OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

In the Matter of:	)	
	)	
MAIL PROCESSING NETWORK	)	Docket No. N2012-1
RATIONALIZATION SERVICE	)	
CHANGES, 2012	)	

VOLUME #10

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POSTAL REGULATORY COMMISSION

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CHANGES, 2012	)	

Suite 200, Hearing Room
Postal Regulatory Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume 10
Wednesday, June 13, 2012

The above-entitled matter came on for hearing pursuant to notice, at 9:33 a.m.

BEFORE:

HON. RUTH Y. GOLDWAY, CHAIRMAN
HON. NANCI E. LANGLEY, VICE CHAIRMAN
HON. MARK ACTON, COMMISSIONER
HON. TONY HAMMOND, COMMISSIONER
HON. ROBERT TAUB, COMMISSIONER

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C O N T E N T S

WITNESSES APPEARING:
MAX HEATH
DAVID BORDEWYK
SUBRAMANIAN RAGHAVAN
KEVIN NEELS

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Kevin Neels					
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1 P R O C E E D I N G S

2 (9:33 a.m.)

3 CHAIRMAN GOLDWAY: Good morning, ladies and
4 gentlemen. This hearing of the Postal Regulatory
5 Commission will come to order.
6 In today's hearing, the Commission will
7 receive evidence from participants in rebuttal to the
8 Postal Service's direct case concerning the mail
9 processing network rationalization plan and the
10 associated service changes. The Commission will
11 evaluate this evidence when considering the Postal
12 Service's request for an advisory opinion in Docket
13 No. N2012-1.
14 For the record, I am Ruth Goldway, Chairman
15 of the Postal Regulatory Commission. Joining me on
16 the dais this morning are Vice Chairman Langley,
17 Commissioner Acton, Commissioner Hammond and
18 Commissioner Taub.
19 I want to commend all of the participants
20 here for their willingness to move forward in an
21 expeditious schedule in what is a very complicated
22 case where the Postal Service has presented its
23 information and then submitted revisions and now a
24 second take on the plan, which includes a Phase 1.
25 We're trying to move this process forward so

1 that the Commission can provide comments and advice
2 that is as useful as possible to all of the Postal
3 community, and we feel that your participation here
4 helps us and we're working together I think in this
5 cause.
6 I ask your indulgence because I have a bit
7 of a head cold this morning. I'm not sure I'm
8 thinking as clearly as I normally do, but we do have a
9 full day of witnesses, and I'm sure that with
10 assistance from my colleagues and reminders from our
11 general counsel we'll get through all the processes as
12 properly as we normally do.
13 I'd like to give my colleagues an
14 opportunity to say a few words if you'd like before we
15 begin the hearing.
16 (No response.)
17 CHAIRMAN GOLDWAY: No? All right then.
18 Procedural matters. There has been no indication that
19 a closed hearing will be necessary today. It is the
20 responsibility of counsel to alert me if this
21 circumstance changes. If it becomes necessary, a
22 closed session will be convened at the end of the
23 hearing today to consider material under seal.
24 I would like to remind those in the audience
25 today that this hearing is being web broadcast. In an

1 effort to reduce potential confusion, I ask that
2 counsel wait to be recognized before speaking and
3 please identify yourself when commenting. After you
4 are recognized, please speak clearly so that our
5 microphones may pick up your remarks.
6 Does any participant have any other
7 procedural matter to raise at this time?
8 (No response.)
9 CHAIRMAN GOLDWAY: No. We have two busy
10 days ahead of us as we receive testimony and cross-
11 examination of 17 Intervenor witnesses. Briefly, our
12 process to enter testimony into the record is as
13 follows: We will call each witness and receive their
14 testimony. After that we will allow oral cross-
15 examination. After oral cross-examination, an
16 opportunity for redirect will be available.
17 Eleven witnesses are scheduled today. The
18 first two witnesses are sponsored by the National
19 Newspaper Association. They are Witnesses Heath and
20 Bordewyk. The third and fourth witnesses are
21 sponsored by the Public Representative. They are
22 Witnesses Neels and Raghavan.
23 The fifth through eleventh witnesses are
24 sponsored by the National Postal Mail Handlers Union.
25 They are Witnesses Hora, Hogrogian, Bentley, Haggarty,

1 Wilkin, Hayes and Broxton. The National Postal Mail
2 Handlers Union witnesses have been excused from
3 appearing here today and will have testimony and
4 written examination entered by counsel.
5 First we'll proceed with the testimony of
6 the National Newspaper Association Witness Heath. Ms.
7 Rush, will you identify your witness so we can swear
8 him in?
9 MS. RUSH: Thank you, Madam Chairman. Good
10 morning, and good morning to the Commissioners. I'm
11 Tonda Rush representing National Newspaper
12 Association. NNA would like to call Max Heath.
13 CHAIRMAN GOLDWAY: Mr. Heath, will you
14 stand?
15 Whereupon,
16 MAX HEATH
17 having been duly sworn, was called as a
18 witness and was examined and testified as follows:
19 CHAIRMAN GOLDWAY: Thank you. Counsel, you
20 may proceed.
21 MS. RUSH: Thank you, Madam Chairman.
22 (The document referred to was
23 marked for identification as
24 Exhibit No. NNA-T-1.)
25 //

1 DIRECT EXAMINATION

2 BY MS. RUSH:

3 Q Mr. Heath, I'm about to present you two

4 copies of a document called Direct Testimony of Max

5 Heath on behalf of the National Newspaper Association.

6 I'm going to ask you to tell me whether this testimony

7 was prepared by you or under your direction.

8 A Yes, it was.

9 MS. RUSH: Madam Chairman, I'd like to hand

10 two copies to the reporter and request that the

11 testimony be admitted into evidence.

12 CHAIRMAN GOLDWAY: Is there any objection?

13 (No response.)

14 CHAIRMAN GOLDWAY: Hearing none, I will

15 direct counsel to provide the reporter with two copies

16 of the corrected testimony of Max Heath. That

17 testimony is received into evidence and is to be

18 transcribed into the record.

19 (The document referred to,

20 previously identified as

21 Exhibit No. NNA-T-1, was

22 received in evidence.)

23 //

24 //

25 //

Postal Regulatory Commission
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BEFORE THE

POSTAL REGULATORY COMMISSION

WASHINGTON, D.C. 20268-0001

Mail Processing Network

Rationalization Service Changes, 2012 **Docket No. N2012-1**

DIRECT TESTIMONY
OF MAX HEATH, NNA T-1
ON BEHALF OF NATIONAL NEWSPAPER ASSOCIATION
(April 23, 2012)

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Introduction

My name is Max Heath. I represent the National Newspaper Association, a 2,400 member organization that has served community newspapers for 126 years. I have been its Postal Committee chairman since 1986.

I am officially retired as vice president of Landmark Community Newspapers, Inc. (LCNI), but I continue to consult with newspapers, including LCNI. In my 45-year career in the community newspaper industry, I have been a working reporter, sports editor, news editor, editor and general manager. In corporate staff work from 1980-2008, I was VP/executive editor for 21 years, VP/circulation and postal for 23 years, and an acquisitions executive as well for my final seven years. My company had 56 community weekly, multi-weekly and daily newspapers, most in the mails for both Periodicals newspapers and Standard Mail shoppers or specialty publications. We also operated seven college sports magazines, mailed Periodicals and First-Class for expedited delivery. I also now represent Publishing Group of America, which publishes newspaper content for weekend newspapers, including Relish, Spry and American Profile.

I have been one of NNA's Mailers Technical Advisory Committee representatives since 1989, and served on numerous Periodical workgroups. In that capacity I write a monthly column for the NNA's *Publishers' Auxiliary*, provide seminars on postal issues and circulation around the country, and operate a hotline for newspapers to report trouble with delivery and postal rules. The goal of our hotline is to work with USPS to trouble-shoot delivery problems by helping the Postal Service correct problems in the delivery network and advising newspapers in how to prepare their mail for best results.

I have appeared before the Commission as an expert witness for newspapers in omnibus rate case Dockets R97-1, R2000-1, R2004-1and R2006-1; NNA 2010-1, the 6 to 5 day delivery case; 2011-1, the retail optimization case, and the Time-Warner complaint case, C2004-1. As the Commission is aware from previous dockets, NNA is a small organization with few resources for systematic data-gathering. However, because of the breadth of my consulting practice, and my length of service for the industry in postal issues, I believe I generally have a good grasp of the issues arising in

the industry and the Postal Service's likely or potential responses to them, and how they affect members.

My purpose in this testimony is to discuss the impacts upon community newspapers if overnight and same-day service standards are changed and to recommend some actions for the Commission.

I. Same Day and Overnight Delivery is Essential to a Viable Newspaper

The importance of mail delivery to community newspapers remains as critical as it has been over the more than two decades of my service to newspapers as their national "postal guru." Of NNA's 2,400 members, about four-fifths are weekly or twice weekly newspapers. The remainder are dailies, usually serving America's small towns and rural areas. As the nation's dialogue on the future of the Postal Service and the digital future continues, I find myself having to debunk two myths--that people no longer read newspapers, and that newspapers are now being read mostly online.

A. In NNA communities, newspapers remain the primary source of information.

For the past six years, NNA has conducted one national survey a year in conjunction with the RJ Reynolds Institute at the University of Missouri. Our researcher conducts a statistically valid survey of America's small towns, focusing on communities of 15,000 people or fewer.

Each year, results demonstrate the same truth: people in smaller communities must have their newspapers. Here are some of the results from the 2011 survey

- 74 percent read a local newspaper each week.
- Readers prefer the printed copy to the online version, with 48 percent saying they never read the local news online.
- They prefer to receive advertising through the newspaper (51%) instead of on the Internet (11%).

- Only about a quarter of respondents said they had found local news through a mobile device in the past 30 days. Slightly more (38%) said they had received local shopping information by mobile device.
- Readers have a strong preference for government accountability through newspaper public notice, with 80 percent saying the government should be required to publish notices in the newspaper.
- 73% say they read all or most of the newspaper.
- 91% count on it for local news and/or general news and information.
- Substantial majorities count on the newspaper for school news, local sports news, editorials or letters to the editor and public notice.
- Substantial majorities find the reporting accurate and fair, and say they trust the local newspaper more than they trust other sources of news.

NNA's findings are corroborated by the prestigious Pew Research Center, which completed a study in 2011 on where people get their local news. Pew broke information users into two categories: those over 40 and those under 40.

Those over 40 got the following information from their local newspapers: politics, crime, art/cultural events, local business, schools, community events, restaurants, taxes, local real estate, government activities, housing, zoning/development, jobs and social services.

Those <u>under</u> 40, generations widely thought not to read newspapers, nonetheless continue to count on them for this news: crime, arts/cultural events, community events, taxes, local government, jobs, social services and zoning/development. *"How People Learn about Their Local Community*," September 2011, published by the Pew Research Center at www.pewinternet.org.

B. Online sources of news are not developing as rapidly as many think

It is a constant source of conversation, speculation and academic angst that newspapers are "failing" to morph into totally digital products. Again, the Pew Research

1 Center explains why that is: the print dollar converts to digital dimes when the
2 advertising market shifts to digital.

3 Pew explained in its "State of the News Media" report that although the
4 newspaper industry at large is making mighty efforts to find a viable digital future, digital
5 advertising dollars do not come close to making up the losses from print. In 2011,
6 industry print revenues overall were down by $2.1 billion, while the rapidly growing
7 digital ad market provided only $207 million.

8 I believe that these numbers are reports from the daily newspaper markets, and
9 are substantially skewed toward data from public companies because information from
10 privately held and community newspapers are almost impossible to aggregate.

11 But having been in this business for more than 30 years, I can easily translate
12 what this means in community newspaper towns: there is very little Internet advertising
13 from small and local businesses, and what advertising does come into the communities
14 from national chains with local outlets is coming on national aggregators like Google
15 and Facebook. I have seen no studies of how successful these ads are for our local
16 businesses, but from my experience as a newspaper consultant, I would say these ad
17 buys are driven more by experimentation and fashion than by results. Local ad buyers
18 try them out, are disappointed and wind up back in the newspaper, by and large.

19 The one possible exception is the "daily deal" type of digital ad, like Groupon or
20 Living Social. There are now dozens of vendors like those two mega-marketers that
21 community newspapers have tried. They are good for some new ad dollars, but they
22 also can quickly bankrupt a local business by bringing in more below-cost traffic than
23 the advertiser can afford to handle.

24 The importance of this research is to demonstrate that there is not, as yet, a
25 viable online or mobile model for a community newspaper. We are print products,
26 driven by print readers and print advertisers who sometimes use our Internet sites and
27 our mobile applications. And preprinted advertising inserts are a large part of our
28 business in recent years, and these do not lend themselves easily to electronic

1 distribution. Nothing I see in the next half decade indicates to me that this situation is
2 going to change.

3 So we must have viable distribution avenues and for most small newspapers
4 those avenues are a combination of news racks and mail delivery.

5 **C. Mail delivery remains essential.**

6 NNA's readership survey indicates that many readers of community newspapers
7 in general receive their newspapers by home delivery. However, despite the soundness
8 of the study otherwise, we do not rely on this number. We believe respondents may be
9 interpreting "home delivery" as "I get my newspaper at home," as opposed to the office
10 or elsewhere.

11 NNA occasionally conducts informational surveys of our most active members for
12 purposes of testing member interest in a variety of topics. Our most recent poll asked
13 publishers what percentage of their newspapers was delivered by mail. The results
14 ranged from 2% to 97%. These numbers are likely heavily driven by the type of
15 community where the newspaper is published. The more suburban or ex-urban a
16 newspaper is, the more likely it is to be picked up on newsstands. The more rural, the
17 more likely to have mailed-to-home distribution. And, of course, many of our small
18 dailies still use private carrier forces. The conversions we saw just 3-4 years ago to mail
19 due to high gas prices on motor routes have largely ceased, as publishers are
20 discouraged by the many uncertainties of postal rates, days of delivery and network
21 changes. With gas prices even higher now than in 2008, I have to conclude that it is
22 only the upheaval in the mailing world that is keeping these newspapers from flocking to
23 the mail.

24 I am most familiar with Landmark Communications, Inc.'s newspapers'
25 distributions. These weekly and small daily newspapers are fairly typical of NNA's
26 membership. Within these, mail distribution averages about 43% of total paid
27 distribution in non-daily paid circulation titles. That represents 51 titles around the
28 country.

For this mail, readers must receive it within 24-48 hours of printing for the information to be of any value to them. It is obvious that old news is not news. But when you consider the types of news readers need from newspapers--such as arts and cultural events--you can see why immediacy is critical. An announcement of a concert that arrives after the fact deprives the reader of an opportunity and an artist of an audience. The same sort of problem arises for grocery or other retail sales, voting news and any other time sensitive matter.

II. Multiple new barriers have arisen for newspapers needing timely delivery

In the past several years, new problems for newspaper mailers have popped up like the measles. My small postal consulting hotline is so hot I can barely handle it any longer.

A. New postal rules are already affecting newspaper service.

Among the new frustrations for community newspapers are:

- The new "droop" test that disqualifies many for automation discounts;
- Verification requirements that have caused many newspapers to miss mailing deadlines because a misinformed business mail entry clerk does not understand that Periodicals are not verified every issue;
- Overnight entry refusals, to newspapers that have done overnight entry for a half century or more;
- Confusion about exceptional dispatch, which has led some clerks to require unnecessary centralized postage payments, multiple mailing statements, origin-office verification, use of PS Form 8125 (Drop Shipment Clearance Document) or a host of other rules that apply to other types of mail but not DDU-entered newspapers.

- Soon we may be grappling with requirements to convert our addressing software to produce Intelligent Mail Barcodes, even though the full-service version offers nothing in mailer value for a local destination-entered newspaper.

Now we face the proposal to end overnight mail delivery for First-Class and Periodicals. It should be no surprise to the Postal Service or the Commission that community newspapers are vigorously pushing back against this proposal. We believe it spells the end of newspapers in the mail, along with the profitable Enhanced Carrier Route shoppers and Total Market Coverage publications that we mail.

The Postal Service has not fully considered the ramifications of this proposal.

B. USPS does not truly know how good or bad mail service is now so we have to depend upon the network to work properly

NNA engaged in a colloquy during discovery in this case on the Postal Service's efforts to measure Within County delivery times.

I was personally involved in the study conducted by IBM that was reported to the Commission as the **Community Newspapers Study Highlights, 2010**. I participated in the introductory meetings with IBM and USPS Consumer Affairs and Business Mail Entry specialists, and assisted in selecting lists of newspapers for IBM to use for "salting" recipients to test delivery times. Although I did not keep notes from those sessions, I remember well that despite the highly professional and rigorous conduct of IBM's personnel, they found that for many of the NNA newspapers they could not find monitors to receive mailed newspapers. We learned the IBM's mail monitoring people are in larger cities and suburbs and that it does not have many in small towns. So the newspapers selected to participate skewed toward our own suburban members. A truer picture of small town and rural America delivery would have been developed if there were more widely dispersed monitors.

1 I remember that I counseled the PRC not to order this study. I believed it was an
2 unnecessary expense for the Postal Service. At the time, our local newspaper delivery
3 was pretty good. Our concerns were almost all with long-distance mail.

4 Now, however, I can see that the Commission was right. I failed to see how our
5 futures would develop. I am attaching as Appendix A some pages for reference from
6 the report that was filed in Docket RM2010-3.

7 First, the service scores from the study reported in 2010 were worse than I
8 anticipated. The highest on-time delivery was about 84%. I would have guessed it to be
9 higher than that. In the Pacific and Southwest regions, on-time delivery was in the 55-
10 58% range. Those are pretty bad for a product that is usually carrier-route, walk-
11 sequence-prepared by the mailer.

12 Second, we face an uncertain future of post office and plant closings. Service
13 that achieved an overnight on-time arrival at a discouraging 55% range in 2009-10
14 certainly isn't going to get any better if the mail entry point changes, plants close and the
15 Postal Service lowers the standards.

16 Third, although the study was intensive and time-consuming for NNA as well as
17 the Postal Service, it was better than what we have now. The Postal Service
18 announced in its 2010 filing that it intended to use magazine service scores as a proxy
19 for newspapers. NNA did not object. In fact, we were surprised to learn of the filing, as
20 it appeared in a docket that NNA did not participate in. We had expected after NNA's
21 considerable expense for the survey we would have had the courtesy of at least an alert
22 from the Postal Service when the report was released, but good etiquette failed in that
23 case, I believe, amidst USPS's many staff restructurings at headquarters.

24 It will be obvious to the Commission, familiar as it is with mailers' patterns, that
25 service measurements of magazines will be no good proxy for newspapers. Large
26 magazines are heavily destination entered but nowhere near as high density as
27 percentages of mailings as newspapers. I am confident few of them are entered
28 overnight for same day delivery. And the data I am familiar with from DelTrak and Red

Tag, which have been the primary sources of magazine service data, do not attempt to focus on smaller communities where our newspapers are.

Now, the Postal Service tells us it intends to convert all mail to full-service IMb. This conversion is unwelcome to us. A full-service barcode is costly to implement, and expensive to print. For a manually-sorted DDU-entered newspaper it is utterly useless. That mail will never see a machine to get a service score scan.

In short, I do not foresee a way now or in the immediate future for the Postal Service or the Commission to measure how well newspaper mail meets a service standard. The IBM study, good as it was, was skewed to larger communities--and in any event that protocol has been shelved. Red Tag and DelTrak do not cover newspapers, and IMb will produce nothing.

What we have to count on is the common sense practice of entering newspapers in destination delivery units, both directly and through Exceptional Dispatch, wherever possible, and trusting Sectional Center Facilities or transfer hubs near the entry point to turn the 5-digit containers around quickly to reach local post offices.

C. Plant closings have aimed first at smaller, more rural areas, which unevenly target our newspaper mail for poor service.

My colleague David Bordewyk, co-chairman of the NNA Postal Committee, is testifying in this case about the impact of the closing of a small SCF in Mobridge, SD. His experience is an early one in the waves of plant closings that are planned. The disruptions we predict are seen in a microcosm in his southern South Dakota community.

I have called this network optimization plan "Postal-geddon." That's what it will be for newspapers. As someone who bleeds blue as much as any non-postal employee ever has--I am keenly disappointed in this plan.

This optimization plan is being driven by the need to fill up letter-sorting machines with volume so greater automation efficiency will be achieved, in the hopeful

1 belief that the mailers will not desert the Service, a lot of postal employees will retire and
2 costs will fall.

3 To me, a service plan driven by the need to run a machine is a plan without a
4 mission. It is an engineering plan, not a business plan.

5 For newspapers, the equivalent would be holding up our editions until we had
6 loads of news and advertising because it is cheaper for us to print one fat newspaper
7 than a lot of smaller ones--and never mind when the news/advertising needs to get out.
8 It would make us much more money and that would last until all of our readers and
9 advertisers bailed out on us, which would be pretty fast. It is a customer-deaf strategy
10 that accelerates the end of the mail. That is, unless you consider the need for a national
11 mail system to be primarily designed to serve high-density urban and suburban
12 neighborhoods with packages and advertising that private commerce is already serving.

13 I have sincerely counseled the Postal Service not to optimize its network in this
14 way. Closing buildings does little to save costs and stockpiling mail to feed a machine
15 inevitably damages service. That is why USPS is here today.

