY 2009 rate of 4.47 percent yields full savings in the third year and the first year amount increases to \$986 million.

The Commission concludes that if the Postal Service uses its management flexibility to rapidly downsize its non-career workforce, then the majority of the full annual savings can be reached in the first year after implementation of five-day delivery. However, if the Postal Service cannot rapidly downsize then first year savings would be reduced. These concerns would not prevent the Postal Service from reaching full savings by the third or perhaps fourth year if retirement rates remain relatively stable.

V. CALCULATION OF MAIL PROCESSING SAVINGS

A. Introduction

The Postal Service estimates that approximately \$176 million in mail processing labor costs would be saved by eliminating the processing of outgoing mail on Saturdays. The Commission estimates a savings of \$120 million, or \$56 million less than the Postal Service's estimate.

The Postal Service estimate is based on its operational assessment that 38 percent of the cost of overall outgoing mail processing operations is fixed with respect to volume. It bases this 38 percent on its assessment that 28 percent of the labor cost of direct sorting operations is fixed and all of the labor cost in allied operations is fixed.⁴⁰ Its estimate is higher than previous estimates of volume variability, and high when compared with the estimate that is derived from a straightforward application of within-week differences in productivity. The Postal Service also estimates savings from the elimination of distribution clerk operations that support Saturday delivery in post offices.

The Commission's established method of estimating the volume variability of mail processing labor costs results in an overall level of fixity of about six percent. Analysis of differences in overall daily average productivity data results in an estimated savings in workhours of not more than five percent.

The Commission accepts the Postal Service's analysis of direct distribution, supervisor and indirect workhour savings, as well as its equipment maintenance and custodial savings estimates. The Commission also accepts the Postal Service analysis of distribution clerk savings within local post office operations. However, for clerk and mailhandler workhours related to allied operations, the Commission calculates savings

⁴⁰ In mail processing, allied operations support mail processing operations that sort or handle individual pieces of mail. Allied operations include moving pallets of bundled mail on loading docks (platform operation) and opening trays of letters (opening unit operation), among others.

using the established analytical method for estimating volume variability. This methodology is not directly analogous to witness Neri's estimate. The Commission focuses on how workhours are likely to respond to increases or decreases in total system volume that occur over time. The Postal Service focuses on workhours in relation to one-time shifts of volume to other days of the week. Considering the range of these two estimates and the inability to corroborate the Postal Service's analysis, the Commission's relies on a conservative yet reasonable one.

Applying the established method to allied operations, while accepting the other Postal Service methods, results in an estimated savings of approximately \$120 million compared with the Postal Service's estimate of approximately \$176 million. The two estimates are set forth in Table V-1.

Table V-1
Costs Saved in Outgoing Mail Processing Operations
By Eliminating Saturday Delivery
(000)

	Commission	Postal Service	Difference
Clerks and Mailhandlers	\$ 33,725	\$ 90,114	\$ (56,389)
Supervisor	19,494	19,494	-
Equipment Maintenance	13,333	13,333	-
Custodial	131	131	-
Post Office	53,000	53,000	-
Total	\$ 119,683	\$ 176,072	\$ (56,389)

The Commission recognizes that, given the lack of directly-relevant data concerning the flexibility of staffing within Tour 3, and across days of the week, the response of staff levels to the proposed five-day scenario is uncertain. As discussed in chapter VIII, the five-day delivery proposal could increase unit mail processing labor costs, leave them little changed, or reduce them. The Commission's estimate is a middle ground. It finds that the Postal Service overstates the potential mail processing savings.

B. Postal Service Presentation

The Postal Service has calculated the savings in mail processing labor costs that would result from eliminating the processing of outgoing mail on Saturday by estimating the costs that would be avoided if outgoing processing were eliminated on Saturdays, and the added costs that would be incurred in processing plants by the need to sort post office box addressed mail to delivery point sequence on Friday to support delivery on Saturday. This extra expense is relatively small.

For direct distribution operations, which include manual and automated processing of letters, flats, and mixed mail sorting, as well as supervisor and indirect time, witness Neri compares Saturday outgoing productivities with Monday outgoing productivities. On Mondays, the productivities are from 10 to 35 percent higher for automated operations, and from 25 to 35 percent higher for manual operations. Witness Neri assumes that the productivities observed on Mondays will be unaltered when the workload is shifted from Saturday. He offers operational reasons for concluding that the percent of labor hours saved on Mondays in these operations will equal the difference in productivities between Saturdays and Mondays.

For operations that are not direct distribution operations, witness Neri bases estimates of the percent of labor hours that are fixed solely on operational experience. These operations are categorized as "allied operations" since they support more than one distribution operation. They consist of loading mail in bulk form, generally out of larger containers into other containers, or vice versa, and moving the mail from the dock to sorting operations, or from sorting operations to the dock. Allied operations also involve some prepping of mail for sorting or for dispatch. Allied operation groups are the Other Cancellations, Dock Operations, Dispatch Operations, Mail Movement via Equipment, Expediter, Priority Outgoing, Supervisor, and Indirect Operations. The percent of workhours in allied operations that witness Neri considers fixed for purposes of delivery frequency analysis range from 10 percent to 100 percent.

Witness Neri's direct testimony contains a detailed list of activities that are designed to illustrate outgoing operations that do not fully respond to changes in volume. USPS-T-4 at 15-16. Some of them consist of moving bulk containers around the plant, but most involve "set up and take down" activities—activities required either to initiate or terminate sorting on a particular machine.

Witness Neri implies that fixed mail processing costs would increase going forward because the relative capacity of processing plants to handle outgoing mail volume will grow over the longer run. He notes that single-piece First-Class Mail will continue to decline, and that automation of the mailstream will continue to expand capacity as Flat Sorting Machines, more advanced facer cancellers, and more efficient barcode reading software come on line. USPS-T-4 at 12-13.

In response to question 1 of Chairman's Information Request No. 3, witness Neri provides a comprehensive evaluation of outgoing mail processing operations to estimate what percent of each is fixed. Tr. 6/1570. His estimates, when added together, suggest that two-thirds of outgoing processing labor hours on Mondays are fixed, and would remain unchanged even if Monday volumes were to increase by the large percentages expected.

