

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

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2011

Docket No. N2012-1

**UNITED STATES POSTAL SERVICE
SECOND NOTICE OF FILING OF ERRATA
TO RESPONSES OF WITNESS EMILY ROSENBERG
TO COMMISSION INFORMATION REQUEST No. 1
[ERRATA]**

The United States Postal Service hereby gives notice that it is re-filing today the narrative responses of witness Emily Rosenberg to Questions 1-9 of Commission Information Request No. 1, to ensure that the caption of each response correctly reflects it to be an answer to a "Commission" Information Request and not a "Chairman's" Information Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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June 6, 2012

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROSENBERG
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1. 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.

RESPONSE

United States Postal News Release No.12-058 reflected an overview of the modified network implementation plan at the time the news release was published. The implementation plan is expected to evolve as numerous facility-specific details are refined and finalized. See also the response to Question 4 regarding facility counts for additional information.

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2. The Postal Service originally planned to change the service standards for First-Class Mail within in the contiguous United States from 1 to 3 days to, to 2 to 3 days, thus eliminating the overnight service standard. The Modified Plans retains an overnight service standard for a significant portion of the First Class Mail through February 2014. Please provide the business rules for 1- to 3-day service standards that are proposed to be in effect both before and after the February 2014 date.

RESPONSE

The proposed rule reflected a plan to modify the overnight service standard in 39 C.F.R. Part 121.1 so that it only applied to properly prepared and entered Presort First-Class Mail. See USPS Library Reference N2012-1/8 (76 Fed. Reg. 77942, December 15, 2011). As reflected in USPS Library Reference N2012-1/99 (77 Fed. Reg. 31196, May 25, 2012), the final rule reflects a determination to implement that proposal effective February, 2014. The interim and final First-Class Mail service standard business rules are reflected in USPS Library Reference N2012-1/99 at page 31196, and are depicted graphically at page 31199.

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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.

RESPONSE

- (a) The \$2.1 billion figure in this press release is the same \$2.1 billion figure in the supplemental testimony of USPS witness Bradley (USPS-ST-4).
- (b) The \$2.1B in total full-up savings referenced above in response to part (a) includes any Phase I savings. The \$1.2B estimate in the press release represents an internal target for cost reductions developed during consideration of mailer comments in the service standard rulemaking (before the preparation of the April 30 supplemental costing testimony (USPS-ST-3 and USPS-ST-4)) that the Postal Service consider a gradual approach to implementing the proposed

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RESPONSE to Question 3 (continued)

Accordingly, the \$1.2B target is based on the original \$2.57B cost savings estimate filed in support of the Request in this case, not the revised \$2.1B estimate.

The \$1.2B figure was developed simply by approximating the workroom square footage of approximately 160 facilities (identified as potential candidates for consolidation in the first part of a phased implementation of the proposed overnight First-Class Mail service standard change), as a percentage of the overall workroom square footage of all facilities that are candidate for consolidation (around 229). The result is approximately 64 percent. That percentage was then applied to the following categories of the original \$2.57B total estimated savings:

- Workload Transfer
- Supervision and Plant Management Reductions
- In Plant Support Reductions
- Indirect Cost Reductions
- PVS to HCR Conversions
- Plant-to-PO Network Restructuring
- Building Maintenance and Custodial Labor
- Utilities
- Supplies and Contractor Costs
- Rents or Rental Opportunity Costs

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RESPONSE to Question 3 (continued)

Based on consultations among subject headquarters subject matter experts, a 10 percent capture rate was applied to Plant-to-Plant HCR Network Restructuring, a 35 percent capture rate was applied to the Productivity Gains, and a 75 percent capture rate was applied to the Maintenance Labor and Parts and Supplies.

There were no savings estimates included for:

- Premium Pay Reductions
- Reduction in Outgoing Secondary Sorting
- Replacement of CSBCS and USFM10000
- Additional DPS Sorting.

These calculations are shown in the Excel workbook accompanying this response, in the "SavingsEstimate_IntraSCF.xls." tab "Costing." No similar analysis has been performed to disaggregate the current \$2.1B full-up cost savings estimate. The remainder of the \$2.1B in savings is expected to be generated by the implementation of Phase II.

- (c) I am informed by witness Whiteman (USPS-T-12) that no similar disaggregated Phase-by-Phase contribution loss analysis has been performed.
- (d) Not confirmed. See the responses to parts (a) through (c). The press release merely reflects the revised Postal Service (USPS-ST-4) estimate of operational cost savings and does not address the contribution loss estimate provided by witness Whiteman in USPS-T-12.