16 Instead what USPS must do is streamline its workforce, downsize the huge and
17 inefficient--and aging--urban plants, maintain its smaller and more efficient plants and
18 work with its labor groups to achieve more part-time and casual worker flexibility, cross-
19 craft movement and buyouts for interested eligible employees. We all recognize that the
20 benefit-rich environment of the 80s and 90s is no longer available for any American
21 work force. Newspapers faced that reality a decade or more ago.

22 This case is not the optimization case, to be sure. But the network optimization is
23 driving the service standards request. The Commission cannot deal with these two
24 elements in isolation.

25

26

III. The Commission should recommend no change in overnight service standards in the service areas of closing plants, or in the alternative recommend service-preserving measures for time-sensitive mail.

I deeply regret the financial circumstances that have led the Postal Service to propose ending overnight mail delivery for any mailer or community. This proposal has injected great uncertainty into the mailing community and inevitably--regardless of the outcome--has accelerated the move of mail out of the system forever. I urge the Commission to seriously consider all of the ramifications to this service proposal before supporting it. In the alternative, I am offering a number of recommendations.

A. Recommend continued overnight service within existing SCF zones.

NNA supports language that will be voted on in the US Senate shortly, offered by Senators Collins, Lieberman, Brown and Carper in a substitute amendment to S. 1789. These provisions would preserve overnight delivery for time sensitive mail within SCF zones. Maintaining these smaller zones for overnight mail would give the Postal Service some new flexibility and still assure mailers that important correspondence, checks in the mail, newspapers and other mail needing timely service will remain in the mailstream.

B. Transportation or hand-off hubs are needed in the areas of closed facilities.

It is encouraging that some of the Area Mail Processing (AMP) studies already completed recommend creating hubs to keep some mail from moving long distances to gaining facilities. There are several elements that must be part of these new designs if mail processing plants continued to close.

1. All mail prepared in 5-digit, carrier route, or mixed 5D/carrier route containers within an origin SCF in non-FSS zones should be handled at a hub.

NNA's members use all mail classes, but in this case, I am referring to First-Class, Periodicals and Standard CR mail.

Particularly in non-FSS zones, it makes little sense to carry mail hundreds of miles when entered within an SCF and intended for delivery within an SCF zone just to carry it to a machine or manual plant handling so that sorting already done by the mailer can be redone. As SCFs close, the existing hubs, or new hubs, should take their place to handle this mail whenever possible. These 5-digit and carrier route containers can be quickly cross-docked at a hub and avoid the transportation expense and delay of taking it to the gaining facility. Where flats are concerned, in particular, I believe from personal conversations with postal personnel and my own observation that gaining plants will be unable to handle effectively a large surge in volume.

In this context, I have suggested to the Postal Service that it eliminate the Line of Travel (LOT) sequencing that can be used for Periodicals and simply require walk-sequencing in the pieces prepared for carrier route bundles.

2. Time sensitive mail even within FSS zones 5-digit and sequenced carrier-route containers should be handled at a hub, especially if it is not likely to be sorted on the FSS or a DPS machine.

The Postal Service has agreed in this case that newspapers are unlikely to be processed by FSS. I believe the same will be true for Saturation and much of the High-Density Standard ECR mail, which our newspapers also use. A number of mailers who are not interveners in this case also have mail that is a) flat mail; b) relatively time-sensitive; and c) not in need of DPS or FSS operations because they are already sequenced, have expressed similar concerns about having their mail unnecessarily hauled to gaining facilities, only to return untouched but late.

3. Business Mail Entry Units should remain within closing SCF zones.

Much change has already occurred and more is ahead for acceptance of business mail. The Postal Service has devoted much time and resource to Seamless Acceptance, so as to cut down on the time and red tape involved in entering commercial mail. The imposition of Sarbanes-Oxley rules upon BMEUs has seriously disrupted

newspaper entry already, and though USPS has made some accommodation for overnight newspaper entry, more work must be done.

i. Overnight newspaper mail drop privileges must be preserved and extended within reasonable parameters.

After business-threatening disruptions for many of our members when SOX rules set in, the Postal Service implemented a small exception for overnight newspaper entry, provided certain conditions were present. It permits overnight entry when 1) the privilege existed in 2009; 2) the paper has more than 50% of its distribution in-county; 3) a mailing is fewer than 5,000 pieces; 4) the annual mailings do not exceed 300,000 pieces; and 4) postage is on account at the entry office to cover the mailing.

This new provision has saved our business in many, many circumstances, and I am deeply grateful to the professionalism of the Business Mail Entry experts at the Postal Service for creating and administering it. It took approximately many months for NNA to demonstrate that newspapers that have exactly the same mailing patterns, sizes, weights and shapes over a period of years are not likely to create a risk of revenue deficiency for the Postal Service. Our industry has gotten along fine with USPS auditors for years by dropping mail at night and settling on the payments the following day, along with any adjustments that were needed in costs. Though SOX red tape put hundreds of same-day delivered newspapers at risk for a while, peace now reigns for those newspapers.

But as SCFs close and more newspaper drop shipping is required--at the publisher's expense--this limited exception will be too little. It already does not fit our twice-weekly or daily newspapers, or any new titles that are created--and there are quite a few start-ups to fill voids in small towns left by declining metropolitan newspapers. The Postal Service should re-examine this provision and expand it. The Commission's prompting for it to do so would help to accelerate this examination.

1 **ii. Mail.XML must be accelerated.**

2 Newspaper mailers do not use or need Mail.dat, the file structure and protocol
3 created and licensed by the IdeaAlliance and primarily used by large commercial
4 printers for trucked mail. The expense and sophistication of Mail.dat exceeds the
5 capacity of all but the largest newspaper mailers. Yet Mail.dat is necessary to
6 participate in most electronic documentation for *PostalOne!*. For smaller mailers, USPS
7 has created the Postal Wizard. But that program is only a manual-entry matrix. It is not
8 a substitute for electronic transmission desired by both USPS and mailers.

9 So the NNA community has long awaited the arrival of Mail.XML for Periodicals.
10 This simpler file structure could be used by all mail preparation software used by our
11 industry. I understand the Postal Service has testified that Mail.XML is currently
12 available.

13 But I beg to differ. My group's primary mailing software company, Interlink, has
14 sunk six figures into getting mailing statements in sync with *PostalOne!* by using
15 Mail.XML. This investment was made largely because I felt it my duty to help our
16 industry move to automated mail acceptance. Despite this large investment, Mail.XML
17 still does not work. The Postal Service has put software vendors through a myriad
18 changes and updated versions. Mail.XML is available in theory, but in practice, I have
19 yet to find a Periodical able to use it beyond test stage.

20 It is essential for the Postal Service to make this software interface workable so
21 that our publishers can physically drop mail in multiple locations in closing SCF zones,
22 and file mailing statements from wherever they are to wherever the BMEU ends up. I
23 hope the Commission will recommend completion of this long-awaited mailers' tool.

24 **4. Critical Entry Times (CETs) must be meaningfully available.**

25 It will be of little value for USPS to create hubs for SCF-zoned mail if the critical
26 entry times are so early that mail is effectively delayed a day.

27 During the implementation of SOX rules, NNA publishers got a taste of how
28 changing CETs could play havoc with the mail. Local clerks, worried about getting their

new mountain of documentation finished, began setting new CETs at will. Newspapers that were entered at 4 p.m. were told to enter at 1 p.m. or even 11 a.m. so the clerk would have plenty of time to verify the mail and type in all the numbers necessary to match the mailing with *PostalOne!* requirements.

But newspaper mail is not that fluid. Printing times are relatively fixed. They are driven by closing deadlines for news and advertising. In today's environment of shrinking printing capacity, they are also driven by the time slots available on the printing press. A publisher cannot simply move up the press time, because another publisher's newspapers are likely on the press before and after his editions.

In these early CETs, a Thursday-entered paper coming in at the old time of 4 p.m. would not have been processed until Friday, even though minimal verification is needed and postal trucks were not headed to their destinations until 5 or 5:30 p.m. Deliveries of the Friday paper were happening on Saturdays, or even Mondays. That is too late for the readers. It is too late for the advertisers. These delays cost newspapers a great deal of money. They lose subscribers and often have to refund money to advertisers who did not get the value of their ads and inserts because of USPS delays.

The Postal Service must set the CETs at hubs in a way that allows both same-day delivery and next-day delivery where they existed prior to SCF closings. Otherwise, the hub process will be meaningless. Where hubs are not necessary because a publisher is drop shipping to post offices through exceptional dispatch or use of additional entries, mail should be delivered the same day in the case of an overnight drop or the following day when mail can be dropped while the office is open.

5. More 5-digit containers will be needed.

Even before the Postal Service's decisions following, the Time Inc. complaint case newspapers have been forced to make up different types of containers. NNA has engaged in a relentless campaign to get newspapers to abandon sacks for as much mail as possible and to use un-containerized bundles for Destination Delivery Unit mail or flats trays (tubs) for all other presort mail.

1 Our progress has been hampered by a number of things. 1) the Postal Service
2 has at times had a shortage of tubs; 2) USPS personnel sometimes do not understand
3 the regulations and require publishers to make up mail in sacks; 3) the Postal Service
4 applies the sack charge to the flats tub, despite the Commission's recommendation
5 against the charge in its 2006 opinion; and 4) things change slowly in the mailing
6 industry. Despite these barriers, newspapers are the only mailers I am familiar with who
7 have made a serious effort to use these less costly containers instead of sacks.

8 But sacks remain necessary in many cases.

9 Today they can contain 5-digit or carrier route bundles that wind up in a 3-digit
10 sack or higher. Before 2006, this mail could have been in a "skin sack," and gone
11 directly to its 5-digit destination. But because of sack minimums, these bundles take
12 unnecessary trips through the system. Even worse, current rules do not allow carrier-
13 route bundles in tubs for reasons that are hard to understand.

14 If newspapers are to survive the network optimization, USPS is going to have to
15 permit these 5-digit containers again, regardless of minimums. Otherwise, that mail is
16 going to go even further out of its way, or USPS personnel will have to manually open
17 and empty sacks at hubs to get the 5-digit and CR bundles out before sending
18 containers on to the gaining facility. A tray is a more desirable container for fewer than
19 24 pieces, however, since it holds no more than one-third the allowed weight of a sack.
20 Allowing carrier-route bundles in tubs is a much-needed alternative.

21 The Commission should recommend changes in these container minimums
22 when hubs are installed to maximize mail that goes through them. NNA also would
23 appreciate the Commission's renewing its recommendation not to implement a
24 container charge on flats tubs until such time as USPS can provide costing analysis in
25 the hub environment. It is in the best interest of both USPS and the mailer to promote
26 an accelerated conversion to these smaller containers.

27

28

Conclusion

The ending of overnight service standards is a grave development for the Postal Service. I believe it will prove to be an error in the long run. However, I agree with the Postal Service that the massive facilities closings it contemplates will necessitate a slowing of the mail. I continue to hold out hope that wiser heads prevail and that the Commission's analysis and advice will cause the Postal Service to re-examine this issue.

In the event national overnight service ends, viable options remain for continued overnight service within zones that coincide with old SCF service areas. In addition, implementation of hubs to cross-dock 5- digit and carrier route mail will help many mailers to avoid the considerable harm that otherwise could occur for time-sensitive mail. I have laid out a series of steps that the Postal Service should take for newspapers that require overnight service. I hope the Commission will recommend them.

APPENDIX A

Key slides from Community Newspaper Study Highlights, a report filed by the Postal Service on July 10, 2010. The report states the study was created for the Postal Service by Global Business Services of IBM. The pages have been compressed for easier reference

(Page 3)

Background – why measure Community Newspaper Mail?

• In 2008, the Postal Regulatory Commission expressed concern that some segments of the Market Dominant Product population would not be measured with the IM™ solution - including community newspapers

• In 2008, the USPS and IBM met with the National Newspaper Association (NNA) to discuss measurement options for community newspapers

– We discussed using sampling data, a proxy, or customer complaint data as well as the idea of conducting an external measurement study

– External Measurement had the most opportunity for accuracy and representativeness, so the USPS, NNA and IBM agreed to collaborate

• Baseline results could be compared with the existing Periodicals results

• Before we could conduct a study, we needed source data for the design – We had ODIS RPW 2008 Periodicals data, but no details

for Community Newspapers:

- In-County Periodicals = 8.4%
- Non Automation = 7.4%
  - We conducted a survey with NNA members in the fall of 2008 to gather data about their Periodicals mailings and to determine how many would participate in a study in the future

(Page 4)

Background – baseline study

- We conducted this baseline study from July 11th to September 25th to measure the on-time performance of community newspapers
- Service was measured end-to-end using
  - Newspaper reported entry dates and times to start-the-clock
  - Reporter reported receipt dates to stop-the-clock
  - Periodicals Service Standards
- We used 5PM as the Critical Entry Time
  - This allows for entry in a nearby facility that may not be the Delivery Unit
- Results were not weighted by mail volumes due to various issues with limited source data and a very small sample of pieces
- Study participants
  - There were 103 newspapers in 100 originating 3-digit ZIP Codes in 63 PCs
  - We used EXFC reporters to receive and report the pieces across 125 destinating 3-digit ZIP Codes in 64 PCs

(page 5)

Study Design

- The study was designed based on the national level statistics from the NNA survey we conducted in 2008
- We aimed to have the same ratios on frequency and Within/Outside County mailings across each Area

Area Level Goal
1 Daily
2 Two-Three Times/Week
9 Weeklies

National Goal / Actual	Frequency			County Type*	
	Daily (5 or more days)	2-3 Times / Week	Weekly	Within County	Outside County
Goal	**12.5%**	**20.0%**	**67.5%**	**65%**	**35%**
Actual	**14.1%**	**19.7%**	**66.1%**	**56.5%**	**43.5%**

(page 6)

Community Newspapers On-Time Results and Mail Variance Results

Performance for Community Newspapers

Baseline Study Conducted between July 11, 2009 - September 25, 2009

Area	Volume	Ontime Percent On Time	Ontime +/- Range	Percent Within + 1-day	Percent Within + 2-days	Percent Within + 3-days
Capital Metro Area	640	77.85	3.92	89.05	92.82	94.57
Eastern Area	685	83.63	2.96	92.78	96.31	97.27
Great Lakes Area	676	66.36	4.44	77.71	85.09	88.90
New York Metro Area	677	65.62	4.80	77.53	85.28	90.89
Northeast Area	671	80.74	4.32	89.10	94.02	96.72
Pacific Area	626	58.00	6.17	70.03	81.08	86.30
Southeast Area	634	55.41	6.27	76.27	84.56	90.84
Southwest Area	654	75.62	3.12	87.25	91.90	94.40
Western Area	795	84.88	3.05	93.11	95.29	97.61
Nation	5,425	72.48	1.50	83.98	89.81	93.22

Notes:

- Performance results are unweighted.
- A Critical Entry Time of 5:00 pm was applied to all entries.
- 103 Publications were included covering 100 originating 3-digit ZIP Codes in 63 Performance

(Page 7)

Community Newspapers National Results by Frequency and County Type

Performance for Community Newspapers

Baseline Study Conducted between July 11, 2009 - September 25, 2009

Frequency	Combined Origin/Destination								
	Within County			Outside County			Total		
	Volume	Percent On-Time	+/- Range	Volume	Percent On-Time	+/- Range	Volume	Percent On-Time	+/- Range
Daily	276	71.74	4.63	490	61.84	4.30	766	65.40	3.91
Two-Three Times	737	92.40	1.78	334	55.09	4.42	1,071	80.77	1.93
Weekly	2,051	79.67	2.54	1,537	60.64	2.33	3,588	71.52	1.90
Total	**3,064**	**82.02**	**1.88**	**2,361**	**60.10**	**2.01**	**5,425**	**72.48**	**1.50**

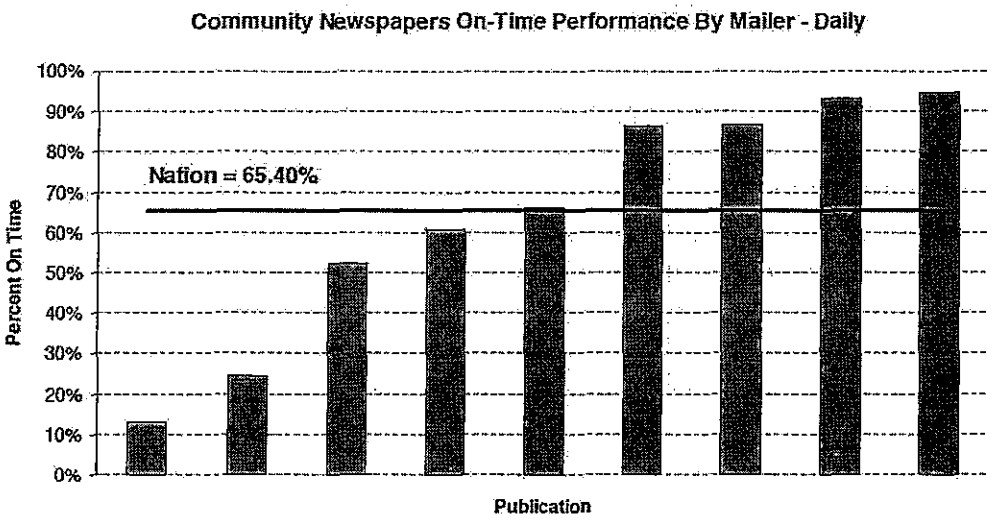
Notes:

- Performance results are unweighted.
- A Critical Entry Time of 5:00 pm was applied to all entries.
- 103 Publications were included covering 100 originating 3-digit ZIP Codes in 63 Performance Clusters (PCs) and 125 destinating 3-digit ZIP Codes in 64 PCs.

* For the most part, Within County was determined based on entry location and not the rate that the newspaper actually received

(Page 8)

Distribution of on-time results by mailer within frequency group (Daily)



- The NNA Daily newspapers that participated had a relatively low circulation volume delivered by mail

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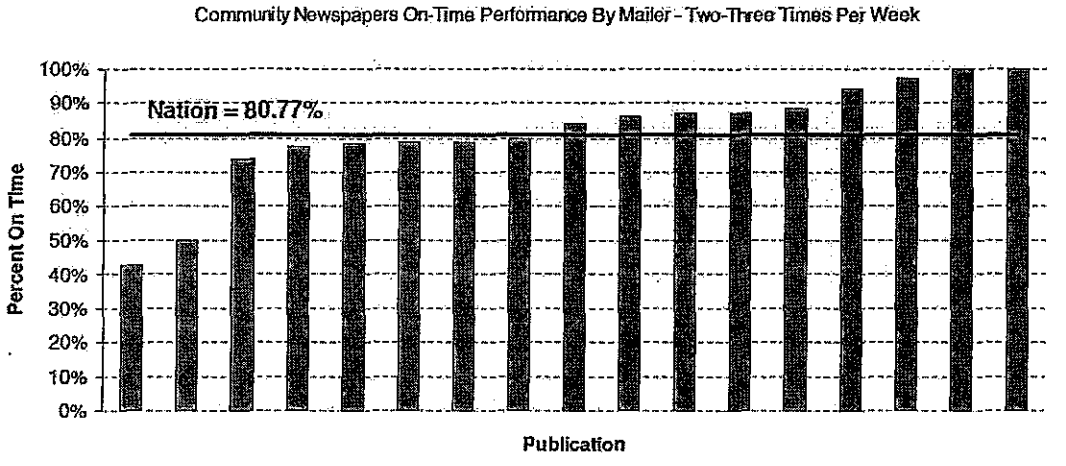
2 (Page 9)

Distribution of on-time results by mailer within frequency group (Two-Three Times per Week)



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1 CHAIRMAN GOLDWAY: Counsel, can you identify
2 the library references that have been filed with
3 Witness Heath in this docket and indicate if he is
4 relying on that material or not?
5 MS. RUSH: Yes, Madam Chairman. There was a
6 library reference that he will be relying upon. It's
7 contained in his packet. It is the National Newspaper
8 Association Community Newspaper Readership Survey.
9 CHAIRMAN GOLDWAY: Thank you. We will next
10 receive written cross-examination.
11 Mr. Heath, have you had an opportunity to
12 examine the packet of designated written cross-
13 examination that was made available to you in the
14 hearing room today?
15 THE WITNESS: Yes, I have.
16 CHAIRMAN GOLDWAY: Are there any corrections
17 or additions that need to be made?
18 THE WITNESS: No. I believe it's accurate.
19 CHAIRMAN GOLDWAY: If the questions
20 contained in that packet were posed to you orally
21 today, would your answers be the same as those you
22 previously provided in writing?
23 THE WITNESS: Yes, they would.
24 CHAIRMAN GOLDWAY: If everything is then in
25 order, counsel, please provide two copies of the

1 corrected designated written cross-examination of
2 Witness Heath to the reporter. That material is
3 received into evidence, and it is to be transcribed
4 into the record.
5 (The document referred to was
6 marked for identification as
7 Exhibit No. NNA-T-1 and was
8 received in evidence.)
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL NEWSPAPER ASSOCIATION
WITNESS MAX HEATH
(NNA-T-1)

Party	Interrogatories
United States Postal Service	USPS/NNA-T1-2, 5-12, 15-19, 21

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL NEWSPAPER ASSOCIATION
WITNESS MAX HEATH (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NNA-T1-2	USPS
USPS/NNA-T1-5	USPS
USPS/NNA-T1-6	USPS
USPS/NNA-T1-7	USPS
USPS/NNA-T1-8	USPS
USPS/NNA-T1-9	USPS
USPS/NNA-T1-10	USPS
USPS/NNA-T1-11	USPS
USPS/NNA-T1-12	USPS
USPS/NNA-T1-15	USPS
USPS/NNA-T1-16	USPS
USPS/NNA-T1-17	USPS
USPS/NNA-T1-18	USPS
USPS/NNA-T1-19	USPS
USPS/NNA-T1-21	USPS

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-2. Please refer to your testimony on page 4, lines 17 through 22. You state, "For the past six years, NNA has conducted one national survey a year in conjunction with the RJ Reynolds Institute at the University of Missouri. Our researcher conducts a statistically valid survey of America's small towns, focusing on communities of 15,000 people or fewer. Each year, results demonstrate the same truth: people in smaller communities must have their newspapers." Please also refer to subsection (k) of Rule 31 of the Commission's Rules of Practice (39 C.F.R. § 3001.31).