Witness Neri offers two reasons for concluding that a "large" percentage of workhours in outgoing processing operations do not respond to changes in volume, and therefore outgoing volumes shifted from Saturday to Monday would cause only a small increase in workhours. He suggests that, for purposes of delivery frequency analysis, the large majority of allied workhours are fixed. Much of allied activity consists of handling mail in containers (trays, bins, hampers, pallets). He does not dispute that when handling the contents of those containers, workhours are largely driven by the volume of mail in those containers. However, he emphasizes that when handling the container itself, it generally does not matter how full the container is. Therefore, he concludes, time spent handling containers tends not to change when volume within the container changes. USPS-T-4 at 16; Tr. 6/1570-1584.

Witness Neri offers “operational experience” as the primary basis of his estimates of the percent of outgoing mail processing labor hours in each operation group that are fixed. He supplements that by comparing productivity estimates for direct distribution operations groups by day of the week.

The estimates for each group, when added together, imply that 38 percent of outgoing processing labor hours is fixed on any given day of the week, including Mondays.⁴¹ The percent of cost in an operation that is considered to be fixed is the complement of the percent that is considered volume variable. Therefore, witness Neri’s estimate that the cost of outgoing processing operations is 38 percent fixed equates to a volume variability of 62 percent for those operations (in the context of day of the week responses to changes in volume).

Witness Granholm describes the changes in post office operations as a result of eliminating Saturday delivery. USPS-T-3 at 9. Distribution clerks at local post offices manually sort residual letters and flats, and parcels to the carrier route level.⁴² Distribution clerks also perform other duties, such as documenting the transfer of responsibility for “signature required” mail and providing delivery of firm holdout mail. Most of the clerks performing these duties would not be needed on Saturdays in a five-day environment although a few would remain to support the delivery of mail to post office boxes.⁴³

⁴¹ Since the table provides both annual fixed labor hours for each group of operations, and a percent of total labor hours, for each group, the percent of total annual labor hours for each group that are fixed can be calculated by dividing the fixed labor hours by the percent of total. Derived total labor hours appear in the column headed “Annual Hours,” supplied by the Commission. In the bottom row of the table, the Commission has supplied fixed labor hours as a percent of total labor hours for outgoing processing operations as a whole.

⁴² The majority of letter and flat mail is sorted on automated equipment into carrier walk sequence or to a carrier route level. The letters and flats sorted manually are the residual pieces that were not sorted on automated equipment.

⁴³ The retail functions of post offices will remain largely unchanged. The savings calculated in this section relate solely to the delivery support operations that clerks perform at local post offices. *Id.* at 7.

The Postal Service calculates savings for post office operations by eliminating the carrier support clerk hours related to Saturday activities that would not be needed in a five-day environment. USPS-T-7 at 16. The Postal Service partially offsets these savings by adding additional hours for retail or window services to allow for additional package pickups and customer inquiries. *Id.* Overall, the Postal Service estimates a total net savings, including both labor and service-wide benefits, of \$53 million. *Id.*

C. Commission Analysis

As the Postal Service's estimated percentage of workhours saved is greater than the results of previous analyses, the Commission attempted to corroborate the estimates through analysis of In-Office Cost System (IOCS) data and overall productivity. The following discussion, which focuses on the Postal Service's arguments related to the fixed nature of allied costs and its productivity analysis of direct distribution activities, explains why the Commission was unable to corroborate the estimates.

By eliminating Saturday outgoing processing, substantial volume moves to Monday. The actual cost savings depend on how such peak volume periods are managed in the long run. This is true for delivery operations and transportation as well. The Postal Service's presentation does not address this issue. Chapter VIII discusses this subject in detail.

1. Examination of Direct Distribution Operations

The Postal Service's analysis of workhours saved in direct distribution operations compares average productivities between Saturday and Monday and assumes that the volume shift from Saturday will be processed at Monday productivity. This differs from the analysis witness Granholm presented for city carrier workhour savings which assumed incremental productivities. Witness Neri's examination is a useful exercise in

evaluating how workhours may respond to volume in a changed processing environment.

The Commission finds this analysis appropriate in this context and accepts the Postal Service's estimates of workhour savings. However, it cautions that the achievable productivity depends on many factors. Monday is the day of the week that exhibits the highest productivity. If mailing behavior changes in response to elimination of Saturday delivery results in mail shifting to other days of the week, the overall productivity gain may be lower.

In addition, there is evidence that mail processing staff move between operations without clocking in and out causing a mismatch in recordkeeping between hours and volumes in individual operations. If the lower productivity for the selected outgoing operations on Saturday reflects the time staff was clocked into one outgoing operation but was working in another operation, the overall hours saved by handling mail on Monday may be overstated. To test these possibilities, the Commission reviewed facility-wide outgoing mail processing productivity throughout the week.

To model what seems to be the most realistic five-day scenario described by the Postal Service, Table V-2 shifts 75 percent of current outgoing Saturday volumes to Mondays, and shifts 25 percent of current outgoing Saturday volume to Fridays.⁴⁴

⁴⁴ Witness Neri does not identify how much Saturday mail processing volume will shift to Mondays. Witness Granholm provides an estimate that assumes 75 percent of mail now entered on Saturday would be delivered on Monday and 25 percent would be delivered on Friday. Although outgoing processing volume is not proportional to delivered volume, because the Postal Service does not provide an explicit estimate of how much outgoing volume currently processed on Saturdays would shift to other days, the most reasonable available assumption is that the amount of processing volume shifted would be proportional to the amount of delivered volume shifted. If 75 percent of outgoing processing volume would shift to Mondays, and 25 percent to Fridays, Monday processing workload would increase by 33 percent, and Friday workload by 11 percent over current average volume for those days.