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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.

RESPONSE

- (a) Not confirmed. The press release list of 229 reflects the addition of four facilities (Coshocton OH, Massillon OH, Portsmouth OH, and Wooster OH) and ultimately the removal of four (Eastern Shore MD, Springfield IL, White River Junction VT, and Eastern Maine ME) from consideration. The four additional sites are not network facilities and are therefore not reflected in USPS Library Reference N2012-1/57 which shows the entire population of network facilities. These sites are Post Offices which contain Carrier Sequence Bar Code Sorters that are projected to be removed during the same time period. These sites were inadvertently included in the press release list, but do not actually reflect an elimination of a network facility. There are no AMP studies to support these

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RESPONSE to Question 4 (continued)

equipment relocations since they do not perform outgoing or destinating Sectional Center Facility (SCF) processing that would be subject to the USPS Handbook PO-408 AMP guidelines.

- (b) A list identifying the group of 48 facilities presently identified as being subject to some form of operational consolidation in the summer of 2012 is reflected on the first page of the attachment to this response. The 48 sites, with the exception of Socorro NM, were drawn from the list of 140 disseminated as part of the May 17, 2012 press kit. The list of 140 is reflected in pages 2-5 of the attachment to this response. Socorro NM was inadvertently not included on that list.
- (c) The second group consists of the remainder of the consolidations identified on the list of 140 referenced in response to part (b).
- (d) .Subject to the modification described in response to part (a), the remaining 89 facilities would be what remains of the list of 229 in USPS Library Reference N2012-1/73. It should be emphasized that some facilities may be impacted in more than one phase. Under Phase I, only a portion of the operations at some sites could be consolidated. The remainder of the operations could be subject to consolidation as part of Phase II.

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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.

RESPONSE

For purposes of the press release, a very simple analysis of Origin-Destination Information System (ODIS) data was conducted to estimate the percentage of First-Class Mail subject to the current overnight standard that would retain an overnight standard if the standard were modified to intra-SCF, assuming a network along the lines of the Phase I network.

The current percentage of First Class Mail overnight was then compared to the proposed and rounded for the purposes of the press release. There has been no detailed analysis completed to break out between single-piece and presort.

Service Standard Volume Distribution¹

	Current	Phase I: Intra-SCF
1	41.6%	34.6%

1:SOURCE: ODIS FY 2010 Volumes

$34.6 \div 41.6 =$ approx 83 percent, which was rounded to 80 percent.

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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.

RESPONSE

- (a) Please see the attached Excel workbook "SavingsEstimate_IntraSCF.xls." The workbook contains Phase II high-level expected workforce reductions. This analysis was completed using preliminary estimates complement data from September 2011. The proposed complement was calculated using high level assumptions about the workload at the gaining site and productivities provided by subject matter experts. The 28,000 estimate can be attained by summing cells E:467 – H:467 on the worksheet entitled, "Required Complement by Node". On the "Costing" worksheet, cell D:38 illustrates how the Phase I estimate was derived. The Phase I complement impact was approximated by dividing the estimated percentage savings from Phase I of the Total Phase I/Phase II savings. This percentage was then applied to the 28,000 to generate the Phase I estimate of 13,000.
- (b-c) The FTE savings for clerks, mail handlers, maintenance and vehicle driver craft employees based on witness Bradley's direct testimony, USPS-T-10, is 23,153 as per the spreadsheet NPMHU-USPS-T10-12.Revised.3.15.xls, which was

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RESPONSE to Question 6 (continued)

attached to the Revised Response of USPS Witness Smith to NPMHU/USPS-T10-12 Redirected from Witness Bradley (March 16, 2012). Based on that spreadsheet, the attached spreadsheet, "Total.FTECalc.CIR1.Q6.Direct.T.xls" reflects the total savings associated with witness Bradley's direct testimony, USPS-T-10, by adding FTE reductions for carriers (567.0) and managers/supervisors (2,168.3) for a total of 25,888. The FTE savings based on witness Bradley's supplemental testimony (USPS-ST-4) is 22,737. This is provided in the additional attached spreadsheet, "Total.FTE.Calc.CIR1.Q6.Supp.T.xls", which is the same as the spreadsheet for the Direct Testimony FTE calculation, except that it is updated with Supplemental Testimony inputs on savings.