(A) Please provide all information required by Rule 31(k), including the following: a description of the study plan underpinning the survey described in your testimony, a clear description of the study design, all relevant assumptions underpinning the survey, the techniques or procedures used to compile the survey data, the definition of the universe under study, and the sampling frame and units.

(B) If not provided in response to subpart (A) above, please provide the following: the date (month, day, and year) on which the survey began and the date (month, day, and year) on which the survey ended (*i.e.*, the survey period).

(C) If not provided in response to subpart (A) above, please provide a complete copy of the survey, including all questions posed to survey participants, all instructions provided to survey participants, and complete copies of the individual survey responses received from participants. Names of specific individuals may be redacted.

(D) If not provided in response to subpart (A) above, please provide the total number of persons who were provided with an opportunity to participate in the survey. Please also identify any criteria that were used to determine which persons would be provided with an opportunity to participate in the survey.

(E) On what basis do you conclude that the survey is "statistically valid"?

RESPONSE:

(A) (B) (D) & (E) I am providing a full copy of the study as NNA LR-N2012-1/2. The study report explains its methodology, provides the questions and explains how participants were selected and surveyed. The methodology, survey instrument and sample selection are explained on pgs. 1-3. The survey was conducted by telephone in August and October, 2011, as noted on p. 3. It was directed to randomly-selected telephone numbers in

NNA/USPS T1-2 (con't)

communities served by newspapers with circulations under 15,000. The questions posed in the survey are detailed in the various explanations of responses throughout the report.

(C) I do not have the original responses. I have access only to the RJI final report, which is provided to NNA members.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-5. Please refer to your testimony on page 7, lines 6 through 10. You state, "NNA's readership survey indicates that many readers of community newspapers in general receive their newspapers by home delivery. However, despite the soundness of the study otherwise, we do not rely on this number. We believe respondents may be interpreting 'home delivery' as 'I get my newspaper at home,' as opposed to the office or elsewhere." Please also refer to subsection (k) of Rule 31 of the Commission's Rules of Practice (39 C.F.R. § 3001.31).

(A) Please confirm that the "readership survey" is the same as the survey referenced on page 4, lines 17 through 22, of your testimony. If you do not confirm, please provide, with respect to this "readership survey," all information requested in USPS/NNA-T1-2 parts (A) through (D).

(B) Please confirm that the term "soundness" is intended to express your opinion that the study is "statistically valid." If not confirmed, please define the term "soundness" as you use it in your testimony.

(C) On what basis do you conclude that the survey is "sound"?

(D) Please state the basis for your belief that "respondents may be interpreting 'home delivery' as 'I get my newspaper at home,' as opposed to the office or elsewhere."

RESPONSES:

(A) Confirmed.

(B) I am not referring here to the statistical validity of the survey but to my belief that the question as posed may have been ambiguous.

(C) I am not a statistician, but the contractor who conducts this survey is. His methodology is reported in the body of NNA LR 2012 1/2.

(D) I have extensive experience in newspaper circulations. Terms of art used among circulation executives, such as "home delivery" to mean delivery by non-postal carriers, were not spelled out in the survey and the results conflict with my own understanding of distribution methods among community newspapers. The mail constitutes the most important single channel for community newspaper delivery,

NNA/USPS T1-5 (con't)

particularly in small and rural communities, where motor route carriers are not cost-effective.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-6. Please refer to your testimony on page 7, lines 11 through 17. You state, "NNA occasionally conducts informational surveys of our most active members for purposes of testing member interest in a variety of topics. Our most recent poll asked publishers what percentage of their newspapers was delivered by mail. The results ranged from 2% to 97%. These numbers are likely heavily driven by the type of community where the newspaper is published. The more suburban or exurban a newspaper is, the more likely it is to be picked up on newsstands. The more rural, the more likely to have mailed-to-home distribution." Please also refer to subsection (k) of Rule 31 of the Commission's Rules of Practice (39 C.F.R. § 3001.31).

(A) Please provide all information required by Rule 31(k), including the following: a description of the study plan underpinning the survey described in your testimony, a clear description of the study design, all relevant assumptions underpinning the survey, the techniques or procedures used to compile the survey data, the definition of the universe under study, and the sampling frame and units.

(B) If not provided in response to subpart (A) above, please provide the following: the date (month, day, and year) on which the survey began and the date (month, day, and year) on which the survey ended (i.e., the survey period).

(C) If not provided in response to subpart (A) above, please provide a complete copy of the survey, including all questions posed to survey participants, all instructions provided to survey participants, and complete copies of the individual survey responses received from participants. Names of specific individuals may be redacted.

(D) If not provided in response to subpart (A) above, please provide the total number of persons who were provided with an opportunity to participate in the survey. Please also identify any criteria that were used to determine which persons would be provided with an opportunity to participate in the survey.

(E) Please define the term "community" as you use that term in your testimony. Please include in your explanation whether a "community" is defined by a city, ZIP Code, county, or other commonly understood concept.

(F) Please define and explain the difference between the terms "suburban" and "ex-urban" as you use those terms in your testimony.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

(G) With respect newspapers that are published in rural communities, please provide the percentage of those newspapers that is distributed via the mail.

(H) With respect newspapers that are published in suburban or ex-urban communities, please provide the percentage of those newspapers that is distributed via the mail.

RESPONSES:

(A) This survey was, as I said, an informal information survey designed for in-house use at NNA, but I reviewed it to see whether it provided additional insights into newspaper distribution. The methodology was a census-type survey distributed through the commercial vendor Survey Monkey, and offered to NNA's entire 2,350 member database which includes 800-900 owners with email addresses. Respondents were self-selected. There was neither intention nor attempt to qualify the respondents as statistically valid. But the responses were generally in line with what I observe myself about the industry as I provide consulting services to newspapers.

(B) The survey was first circulated on April 9, 2012. The survey is still open for member response, but no new participants have responded since May 8, 2012.

(C)–(D) The complete survey, both questions and responses is provided in an Excel spreadsheet marked in response to this question.

(E) I think of a "community" as an adjective defining a type of newspaper as primarily denoting a small town, although it can also describe a suburb, an exurb, an urban neighborhood, or even an interest group. For example, the newspaper published by my church is an NNA member and it is circulated by Periodicals mail to the 25,000-plus community of people who are interested in the congregation of my church.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

NNA/USPS T1-6 (con't)

(F) My own rule of thumb is that a suburb is immediately attached to an urban area, while an exurb is 15-30 miles away from the urban center. Using the Washington DC metro area as an illustration, I would consider Arlington, VA, a suburb, while Loudoun County, where my company published a community newspaper in the past decade, is an exurb.

(G) I am not sure whether you mean the total number of copies distributed by mail or the number of newspaper companies that use the mail. I do not have the former data, but virtually all NNA members use the mail for some part of their circulations. I know that from personal conversations with many, many publishers and from previous NNA surveys. For rural communities, because of the low density of household distribution, the mail is particularly critical.

(H) I do not know. But in my experience, suburban newspapers are generally more likely to use private carrier forces because most of these free newspapers are not eligible for Periodicals mail. Also many, like the Gaithersburg Gazette in the Washington area, are owned by the metro newspapers in their area that have the large systems available to set up and manage carrier forces.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-7. Please refer to your testimony on page 7, lines 17 through 18. You state, "[M]any of our small dailies still use private carrier forces."

(A) Please confirm that the term "private carrier forces" refers to all persons or entities other than the Postal Service that deliver newspapers to homes or households. If not confirmed, please explain what you mean by the term "private carrier forces" and whether there are distributors other than "private carrier forces" and the Postal Service that deliver newspapers to homes or households.

(B) Please confirm that the term "small dailies" refers to newspapers that are each published at least five days per week. If not confirmed, please explain what you mean by the term "small dailies."

(C) For each carrier listed in (i) through (iii) below, please provide the percentage of "small dailies" that use such carrier for the delivery of newspapers to homes or households.

(i) The Postal Service.

(ii) "Private carrier forces."

(iii) A person or entity other than the Postal Service or a private carrier.

(D) With respect to the "small dailies" that use the Postal Service for the delivery of newspapers to homes or households, please provide:

(i) the percentage of such newspapers that are published in rural communities; and

(ii) the percentage of such newspapers that are published in suburban or ex-urban communities.

(E) With respect to the "small dailies" that use "private carrier forces" for the delivery of newspapers to homes or households, please provide:

(i) the percentage of such newspapers that are published in rural communities; and

(ii) the percentage of such newspapers that are published in suburban or ex-urban communities.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

(F) With respect to the "small dailies" that use a person or entity other than the Postal Service or a "private carrier" for the delivery of newspapers to homes or households, please provide:

(i) the percentage of such newspapers that are published in rural communities; and

(ii) the percentage of such newspapers that are published in suburban or ex-urban communities.

(G) Are you aware of other types of "dailies" other than "small dailies"? If so, please describe the newspaper and identify the portions of your testimony that pertain to such newspapers.

RESPONSES:

(A) Confirmed.

(B) Confirmed.

(C) I have done no industry studies of the distributions of small dailies, but my consulting experience tells me that many daily newspapers with circulations under 30,000 have either shifted to the mail or were giving serious consideration to doing so until the Postal Service's financial problems began to be revealed around 2009. Now, many of those publishers have been frightened off from the mail, believing USPS may not be able to maintain past service standards or 6-day delivery.

(D) I do not know, except that finding a small daily in a suburban area is relatively rare outside of very large cities like Chicago. Most suburban newspapers are weekly or twice weekly. Small dailies are usually published in small towns serving more rural areas.

(E) See my response to (D).

(F) See my response to (D).

(G) Besides "small dailies," there are, of course, metropolitan dailies like the Washington Post or New York Times. Most states have 3-5 metro dailies. I have spent my career with the community newspaper industry primarily and my testimony concerns the community papers.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-8. Please refer to your testimony on page 7, lines 18 through 23. You state, "The conversions we saw just 3-4 years ago to mail due to high gas prices on motor routes have largely ceased, as publishers are discouraged by the many uncertainties of postal rates, days of delivery and network changes. With gas prices even higher now than in 2008, I have to conclude that it is only the upheaval in the mailing world that is keeping these newspapers from flocking to the mail."

(A) Please identify and/or describe the persons or entities that constitute "publishers" as you use that term in the quoted portion of your testimony. Please include in your explanation whether the term "publishers" includes NNA members only and whether the term includes publishers of newspapers only. Please also state the total number of "publishers."

(B) Please confirm that the phrase "conversions...to mail" as you use it in your testimony refers to a publisher's decision to change the carrier providing home/household delivery for some or all of its periodicals from an entity other than the Postal Service to the Postal Service. If not confirmed, please describe the phrase "conversions...to mail" as you use it in your testimony.

(C) Please provide the number of publishers that were using the mail to distribute periodicals during the time immediately prior to the "conversions...to mail" referenced in this portion of your testimony. If the number of publishers is not known, please provide the percentage of the total number of publishers that were using the mail to distribute periodicals during the time immediately prior to the "conversions...to mail" referenced in this portion of your testimony.

(D) Please provide:

i. the number of publishers that converted "to mail" during the time period discussed in your testimony (*i.e.*, "just 3-4 years ago"), or, if the number of publishers is not known, the percentage of the total number of publishers that converted "to mail" during the time period discussed in your testimony;

ii. the time period during which these conversions "to mail" took place (*i.e.*, the month and year the conversions began and the month and year the conversions ended); and

iii. all documents or other sources you relied upon in support of your statement that these conversions were "due to high gas prices on motor routes.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

(E) Please provide:

i. the number of publishers that converted "to mail" after the time period discussed in your testimony (*i.e.*, "just 3-4 years ago") to the present, or if the number of publishers is not known, please provide the percentage of the total number of publishers that converted "to mail" after the time period discussed in your testimony to the present; and

ii. the time period during which these conversions took place.

(F) Please provide all documents or other sources you relied upon in support of your statement that "gas prices" are "even higher now than in 2008."

(G) Please confirm that the phrase "days of delivery" as used in your testimony refers exclusively to the Postal Service's proposal to transition from six-day delivery to five-day delivery. If you do not confirm, please explain what you mean by "days of delivery."

(H) Please confirm that the phrase "network changes" as used in your testimony refers exclusively to the Postal Service proposal in this docket. If you do not confirm, please explain what you mean by "network changes."

(I) Please define or describe the phrase "uncertainties of postal rates." In so doing, discuss the frequency of change and the percentage increases (or decreases) in postal rates paid since 2007 by publishers who use the mail to distribute periodicals.

(J) Please confirm that the phrase "upheaval in the mailing world" is referring exclusively to "uncertainties" with respect to (1) the "days of delivery," (2) "network changes," and (3) "postal rates" as you have used those terms and phrases in your testimony. If not confirmed, please define the phrase "upheaval in the mailing world." In your definition, please identify which, if any, of the following items is encompassed by that definition: "uncertainties" with respect to (1) the "days of delivery," (2) "network changes," and/or (3) "postal rates."

(K) Please provide any documents or records that you received from publishers that support your statement that "upheaval in the mailing world" is the "only" factor (or collection of factors) that is deterring a newspaper, that would otherwise use the Postal Service, from "flocking to the mail."

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8

RESPONSES:

(A) By "publisher," I mean the person who is the top executive officer at a newspaper, In NNA, these individuals are usually, but not always, owners of the newspapers as well. In this statement, I am referring both to NNA members and non-members.

(B) Confirmed.

(C) I have done no industry studies of distribution practices of small dailies, but in my nearly 30 years of consulting, I rarely found a daily newspaper distributed by mail until the late 1990s. In the decade following, several large newspaper groups made wholesale conversions to the mail, including CNHI Newspapers based in Montgomery, AL; GateHouse Media based in Fairport, NY; American Consolidated Media in Irving, TX; Heartland Publications in Clinton, CT; and Lancaster Group, a decentralized partnership. I was involved in advising several of these newspapers on how to use the mail for regular daily distribution. Many of these got warm welcomes from local postmasters, while others encountered only obstacles and "shall nots."

(D) I have no quantitative data to provide, but in my consulting experience I found high fuel prices to be the prime motivator in converting to the mail. The reliability of carrier-routed mail entered at delivery offices, and the administrative cost in recruiting, contracting, and training carriers, savings in redeliveries and handling customer complaints for missed deliveries, were also motivators.

(E) Again, I have no quantitative data and I do not keep files with this amount of detail on my consulting clients. But the wave of conversions I mention in my testimony began in approximately 2007 and continued at a regular pace through about 2010 and early 2011

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

(F) In my area around Louisville, Kentucky, gas prices exceeded $4 a gallon and appeared to be headed toward $5 a gallon earlier this year. I do not believe prices in my area were that high during the price spikes of 2007-8. The Energy Information Administration of the federal government provides historical prices here through 2010.

http://www.eia.gov/totalenergy/data/annual/showtext.cfm?t=ptb0524. Although these official data do not include 2011 and 12, it appears the price spikes were in 2007-8. I am relying on my own observations otherwise.

(G) Confirmed.

(H) I mean the totality of the changes in transportation routes, labeling lists and facilities closures and consolidations that have been occurring since 2006, and especially the more draconian proposals associated with this case.

(I) I am referring here to several rate possibilities that have loomed before our industry, including the Postal Service's proposed exigency rate increase in 2010 and legislative proposals that would impose immediate price increases upon the so-called under-water products.

(J) Confirmed. Anything that creates disruption in otherwise reliable distribution systems is upheaval for time-sensitive publications. Our industry has also been plagued by SOX enforcement since 2009, and our relationship changing from "valued customer" to an adversarial relationship in many cases, where rules enforcement trumps customer-friendly treatment and appreciation

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8

(K) My email archives are not maintained in a systematic fashion, but I have searched through those I can find to provide some email strings responsive to this question. In some cases this discussion began with a telephone conversation so the full context may include facts not listed here. In general, though, they are a good sample of the case work I handle for NNA. These emails are included below, enumerated 1 to 7. I have inserted an [END OF EMAIL] after each string to make them easier to follow. In most cases, you have to start from the bottom of the string and read up to understand the conversation.

1) This is from a newspaper owned by CNHI, Inc., which was having difficulty providing marked advertising copies under the SOX rules.

From: Greta Sanderson [mailto:greta.sanderson@reporter.net]
Sent: Tuesday, January 24, 2012 12:06 PM
To: Max Heath
Cc: hbird@cnhi.com
Subject: RE: Galax VA 3541 submission on Monday after Saturday entry

Max,
We're being told by our local post office that we now need to bring our redline paper for Saturday on Saturday, not Monday, as we have been doing. Do you know about a change in USPS policy? Keep in mind that we publish Tuesday to Saturday. That would require me to have a staff person in on Saturday to do it, which I'd like to avoid.
Thanks,
Greta

From: Max Heath [mailto:maxheath@lcni.com]
Sent: Thursday, October 22, 2009 1:09 PM
To: greta.sanderson@reporter.net
Cc: JoAnn Reed
Subject: FW: Galax VA 3541 submission on Monday after Saturday entry
Importance: High

Here is one USPS HQ solution in Galax VA for situation where office is open on Saturday but you are not. See if it works and share with postmaster. She is free to contact Cher Rupp-Ruggeri. If post office is NOT open, I have another ruling.

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile, Relish, Spry magazines)

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8

From: Rupp-Ruggeri, Cher - Washington, DC [mailto:cher.rupp-ruggeri@email.usps.gov]
Sent: Fri 8/29/2008 10:14 AM
To: Max Heath; cgburress@comcast.net; Alley, Davalon L - Galax, VA

Cc: Lease, Jerome M - Washington, DC; Deannie Baxter; Kim Hogan; Laurie Stone-Seigle; Galaher, Robert I - Rosslyn, VA
Subject: RE: Galax VA 3541 submission on Monday after Saturday entry

Good morning all. I just got off the phone with PM Alley and he advises that he has a clerk available every Saturday to accept, verify, and dispatch mailings. The Galax Gazette will have to present a postage statement on Saturdays when the newspaper is deposited for mailing. If no marked copy is available the marked copy can be presented the following Monday (or Tuesday if Monday is a holiday). The postage statement must include a percentage of advertising that is comparable to the previous issue. This postage statement will be entered into *PostalOne!* on Saturday and will be reversed when the marked copy and a new postage statement for that issue is presented. Does this clarify?

Please do not hesitate to contact me should you have questions or comments? Thank you.

Cher Rupp-Ruggeri
Classification Support Specialist, Sr.
Business Mail Acceptance/PostalOne!
USPS Headquarters
475 L'Enfant Plaza SW, Room 2P846
Washington, DC 20260-0846
phone: 202-268-4019
fax: 202-268-8273
cher.rupp-ruggeri@usps.gov

-----Original Message-----
From: Max Heath [mailto:maxheath@lcni.com]
Sent: Monday, August 11, 2008 3:05 PM
To: cgburress@comcast.net
Cc: Lease, Jerome M - Washington, DC; Rupp-Ruggeri, Cher - Washington, DC; Deannie Baxter; Kim Hogan; Laurie Stone-Seigle
Subject: Galax VA 3541 submission on Monday after Saturday entry

Chuck, the language that I think should work is pasted below. I am
copying two good folks in USPS HQ who can help vouch for this, or

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

correct me if I'm wrong. Show the postmaster this e-mail with special
note to the paragraph starting "Postage on all mail..." Next business

day is Monday after you drop on Saturday and there are no employees
available at our office to finalize the ad % and weight. We are a CAPS
site and our money is always available.

I have been working with BMA and their team of consultants to
incorporate language concerning overnight drop in a revision to the
DM-109. Language has been accepted and approved and will be
published in an update to the handbook. Here is the approximate
language we will be
going by in the future:

Postage on all mail must be fully prepaid at the time of mailing, with
limited exceptions. There are a large number of time-sensitive
Periodicals that are produced and delivered during early hours of the
day to the Post Office for mailing, often referred to as overnight
drops. In such situations, as long as sufficient funds are on advance
deposit to ensure that a negative balance is not incurred, it is
permissible for the publisher to make an overnight drop and submit the
postage statement and marked copy (if applicable) later that same
business day, or the next business day following a weekend or holiday
closing. BME managers/ Postmasters must make arrangements with
publishers to ensure that a monthly random in-depth verification is
performed on each publication that arrives via overnight drop, e.g.
verification on site or arrival at USPS.

As you can see, it's handbook language versus the terse statements in my
previous emails, but the concept of overnight drop is acceptable. You
may use this language and my email to solve immediate issues while the
handbook is being updated and made available to the field. I have copied

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

Anthony Frost and Karen Magazino of BMA to make them aware of my sharing
this email with you.