Table V-2
Volume and Productivity
Current Six-day and Proposed Five-day Scenarios Compared¹

<u>Day of the Week</u>	<u>Volume</u>	<u>Hours</u>	<u>Productivity</u>	<u>Productivity Difference (from current 6-day avg)</u>
Monday	9,073,372,567	2,775,116	3,270	6.9%
Tuesday	9,319,796,565	2,990,563	3,116	1.9%
Wednesday	9,282,121,180	3,035,357	3,058	0.0%
Thursday	8,451,568,034	2,834,238	2,982	-2.5%
Friday	9,214,819,370	2,896,305	3,182	4.0%
Saturday	3,968,916,196	1,586,374	2,502	-18.2%
Current 6-day total	49,310,593,912	16,117,953		
Current 6-day average	8,218,432,319	2,686,326	3,059	
% Sat volume below 6-day average		-52%		
Impact on Monday Hours				
Add 75% of current Saturday volume	2,976,687,147			
New Monday Volume	12,050,059,714			
% new Monday greater than 6-day average		47%		
Hours needed at current weekly average prod	3,938,754			
Reduction in hours		-1%		
Hours needed at current Monday productivity	3,685,543			
Reduction in hours		-7%		
Impact on Friday Hours				
Add 25% of current Saturday Volume	992,229,049			
New Friday Volume	10,207,048,419			
% new Friday greater than 6-day average		24%		
Hours needed at current weekly average prod	3,336,336			
Increase in hours		1%		
Hours needed at current Friday productivity	3,208,172			
Reduction in hours		-3%		
Impact on Total Hours				
		New Hours	Current Hours	
Overall change in hours (avg prod)	0%	7,275,090	7,257,795	
Overall change in hours (daily prod)	-5%	6,893,716	7,257,795	

¹FY09-MODS Data Total Pieces Handlings (TPH) used as proxy for outgoing processing volume. Excludes observations with negative TPH, zero TPH, zero hours, or both (32% of total observations). Excludes Sunday TPH.

The table derives total hours that would be saved from specific assumptions about what would happen to productivity. It divides new Monday volumes by the historical average weekly productivity under the current six-day delivery environment.⁴⁵ The result is the number of workhours that would be needed to process new Monday volumes under the five-day scenario. Subtracting the number of future workhours needed from current workhours yields the number of workhours that would be saved by implementing five-day delivery. The result indicates that one percent of workhours would be saved.

An alternative calculation is also demonstrated. It divides new Monday volumes by current Monday productivities. This measures the impact on workhours if improved productivity is assumed for Monday processing under a five-day delivery environment. In this case, seven percent of workhours would be saved. Applying the same analysis to Friday volumes and productivities shows that future Friday workhours would be increased by one percent, assuming that current average weekly productivities would apply, or reduced by three percent, assuming that current Friday productivities apply. Combining the Monday savings and the Friday savings indicates that no workhours would be saved if current average weekly productivities prevail at the new levels of volume. Five percent of workhours would be saved if current Monday productivities prevail at the new Monday volume level and current Friday productivities prevail at the new Friday volume level. Under the proposed five-day scenario, whether historical average weekly productivities or Monday-specific and Friday-specific productivities prevail, the Postal Service would save far fewer outgoing processing workhours than witness Neri estimates.

The question remains whether new Monday and new Friday volume levels would exhibit either of the historical productivities modeled above, or some other productivity

⁴⁵ The current average weekly productivity is a relevant benchmark if one assumes that the typical plant manager maintains staff levels designed to process the weekly peak volume without delay. Chapter VIII discusses Postal Service staffing strategies in detail.

that has no historical precedent. Which productivity would prevail depends largely on how efficiently staffing is currently matched to workload and whether it can be more efficiently matched in the future.

2. Examination of the Fixed Nature of Allied Labor Costs

Witness Neri asserts that “a large portion of the activity performed in our plants is constant and does not vary with changing mail volumes.” USPS-T-4 at 15. He considers loading or unloading mail to or from bulk containers, and moving mail through the plant in bulk containers, to be “allied activity” whether it occurs in a support operation (what the Postal Service’s data collection system defines as an “allied operation”) or a direct sorting operation. He contends that the majority of workhours in what are officially designated as “allied operations” are fixed. *Id.* at 16-17. He regards much of the time spent in direct sorting activities as “allied” in nature as well. Spreading this fixed “allied” activity over high volumes on Mondays, he believes, is the principal reason that productivities in direct sorting operations are higher on Mondays than on Saturdays. Tr. 6/1570-84.

He provides a list of activities, shown in Table V-3, that are allied in nature that he believes illustrate his assertion. Many of the activities listed are part of the “set-up” process that prepares processing equipment to run a sort program and the “take-down” process that prepares sorted mail to be sent downstream. Witness Neri also states that mail will arrive earlier on Monday allowing hours to be saved. This implies that employees currently wait for mail to arrive. When discussing cancellation specifically, he claims that “much of the time is spent waiting for the mail” and considers this time fixed as well. Tr. 6/1575. Most of the remaining activities listed consist of various kinds of container handling. USPS-T-4 at 15-16. Table V-3 shows proportions of time spent on mail sorting and cancellation operations taken from IOCS tallies.

Table V-3

Percent of Total Processing Time Spent on Arguably Fixed-time Activities Within Operations

Cost Pool	Percent of Time Spent on Setup and Take Down	Percent of Time Spent Waiting for Mail	Subtotal	Percent of Time Spent Handling Containers	Total
DBCS (Incoming)	9%	1%	10%	2%	12%
DBCS (Outgoing)	8%	1%	9%	2%	11%
OCR	7%	1%	8%	2%	10%
AFSM 100	8%	1%	9%	2%	11%
FSM 1000	6%	1%	7%	1%	8%
SPBS Other	6%	2%	8%	3%	11%
SPBS Priority	5%	1%	6%	3%	9%
Manual Flats	4%	2%	6%	5%	11%
Manual Letters	3%	2%	5%	2%	7%
Manual Package	5%	3%	8%	12%	20%
Priority	5%	3%	8%	10%	18%
Cancellation	4%	4%	8%	11%	19%
All Letter Sorting	6%	1%	7%	2%	9%
All Flat Sorting	6%	2%	8%	2%	10%

Table V-3 shows that set-up/take-down time is less than 10 percent of the workhours logged in any listed mail processing operation, waiting time is less than five percent of the those workhours, and container handling is less than 10 percent for all but three of the cost pools. In letter sorting and flat sorting operations as a whole, combined set-up/take-down, wait time and container handling is no more than 10 percent. This analysis is not strictly comparable to witness Neri's estimate of fixed costs because it includes both incoming and outgoing operations.⁴⁶ However, the percent of time spent on set-up and take-down, waiting, and container handling should not be significantly different. The result is less than witness Neri's estimate that outgoing mail processing labor costs are 38 percent fixed.

