

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Mail Processing Network
Rationalization Service Changes, 2012

Docket No. N2012-1

COMMISSION INFORMATION REQUEST NO. 1

(Issued May 24, 2012)

The Postal Service is requested to respond to the following questions to clarify the record on its request for an advisory opinion under 39 U.S.C. 3661(c) regarding the Mail Processing Network Rationalization Service Changes, 2012 (MPNR).¹ In order to facilitate inclusion of the requested material in the evidentiary record, the Postal Service shall have a witness attest to the accuracy of the answers and be prepared to explain, to the extent necessary, the basis for the answers at the June 7, 2012 hearing.

Responses shall be provided no later than June 4, 2012.

1. Please review the United States Postal Service Postal News, Release No. 12-058, dated May 17, 2012, attached. It describes a recently modified plan (Modified Plan) for implementation of the MPNR. Is this news release accurate? If not, please provide all appropriate corrections.
2. The Postal Service originally planned to change the service standards for First-Class Mail within the contiguous United States from 1 to 3 days, to 2 to 3 days, thus eliminating the overnight service standard. The Modified Plan retains an overnight service standard for a significant portion of First-Class Mail through

¹ Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services, December 5, 2011 (Request).

February 2014. Please provide the business rules for the 1- to 3-day service standards that are proposed to be in effect both before and after the February 2014 date.

3. In Docket No. N2012-1, the Postal Service originally estimated a net cost savings of \$2.1 billion annually. As a result of the February 23, 2012, Area Mail Processing (AMP) studies, the Postal Service reduced this estimate to \$1.6 billion annually in testimony presented to the Commission. See USPS-ST-4 at 16; USPS-T-12 at 20.

The Modified Plan indicates that cost reductions from the modified network consolidation plan will result in \$2.1 billion in annual savings, with \$1.2 billion in annual savings from phase one of the network consolidation.

- a. Please provide the basis of the estimated cost savings of \$2.1 billion annually under the Modified Plan. Please describe any differences in this estimate from the \$2.1 billion estimate originally provided in Docket No. N2012-1 and include all supporting workpapers.
- b. Please demonstrate how the \$2.1 billion in annual savings is disaggregated between phase one and phase two under the Modified Plan and include all supporting workpapers.
- c. Please provide an estimate of contribution lost as a result of volume declines due to the reduction in service, disaggregated by phase one and by phase two of the Modified Plan, and include all supporting workpapers.
- d. Please confirm that net savings has increased from \$1.6 billion annually (the current Docket No. N2012-1 estimate) to \$2.1 billion in annual savings under the Modified Plan. If not, please explain.

4. The Postal Service states that 229 facilities will be scheduled for consolidation under the Modified Plan (140 consolidations in phase one and 89 facilities in phase two). Forty-eight facilities are scheduled for consolidation starting soon after May 2012, with another 92 facilities scheduled for consolidation starting January/February 2013, and the final 89 facilities scheduled for consolidation starting February 2014.
 - a. Please confirm that the 229 facilities identified in the Modified Plan are the same 229 facilities (223 approved consolidations and 6 ongoing AMP studies) identified by the February 23, 2012 AMP study results. See Library Reference USPS-LR-N2012-1/73. If not confirmed, please identify the different facilities and provide the associated AMP studies if not already included in Library Reference USPS-LR-N2012-1/73.
 - b. Please identify the facilities in the first group of 48 facilities scheduled for potential consolidation starting soon after May 2012.
 - c. Please identify the facilities in the second group of 92 facilities scheduled for consolidation starting January/February 2013.
 - d. Please identify the facilities in the third group of 89 facilities scheduled for consolidation starting February 2014.
5. The Modified Plan indicates that the percent of First-Class Mail that is delivered overnight will be reduced by 20 percent as a result of phase one of the network consolidation. Please provide workpapers that develop the 20 percent reduction of First-Class Mail eligible for overnight delivery, disaggregated by single-piece and presort First-Class Mail.