Jerry (Lease)

Max M. Heath
Postal Consultant
Landmark Community Newspapers, Inc.
PO Box 549
Shelbyville KY 40066-0549
502-633-4334 Ext. 156 (Direct dial 502-513-1156)
Fax: 502-633-4447
maxheath@lcni.com

-----Original Message-----
From: cgburress@comcast.net [mailto:cgburress@comcast.net]
Sent: Monday, August 11, 2008 2:52 PM
To: Max Heath
Subject: RE: Postal Issue

Max:

Our issue was the postmaster starting to require that we hand in our
postal reports with each issue, which isn't really possible when our
Monday issue is printed and mailed on Saturday.

You said you thought you could send us a favorable ruling on this.

Thanks.

Chuck [END OF EMAIL]

2. Here is another on the change in postage statement requirements from a New York newspaper

From: Jeanne Straus [mailto:jeanne.straus@strausnews.com]
Sent: Friday, January 06, 2012 4:33 PM
To: Max Heath
Cc: Tia Bertolotti
Subject: Various

Max:
Hi

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

1) What does the Jan 22 rate increase mean for our 9 periodical requestor pubs?
2) Our local PO is getting on to Postal One. Dawn at MSSI says it's a big deal to get qualified to be able to upload her postage statements. True?

3) Local PO is putting a lot of pressure on us to file the paperwork the same day the paper gets delivered. I told him I thought the regs were (as long as we had enough $ in our account) that we had 24 hours. Am I correct?
4) Separate email coming shortly on the nature of address change problem.

Thanks,
Jeanne

Jeanne Straus. President. Straus News
20 West Ave. Chester, NY 10918
845-469-9000 845-469-9001
www.strausnews.com
NJ: Advertiser-News(North).Advertiser-News(South).Sparta Independent.Township Journal.West Milford Messenger
NY: Warwick Advertiser.Photo News. Chronicle
PA: Pike County Courier

[END OF EMAIL]

3. Another example of a problem arising from an erroneous mail processing direction, where newspapers that should have been held at a local post office were sent unnecessarily to a processing plant, delaying the newspaper by a day. Note that even the postal supervisor is having difficulty here getting the postmaster to correct the practice.

From: Collins, Donna P - New Orleans, LA [mailto:donna.p.collins@usps.gov]
Sent: Monday, December 05, 2011 1:49 PM
To: Darrin Guidry
Cc: Max Heath
Subject: RE: problems with local Houma LA deliveries

Thanks Darrin.
You are so correct. I can't keep up either ☺. But, if you are able to send me the list where you plan to drop, I will send a message to confirm the location.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8

Donna Collins
Mgr. Consumer & Industry Contact

From: Darrin Guidry [mailto:darrin@tri-parishtimes.com]
Sent: Monday, December 05, 2011 8:56 AM
To: Collins, Donna P - New Orleans, LA; 'Max Heath'
Cc: tonda@nna.org; Pam@LAPRESS.com
Subject: RE: problems with local Houma LA deliveries

USPS/NNA T1-8 (con't)

Houma is being dispatched locally and we hope to begin dispatching the rural post offices in the next few weeks. We are having trouble keeping up with the dispatch changes. The USPS is making more changes next month. Thank you and Max for all of your help!
Darrin Guidry
Publisher
Tri-ParishTimes & BusinessNews
Gumbo Entertainment Guide
4924 Hwy 311, Houma, LA 70360
985-876-3008 (voice)
985-876-0950 (fax)

From: Collins, Donna P - New Orleans, LA [mailto:donna.p.collins@usps.gov]
Sent: Wednesday, November 16, 2011 1:50 PM
To: Max Heath
Cc: darrin@tri-parishtimes.com; tonda@nna.org; Pam@LAPRESS.com
Subject: RE: problems with local Houma LA deliveries

Good Morning All,
I just spoke with Selwyn Sonderson, Postmaster Houma La., who assured me that the CRRT newspapers that are dropped at his DDU will be kept there for delivery and will NOT be sent to any plant for processing. He said if the papers are dropped to him before 9:00 a.m., he should be able to deliver the same day, otherwise they will be delivered the following day as if they had come in after 9.
Please let me know if there is anything else I may be able to assist you with.

Donna Collins
Mgr. Consumer & Industry Contact

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8

From: Max Heath [mailto:maxheath@lcni.com]
Sent: Tuesday, November 15, 2011 7:39 PM

To: Collins, Donna P - New Orleans, LA
Cc: darrin@tri-parishtimes.com; tonda@nna.org; Pam@LAPRESS.com
Subject: RE: problems with local Houma LA deliveries

Thanks for your quick and thorough response. Please copy this group via Reply All when you get the final answer. I am in Atlanta, flying out about 10 a.m. Wednesday, 9 a.m. your time. I may be out of contact for several hours after that.

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile, Relish, Spry magazines)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association, Postal Chair and MTAC rep
PO Box 549 Shelbyville KY 40066-0549
Ph. 502-513-1156
Fax 502-633-4447
Cell 502-649-8822

From: Collins, Donna P - New Orleans, LA [mailto:donna.p.collins@usps.gov]
Sent: Tue 11/15/2011 8:29 PM
To: Max Heath
Subject: RE: problems with local Houma LA deliveries

Good Evening Max,
Resolution to this is in progress.
Before attempting to contact the Houma post office, I spoke with both our Sr. Plant Manager and In-Plant Manager to confirm that the Houma Post Office was not instructed to send CRRT mail to NOLA for processing. I was advised that Houma is supposed to keep this mail at the Houma facility for delivery... as you and I both know, additional processing is not required on the CRRT mail at offices without FSS processing. NOLA does not have an FSS machine so this mail would just be turned around back to Houma only delaying delivery.
I was not successful with speaking with the Postmaster at Houma earlier this evening, but I will call him in the morning to follow up. I will send you an email with the results of that conversation.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

Thank you for your business and your patience while I try to get this resolved.

Donna Collins
Mgr. Consumer & Industry Contact

From: Max Heath [mailto:maxheath@lcni.com]
Sent: Tuesday, November 15, 2011 10:41 AM
To: Collins, Donna P - New Orleans, LA
Cc: tonda@nna.org; Shambra, Nicholas J - New Orleans, LA; darrin@tri-parishtimes.com; Pam@LAPRESS.com
Subject: FW: problems with local Houma LA deliveries

Donna, thanks so much for working with this situation to correct the DDU drop being miss-sent to NOLA, and understanding the problem in item 1 below so quickly.

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile, Relish, Spry magazines)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association, Postal Chair and MTAC rep
PO Box 549 Shelbyville KY 40066-0549
Ph. 502-513-1156
Fax 502-633-4447
Cell 502-649-8822

From: Tonda Rush [mailto:trush@americanpressworks.com]
Sent: Mon 11/14/2011 4:49 PM
To: darrin@tri-parishtimes.com; Max Heath
Subject: problems with local Houma LA deliveries

Max, Darrin Guidry at Tri-Parish Times phoned today to say his local Houma postmaster is dispatching *all* mail from Houma to the processing center in New Orleans, which is now destined to close and send mail even further to Baton Rouge.

He needs several things:

1. Help persuading the Houma post office to hold the CR presorted Houma zip codes locally, and not sending those copies to NOLA.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA T1-8 (con't)

USPS/NNA T1-8 (con't)

2. Darrin needs to get his printer converted to flats tubs. He just needs a word from you to the printer on why this is necessary.
3. Darrin needs now to set up exceptional dispatch to keep as much mail as possible from migrating to Baton Rouge. He thinks he may need to set up as many as 12 drops. I thought I had a copy of the exceptional dispatch form letter that you created a while back, but I guess I do not.
   He's already losing a day in service since this switch. If NOLA closes, he will lose more than that. His printer is capable of meeting a 3 pm. CET in Houma. Can you help this member newspaper?
   Tonda

[END OF EMAIL]

4. Here the entire mailing was held up because of a misunderstanding on how bundles were to be prepared. Past practice of USPS was to move the mail first and correct charges later if necessary. Now newspapers find themselves in a more rigid environment. The entire value of an issue can be lost for some stories and advertisers when delivery is delayed.

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-----Original Message-----
From: bpalmer@dailytribune.net [mailto:bpalmer@dailytribune.net]
Sent: Wednesday, November 23, 2011 8:16 AM
To: Max Heath
Subject: RE: corrected qual rpt and 3541

Max,
Thanks this appears to be addressing the issue. Franks is not
answering the phone right now, so we're more than a little lost.

But if we are CASS certified isn't that supposed to take care of
these issues and give us a degree of immunity?

bob


Quoting Max Heath <maxheath@lcni.com>:

> Sorry to be so nerdy, but there CAN be some sacks/trays below
24 as
> exceptions. These include your SCF or origin, an OMX sort, and
the
```

> MADC sort/container. I am attaching a link to a Quick Service Guide

USPS/NNA T1-8 (con't)

> that may be helpful to you. Of course, he may be asking for something
> above and beyond these three. Also showing some exceptions to
> bundling, but not below 24 in container.
>
> http://pe.usps.gov/text/qsg300/Q707e.htm
>
> DMM 707.22.4 Bundles With Fewer Than Six Pieces
>
> Nonletter-size Periodicals may be prepared in 5-digit and 3-digit
> bundles containing fewer than six pieces when the publisher determines

> that such preparation improves service. Pieces in these low-volume
> bundles must be claimed at the applicable mixed ADC price
> (Outside-County) or basic price (In-County). Low-volume bundles are
> permitted only when they are sacked or prepared on pallets as follows:
>
> a. Place bundles in only 5-digit, 3-digit, and SCF sacks that contain
> at least
> 24 pieces, or in origin/entry SCF sacks, as appropriate.
>
> _____
>
> From: Bob Palmer [mailto:bpalmer@dailytribune.net]
> Sent: Tue 11/22/2011 4:55 PM
> To: Kincade, Charles H - Little Rock, AR; Max Heath
> Subject: Re: corrected qual rpt and 3541
>
>
> Mr. Kincade,
> Then why are you telling Angie to break out a sack with 22 pieces?
>
> We only desire to have our report in compliance with Postal
> regulations, but this appears to be totally incorrect. It would seem
> reasonable that you would permit us to continue mailing until these
> matters are resolved.
>
> Palmer
>
>

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

> On 11/22/2011 3:50 PM, Kincade, Charles H - Little Rock, AR wrote:
>
> Mr. Palmer,

USPS/NNA T1-8 (con't)

> I said your mail would not be held up if there were no problems.

> Based upon the qualification report for today, there are problems.
> The bundle requirement is based upon 6 addressed pieces and the
> sacking requirement is based upon 24 addressed pieces. I am working
> with Angie to try and get this corrected for you, as well as some
> incorrect sack sortation errors that are showing up on today's
> qualification report.
>
>
>
> Charles Kincade
> Business Mail Entry/Mailing Requirements
> 420 Natural Resources Dr
> Little Rock AR 72205-9651
>
> ph: (501)228-4125
> fax: (501)228-4299
>
>
> _____
>
>
> From: Bob Palmer [mailto:bpalmer@dailytribune.net]
> Sent: Tuesday, November 22, 2011 3:45 PM
> To: Kincade, Charles H - Little Rock, AR; Max Heath; tom@arkansaspress.org
> Subject: Re: corrected qual rpt and 3541
>
>
> Mr. Kincade,
>
> After assuring me you would not hold up the Little River News over
> minor technicalities, that is exactly what you are doing. Further you
> do not seem to understand postal regulations, yourself.
> You are demanding we break out a bundle when there are not 24 copies

> in that bundle. That is just wrong.
>
> Bob Palmer
>

USPS/NNA T1-8 (con't)

Here's the tweaked update, not much change, but does account for the
> 755 mail. Hope this helps.
>

> Charles Kincade
>
> Business Mail Entry/Mailing Requirements
>
> 420 Natural Resources Dr
>
> Little Rock AR 72205-9651
>
>
>
> ph: (501)228-4125
>
> fax: (501)228-4299

[END OF EMAIL]

5. Here is an instance where a time sensitive mailing was simply left on the post office dock, without notification to the publisher.

From: Beverly Puhalla [mailto:beverly@tecumsehchieftain.com]
Sent: Saturday, November 12, 2011 5:48 PM
To: Max Heath
Subject: Re: Tecumseh Post Office

So you are working on Saturday also!

We spent $14,750 in the Tecumseh post office in the past year. I am trying to find out what percent this is of the total revenue earned at that post office.

Is that possible.

This is a customer service issue. The driver left all the mail sacks on the dock Weds night (68% of our newspapers). With Friday being Veterans Day most of those papers were not delivered until Saturday or after. We were able to get most of the in-county

papers delivered because my staff and I took them to the county post offices. Two offices went to Tecumseh and picked up their sacks.

USPS/NNA T1-8 (con't)

My Tecumseh postmaster did not call the office to inform us. We only found out because my husband was in the Pawnee City PO about 9:15 and they told him they did not get the Tecumseh papers.

The Tecumseh postmaster casually informed one of my staff when she went to the post office on her day off at about 9:00 or a little after. The PM never bothered to call our office, or any of the other area post offices, nor did she attempt to do anything, that I know of, other than call, or email, her superiors who told her to put the sacks on the truck when it came again at 6:00 p.m. on Thursday.

To be fair, four of the other county postmasters were very helpful to us. But as I see it the post office does NOT have a corporate culture which stresses customer service. This mistake was made by the truck driver but the PM certainly was not making any attempt to be pro-active and try to get as much mail out of her office as she could.

I will be writing to her superiors and after gathering some more information will be writing an editorial in my paper which will also go to Pub Aux.

So my question is: Am I one of, if not the largest customer of the Tecumseh Post Office and this how they take care of me and the rest of the community?
Well that is more than you probably wanted to read on a Saturday.
Nebraska 17...Pen State 14...go Huskers!..really sad situation in PA

Bev

Beverly J Puhalla
Publisher
Sunrise Pulication
Pawnee Republican~Tecumseh Chieftain
402-335-3394

On 11/12/2011 5:08 PM, Max Heath wrote:
No, not any more. PmG Runyon, over NNA's objections, in the mid-1990s moved postage statements to a confidential business record. The only thing that is open is the Statement of Ownership, which is published. Nothing would stop you of reminding the postmaster of the rule: No more than 75% advertising in more than half the issues of a General (paid) periodical.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile, Relish, Spry magazines)

USPS/NNA T1-8 (con't)

Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association, Postal Chair and MTAC rep
[END OF EMAIL]

6. This is about a newspaper in Rome GA that attempted to use overnight drop to enter his newspapers under the provisions of DM 109 and was told his newspapers could not go out.

From: Dan Mozley [mailto:dmozley@npco.com]
Sent: Thursday, September 01, 2011 7:46 AM
To: Max Heath
Cc: Rupp-Ruggeri, Cher - Washington, DC; Tonda
Subject: Re: DM 109 Periodical help Rome GA

Great Max, thanks to all.

Also, Ms. Rupp-Ruggeri will Neal Dean help us set up the same DM109 permission for Cedartown Standard (30125).

I am on the PCC in Atlanta and know Neal and will be glad to work with him.

Thanks again. Dan

Dan Mozley
News Publishing Co
Rome, GA 30161
706-290-5293

On Wed, Aug 31, 2011 at 11:14 PM, Max Heath <maxheath@lcni.com> wrote:
Each of them has to be approved separately. Spread sheet calculating 12-month mail volume is needed for decision purposes. Glad to help. Cher is the real helper here, and a liaison with NNA on these matters.

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile/Relish/Spry)

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association (Postal Chair/MTAC rep)

USPS/NNA T1-8 (con't)

PO Box 549
Shelbyville KY 40066-0549
Ph. 502-513-1156
Fax 502-633-4447
Cell 502-649-8822
maxheath@lcni.com

From: Dan Mozley [mailto:dmozley@npco.com]
Sent: Wednesday, August 31, 2011 10:40 PM
To: Max Heath

Cc: Rupp-Ruggeri, Cher - Washington, DC; Tonda
Subject: Re: DM 109 Periodical help Rome GA

Yes, I will pass along our conversations to Burgett Mooney our president.

We have other weekly papers so do I need to do something to get them approved for overnight delivery or is a copy of DM 109 sufficient?

I appreciate all the help. Dan

Dan Mozley
News Publishing Co
Rome, GA 30161
706-290-5293

On Wed, Aug 31, 2011 at 5:45 PM, Max Heath <maxheath@lcni.com> wrote:
And thank you, Cher, once again, and Exalted NNA Princess.

Dan, I assume you are an NNA member as part of the Rome GA group?

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile/Relish/Spry)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

National Newspaper Association (Postal Chair/MTAC rep)
PO Box 549
Shelbyville KY 40066-0549
Ph. 502-513-1156

USPS/NNA T1-8 (con't)

From: Rupp-Ruggeri, Cher - Washington, DC [mailto:cher.rupp-ruggeri@usps.gov]
Sent: Wednesday, August 31, 2011 4:50 PM
To: Dan Mozley
Cc: Max Heath; Tonda

Subject: RE: DM 109 Periodical help Rome GA

Good afternoon all. I will contact the Rockmart Postmaster and Neil Dean and get the ball rolling to get your publication approved for overnight deposit. Thank you.

Cher Rupp-Ruggeri
Marketing Specialist
Business Mail Entry & Payment Technology
600 West Rock Creek Road
PO Box 1600
Norman, OK 73070-1600
Phone: 405-573-2513
Fax: 651-456-6455

From: Dan Mozley [mailto:dmozley@npco.com]
Sent: Wednesday, August 31, 2011 4:18 PM
To: Rupp-Ruggeri, Cher - Washington, DC
Cc: Max Heath; Tonda
Subject: Re: DM 109 Periodical help Rome GA

No, we deposited the Rockmart Journal (periodical) at the Rockmart PO 30153 this morning at 7:30am before normal business hours and yes with no paperwork.

We had a story that affected the entire county (Polk) so we held our usual print schedule to overnight.

I thought we could use DM 109 and we notified Rockmart PO of late delivery. I checked with Pmaster this morning and was told papers would not go out the door for delivery unless we submitted paperwork and that DM 109 was no longer valid for overnight drops, ie , paper work or it does not leave the post office.

Postmaster had checked with Neal Dean about the DM 109. I was told this morning it is no longer valid for overnight drops per Mr. Dean.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

I have emailed Mr. Dean for copy of new DM 109 and options for overnight delivery but have not heard back from him as of 4:15 EDT.

USPS/NNA T1-8 (con't)

Thank you for looking into the DM 109 rule. Dan

Dan Mozley
News Publishing Co

On Wed, Aug 31, 2011 at 3:39 PM, Rupp-Ruggeri, Cher - Washington, DC <cher.rupp-ruggeri@usps.gov> wrote:

Good afternoon Mr. Mozley. Are you saying that you deposited your paper at the Rockmart, GA, post office this morning DURING NORMAL BUSINESS HOURS without a postage statement? Thank you.

Cher Rupp-Ruggeri
Marketing Specialist
Business Mail Entry & Payment Technology
600 West Rock Creek Road
PO Box 1600
Norman, OK 73070-1600
Phone: 405-573-2513
Fax: 651-456-6455

From: Dan Mozley [mailto:dmozley@npco.com]
Sent: Wednesday, August 31, 2011 2:25 PM
To: Rupp-Ruggeri, Cher - Washington, DC
Cc: Max Heath; Tonda
Subject: Re: DM 109 Periodical help Rome GA

My postmaster David Watts, Rockmart GA, 30153 was told by his district manager Neal Dean DM 109 had been changed and Watts needed paperwork before he could release/mail our periodical this morning.

Mr. Watts told me this verbally this morning when I called to see if everything was going OK. I have emailed Mr. Dean but have not heard back from him. I did request he send me a new version of the DM 109 as changed.

I appreciate your quick response since we are looking at local elections and football.

Thanks....Dan

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

Dan Mozley
News Publishing Co
Rome, GA 30161
706-290-5293

USPS/NNA T1-8 (con't)

On Wed, Aug 31, 2011 at 2:10 PM, Rupp-Ruggeri, Cher - Washington, DC <cher.rupp-ruggeri@usps.gov> wrote:
Good afternoon all. No changes have been made to the DM-109 concerning the overnight deposit of Periodicals publications since November 2009. Who is advising Mr. Mozley of changes -- name (first and last) and location? Was this notification in writing or verbally? If in writing, may I have a copy of the letter? Thank you.

Cher Rupp-Ruggeri
Marketing Specialist
Business Mail Entry & Payment Technology
600 West Rock Creek Road
PO Box 1600
Norman, OK 73070-1600
Phone: 405-573-2513
Fax: 651-456-6455

From: Max Heath [mailto:maxheath@lcni.com]
Sent: Wednesday, August 31, 2011 1:43 PM
To: Dan Mozley
Cc: Rupp-Ruggeri, Cher - Washington, DC; Tonda
Subject: RE: DM 109 Periodical help Rome GA

I do not know of this. I'm checking with the specialist who helps us implement these for a reaction.

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile/Relish/Spry)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association (Postal Chair/MTAC rep)
PO Box 549
Shelbyville KY 40066-0549
Ph. 502-513-1156
Fax 502-633-4447
Cell 502-649-8822
maxheath@lcni.com

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

From: Dan Mozley [mailto:dmozley@npco.com]
Sent: Wednesday, August 31, 2011 12:47 PM
To: Max Heath
Subject: DM 109 Periodical help Rome GA

USPS/NNA T1-8 (con't)

Hi--hope all is well with you and yours; got a question.

Our Atlanta district is saying the DM 109 has been revised and ends the overnight drop option. All the pmasters have been told to get paperwork before the periodicals can be delivered; no more time sensitive window for small periodicals.

I have asked for a new pdf of DM 109, but have not seen it. What do you know about this? Any options?

Thanks as always. Dan

Dan Mozley
News Publishing Co
Rome, GA 30161
706-290-5293

[END OF EMAIL]

7. Finally, this string involves another newspaper that was trying to move from home delivery to the mail, and encountered repeated hurdles. Because newspapers --particularly dailies--need to be dropped overnight for the next day's carrier route, the Postal Service has permitted acceptance of the mail with paperwork to follow provided there is money in the postage account and certain criteria are met. But getting this policy to work sometimes requires intensive intervention.

From: Linnie Pride [mailto:LPride@cnhi.com]
Sent: Thursday, June 30, 2011 4:21 PM
To: Max Heath
Subject: Re: Gainesville TX problem

They hate us.

Linnie Pride

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

Community Newspaper Holdings, Inc. (CNHI)
(205) 298-7148
(205) 532-6485 (Cell)
Newspaper Advertising Works!

USPS/NNA T1-8 (con't)

On Jun 30, 2011, at 4:21 PM, "Max Heath" <maxheath@lcni.com> wrote:

FYI

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile/Relish/Spry)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association (Postal Chair/MTAC rep)
PO Box 549
Shelbyville KY 40066-0549
Ph. 502-513-1156
Fax 502-633-4447
Cell 502-649-8822
maxheath@lcni.com

From: Max Heath
Sent: Thursday, June 30, 2011 4:24 PM
To: 'Rupp-Ruggeri, Cher - Washington, DC'
Subject: RE: Gainesville TX problem

Policy or no, we have had papers move into the mails since the meeting...so it can be done like Waxahachie TX, right...? Done Tuesday before last. Didn't we get some input from you on that?

I didn't know a policy was being written...

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile/Relish/Spry)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association (Postal Chair/MTAC rep)
PO Box 549
Shelbyville KY 40066-0549
Ph. 502-513-1156
Fax 502-633-4447
Cell 502-649-8822
maxheath@lcni.com

USPS/NNA T1-8 (con't)

From: Rupp-Ruggeri, Cher - Washington, DC [mailto:cher.rupp-ruggeri@usps.gov]
Sent: Thursday, June 30, 2011 4:16 PM
To: Max Heath
Subject: RE: Gainesville TX problem

Hello Max. We have not finalized the policy. I'm checking with Lauren to see where things stand today. Thank you.

Cher Rupp-Ruggeri
Marketing Specialist
Business Mail Entry & Payment Technology
600 West Rock Creek Road
PO Box 1600
Norman, OK 73070-1600
Phone: 405-573-2513
Fax: 651-456-6455

From: Max Heath [mailto:maxheath@lcni.com]
Sent: Thursday, June 30, 2011 4:20 PM
To: Rupp-Ruggeri, Cher - Washington, DC
Subject: Gainesville TX problem

Lucky you. Poor Marty M., et al. Are you taking complaints today? Another Ft. Worth/Felicia problem on not letting a daily convert to mail and drop overnite for next day delivery, citing a cutoff of 2009 on Overnite Drop. I called Gary Holcomb about this issue in Gainesville, TX. He said he needed to hear it from you. I explained our meeting with Pat and Pritha and an agreement that he wants our mail, and we can drop overnite dailies outside the policy with postage statement and USPS Qual Report, with money in the account or CAPS.