In Docket No. R2006-1, the Postal Service was asked to extend this IOCS tally analysis to as many operations as possible beyond those shown in Table V-3. The

⁴⁶ The IOCS tallies used in this analysis do not distinguish between incoming and outgoing operations.

analysis was extended to 40 additional operations, most of them allied in nature.⁴⁷ The 40 additional operations, together with the Table V-3 operations, constitute almost all mail processing operations regardless of the facility in which they occur.

All activities in those operations that potentially could have been defined as fixed time are included in this detailed and comprehensive set of IOCS tallies. Consequently, the analysis provides an upper bound on those costs. When the IOCS analysis is extended to the vast majority of mail processing operations, the unweighted average of the “fixed time” shares for the 40 additional operations is slightly over 14 percent.

3. Examination of the Cost of Handling Containers

Witness Neri interprets the lower outgoing mail processing labor productivities recorded on Saturdays relative to those recorded on Mondays as a reflection of what can be summarized as the “container effect.” He states:

for some activity performed in our plants, there is a component that is used to support the operation, but is not dependent on the amount of mail being processed. These are activities that are not closely tied to volume and thus hold the potential for absorbing additional volume without generating additional hours. The hours required for these activities may vary on a daily basis, but do not necessarily change as volume increases or decreases. For instance, when mail is sorted into a bin on one of our machines, it takes the same amount of effort to sweep 20 pieces of mail as it does to sweep 100 pieces of mail. Moving a tray takes the same amount of time whether that tray contains a single piece of mail or 500 pieces of mail.

Tr. 6/1572.

Witness Neri believes that the container effect has profound consequences for the volume variability of labor costs. As the Commission has pointed out in past dockets, there is a theoretical reason not to place great weight on the container effect in

⁴⁷ See Docket No. R2006-1, Response of United States Postal Service Witness Bozzo (USPS-T-12) to Interrogatory of Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers (MPA/USPS-T12-1-4), July 14, 2006.

evaluating the volume variability of mail processing labor costs. The container effect, the Postal Service has elsewhere acknowledged,⁴⁸ is a description of the “economies of density,” or “economies of fill.” A mail container can be viewed as a fixed resource. As the container fills up, the unit labor cost of handling it goes down. However, when capacity is exceeded, handling the next added container, with a small amount of volume, has a high unit cost. The unit cost of the marginal container gradually decreases as the container reaches capacity. As long as rising volume is added to one container economies of fill are exploited. When volume reaches the point where a new container is needed diseconomies of fill set in. The economies and diseconomies of fill will be offsetting and result in volume variabilities of 100 percent in container handling costs.⁴⁹

An illustration of this is loading trucks. Opening and closing the truck door represents fixed time. However, if sacks or pallets are loaded, the time required to do this will vary with the number of sacks or pallets, and the number of sacks or pallets will vary with volume. Sack sorting is an allied operation. Higher volumes will result in more sacks to sort. Pouching is an allied activity where bundles of mail are sorted into sacks that will be directed toward different destinations within the plant. Even though the mailpieces within the bundle are not handled individually, the time that it takes to sort the bundles varies with volume. The same consideration applies to traying single-piece mail that comes off the Advanced Facer Cancellor Machine.⁵⁰ The more volume, the more trays that have to be filled.

Even the labor cost of moving empty equipment can vary with volume. The amount of equipment needed depends on the volume of mail, and therefore the amount

⁴⁸ See Docket No. R2006-1, Tr. 10/2656-60; USPS-T-10 at 30.

⁴⁹ Docket No. R2006-1, Tr. 23/8605-06.

⁵⁰ The Advanced Facer Cancellor Machine operation is a hybrid between an allied operation and a direct sorting operation.

of equipment that is emptied will depend on volume.⁵¹ Witness Neri assumes that most allied operations will require no additional labor time under a five-day scenario, despite higher volumes on Mondays. In doing so, he has not taken into account the effect that higher volumes can have, both on the number of containers that would need to be handled, and the time that it takes to handle the contents of these containers.

Witness Neri notes that “moving a tray takes the same amount of time whether that tray contains a single piece of mail or 500 pieces of mail.” Tr. 6/1572. The significance of this observation depends on what portion of containers used in an operation are typically nearly empty. With respect to outgoing letter trays, that proportion is likely to be very small. Letter trays of single-piece mail filled by the Postal Service in the cancellation operation are generally full, except for residual trays. The same is true of trays prepared by bulk mailers. The Postal Service’s bulk mailing restrictions require a mailer to use the fewest number of trays possible in a given mailing, and to fill a tray before it places mail in the next tray, until only residual mail is in a partially filled tray. The Postal Service’s regulations contain incentives to ensure that even residual mail at one depth of sort will be doubled up in a tray containing mail at the next shallower depth of sort.⁵²

As noted, witness Neri concludes that under the five-day scenario, large volume shifts from Saturdays to Mondays will lead to productivity increases in allied operations reflecting pervasive economies of fill caused by the container effect. In an attempt to corroborate this assumption, the Commission reviewed the productivity data of the AFSM 100 flat sorting operation with and without its related allied functions.

⁵¹ See Summary Description of USPS Development of Costs By Segments and Components, Cost Segment 3, FY 2009 (Cost Segment 3, FY 2009).

⁵² See Domestic Mail Manual (DMM) section D235.3.3 and D235.6.6. Summary of MERLIN Move-Update Tests FY 2010 Q2 and Q3 suggest that the average outgoing Presorted First-Class mailing consists of from 20,000 to 35,000 letters. If the average tray consists of 500 letters, a typical mailing would contain between 40 and 70 trays of mail, only a handful of which would be partially filled with residual mail.

Witness Neri asserts, for cost tracking purposes, that the Postal Service includes all allied functions that can be associated with a particular processing operation with that operation. USPS-T-4 at 15-16. This includes the regular AFSM 100 operations (defined by MODS numbers 331 and 332). However, the AFSM 100 that has Automatic Induction and an Automated Tray Handling System (AFSM AI/ATHS defined by MODS numbers 141 and 142) is an exception to the rule that allied functions are included with the related direct sorting operations. The AFSM AI/ATHS eliminates labor costs in the induction and tray handling functions, which are allied in nature. Other allied costs associated with the automated AFSM AI/ATHS are reported separately in MODS operation number 140. If the productivity for allied operations increases as volume increases because of economies of fill, productivity of the AFSM 100 operation should increase more than the productivity of the AFSM AI/ATHS operation.