Because senior postal management regards the savings estimates filed in this case to be conservative, it has established an operating goal moving forward of exceeding that number of FTE reductions as it achieves full-up implementation. Postal management's operating goal for the full-up environment translates into about a reduction of about 28,000 FTEs. Thus, the FTE savings estimates cited above is not identical to, but is within the "up to 28,000" range reflected in the press release.

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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.

RESPONSE

(a-b) The Postal Service is currently developing the origin-destination 3-digit ZIP Code assignments implied by the summer 2012 interim service standards and will submit them in the form of a Library Reference as expeditiously as possible in June 2012 in a format similar to USPS Library Reference N2012-1/8.

The Postal Service also anticipates publishing L201 and L005 label lists in a Library Reference in June 2012 that will reflect facility-specific 3-digit ZIP Code assignments (associated with the aforementioned interim service standards) in a format similar to USPS Library Reference N2012-1/16.

It currently is not known how far in advance of the January/February 2013 operational changes that the 2013 updates will be completed and published.

That is also the case for Phase II implementation.

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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.

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RESPONSE to Question 8

- (a)(i) Today's network is designed to provide intra-SCF overnight First-Class Mail service. The Phase I network will be comprised of facilities already capable of providing intra-SCF overnight First-Class Mail service. The Phase I network reflects a judgment reached by Headquarters after consultations with Area and District operations and transportation experts to determine a subset of feasible consolidations that could permit the preservation of intra-SCF overnight First-Class Mail service. Additional review may lead to adjustments to ensure that Phase I operations support applicable service standards.
- (ii) No.
- (iii) The AMP results were used to the extent that they identify the network facilities that are possible to consolidate under the relaxed service standards under the final rule. The interim rule contains a subset of these facilities.
- (iv) No. The Library Reference in question refers to the model that was created in 2009 as a starting point for analysis in determining that the operating window length has an impact on the required square footage.
- (v) The Postal Service has yet to perform analysis that would yield such information.
- (vi) See the response to subpart (a)(i).
- (b) Phase II involves expansion of the DPS operating window up to 20 hours to pursue the full-up savings that will bring the postal costs more in line with

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RESPONSE to Question 8 (continued)

declining volumes and revenues, as described in USPS-T-4. The February 2014 service standard changes facilitate pursuit of these objectives.

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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.

RESPONSE

- (a)(i) The Postal Service constantly monitors service performance and customer satisfaction for market-dominant products through a combination of measurement systems that generate reports periodically filed with the Commission. It should be emphasized that service performance measurement monitoring is a fundamental aspect of day-to-day postal management and takes place throughout the network irrespective of whether a service area has been directly involved in mail processing operational consolidation activity.

I am informed that the Postal Service will be generating service measurement reports that focus on monitoring service for consolidation impacted service areas. Irrespective of whether it is able to isolate and measure the "actual effect" of

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RESPONSE to Question 9 (continued)

Phase I on service performance, the Postal Service will continue to evaluate service during Phase I against applicable service standards, operational targets, and the goal of continuous improvement. Management at every level will be expected to seek solutions to service performance and customer satisfaction issues that arise during Phase I, irrespective of whether it is possible or reasonable to attribute those issues to Phase I implementation.

- (ii) I am informed that most direct interaction with retail postal customers takes place through retail units unaffected by implementation of either phase of the initiative under review in this docket. Accordingly, irrespective of any other monitoring of retail activity, the Postal Service has not developed any plans for specifically isolating and measuring the impact of the implementation of Phase I on retail customer mailing practices. I also am informed that District and Area Postal Service managers presently monitor bulk mailing practices at Business Mail Entry Units in their service areas on a routine basis to determine if operational adjustments are necessary. It is expected that they will do so in the future, irrespective of the degree of local consolidation activity, and make adjustments consistent with applicable operating parameters.

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RESPONSE to Question 9 (continued)

- (iii) See the response to part (a)(i).
- (iv) As witness Neri (USPS-T-4) has explained, the Area Mail Processing (AMP) guidelines in USPS Handbook PO-408 establish a process of post-implementation review (PIR) for operational consolidations that are subject to the AMP process. I am informed that examples of numerous PIR studies are reflected in USPS Library Reference N2012-1/NP12 and that witness Neri's implementation team will continue to generate future PIR analysis for the February 23, 2012 consolidation decisions where required by the PO-408.
- (b) I am informed that any decision by senior postal management regarding "whether to retain phase one service standards or to proceed with implementation of phase two" will be influenced by whether a legislative enactment prohibits the Postal Service from implementing Phase II. The Postal Service also will review the advisory opinion issued in this case.