Felicia is the Queen of NO!

Max M. Heath
Postal Consultant
Publishing Group of America (American Profile/Relish/Spry)
Landmark Community Newspapers, LLC (56 newspapers & 7 college sports publications)
National Newspaper Association (Postal Chair/MTAC rep)
PO Box 549
Shelbyville KY 40066-0549

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-9. Please refer to your testimony on page 8, lines 1 through 7. You state, "For this mail, readers must receive it within 24-48 hours of printing for the information to be of any value to them. It is obvious that old news is not news. But when you consider the types of news readers need from newspapers--such as arts and cultural events--you can see why immediacy is critical. An announcement of a concert that arrives after the fact deprives the reader of an opportunity and an artist of an audience. The same sort of problem arises for grocery or other retail sales, voting news and any other time sensitive matter."

(A) Please explain whether "this mail" refers to "weekly" newspapers, "small daily" newspapers, or both? (*See* NNA-T-1, page 7, lines 25 through 26.)

(B) Please confirm that mail containing an announcement of a concert or other cultural event, grocery or other retail sale, or election, would still have "value" to a reader even if it were received after 48 hours of printing, provided that it was received sometime prior to the event, sale, or election. If not confirmed, please explain why such mail would have no value.

(C) Are you aware of any studies, polls, or surveys that quantify the extent to which mail that has been received more than 48 hours after printing has deprived readers of opportunities to attend or participate in a concert or other cultural event, grocery or other retail sale, or election? If so, please identify all such studies, polls, or surveys.

RESPONSES:

(A) The statement would apply to all newspapers.

(B) I presume you mean "received 48 hours after printing," since printing would not usually take 48 hours. The mail would presumably have some value, but value diminishes when information is received too late to be used meaningfully. Sale dates in grocery and drug store ads and supplements, exhausted supplies of promoted items when residents arrive late for the sale, missing estate auctions, etc. are all issues with late delivery of local newspapers.

(C) Community newspapers typically aim for Wednesday thru Saturday publication days, meaning those are the days they want the newspaper in the mailbox because most shopping, cultural events and community

activities occur on weekends. In my testimony, I am relying on my own experience in judging the timing of the news cycle so that information can reach residents on time. However, it is worth noting here that in communities where the Internet is available at home, the newspaper has a particularly difficult time remaining competitive if news is delayed. For most newspapers in my consulting practice, the paper is laid out (designed) one day, printed that night and put into the mail for delivery the following day so the news will not be stale when received.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-10. Please refer to your testimony on page 8, lines 9 through 25, and page 9, lines 1 through 4. Please confirm that the Postal Service is not proposing any changes to the policies discussed on page 8, lines 15 through 25, and page 9, lines 1 through 4. If not confirmed, please identify the policy and the portion of the Postal Service's request that proposes the change.

RESPONSES:

Confirmed as to page 8, lines 15-25. But clearly I was citing a critical mass of problems facing newspapers from USPS rules changes over time, and the need to avoid one more via service-standard changes. As to page 9, lines 1 through 4, USPS has issued a final rule requiring Intelligent Mail barcode by Jan 28, 2013, and has issued Federal Register proposal to require full-service IMb by January 2014.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-11. Please refer to your testimony on page 8, lines 16 through 18. You state, "Verification requirements...have caused many newspapers to miss mailing deadlines because a misinformed business mail entry clerk does not understand that Periodicals are not verified every issue."

(A) Please identify the "verification requirements" discussed in this portion of your testimony.

(B) For each instance in which a newspaper has missed a "deadline" due to the actions of a "misinformed business mail entry clerk," please provide:

(i) the name of the mailer;

(ii) the name of the business mail entry clerk;

(iii) the date of the incident or transaction; and

(iv) the location (*i.e.*, the name of the postal facility) where the incident took place.

RESPONSES:

(A) Here I am referring to post office personnel who require Periodicals to be checked for weight, piece counts, advertising percentages and sometimes sortations before it is cleared into the outgoing mailstream.

(B) I do not keep this level of detail in my files, and I rarely ask the names of postal employees, not wishing to hold them up for retribution. Please see the emails in response to USPS/NNA-T1-8 for examples of some circumstances where mail has been held up.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-12. Please refer to your testimony on page 8, lines 19 through 20, where you discuss "[o]vernight entry refusals, to newspapers that have done overnight entry for a half century or more." For each instance in which a newspaper that has performed overnight entry for a half century or more has been refused overnight entry, please provide:

(A) the name of the mailer;

(B) the name of the postal employee that refused overnight entry;

(C) the date of the incident or transaction; and

(D) the location (*i.e.*, the name of the postal facility) where the incident or transaction took place.

RESPONSES:

(A)-(D) I do not keep these files after I have helped a newspaper to solve overnight entry problems, and I rarely know the names of postal employees. I do not ask most of the time because I have no desire to hold postal employees up for retribution, though at times I will ask a management level expert at USPS Headquarters to communicate through the chain of command to straighten out a clerk who needs further direction. For more detail on the types of problems I encounter see USPS/NNA T1-8.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-15. Please refer to your testimony on page 11, lines 26 through 27. You state, "This optimization plan is being driven by the need to fill up letter-sorting machines with volume so greater automation efficiency will be achieved[.]" Please provide citations to the portions of Postal Service testimony that provide the basis for your statement that the Postal Service's proposal is "is being driven by the need to fill up letter-sorting machines with volume."

RESPONSE:

My understanding is that much of the proposal to slow down the mail is premised upon the need to use automated sorting equipment more efficiently. I considered the testimony of USPS T-4 Witness Neri, at p 13, lines 1-4-, p 17, lines 4-7, and lines 20 to the first line on the following page; p 21, lines 14-18; p 27, lines 2-6; p 28, lines 2-6; and the testimony of USPS T-3 Witness Rosenberg, at p 2, lines 3-8; p. 11, lines 28-31; the discussion in her testimony at p. 21-22 about modeling changes in peak volume handlings, and much of the rest of her testimony is about keeping the sorting machines running at optimal levels. Finally, the testimony of USPS T-1 Witness Williams is largely focused on the need to eliminate excess capacity, as he lays out on p 5, lines 14-22 why Rosenberg was directed to model ways to eliminate excess capacity. I am stating in simpler terms that slowing down the mail so machines--both for letter sorting and flat-sorting-- can run more often with higher volumes seems to me to provide a good part of the foundation of the Postal Service's case.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-16. Please refer to your testimony on page 12, lines 16 through 21. You state, "[W]hat USPS must do is streamline its workforce, downsize the huge and inefficient--and aging--urban plants, maintain its smaller and more efficient plants and work with its labor groups to achieve more part-time and casual worker flexibility, cross-craft movement and buyouts for interested eligible employees. We all recognize that the benefit-rich environment of the 80s and 90s is no longer available for any American 20 work force. Newspapers faced that reality a decade or more ago."

(A) Please explain whether the phrase "streamline its workforce" includes "work[ing] with...labor groups to achieve more part-time and casual worker flexibility, cross-craft movement and buyouts for interested eligible employees"? Does it include actions other than "work[ing] with...labor groups to achieve more part-time and casual worker flexibility, cross-craft movement and buyouts for interested eligible employees"? If yes, please identify those other actions.

(B) To what extent have you consulted with "labor groups" to determine the extent of their support for your suggested actions for "streamline[ing]" the Postal Service "workforce"? If such consultations have occurred, please summarize their results and provide copies of any written communications, other correspondence or understandings between NNA and such labor groups indicating such support.

(C) Please specifically identify the actions described in your response to part (A) that the Postal Service should undertake that the Postal Service is not currently considering.

(D) Please define the terms "efficient" and "inefficient" as you use those terms in your testimony.

(E) Please define the term "downsize" as you use it in your testimony. Please include in your definition whether the term downsize encompasses the consolidation of operations and/or the deactivation of mail processing plants.

(F) Please identify which specific plants in the Postal Service's current network should be "downsized" because they are "huge and inefficient."

(G) Please identify which specific plants in the Postal Service's current network should be "maintained" because they are "[small] and more efficient."

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-16 (con't)

RESPONSES:

(A) Yes. I am comparing the Postal Service to the newspaper industry, in this case, another area of the economy that has been affected both by recession and by secular changes due to technology. In the case of newspapers, fewer people are now required to do more jobs. Part-time, cross-craft workforce is necessary to be more efficient. Sometimes layoffs are needed to right-size the workforce. But the key to maintaining customer loyalty is to use the people and equipment that the revenue in the enterprise can support in the best way to make sure the right work is done in the right places. This type of right-sizing is often painful over the short term, but it ensures the best product and service and greatest sustainability in the enterprise, which in turn protects more people's jobs.

(B) I have consulted with no postal labor groups. Again, I am comparing the Postal Service to what I know of the newspaper industry's similar grappling with change, and I am somewhat familiar with the nature of discussion between management and labor in that context, although those negotiations have not been a part of my direct lines of responsibility. Again, they are painful adjustments, but necessary.

(C) I believe the Postal Service is making serious and possibly uncorrectable error, by trying to "streamline" its mail processing to aggregate mail in large urban plants where it has historically suffered its worst service problems. Instead, it should right-size and customize plants in the smaller communities that have historically had better service. A more dispersed mail processing network would avoid unnecessary hauling that slows the mail, keep operations closer to the customers being served and protect the Postal Service's mission to serve rural America. The plans being proposed are going to seriously disadvantage smaller communities where the Postal Service is more greatly intertwined with community and economic life, and instead focusing on more densely-populated

USPS/NNA-T1-16 (con't)

areas that have the greatest number of choices for delivery, distribution and media usage.

(D) By "efficient," I mean the provision of prompt and reliable mail delivery. By "inefficient," I mean the slower, less reliable delivery that will surely result from the proposal in this case. In business, if the customer is not served, the industrial metrics that measure output are irrelevant in the long run.

(E) By downsize, I mean fitting facility size and workforce to the mail that logically would flow through it in a system that places highest value on customer need and not machine optimization. I am not recommending against closing mail processing facilities, per se, if mail flow suggests that they are in the wrong places, of the wrong design or otherwise extraneous to the flow of mail. My issue with the proposal in this case is that rather than downsize the facilities in the system, USPS is electing to seek maximum machine output by hauling mail further so it can run machines longer. That is not a business model--it is an industrial design.

(F) I am not picking on any specific plant. In general, however, I believe business mailers have long been familiar with problems in older plants where building design and transportation networks work against the managers who are seeking to provide timely service. I can say that my experiences with obtaining timely delivery in old multi-story plants like St. Louis, Cincinnati, Des Moines, and similar plants in congested urban areas have been negative, and plant managers and processing personnel have explained to me that these reasons hamper timely delivery. Problems get "fixed" only to recur within weeks or months.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-16 (con't)

(G) I have done no nationwide study, but looking within my own areas in Kentucky with which I am familiar, I would be looking more closely at the plants in Lexington, Bowling Green, Owensboro, Somerset, and Elizabethtown, to name five, to see whether staffing adjustments could keep more mail closer to the cities within 3D ZIPs 403-406, 421-422, 423, 425-426, and 427, respectively--for processing instead of sending mail to Louisville, Knoxville, or Evansville.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-17. Please refer to your testimony on page 13, lines 4 through 7. You state, "I deeply regret the financial circumstances that have led the Postal Service to propose ending overnight mail delivery for any mailer or community. This proposal has injected great uncertainty into the mailing community and inevitably--regardless of the outcome--has accelerated the move of mail out of the system forever."

(A) Please identify the matters, issues, or policies of which the "mailing community" is now uncertain due to the Postal Service's proposal in this docket?
(B) Please quantify the amount of mail that has moved out of the mail stream as a result of the announcement of the Postal Service's proposal in this docket.

RESPONSES:

(A) 1. Proposal to end Saturday mail delivery; 2. Proposal to eliminate overnight Periodicals and First-Class mail standards; 3. The Postal Service's ongoing network optimization that is resulting in plant closings, the moving of mail into plants that are not ready to handle new volumes and consequently slow the mail down. 4. Repeated announcements by the Postal Service that it is running out of money, followed by announcements that it really is not running out of money and will continue to deliver the mail. 5. Most recently in our industry, the Postal Service's decision to offer a Negotiated Service Agreement with Valassis, Inc., that is designed to eliminate advertising in newspapers. Taken together, the mosaic mailers see is one of confusion, uncertainty and undependability. By mailing community, I am referring not only to my own colleagues in the newspaper business that rely on the mail but many within the Mailers Technical Advisory Committee, where I have more than 20 years of service.