The table below shows how the productivity of the AFSM 100 operation (the one that includes related allied labor) changes when moving from low-volume (Saturday) conditions to high-volume (Monday) conditions. It also shows how the productivity of the AFSM AI/ATHS operation (the AFSM 100 operation that excludes related allied labor) changes when moving from low-volume to high-volume levels.

Table V-4
AFSM Operations Compared (With and Without Related Allied Labor)¹

Operation	Saturday productivities (low volume)	Monday productivities (high volume)	Implied productivity change shifting Saturday volume to Monday
Without related allied labor: AFSM 100 ATHS/AI Outgoing Primary (OPN 141)	3308	4340	31% increase
With related allied labor: AFSM 100 Outgoing Primary (OPN 331)	1308	1744	33% increase
Without related allied labor: AFSM 100 ATHS/AI Outgoing Secondary (OPN 142)	4388	4355	1% decrease
With related allied labor: AFSM 100 Outgoing Secondary (OPN 332)	2118	1863	12% decrease

¹ January through September 2009 data from USPS-LR-N2010-1/19

Contrary to witness Neri's theory, productivity gains on Mondays are essentially the same for the AFSM 100 operation that excludes related allied labor and the one that includes it, when they perform Outgoing Primary sorts (compare row 1 with row 2). When it performs Outgoing Secondary sorts, the productivity of the AFSM 100 operation that excludes related allied labor is essentially unchanged moving from low-volume to high-volume conditions (row 3, last column). The productivity of the AFSM 100 operation that includes related allied labor, however, substantially declines moving from low-volume to high-volume conditions (row 4, last column). These results are not compatible with witness Neri's theory that the allied portion of flat sorting operations will

experience large productivity gains as those operations move from low Saturday volumes to high Monday volumes.

4. Examination of the Variability of Cancellation Operations

The Postal Service, in other dockets, has asserted that the cancellation operation needs to be fully staffed while the operation is being ramped up and while it is winding down.⁵³ However, it also notes that during lulls in workload in the cancellation operation, staff is typically rotated to tasks outside the cancellation operation without clocking out.⁵⁴ The result is that hours are recorded as accumulated in the operation regardless of how much or how little volume is present. This gives the impression that labor hours are partially fixed. The cost of the staff that rotates in and out of the cancellation operation is not fixed, however, if one is evaluating the cost response of the processing plant as a whole.

5. Examination of Post Office Operations Savings

The Commission agrees with the Postal Service's analysis of post office operations savings. The analysis presents a reasonable approach to determine workhours that would not be needed in a five-day environment. The Postal Service also properly recognizes the need for additional clerk hours necessary to allow for additional package pickups and customer inquiries on Saturdays in a five-day environment. The Commission adopts the Postal Service's estimate of \$53 million in savings for post office operations as a result of the elimination of Saturday delivery.

⁵³ See Docket No. R2001-1, USPS-T-39 at 34-35 (Kingsley); Docket No. R2000-1, USPS-T-10 at 30-31 (Kingsley).

⁵⁴ See, e.g., Docket No. R2006-1, USPS-T-42 at 39 (McCrery).

6. Conclusion

The evidence presented in this docket, when examined in relation to overall outgoing mail processing operations, does not support the Postal Service's contention that 51 percent of clerk and mail handler workhours will be saved. The Commission finds that estimated workhour savings is closer to 20 percent. The Commission accepts, with caution, the Postal Service's analysis of direct distribution operations but finds that the evidence does not support the Postal Service's analysis of allied operations. For these operations, the established volume variability method is more reasonable. The Commission also accepts the Postal Service's analysis of distribution clerk savings within post office operations.

The Commission's established volume variability estimate can be characterized as an in-depth version of the bookkeeping analysis of the volume variability of mail processing labor illustrated in Table V-4. It provides a more comprehensive analysis of processing activities and applies engineering analysis and operational experience to determine the portion of those various activities that vary with volume. This more comprehensive analysis yields a volume variability for mail processing labor costs overall of about 94 percent, which implies that about six percent of those costs are fixed, at least over a rate cycle. See Cost Segment 3, FY 2009.

Applying the two methods—productivity analysis for direct distribution and established volume variability for allied—results in a Commission workhour savings estimate of 1.5 million. This estimate is 1.2 million less than the Postal Service's estimated workhour savings and results in a difference in cost savings of \$56 million.

VI. CALCULATION OF MAIL TRANSPORTATION COST SAVINGS

A. Introduction

The Postal Service estimates \$377 million in transportation savings from diverting transportation from Saturday and Sunday to other weekdays. The transportation savings estimate is calculated separately for air and surface. The Commission accepts the Postal Service's estimates for air and some elements of surface. However, for highway transportation the Commission does not find the evidence presented in this docket supports the Postal Service's conclusions. Therefore, the Commission calculates savings using highway variabilities presented in the FY 2009 ACR. The Commission and Postal Service estimates are presented in Table VI-1.

Table VI-1
Comparison of Commission and Postal Service Transportation Savings Estimates
(000)

Mode of Transportation	Commission Estimate	Postal Service Estimate	Difference
Air	\$ 62,346	\$ 62,346	\$ -
Highway	\$ 12,676	\$ 220,215	\$ (207,539)
Box Routes	\$ 35,154	\$ 35,154	\$ -
Vehicle Service Drivers	\$ 59,320	\$ 59,320	\$ -
	\$ 169,496	\$ 377,035	\$ (207,539)

B. Postal Service Estimate of Mail Transportation Savings

The Postal Service estimates cost savings for air transportation and surface transportation separately. Surface transportation is further broken down into purchased highway transportation, box route transportation, and vehicle service driver activities Vehicle Service Drivers (VSD). In developing transportation cost estimates, the Postal Service used fundamentally different approaches. With air and box route transportation contracts, the Postal Service recognizes added costs during weekdays to move mail that would have otherwise been delivered or processed on the weekend. However, cost

estimates for highway contracts and VSD activities only include the weekend costs that are saved. For the latter, the Postal Service claims that there is sufficient truck capacity to move the diverted weekend mail without incurring added trips.⁵⁵

For air transportation, the Postal Service estimates savings of \$62 million, based on the assumption that Sunday air transportation of Saturday outgoing mail would be delayed until Tuesday because outgoing processing would be postponed until Monday. See NALC-LR-N2010-1/7. It expects savings because air transportation is less expensive on Tuesdays than on Sundays.