6. The Modified Plan explains that network consolidations will lead to a reduction in workforce of up to 28,000 employees.
 - a. Please provide workpapers that demonstrate how the 28,000 employee reduction was calculated, disaggregated between phase one and phase two of the Modified Plan.
 - b. Please confirm that this estimate is consistent with the employee reductions assumed at the outset of Docket No. N2012-1.
 - c. Please reconcile the 28,000 employee reduction with the revised cost savings estimates provided at the May 9, 2012 hearing.
7. Please provide the following information for (1) the portion of phase one that will occur during the summer, (2) the portion of phase one that will be initiated in January or February 2013, and (3) phase two of the network consolidation plan outlined in the Modified Plan.
 - a. The future originating service standards for market dominant products by 3-digit ZIP Code pairs. See, e.g., Library Reference USPS-LR-N2012-1/8.
 - b. The 3-digit customer assignments for each mail processing facility. See, e.g., Library Reference USPS-LR-N2012-1/16.
8. In his testimony, witness Williams states: "The Postal Service has determined that, in order for the planned mail processing consolidations to generate significant cost savings, changes...must be made that necessitate changes to existing service standards." USPS-T-1 at 10. Witness Williams outlined the process through which the Postal Service determined what changes to the mail processing and transportation network were necessary to maximize capacity utilization. This process was also used to ensure the proposed network would be

able to meet the revised service standards. These steps included the LogicNet model described by witness Rosenberg (USPS-T-3), and the AMP process described by witness Neri (USPS-T-4), as well as an overall network floor space capacity model described in Library Reference USPS-LR-N2012-1/47.

The Modified Plan indicates proposed changes will occur in two phases. In phase one, 140 facilities will be consolidated and the overnight service standard will remain for mail that is not affected by the consolidation. In phase two, an additional 89 facilities will be consolidated and the overnight service standard will be significantly curtailed.

- a. Concerning the proposed phase one network under the Modified Plan:
 - i. Please describe the process used to determine that the phase one network, which retains most of the overnight service standard for First-Class Mail, is a feasible and functional network.
 - ii. Did the Postal Service use network modeling tools, such as LogicNet, for the determination that the phase one network is feasible and functional? Please describe that process.
 - iii. Were the February 23, 2012 AMP results used in this determination?
 - iv. Library Reference USPS-LR-N2012-1/47 tab "Process Steps of Interest" cells N53 to P54 detail that the current mail processing network currently has a floor space utilization of 84 percent, and opening the operating window by 2 hours would open enough floor space for the Postal Service to consolidate 115 facilities from the

network. Was this analysis used in the determination that the phase one network is feasible?

- v. What is the expected mail processing capacity utilization rate?
 - vi. Please provide all workpapers used to determine the parameters of the phase one network (e.g., facilities, customer assignments, transportation links, etc.). If the workpapers used to develop this determination are already in the Docket No. N2012-1 record, please explain how these documents apply to phase one.
- b. Concerning the proposed phase two network under the Modified Plan, please discuss how the differences between the phase one network and the phase two network necessitate the elimination of the overnight service standard.
9. An attribute of the Modified Plan is that the Postal Service will have the opportunity to modify, further delay, or cancel phase two prior to its implementation in February 2014.
- a. What data will the Postal Service collect to allow it to evaluate the actual effect of phase one implementation on:
 - i. Service performance in the service areas where consolidation takes place.
 - ii. Customer mailing practices in the service areas where consolidation takes place.
 - iii. Customer satisfaction in service areas where consolidation takes place.

- iv. Costs for labor, transportation, and plant and equipment in service areas where consolidation takes place as compared with estimates developed in the February 23, 2012 AMP studies.

- b. Discuss the factors that will be considered in deciding whether to retain phase one service standards or to proceed with implementation of phase two thereby eliminating the overnight service standard for First-Class Mail.

By the Commission.

Shoshana M. Grove
Secretary



FOR IMMEDIATE RELEASE
May 17, 2012

Contact: Public Relations
202.268.2155
usps.com/news
Release No. 12-058



Postal Service Moves Ahead with Modified Network Consolidation Plan *9-Month Implementation; \$1.2 Billion in Cost Reductions*

WASHINGTON — The U.S. Postal Service today announced plans to move ahead with a modified plan to consolidate its network of 461 mail processing locations in phases. The first phase of activities will result in up to 140 consolidations through February of 2013. Unless the circumstances of the Postal Service change in the interim, a second and final phase of 89 consolidations is currently scheduled to begin in February of 2014.

"We revised our network consolidation timeline to provide a longer planning schedule for our customers, employees and other stakeholders, and to enable a more methodical and measured implementation," said Patrick R. Donahoe, Postmaster General and Chief Executive Officer of the Postal Service.