(B) I have no idea how a person would isolate this one circumstance to try to quantify the volume effects, even if NNA had the resources to attempt to do so. But I understand that the Postal Service's own market research performed in the fall of 2011 by Opinion Research Corporation (ORC) that initially suggested

USPS/NNA-T1-17 (con't)

slowing down First-Class and periodical mail would cause First-Class to drop by over 10% and periodical mail by nearly 20%. That research would provide a good place to begin examining the risks in this case. Independently, I have had contacts from a statewide group of publishers within the Iowa Newspaper Association asking my advice in setting up alternate delivery for newspapers in the mail, and also from Oklahoma Press Association asking for the same advice. Other newspapers individually have posed the same question to me. The net negative impression given by all events of the past 2-3 years sends the message that USPS will not be a reliable delivery partner in the future.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-18. Please refer to your testimony on page 14, lines 7 through 9. You state, "Where flats are concerned, in particular, I believe from personal conversations with postal personnel and my own observation that gaining plants will be unable to handle effectively a large surge in volume."

(A) With respect to the "postal personnel" referenced in your testimony, please state, for each person:
(i) his or her name,
(ii) his or her location (city and 5-digit ZIP Code) of employment,
(ii) the gaining plant or plants that was/were the subject of your communication, and
(iv) the date or date range of your communications with that person concerning the subject of the ability of gaining plants to handle additional mail volumes.

(B) With respect to any gaining plants that you observed, please state
:
(i) the location (city and 5-digit ZIP Code) of the gaining plant; and
(ii) details of your observations that led you to conclude that such pant would be "unable to handle effectively a large surge in volume."

RESPONSES:

(A) I do not maintain records based on individual conversations and except in egregious circumstances, I do not wish to hold up any postal worker or executive for criticism. For the most part I find they are purposeful and well-meaning individuals trying to do their best in difficult situations.

(B) Again, I have conducted no systematic studies of the gaining plants, but I have noted from the complaints I get from NNA publishers that the AMP process is almost uniformly disruptive and that gaining plants are not ready for the volume they receive, nor able to adjust except over long periods of time, if at all. Since some of the volume will have been driven out of the mail by poor service during these adjustment periods, it is impossible to tell whether they eventually adjust to the changes or simply have less mail to handle. To cite two I have been intimately involved with, the gaining plant in Baltimore has stood out as unable to handle the volumes, and the several changes in southwest Virginia and eastern

USPS/NNA-T1-18 (con't)

Tennessee that involved plants in Bristol, TN and Knoxville, TN, have generated numerous problems for newspapers.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-19. Please refer to your testimony on page 8, line 15. You state, "The new 'droop' test...disqualifies many for automation discounts."
(A) Please confirm that this portion of your testimony is referring to section 301.1.6 of Mailing Standards of the United States, Domestic Mail Manual (DMM) (May 7, 2012) titled "Maximum Deflection for Flat-Size Mailpieces." If you do not confirm, please identify the postal rule, regulation, standard, or policy to which you are referring in this portion of your testimony. If your testimony is based on a rule, regulation, standard, or policy other than DMM § 301.1.6, please identify each rule, regulation, standard, or policy.
(B) What is your understanding of the purpose of the droop test?
(C) Please provide the percentage of community newspapers that are processed on automation equipment.
(D) Please provide the number, percentage, and aggregate circulation of newspapers that have been disqualified as a result of the droop test. Please provide all documents or other sources that provide the basis for your response.

RESPONSES:

(A) Confirmed.

(B) For automated mail, I understand the purpose is to penalize mail that does not most efficiently move through machines. For non-automated mail, I have no idea of the purpose, and I was surprised the Postal Service decided to extend the test to any manually-handled mail. I was pleased that it ultimately decided not to use the test on DU-entered, manually handled Carrier Route mail, which never needs to be sorted by machine.

(C) As the Postal Service should well know by now, NNA does not carry out studies to quantify mail use practices by newspapers. NNA lacks the resources to create and provide this type of quantifiable data. But I have had calls and e-mails from dozens of newspapers in the past couple of years about this problem, and I am aware that many are now paying higher postage for having mail too thin or too flimsy to allegedly move efficiently through machines, even if the mail would not have moved through machines even if the mailpiece was thick enough to pass the droop test. I am regarding this upcharge as an attempt by the Postal Service to raise revenue without addressing the rate cap.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-21. Please refer to your testimony on page 10, lines 16 through 23. You state,

> [A]lthough the study was intensive and time-consuming for NNA as well as the Postal Service, it was better than what we have now. The Postal Service announced in its 2010 filing that it intended to use magazine service scores as a proxy for newspapers. NNA did not object. In fact, we were surprised to learn of the filing, as it appeared in a docket that NNA did not participate in. We had expected after NNA's considerable expense for the survey we would have had the courtesy of at least an alert from the Postal Service when the report was released, but good etiquette failed in that case, I believe, amidst USPS's many staff restructurings at headquarters.

Please also refer to the Community Newspaper Study Highlights filed with the Commission on July 9, 2012 (available at http://www.prc.gov/Docs/68/68891/Notice%20Newspaper%20Study.pdf).

(A) Please confirm that representatives from IBM and the Postal Service presented the survey results to NNA on May 18, 2010, at Postal Service headquarters in Washington, D.C.

(B) Please confirm that the study found that the Community Newspapers' national result of 72.48 percent (on-time performance) was comparable to the periodicals result of 75.44 percent for the same period.

(C) Please confirm that the study found that the on-time percentage results for Community Newspapers and Periodicals were similar enough that Periodicals could be considered a proxy for Community Newspapers Mail.

(D) Please confirm that the study found that it would be difficult for newspaper mailers to participate in ongoing measurement and that ongoing costs for subscriptions and conducting the study may outweigh its value.

RESPONSES:

(A) Confirmed. I was told at the time the results were embargoed and that NNA could not publicly discuss them until notified. We never had any further notification after that.

(B) Confirmed. Those are not very good scores for time-sensitive mail. We were disappointed.

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS MAX HEATH TO INTERROGATORIES OF USPS

USPS/NNA-T1-21 (con't)

(C) Confirmed that it was the Postal Service's conclusion. As to NNA's conclusion, participation is indeed difficult. Community newspapers have small staffs and are increasingly time challenged. But as to the value of such a study, at this point, I am uncertain. Although NNA prior to the study had advised both USPS and the Commission that it felt spending money on such a study was unnecessary because we felt we had a good handle on most Within County mail performance, the massive changes within USPS since that time have caused NNA to be much more concerned about service. Whether such a study would be justified in the future is a subject upon which I have not yet drawn a conclusion, but I am certainly less sanguine about the lack of need for it than I was in 2009.

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Survey Report

2011 Community Newspaper Readership Survey
[National Newspaper Association]

Center for Advanced Social Research
The Donald W. Reynolds Journalism Institute
School of Journalism
University of Missouri-Columbia
October 2011

Introduction

The overriding purpose of the 2011 NNA Community Newspaper Readership Survey was to continue to examine public attitudes, perceptions, and readership of editorial and advertising contents in local newspapers in small communities across the United States. Center for Advanced Social Research (CASR) of The Reynolds Journalism Institute and Missouri's School of Journalism conducted 500 telephone interviews (using both landline and cell phone numbers) with adults aged 18 or older that lived in areas where the circulation size of the local newspaper was 15,000 or less on behalf of NNA in July and September 2011.

Survey Instrument

Similar to the previous research since 2005, the survey questionnaire was designed to collect the following information.

- Readership of local newspapers
- Values of local newspapers to local residents
- Readership of various contents of local newspapers
- Evaluation of local newspapers both in print & online
- Attributes of "good journalism" in local newspapers
- Primary (& preferred) sources of information about local communities
- Access to and use of the Internet and websites of local newspapers
- Evaluation of the websites of local newspapers
- Readership of various advertisements in local newspapers
- Comparison of advertisements on different media outlets
- Purchasing plans for a variety of goods and services
- Sources of information for purchasing decision making
- Demographics

Unlike in the previous research, the following question items were added to the survey questionnaire to reflect the changes that have occurred in local newspapers and in today's new media landscape.

- Experience of paid content models in local newspapers
- Likelihood of paying for content online & on mobile devices
- Use of mobile devices for news & information

Sampling Methodology

The sample of the survey targeted at communities where the circulation size of the local newspaper was 15,000 or less across the United States. Specifically, it followed a two-stage probability sampling plan that first selected a sample of primary sampling units (PSUs) for all the targeted areas, and subsequently selected a sample of secondary sampling units (SSUs) from each PSU. For example, the zip codes served by community newspapers (whose circulation size was 15,000 or less) selected from the membership database of NNA were first identified and grouped. A random sample of telephone numbers was then generated proportional to the population size of each of the zip codes. The random digit aspect of the sample was designed to avoid response bias and provide representation of both listed and unlisted telephone numbers (including not-yet-listed). The design of the sample ensured this representation by random generation of the last two digits of telephone numbers selected on the basis of valid area codes and telephone exchanges.

To reach an adequate number of young adults, other demographic groups (e.g., Hispanics), and the "cell phone only" cohort (AAPOR, 2010), both landline and cell phone random digit dialing (RDD) frames were included in the sample. The purpose was to include adequate representation of "wireless only" adults, as the National Health Interview Survey (NHIS) (2009) suggested that the "wireless only" adults 18 years of age or older in the United States reached 24.5% at the end of 2009.

Respondent Selection Method

For landline phone numbers, the Troldahl-Carter-Bryant (T-C-B) respondent selection method was used to randomly select an eligible respondent if there were more than one adult 18 years of age or older in a household. The T-C-B method requires the interviewer to ask two questions shortly after the introductory statements, "How many adults aged 18 or over live in your household, including yourself?" and "How many of them are women / men?" Based on answers to the two questions, the interviewer will select a designated respondent using one of eight different versions of a selection matrix that appears on the computer screen at random. In so doing, a proper balance of males and females, younger and older adults in a household can be reached. The likelihood of within-sampling-unit non-coverage error is minimized because all eligible respondents in a household are equally considered by the selection method.

For cell phone numbers, the person who answered the cell phone was asked (1) if he or she was 18 years of age or older, and (2) if he or she was a local resident. If he/she answered "yes" to both questions, they would then be asked to participate; if he/she answered "no" to either or both questions, they would be thanked and survey terminated as ineligibles.

At least fifteen attempts were made to complete an interview at every sampled telephone number. The calls were scheduled over days of the week to maximize the chances of making a contact with a potential respondent. All refusals were recontacted at least once in order to attempt to convert them to completed interviews.

Field Operation

Five hundred (500) interviews were completed via telephone in August and October 2011 by the trained interviewing and supervising staff of CASR. Using the definitions and final codes for calculating response rate provided by The American Association for Public Opinion Research (AAPOR, 2000), the response rate of the study was 42.8%. For results based on the entire sample (n = 500), the margin of sampling error is plus or minus five (5.0) percentage points. In addition to sampling error, question wording and practical difficulties in conducting telephone surveys may introduce some error or bias into the findings.

Descriptive Statistics of the Sample

Circulation & types of local newspapers

In the sampling design of the 2011 NNA Community Newspaper Readership Study, sufficient effort was made to reach more non-daily readers than daily readers. As in the 2010 research, the purpose was to reflect the current composition of NNA membership: approximately 86% non-daily newspapers, and 14% daily newspapers. In addition, adequate effort was made to ensure that the circulation sizes of the local newspapers of those who read between one and seven days a week did not exceed 15,000.

Of the 370 readers of local newspapers identified in the research, 70% were non-daily readers, and 30% daily readers. The circulation sizes of the newspapers ranged from 484 to 13,414.

TABLE I: Completed Interviews by Types of Local Newspapers

Types of local newspaper	Percent (%)
Daily newspaper	29.7
Non-Daily newspaper	70.3

(n = 370 readers)

Effort was also made to ensure that all the names of local newspapers reported by respondents matched those in the NNA's membership database.

Cell phone vs. landline telephone numbers

Of the 500 respondents, 42% were interviewed via cell phone numbers, and 58% through landline numbers; 28% were "wireless only."

TABLE II: Completed Interviews by Types of Telephone Numbers

Types of telephone numbers	Percent (%)
Cell phone only	28.4
Cell phone and a working landline number	13.8
Landline	57.8

(n = 500)

References

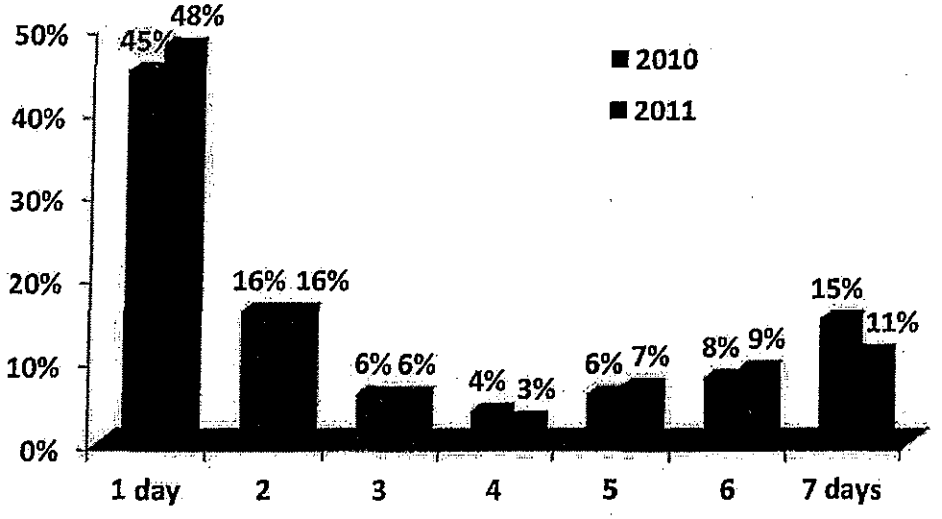