On box route contracts, the Postal Service applies standard variability analysis to estimate savings of \$35 million. The variability for box route contracts is 31.9 percent. Therefore the Postal Service assumes that 31.9 percent of Saturday costs would be incurred during weekdays to deliver Saturday mail. The remaining 68.1 percent of Saturday costs, or \$35 million, is the amount saved.

The Postal Service estimates cost savings for purchased highway transportation by examining six contract types: inter-Area, inter-Cluster, inter-P&DC, intra-BMC, intra-CSD, and intra-P&DC. Total FY 2009 transportation costs are identified from the CRA for each of these types, and the Saturday and Sunday portions of these costs are estimated using the Transportation Cost Surface System (TCSS) data base. USPS-T-6 at 35. The Postal Service estimates the percentage reductions of Saturday and Sunday transportation capacities, measured in cubic foot miles (CFM), by contract type as a result of eliminating Saturday delivery and outgoing processing. These percentages are shown below in Table VI-2.

⁵⁵ The Postal Service indicates it has sufficient weekday capacity based on the existence of empty truck space. See USPS-T-6 at 41; USPS-T-5 at 12; Tr. 4/886-88.

Table VI-2
Percent Reductions in Highway Contract Transportation Capacity with Five-day

Contract Type	Saturday Reductions in CFM	Sunday Reductions in CFM
INTER AREA	20%	80%
INTER CLUSTER	30%	80%
INTER P&DC	30%	80%
INTRA BMC	40%	50%
INTRA CSD	60%	80%
INTRA P&DC	60%	80%
Source: USPS-T-6 at 42.		

Table VI-2 shows that on Saturday, the Postal Service expects to reduce short haul transportation (Intra) more than long haul contracts (Inter) because Saturday delivery and pick-up, which travels on short haul contracts will be postponed until Monday while Friday outgoing mail, which travels on long haul contracts will still need to be moved on Saturday. USPS-T-5 at 9-10. The Postal Service will not be able to save all of the short haul costs due to continued Saturday Express and mail box delivery, and Express Mail pickup and transportation back to plants. *Id.* at 11-12. Except for intra-BMC, the Postal Service estimates an 80 percent reduction on Sunday.

Transportation cost savings do not equate one to one with reductions in CFM. The Postal Service has estimated capacity variabilites for each contract type. These variabilities are shown in Table VI-3.

Table VI-3
Postal Service Capacity Variabilities FY 2009

Contract Type	Capacity Variability Percent
INTER AREA	91.3
INTER CLUSTER	90.4
INTER P&DC	84.1
INTRA BMC	98.3
INTRA CSD	70.6
INTRA P&DC	70.2
Source: USPS-T-6 at 44.	

To estimate dollar savings, the Postal Service multiplies the percent capacity reductions, shown in Table VI-2, by the corresponding contract type capacity variabilities shown in Table VI-3 and applies the result to current Saturday and Sunday costs. Summing all Saturday and Sunday savings yields total highway transportation cost savings of \$220 million.

Table VI-4, below, displays savings by contract type and day.

Table VI-4
Purchased Highway Transportation Cost Savings by Contract Type and Day

Contract Type	Saturday cost Savings	Sunday Cost Savings
INTER AREA	\$15,466,565	\$49,878,797
INTER CLUSTER	7,356,670	15,149,858
INTER P&DC	3,654,243	6,410,552
INTRA BMC	16,020,706	18,067,455
INTRA CSD	4,818,807	1,346,258
INTRA P&DC	59,209,337	22,836,969
TOTAL	\$106,526,328	\$113,689,891
Source: USPS-T-6 at 45.		

minds of the people.” The Commission appreciates Congressman Davis’s interest and encouragement.

John Seeback, Director of Direct Marketing Business at Crate&Barrel testified that any change in service directly impacts Crate&Barrel’s customers and ability to grow its business. Mr. Seeback stated that Crate&Barrel does not favor the elimination of Saturday delivery, but would prefer such a reduction in service compared to an exigent rate increase.

Ken Czarnecki, Senior Vice President at CVS Caremark, testified that the elimination of Saturday delivery would keep vital medications from patients’ hands. He also stated that the plan would impede the growth of the mail order industry as a whole. Mr. Czarnecki testified that 20 percent of packages arrive on Saturday, and that having a consistent reliable Postal Service six days per week is critical for patients’ health. Mr. Czarnecki expounded that if the Postal Service moves forward with this proposal, patients would not enjoy the same level of savings that mail order pharmacies currently provide because pharmacies would require private courier use. Such private courier use would cost CVS Caremark \$50 million per annum. Mr. Czarnecki stated that the healthcare system as a whole would be burdened by the cost of expedited delivery or patient noncompliance with medications.

Gloria Tyson, the Chicago District Manager for the Postal Service, testified that her district saw a two percent volume increase during the last five years coupled with a three percent increase in the number of delivery points. Ms. Tyson characterized conversations she had with customers concerning five-day delivery as discussing how to make the best of a bad situation. Ms. Tyson indicated that local area managers would be the responsible officials informing customers of the change. She responded to questioning that she had not been consulted concerning input on the Postal Service’s plan.

Michael Winn of R.R. Donnelley testified that the Postal Service's plan may mean curtailing processing operations and seriously compromising service to customers. Mr. Winn stated that in any new delivery environment, the Postal Service must maintain its current mail processing schedule, or there would be upheaval in printing dates that could have a ripple effect from largest to smallest mailers. If processing were reduced to five-days per week, Mr. Winn stated, matching R.R. Donnelley's seven day per week operation to the limited schedule would involve cancelled drops and inconvenience for mailers. Mr. Winn emphasized that the Postal Service had not been responsive to R.R. Donnelley concerning the mail processing implications of the plan.

Lucien "Bud" Wood, owner of Murray McMurray Hatchery, testified on the impact the Postal Service's plan could have on his small business. Mr. Wood stated that significant restrictions currently exist on how live poultry must be shipped, and that it would be devastating to lose more service. Mr. Wood stated that he could only support a move to five-day delivery if he has a shipping window Saturday through Tuesday and guaranteed 72 hour delivery.