"We simply do not have the mail volumes to justify the size and capacity of our current mail processing network. To return to long-term profitability and financial stability while keeping mail affordable, we must match our network to the anticipated workload," said Donahoe. "Our current plan meets our cost reduction goals, ensures seamless and excellent service performance throughout the implementation period, and provides adequate time for our customers to adapt to our network changes."

The Postal Service will begin consolidating operations this summer – which mostly involve transferring mail-processing operations from smaller to larger facilities. Due to the volume of high-priority mail predicted for the election and holiday mailing seasons, no consolidating activities will be conducted from September through December of 2012. Approximately 5,000 employees will begin receiving notifications next week related to consolidating and other efficiency-enhancing activities to be conducted this summer.

"We will be conducting consolidation activities this summer at only 48 locations," said Megan Brennan, chief operating officer of the Postal Service. "As a result, nearly all consolidating activities in 2012 will occur in August and then will resume again the early part of next year."

These consolidating activities will reduce the size of the Postal Service workforce by approximately 13,000 employees and, when fully implemented, will generate cost reductions of approximately \$1.2 billion annually.

"The Postal Service will be communicating with our customers and employees about these changes in great detail," said Megan Brennan. "We will work closely with our customers to ensure there are no surprises as we move forward."

The Postal Service also announced it is working with its unions for an employee retirement incentive, although no final decision has been made. "The Postal Service has reduced the size of its workforce by 244,000 career employees since 2000 without resorting to layoffs," said Brennan. "We are a responsible employer and we will work with our employees to ensure a smooth transition to a much leaner organization."

The Postal Service also announced that it would soon issue a new regulation to modify its existing Service Standard for overnight delivery. The Postal Service said a Final Rule would soon be published in the Federal Register that would initially shrink the geographic reach of overnight service to local

areas and enable consolidation activity in 2013. The new rule would further tighten the overnight delivery standard in 2014 and enable further consolidation of the Postal Service mail processing network absent any change to the circumstances of the Postal Service.

"We are essentially preserving overnight delivery for First-Class Mail through the end of 2013, although we are collapsing the distance that we can provide overnight service to the distribution area served by a particular mail processing facility," said Megan Brennan. Approximately 80 percent of First-Class Mail will still be delivered overnight.

The Postal Service stated its expectation to pursue additional consolidation activities for an additional 89 mail processing locations beginning in 2014 unless its circumstances change. These consolidations would be based on long-term service standards that would significantly revise mail-entry times for customers seeking overnight delivery.

"Given that the Postal Service is currently projecting a \$14 billion net loss in FY2012, and continuing annual losses of this magnitude, we simply cannot justify maintaining our current mail processing footprint," said Donahoe.

When fully implemented in late 2014, the Postal Service expects its network consolidations to generate approximately \$2.1 billion in annual cost reductions, and lead to total workforce reduction up to 28,000 employees.

The list of 140 mail processing locations to be consolidated by February of 2013 is available at <http://about.usps.com/news/electronic-press-kits/our-future-network/welcome.htm>.

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

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Please Note: For broadcast quality video and audio, photo stills and other media resources, visit the USPS Newsroom at <http://about.usps.com/news/welcome.htm>.

For reporters interested in speaking with a regional Postal Service public relations professional, please go to <http://about.usps.com/news/media-contacts/usps-local-media-contacts.pdf>.

A self-supporting government enterprise, the U.S. Postal Service is the only delivery service that reaches every address in the nation, 151 million residences, businesses and Post Office Boxes. The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations. With 32,000 retail locations and the most frequently visited website in the federal government, *usps.com*, the Postal Service has annual revenue of more than \$65 billion and delivers nearly 40 percent of the world's mail. If it were a private sector company, the U.S. Postal Service would rank 35th in the 2011 Fortune 500. In 2011, the U.S. Postal Service was ranked number one in overall service performance, out of the top 20 wealthiest nations in the world, Oxford Strategic Consulting. *Black Enterprise* and *Hispanic Business* magazines ranked the Postal Service as a leader in workforce diversity. The Postal Service has been named the Most Trusted Government Agency for six years and the sixth Most Trusted Business in the nation by the Ponemon Institute.

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