Steve Colella, Vice President of Calmark, Inc., testified that Calmark could adjust to five-day delivery when it happens, but that stable rates were of greater concern. Mr. Colella expressed concern, however, that eliminating Saturday delivery will harm the Postal Service and its customers, and only accelerate the rate of electronic diversion. Mr. Colella testified that the reduction to five-day delivery is not something Calmark wants to happen or believes is necessary.

Cameron Bellamy, President of GrayHair Software, Inc., stated that the Postal Service's proposal is deficient. He questioned the Postal Service's ability to combine 30 percent of its mail delivery volume from Monday with 17 percent of its delivery volume from Saturday. He emphasized that elapsed time, *i.e.*, calendar days, is the only measure that make sense for service standards. Mr. Bellamy stated that

customers require consistency even more than they require frequency, but that combining too much volume on Mondays will erode consistent service.

Chris Huckle, publisher of Cadillac News, testified that he is dismayed that the element most likely to force a change in his business plan comes from a distribution vendor, not a change in the market or his readers. Mr. Huckle stated that there would be two logical consequences to the end of Saturday delivery—that he would be forced to set up private delivery service and most likely use that private delivery service, and abandon U.S. Mail altogether. He stated that the Postal Service appears to be taking the path of least resistance by cutting service rather than looking more closely at cost controls. Mr. Huckle also questioned whether the mailbox monopoly would be relaxed to allow newspapers to deliver on Saturdays.

Jim Kitzmiller, Executive Director of Associated Mail Parcel Centers, testified on behalf of 3,500 CMRA's. Mr. Kitzmiller stated that CMRAs could be used to ameliorate the adverse impact of the loss of Saturday delivery because they combine hundreds of addresses into one stop. He emphasized that CMRAs would also need delivery on Saturdays—like post office boxes—to avoid the Postal Service from having a competitive advantage.

Several concerned citizens and Postal Service employees who attended the hearing voiced opposition to the Postal Service's plan to cut Saturday delivery.

6. Rapid City, South Dakota, June 23, 2010

Mark Shreiner, owner of Print Mark-et in Rapid City, South Dakota, testified that the proposed change from six-day to five-day delivery will require planning on the part of customers, but is not a substantial change. However, Mr. Shreiner stated that he frequently experiences delays when mail leaves the local area, and he expects that those delays would increase under a five-day delivery operation. As a result, he said,

the transition to five-day delivery will create a push against the current service standards.

Mury Salls, Senior Vice President for DST Mailing Services and President of the Major Mailers Association (MMA), testified that the planned reduction in service from six-day to five-day will lessen the value of the Postal Service and accelerate electronic diversion. Mr. Salls stated that the elimination of Saturday delivery will have cost consequences for mailers, and instead of the reduction the Postal Service should make more of an effort to explore cost savings and revenue generation. Mr. Salls conceded, however, that MMA members would opt for the elimination of Saturday delivery over a price increase.

Clem Felchle, the Dakotas District Manager at the Postal Service, testified that the district experienced a 20 percent decrease in volume and a seven percent increase in delivery points over the five years ending in quarter one of FY 2010. Mr. Felche testified that approximately a thousand customers receive delivery three times per week, and about four receive mail just once per week. He stated that customers living in rural areas adapt to the lower level of service available.

Robert Tolman, the South Dakota Legislative Chair for the National Association of Postal Supervisors, urged the Commission to consider five-day delivery as a last resort to deal with the financial difficulties facing the service. He offered an example of service degradation that all First-Class Mail entered on Wednesday with a three-day delivery standard would not be delivered until the following Monday. He stated that he believes the degradation in service will erode the value of the mail and create less utility in the postal system as a whole. Mr. Tolman emphasized that cutting a day of delivery would be felt directly by the public as opposed to other cost saving initiatives like processing consolidations. Mr. Tolman stated that 20 to 25 percent of volume nationwide would be affected by the change. Mr. Tolman emphasized that he does not

believe five-day delivery is consistent with the Postal Service's obligation to provide prompt, reliable, and efficient postal services to all areas and all communities.

Gary Evensen, a rural carrier in Rapid City, South Dakota, stated that rural postal customers rely on Saturday delivery as a day a person is present at home to sign for necessary goods. He emphasized that some rural residents would have to drive 30-50 miles to conduct business at a post office on a Saturday, and some post offices are only served by a rural carrier. Mr. Evensen encouraged the Postal Service not to close one day a week, but rather to find other ways to reduce expenditures and increase service.

Concerned members of the community, including the head of a local chamber of commerce, Postal Service employees and retirees, mailers, and other concerned citizens voiced their concerns about the Postal Service's plan at the conclusion of the hearing.

7. Buffalo, New York, June 28, 2010

Neil Sexton, President of Northern Safety Co., Inc., testified that the elimination of Saturday delivery and collection would have little effect on his business-to-business multichannel marketing business. Mr. Sexton urged the Commission to endorse the elimination of Saturday delivery as a part of a comprehensive effort to reduce and control costs.

Bill McComb, Vice President of Postal Operations at Netflix, stated that the Netflix business model depends upon high quality service from the Postal Service. However, Mr. McComb conceded that a well-functioning Postal Service over the long haul that meets changing consumer demand is more important than maintaining delivery frequency. He stressed however, that by itself six-day to five-day delivery does not sit well, but that the Postal Service must make such changes as part of an overall plan for solvency.

J.B. Brown, Manager at Rich Products Corporation, testified that his business would not encounter difficulty in a five-day environment. He stated, however, that smaller operations (restaurants) that use his business for frozen foods still depend on the mail to conduct business.

Kathleen Burns, the District Manager for Western New York at the Postal Service, stated that her district experienced a 23 percent decline in volume and a two percent increase in delivery points over the five years ending at the start of FY 2010. Ms. Burns testified that she believes five-day delivery is "inevitable."

Terry Suozzi, Owner of Trinity Marketing, testified that Trinity Marketing supports anything the Postal Service can do to remain viable in the future, including moving to five-day delivery. Mr. Suozzi commented, however, that the gap between Friday and Monday may appear long in the eyes of mailers. He emphasized that the goal, however, is a viable Postal Service and five-day delivery must be looked at along with 8-10 other issues to ensure a viable Postal Service.

Richard Salanger, owner of Salanger Trucking, testified that the current Postal Service plan, with delivery to post offices and post office boxes, is well constructed. He stated that he has heard concerns from other trucking contractors that there will be significant workload increases after holidays. Mr. Salanger stated that if the Postal Service is going to move from six-day to five-day delivery, that 2011 is the time to do it.

Joe Belluci, Director of Sales and Marketing for the Printing Industries Alliance, testified that he has concerns about the proposal, but would support it if it allowed for Saturday drop of commercial bulk mailings and also included resizing operations to meet demand. Mr. Belluci elaborated, stating that a move to five-day delivery should be coupled with trimming the Postal Service's workforce and postage decreases. However, Mr. Belluci stated that the Commission must also carefully consider the loss of volume resulting from the reduction in service, the effect on service standards, the effect on publishing deadlines, and the effect on financial services companies.

Mr. Belluci stated that the issue comes down to parties making a sacrifice for the good of the postal industry.

Michael Hogan, Vice President of Information Packaging Corp., emphasized that if a move to five-day delivery occurs, it should occur as part of a much broader attempt to change the Postal Service's business model. Mr. Hogan testified that a pilot program, or at least a more in depth survey, should be completed to determine if there should be a move to five-day delivery.

Tim Sullivan, Postmaster of Fredonia, New York, testified that he understands how senior management could conclude that operational and service changes are necessary components of a larger plan for long-term viability and stability of the Postal Service. He also stated that customers seem to understand the difficult choices and challenges that face the Postal Service, but thinks that information and education could go a long way to assist customers in overcoming obstacles.

David Wilkin, local union president, stated that five-day delivery will lead to the demise of the Postal Service, and that customers will turn to other means of delivery for the sixth day. Similarly, Christopher Klink, legislative chair of a local union branch, offered his view that the financial situation has been precipitated by unreasonable Congressional mandates. Mr. Klink stated that until Congress acts on the issues of retiree health benefits prefunding and the overpayment to the government for retirement benefits, it is premature to make a move to five-day delivery.

Terry Miner, rural carrier for the Postal Service, stated that the community he serves is predominately Mennonite/Amish and that those communities rely completely on the Postal Service for communication needs. Mr. Miner alluded to the job losses that could occur in a five-day environment, and stated that in this economy such job losses are not tolerable. Mr. Miner offered that customers seem to be willing to pay more for First-Class Mail, and that perhaps the Postal Service should consider a rate increase as an option.

Several local Postal Service employees and retirees in attendance voiced opposition to the Postal Service's plan.

Congressional Testimony

U.S. Senators Lisa Murkowski (AK), Mark Begich (AK), Daniel K. Inouye (HI), and Daniel K. Akaka (HI), requested that the Commission hold field hearings in Alaska and Hawaii. Unfortunately, the Commission was unable to travel to those areas to receive testimony about the unique concerns of residents and businesses in non-contiguous areas regarding the Postal Service's proposed changes. Senator Murkowski of Alaska and Senator Akaka of Hawaii gave testimony concerning the unique concerns of Alaska and Hawaii.

Senator Murkowski attended the Commission's rebuttal hearing on September 16, 2010. Senator Murkowski described the geographical challenges Alaskans are forced to face, and how the Postal Service plays a role in solving those challenges. Tr. 10/2814-15.

Senator Murkowski stated that, as a simple matter, all classes of mail take longer to be delivered. *Id.* at 2815. The Senator explained that getting mail from Seattle to Alaska requires a longer flight than mail traveling from Washington, D.C. to Dallas, Texas. *Id.* Similarly, Senator Murkowski described the isolation of rural communities in Alaska due to the immense distances between urban areas. *Id.* at 2817.

As a result of this isolation in rural communities, Senator Murkowski testified that the loss of Saturday delivery is more than the loss of conveniences for Alaskans. The Senator explained that the Postal Service provides necessities and a lifeline to these communities. *Id.* at 2818.

Senator Murkowski disputed that the Postal Service's alternatives of post office box rental or Express Mail would adequately provide service in the wake of loss of Saturday delivery. *Id.* at 2819-2820. The Senator noted that the supply of post office boxes would not be adequate to service more than a small fraction of street addresses currently served by Saturday delivery. *Id.* at 2821. She added that in most cases post

office box rental would entail an added expense for a population under financial pressure. *Id.* at 2820-2821.

Overall, Senator Murkowski expressed concern that the elimination of Saturday delivery would lead to disintegration of the Postal Service and growth for its private competitors. *Id.* at 2823.

Senator Akaka of Hawaii submitted written remarks for the Commission's consideration.¹ Senator Akaka described the challenges residents of Hawaii face in mail delivery due to a combination of logistical, physical, and financial barriers. *Id.* at 1. In spite of these challenges, Senator Akaka explained that the Postal Service is integral to daily life for residents of Hawaii. *Id.* As examples, the Senator cited prescription drug delivery and vote-by mail as types of mail particularly sensitive to the Postal Service's proposed changes. *Id.*

Senator Akaka describes the cost effective service the Postal Service provides to residents of Hawaii on Saturday, and the significantly more expensive option of Express Mail that would be the only alternative if the Postal Service eliminated Saturday delivery because the Postal Service's competitors do not offer Saturday delivery within the state. *Id.* at 2. Senator Akaka also notes the significant loss of jobs the Postal Service's proposal could entail. *Id.*

Senator Akaka described the Postal Service's proposed alternatives to Saturday delivery, rental of a post office box, or Express Mail, as infeasible in Hawaii. *Id.* Senator Akaka described post office boxes as scarce and an added expense, while Express Mail is expensive and subject to cease if it loses money. *Id.*

¹ Senator Daniel K. Akaka, Prepared Remarks: The Impact of Eliminating Saturday Delivery Service on the People of Hawai'i, October 4, 2010.

Senator Akaka encouraged the Commission to gather more information for a sound, independent analysis of the savings the Postal Service could achieve. *Id.* He asked that the Commission consider the impact on universal service, and questions if, at some point, reducing the days of delivery may violate the Postal Service's obligation to provide universal service. *Id.* Senator Akaka notes that a trade-off of 17 percent of delivery service for a projected 5 percent savings could further reduce customer demand for postal services. *Id.*