The American Association for Public Opinion Research (AAPOR). (2010). New considerations for survey researchers when planning and conducting RDD telephone surveys in the U.S. with respondents reached via cell phone numbers: AAPOR Cell Phone Task Force 2010. Retrieved November 8, 2010, from http://aapor.org/AM/Template.cfm?Section=Cell_Phone_Task_Force&Template=/CM/ContentDisplay.cfm&ContentID=2818

Survey Findings

Readership of local newspapers

First, the survey shows that readership of local newspapers in small towns or cities in the United States was solid, as 74% of local residents interviewed read a local newspaper ranging from 1 day to 7 days a week, compared to 73% in the 2011 NNA research. Twenty-six percent of respondents reported that they did not read a local newspaper.

How many days in a week do you read a local newspaper?
[n = 370]



In the 2011 NNA research, two-thirds of the readers (66%) read non-daily newspapers; in the 2011 survey, 70% were non-daily readers. This finding, along with what was reported in the 2011 research, suggests that local newspapers, non-dailies in particular, still have a strong readership in small towns or cities in the United States in today's new media landscape.

Furthermore, multivariate regression analysis shows that readership of local newspapers was significantly and positively associated with age, length of residency, and level of education, suggesting that older adults, residents who have stayed in their communities longer, and those with higher education read local newspapers significantly more than younger adults, residents who have lived at their current addresses relatively shorter, and those with less education. Other demographic measures, such as gender, annual household income, home ownership, and having children younger than 18 at home did not have a significant impact on the readership. In the 2010 research, the readership was positively predicted by age and level of education.

On average, readers were 55 years of age (standard deviation = 15.7 years), compared to 50 years of age of non-readers (standard deviation = 17.3 years).

The pass along rate, measured by the average score of the responses to the question item: *About how many of your friends, colleagues, co-workers or those in your household do you share the newspaper with?* was 2.33 persons on average, compared to the range of 2.10 to 2.60 persons in the 2005, 2007-09 surveys, and 3.34 persons in the 2010 research.

On average, readers of the 2011 study spent 38.95 minutes on reading local newspapers, compared to 37.5 minutes in the 2010 research, and the range of 38 to 45 minutes found in the 2005 and 2007-09 surveys.

TABLE 1: On what days of the week is the local newspaper published?
[Check all that apply]

Days of week	Percent (%) 2011	Percent (%) 2010
Monday	29.7	32.8
Tuesday	40.8	39.5
Wednesday	67.0	69.5
Thursday	47.0	51.4
Friday	37.6	40.0
Saturday	25.7	27.9
Sunday	13.2	14.5

On average, readers have read their local newspapers for approximately 25.34 years (standard deviation = 17.1 years), ranging from less than a year to 65 years in small towns or cities in the United States, compared to 26.2 years (standard deviation = 17.6 years) in the 2010 survey.

Similar to previous NNA research since 2005, 92% of readers reported that they paid for their newspapers. In the 2010 survey, 94% of readers paid for their local newspapers.

Is the local newspaper free or paid?
[n = 370]

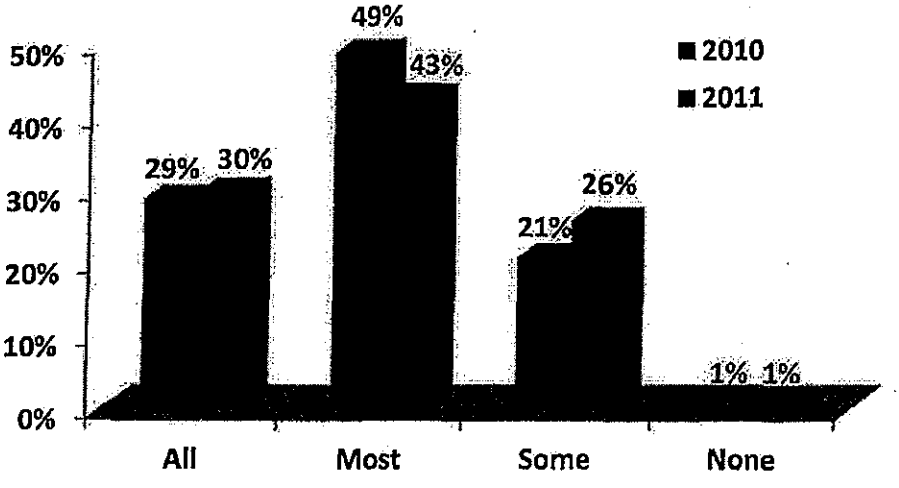
Do you subscribe to it or buy it from a news rack or store?
[n = 341]

As shown above, two-thirds of readers subscribed to local newspapers. In the 2011 survey, 63% subscribed to local newspapers.

TABLE 2: How do you receive the local newspaper?

Description of categories	Percent (%) 2011	Percent (%) 2010
Via U.S. mail	21.9	23.2
Home delivery	47.8	38.6
Pick up from news rack/store	29.7	36.8
Electronic delivery	0.5	1.4

How much of the newspaper do you usually read?
[n = 370]



As consistent in previous research, readers continued to pay adequate attention to the content of local newspapers. The surveys shows that a combined 73% of readers would read either all" or "most" of the local newspapers, compared to a combined 78% in the 2010 survey. In addition, 26% of readers would read "some," compared to 21% in the 2010 research. These descriptive statistics suggest that the content of local newspapers is well read in small towns or cities in the United States.

TABLE 3: How long do you usually keep an issue of the local newspaper?

Description of categories	Percent (%) 2007 (n = 419)	Percent (%) 2008 (n = 431)	Percent (%) 2009 (n = 405)	Percent (%) 2010 (n = 488)	Percent (%) 2011 (n = 370)
Read it the same day & throw it away	26.3	23.4	15.1	15.8	13.8
1 day	16.0	11.8	22.2	11.9	10.3
2 days	13.6	12.1	9.6	13.9	13.0
3 to 5 days	7.6	8.4	8.4	12.3	14.1
6 but fewer than 10 days	21.7	28.1	25.7	25.2	29.7
10 or more days	9.3	12.8	13.8	15.8	14.1
Don't know/Not sure	5.5%	3.5	5.2	5..0	5.0

TABLE 4: Primary reason that [you] read the local newspaper

Description of reasons	Percent (%) 2009	Percent (%) 2010	Percent (%) 2011
Local news/Local information	81.9	85.7	83.2
Knowledge/General news	12.7	8.5	8.7
Advertisements/Classified ads	2.7	3.7	4.6
Nothing in particular	1.5	2.1	1.6
Others – specify	1.2	n.a.	1.9

(2009: n = 403. 2010: n = 484. 2011: n = 368)

Consistent with previous NNA research since 2005, one of primary reasons that local residents read local newspapers is to obtain "local news/local information," as evident in the findings in Table 4 (2009 through 2011). Indeed, focus on and coverage of local news is the biggest strength of local newspapers in comparison with other local media outlets. The finding implies that, whether in print or online, local newspapers need to continue to do what they do the best in order to attract audience and sustain revenue in the long term.

TABLE 5: Primary reason that [you] do not read the local newspaper

Description of reasons	Percent (%) 2009	Percent (%) 2010	Percent (%) 2011
Not interested	29.8	20.6	16.9
Have no time	20.2	16.1	16.2
Prefer Internet or other sources	11.7	26.7	22.3
Paper too biased/Doesn't cover the news I want	8.5	11.1	4.6
Don't receive the paper	11.7	12.2	21.5
Others – specify	11.7	12.2	14.6
Nothing in particular	1.1	1.1	3.8

(2009: n = 94. 2010: n = 180. 2011: n = 130)

Values of local newspapers to local residents

To examine perceived importance of local newspapers to local residents in small towns and cities in the United States, a total of seven question items were used to see how the value of local newspapers would be perceived. The items were copied from the 2009 Suburban Market Study by the Suburban Newspapers of America (SNA). Respondents were asked to check all the items that applied to them.

TABLE 6: Thinking about [name of local newspaper], please tell me if each of the following applies to you [Check all that apply]

Description of newspaper's values	Percent (%) 2010	Percent (%) 2011
I/My family couldn't live without it	14.8	12.7
I/My family look forward to reading it	71.3	75.1
It entertains me	68.6	64.9
It informs me	88.3	85.9
It provides valuable local shopping & advertising information	68.0	69.2
I/My family relies on it for local news and information	79.7	81.4
Other – specify	20.3	18.6

As Table 6 shows, majority of local residents regarded community newspapers as very valuable and important sources information about their communities. For example,

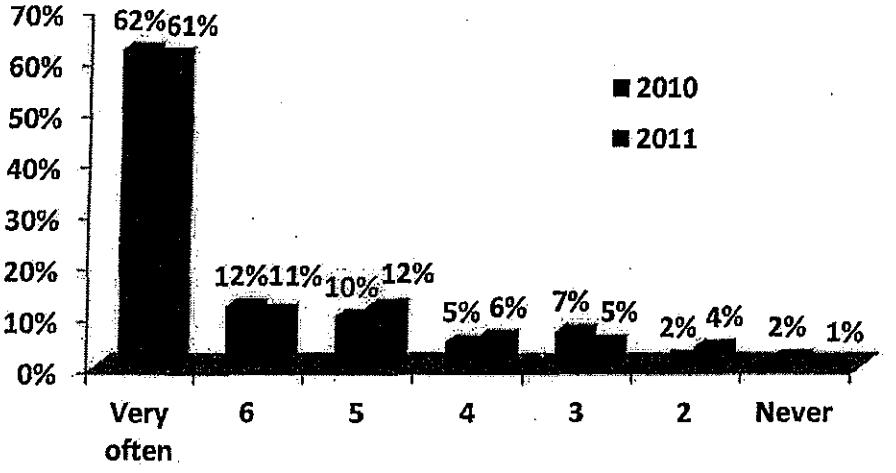
- 86% of respondents thought local newspapers were informative;
- 81% agreed that they and their families relied on the newspapers for local news and information;
- 75% of respondents (including their families) would look forward to reading the newspapers;
- 69% thought the newspapers provided valuable local shopping & advertising information, and
- 65% agreed that local newspapers entertained them.

These findings were consistent with what was reported in the 2010 NNA research as well as with those of the 2009 SNA Suburban Market Study, suggesting that local newspapers continue to be a valuable and key source of information about local communities. This public dependence on community newspapers, as measured in terms of perceived values of local newspapers by local residents of small towns or cities, should be noted by local news organizations to continue to improve their editorial products, both in print and online, to meet the public expectations.

Readership of various contents of local newspapers

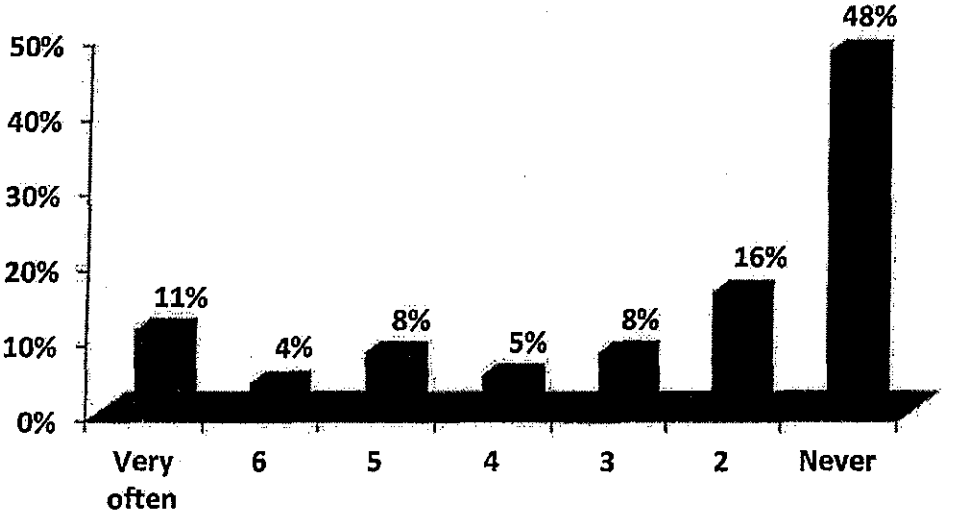
The next set of questions was designed to find out how often readers would read various contents that usually appear in a local newspaper. Respondents were asked to use a 7-point scale with "7" being "very often" and "1" being "never" to provide their answers.

How often do you read local news in the local newspaper?



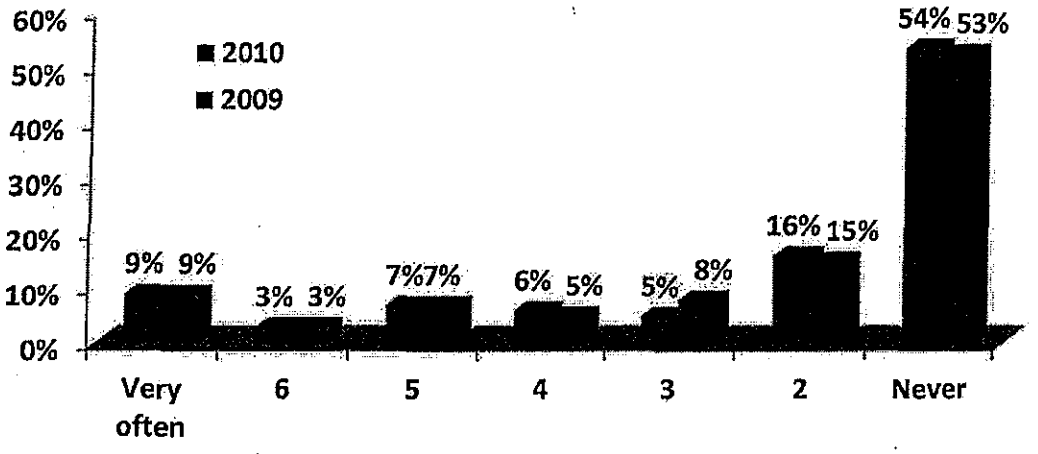
Consistent with the 2010 NNA research, local news continued to attract readers in small cities and towns in the United States, as 61% of the 2011 respondents would "very often" read local news in the local newspapers.

How often do you read local news online?
[n = 320]



Of those who had access to the Internet, 48% reported that they had "never" read local news online, compared to 54% in 2010 and 53% in 2009. On the other hand, a combined 23% of respondents gave a rating of "5" or higher (7 = very often) to the question, suggesting that nearly 1 out of 4 local residents read local news online, better than 19% reported in the 2009 and 2010 surveys.

How often do you read local news online?

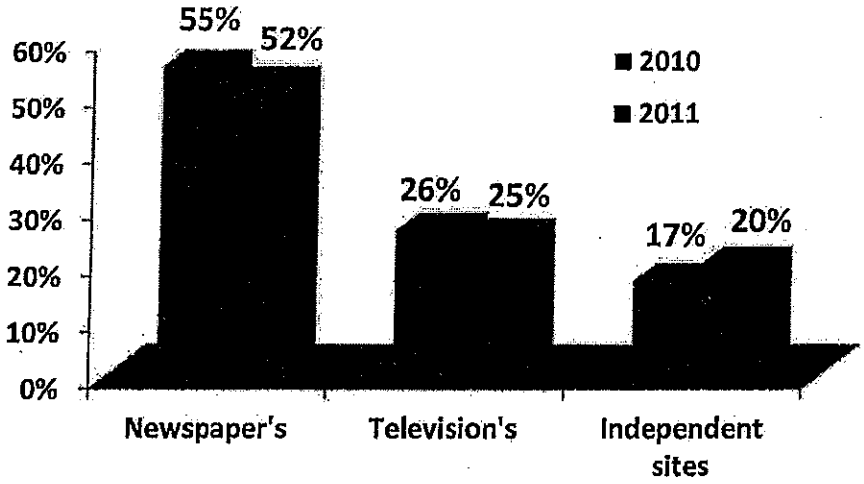


Although online news outlets continue to play a bigger role in people's lives (Pew Research Center, September 2011 http://www.journalism.org/analysis_report/local_news), the findings of the NNA research in the past three years (2009-2011) suggest that majority of local residents in small cities or towns do not rely on online sources for local news. One of the possible explanations is that local newspapers, non-dailies in particular, still focus most of their investment and resources on print, since revenues from their print products constitute most of their overall revenues. In addition, some daily or non-daily local newspapers may not have a website or have a "replica edition" of their print products.

Seeking out local news online

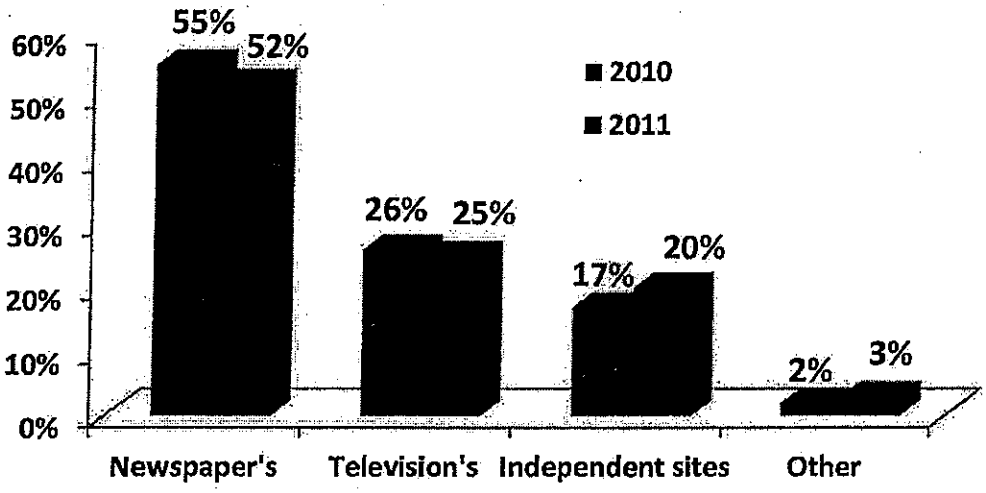
Of those who used online sources for local news, 52% "sought out" specific local news, 38% "happened to come across it," and nine percent answered "both." In the 2010 NNA survey, 66% sought out specific local news, 26% happened to come across it, and about eight percent answered "both."

When getting local news through the Internet, is it usually because you seek out specific news or is it usually because you just happen to come across it?

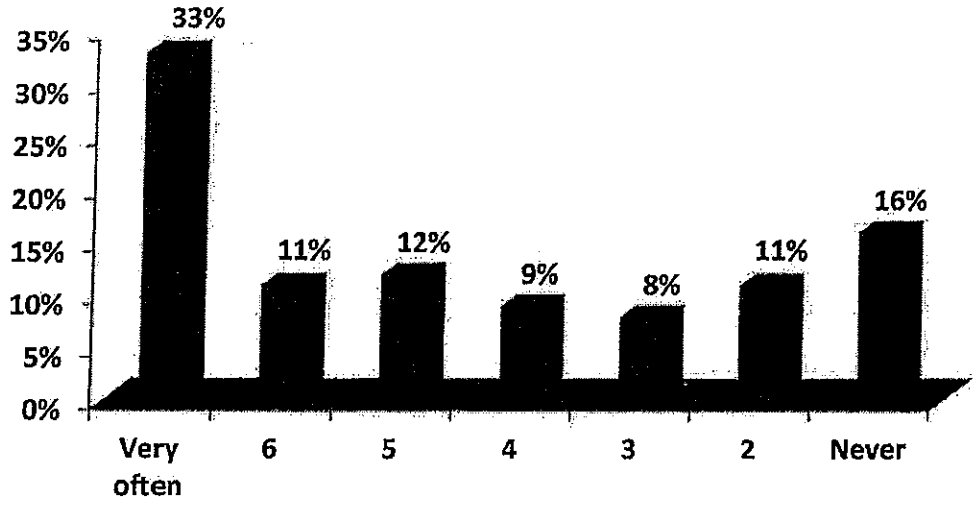


The survey also shows that more than half of online users would choose newspaper's website as their favored source of information for local news. When asked "*Where do you go online most frequently for local news?*" 52% would select local newspaper's website, 25% television's website, and 20% to independent sites such as Yahoo, MSN, Google, and etc. These findings are similar to those of the 2010 NNA survey where 55% of online local news users would go to local newspaper's website, 26% to television's, and 17% to independent sites.

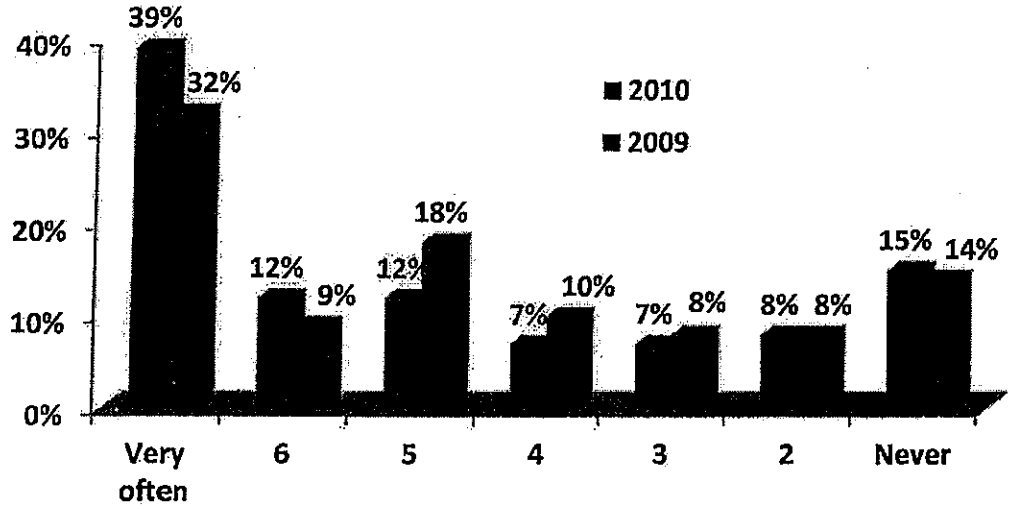
Where do you go online frost frequently for local news?



How often do you read local school news in the local newspaper?
2011

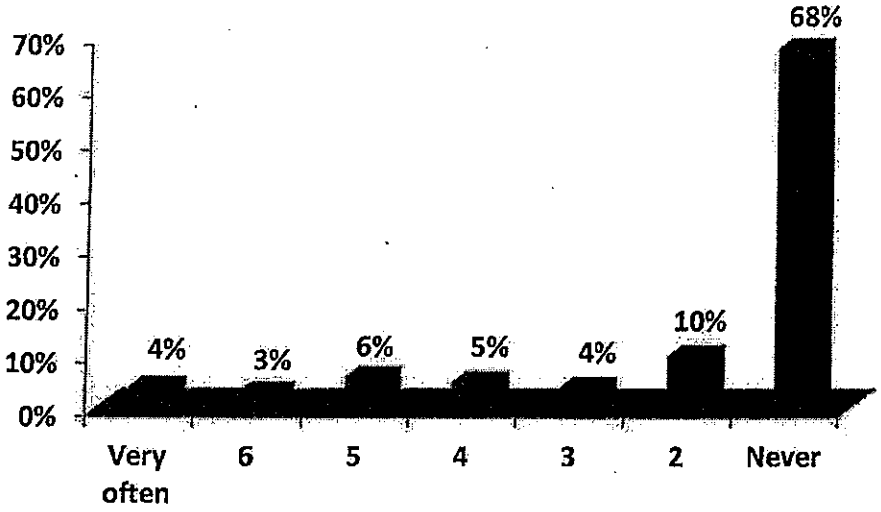


How often do you read local school news in the local newspaper?

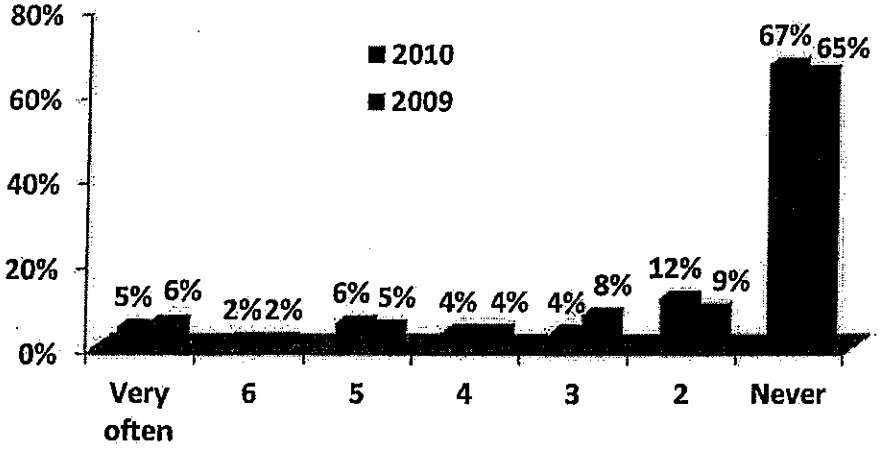


As shown above, a combined 56% of local readers either "very often" or "somewhat often" read local school news in the local newspapers, similar to the findings of the NNA research in 2009 and 2010.

How often do you read local education news online?
2011

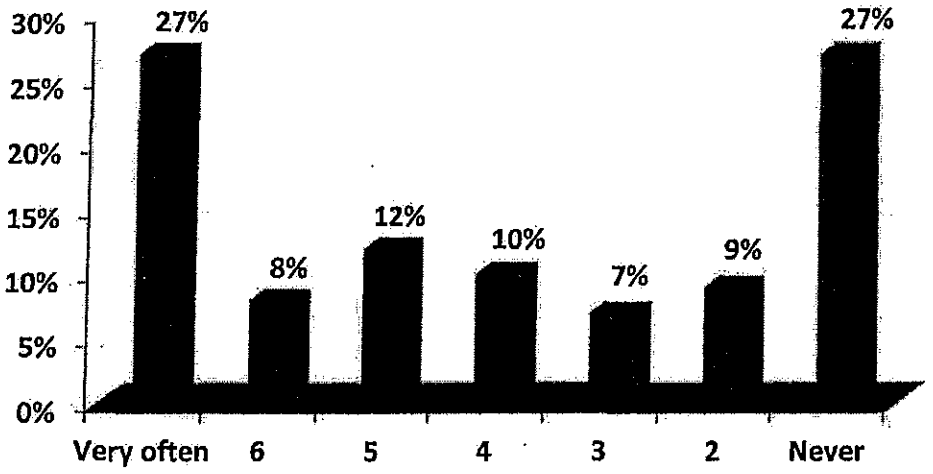


How often do you read local education news online?

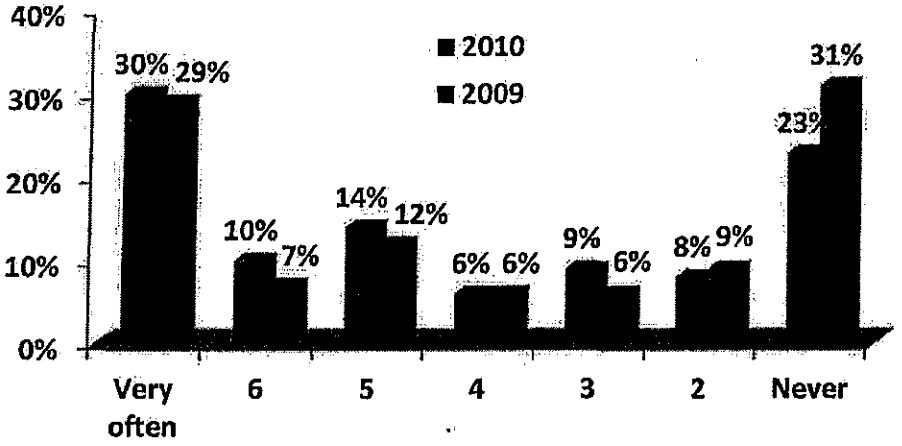


Again, local residents seemed not dependent upon online sources about local education news. Over the past three years, the findings are identical.

How often do you read local sports news in the local newspaper?
2011

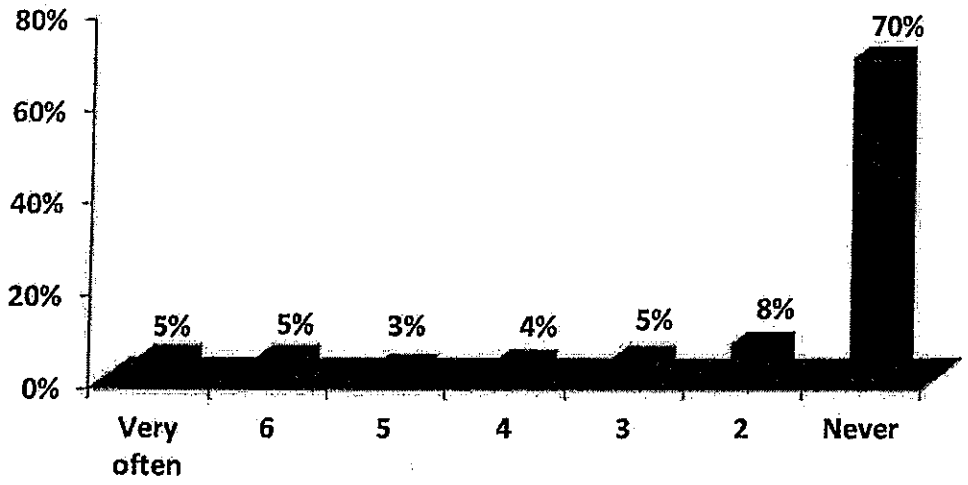


How often do you read local sports news in the local newspaper?

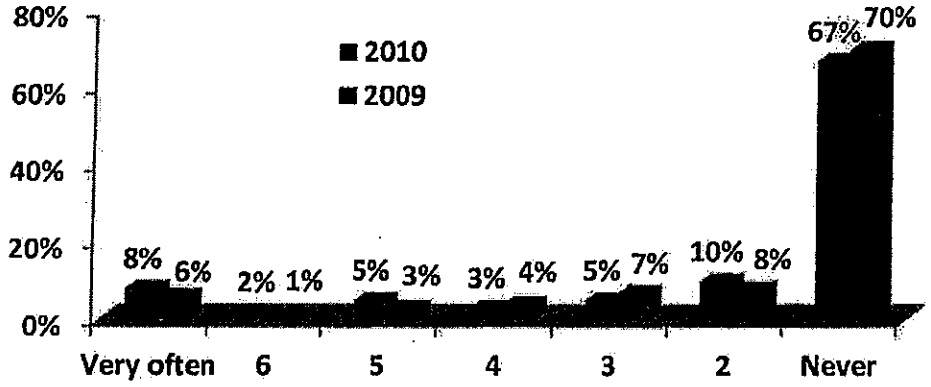


As for consumption of local sports news in local newspapers, the 2011 survey results are similar to those of the NNA research in 2009 and 2010.

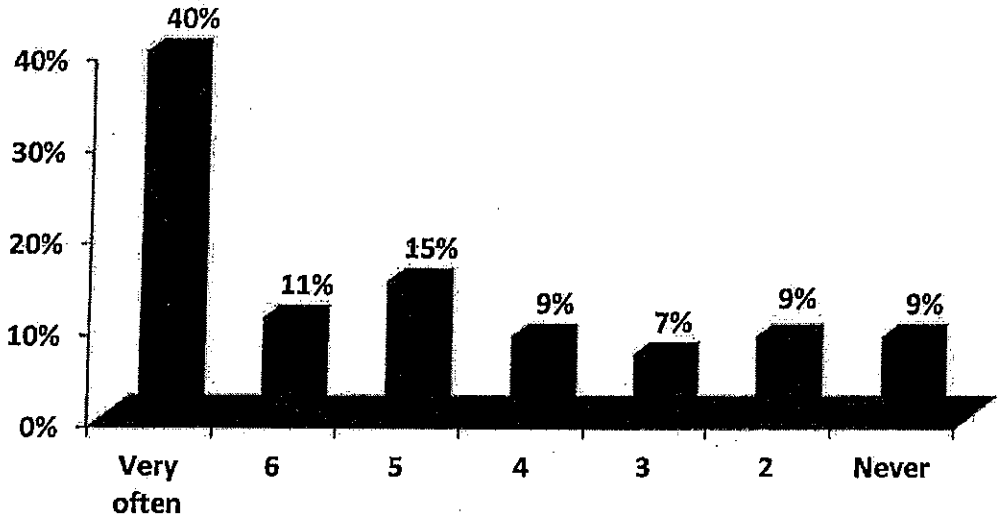
How often do you read local sports news online?
2011



How often do you read local sports news online?



How often do you read editorials or letters to the editor in the local newspaper?
2011



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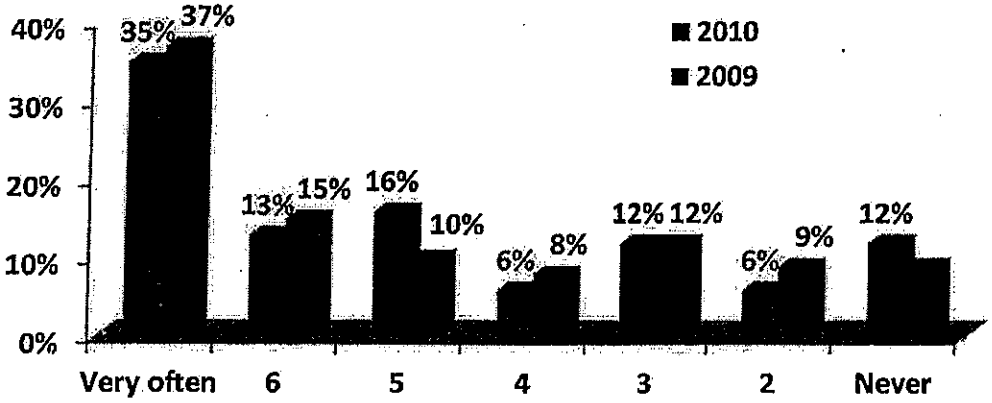

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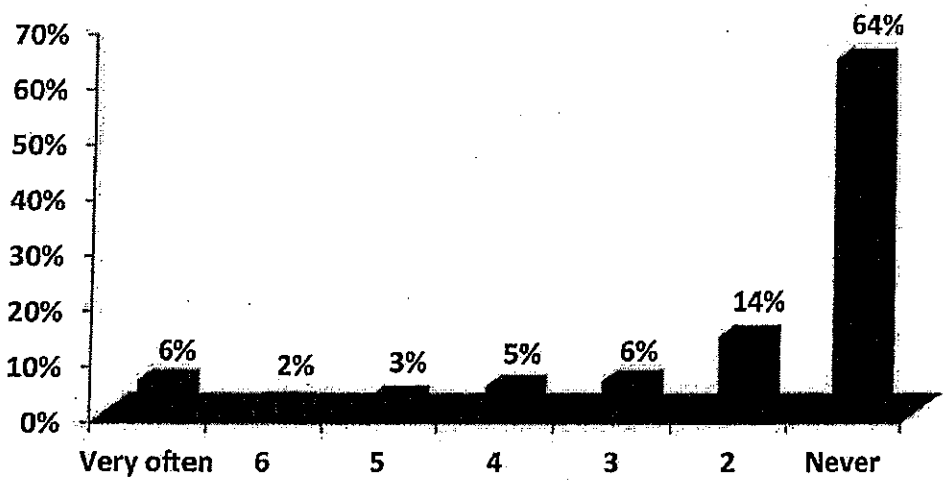

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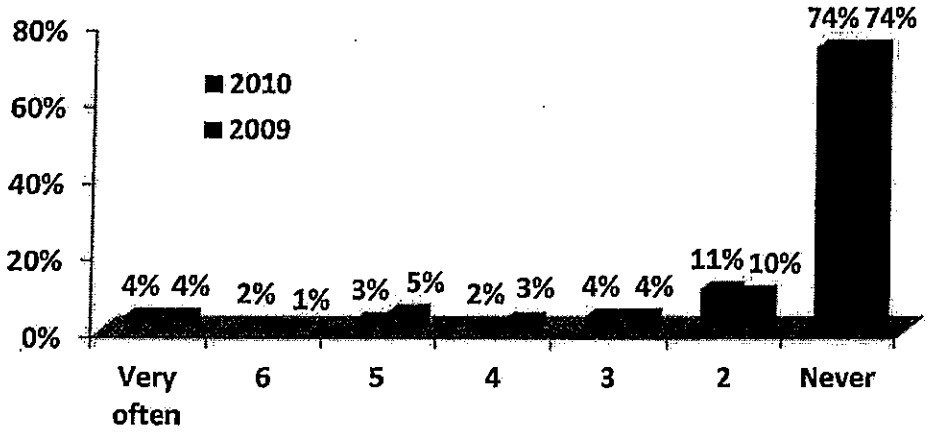
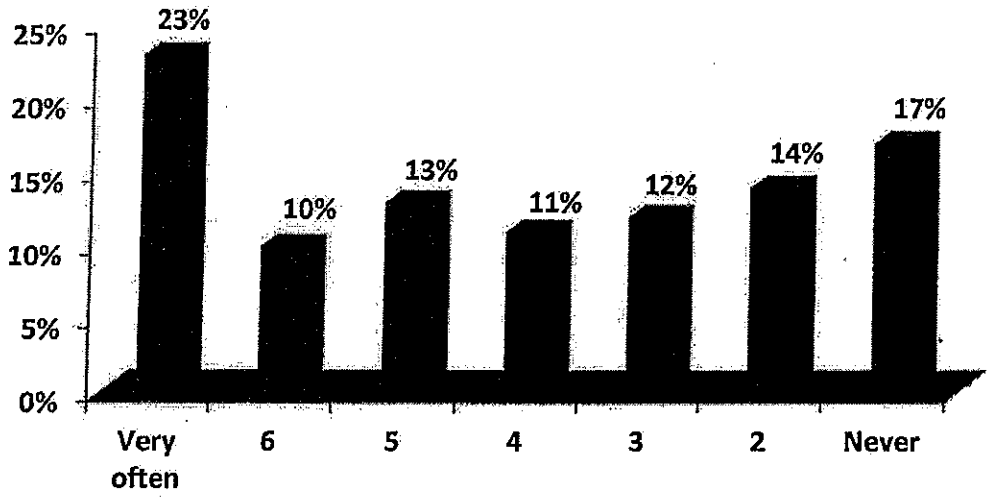
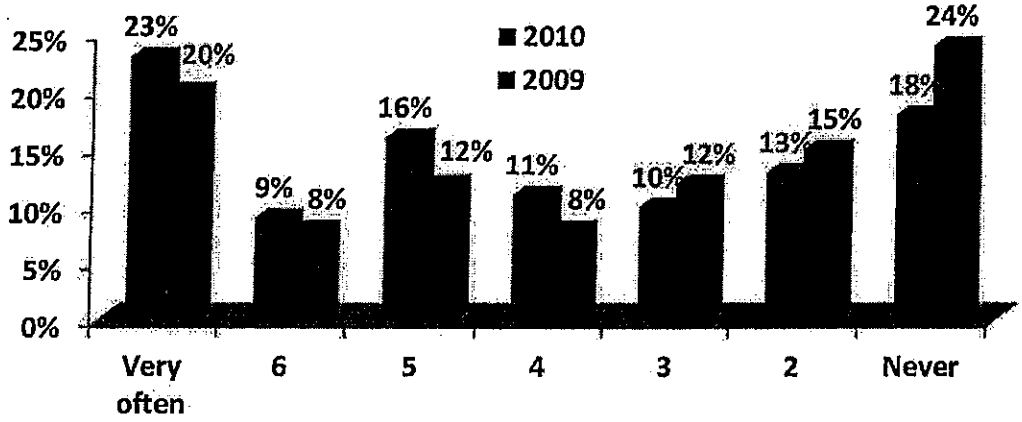


How often do you read public notices in the local newspaper?
2011



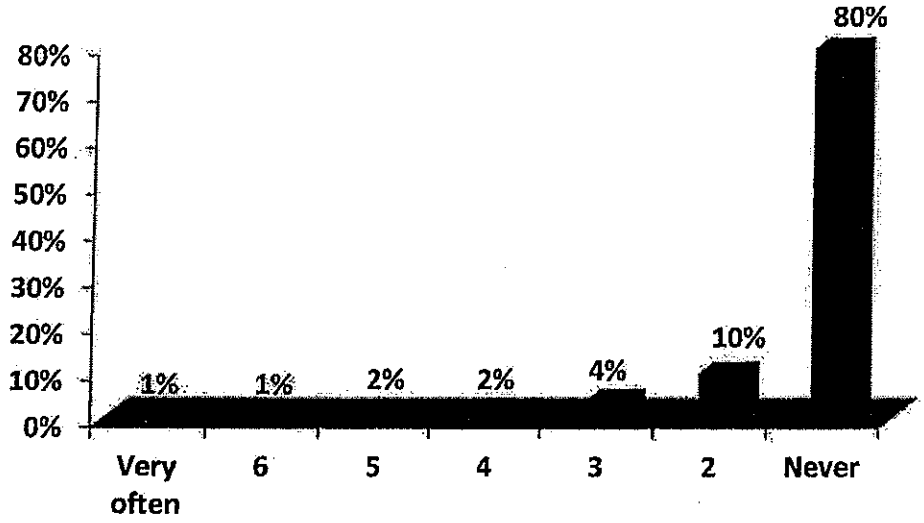
How often do you read public notices in the local newspaper?



Consistent with previous NNA research, readership of public notices in local newspapers continued to be widely distributed on the 7 point scale of reading frequency. These results are identical to those in 2009 and 2010.

Different from previous NNA research, the 2011 survey asked local residents how often they would visit the website of their local Chamber of Commerce. Not surprisingly, 80% had never visited the website of their local Chamber of Commerce.

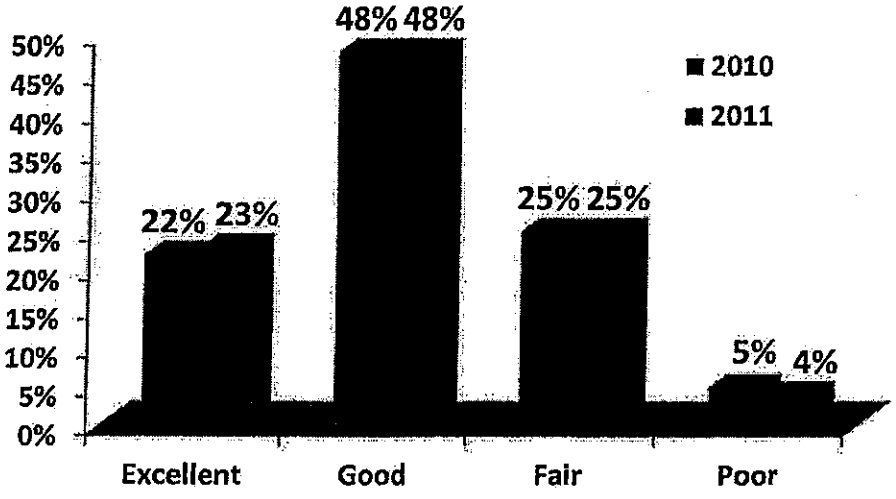
How often do you visit the website of your local Chamber of Commerce? 2011



Evaluation of local newspapers both in print & online

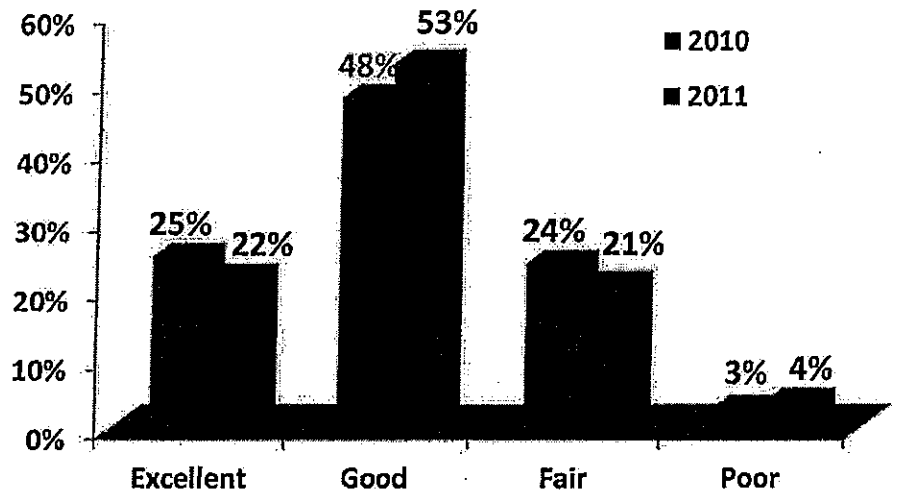
Readers of the survey were asked to evaluate their local newspapers in terms of accuracy, coverage of local news, quality of writing, and fairness of reporting.

Accuracy of the local newspaper's coverage



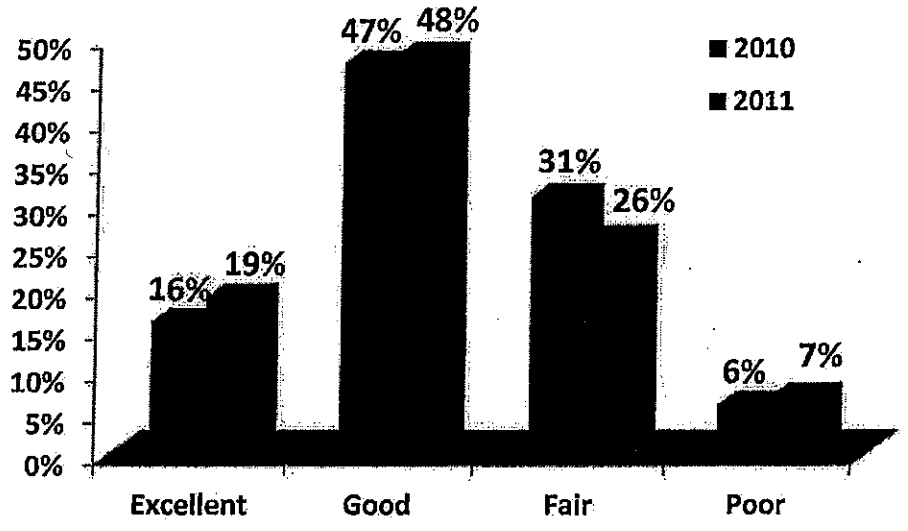
In both NNA surveys in 2010 and 1011, more than two-thirds of readers rated accuracy of local newspapers' coverage as either "excellent" or "good" (70% in 2010 and 71% in 2011).

Coverage of local news



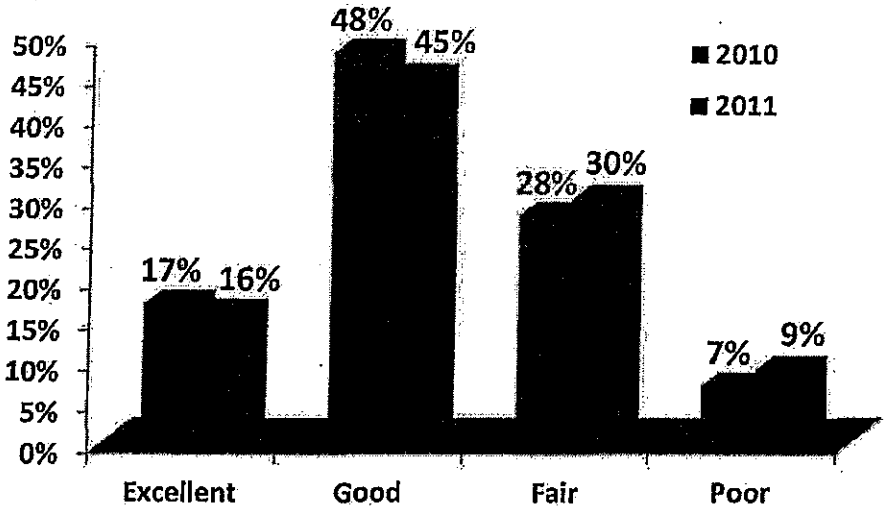
In terms of coverage of local news, majority of readers gave satisfying marks as 73% in 2010 and 75% in 2011 thought local newspapers did an "excellent" or "good" job.

Quality of writing



As shown above, 63% of readers in 2010 and 67% in 2011 rated quality of writing in their local newspapers as either "excellent" or "good." However, their ratings were lower than those in other evaluation measures, suggesting more room for improvement in quality of writing.

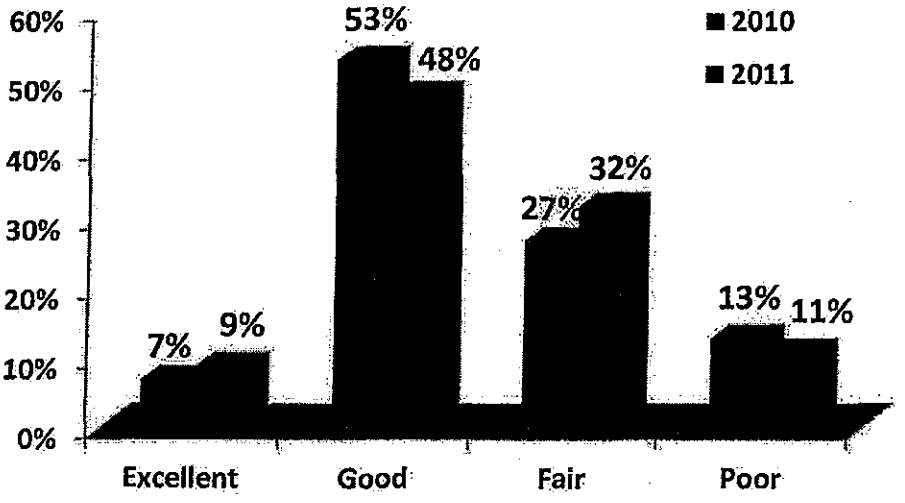
Fairness of reporting



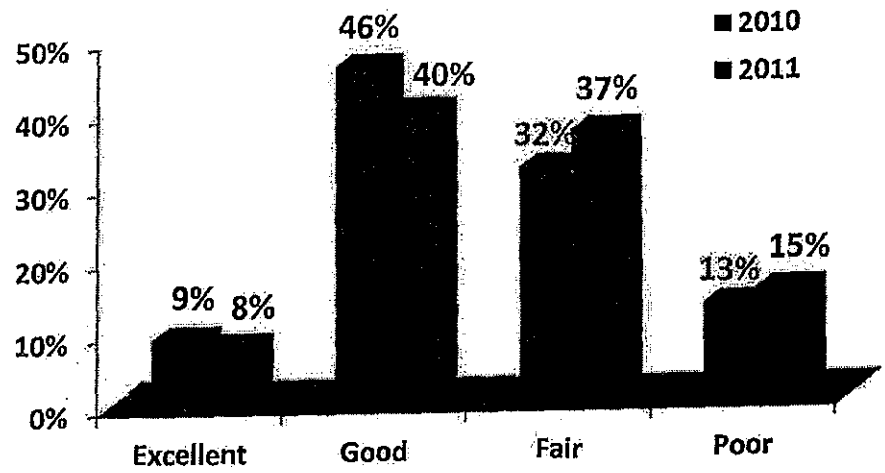
Similarly, readers gave equally satisfying evaluation marks to fairness of reporting in their local newspapers (65% thought it was either "excellent" or "good" in 2010 and 61% in 2011). On the other hand, more than one-third of readers (35% in 2010 and 39% in 2011) felt the newspapers did either a "fair" or "poor" job. When asked why they do not read local newspapers, five percent of respondents in 2011 and 11% in 2011 cited "too much bias/doesn't have the news I like to read," suggesting that local newspapers, either daily or non-daily, need to do a better job in "fairness of reporting" in order to sustain readership.

Those who went online for local news were also asked to evaluate the quality of local news coverage of Internet sources, other than the websites of local newspapers they had visited.

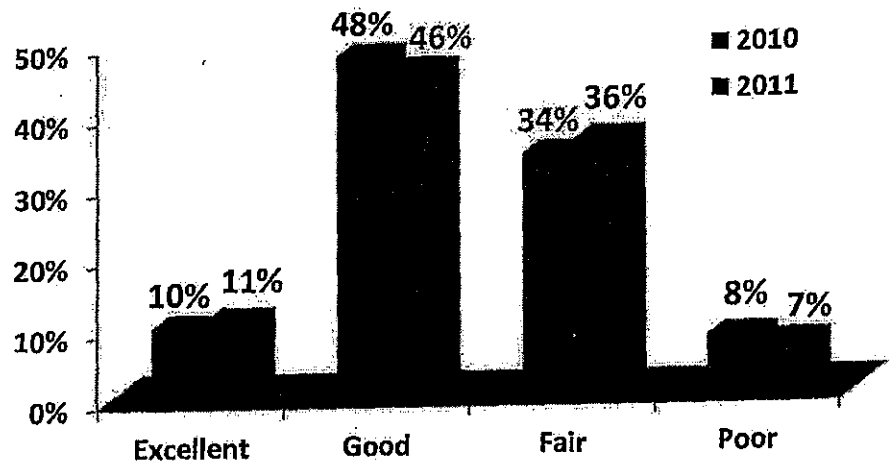
Accuracy of local news coverage online



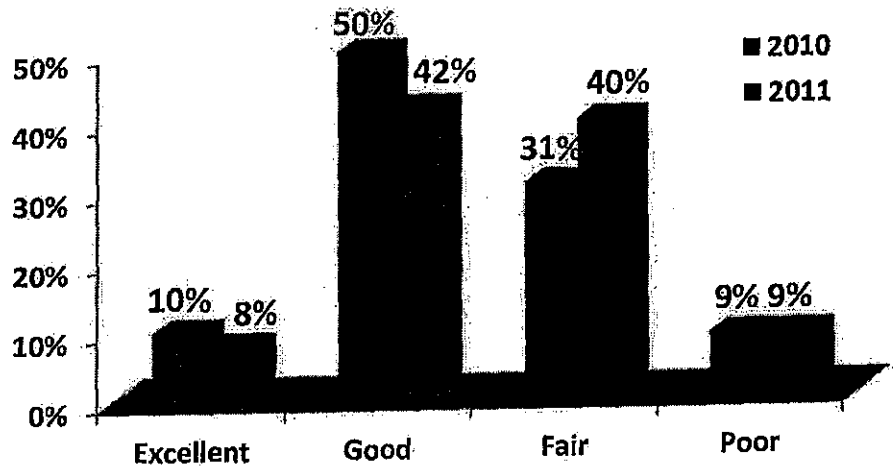
Coverage of local news online



Quality of news writing online



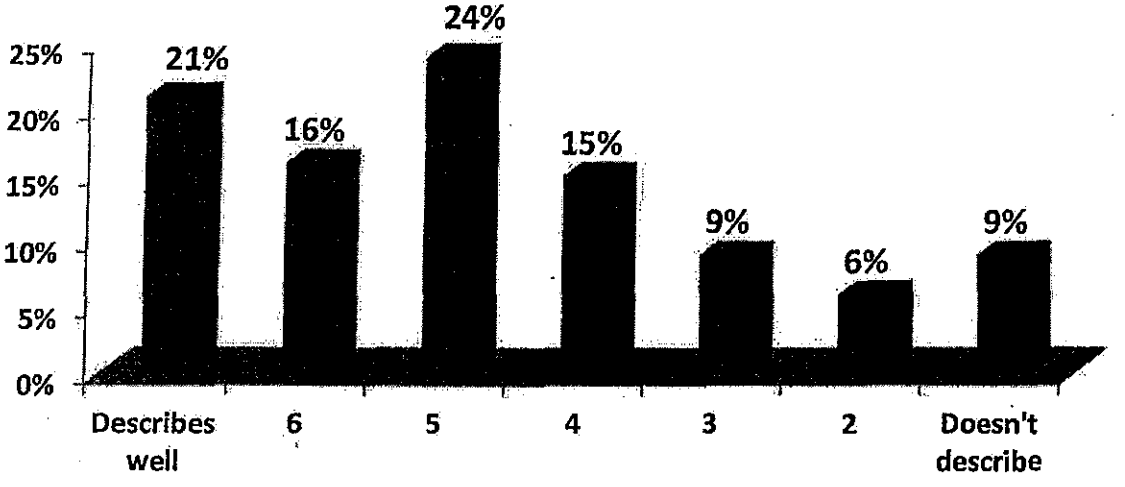
Fairness of reporting online



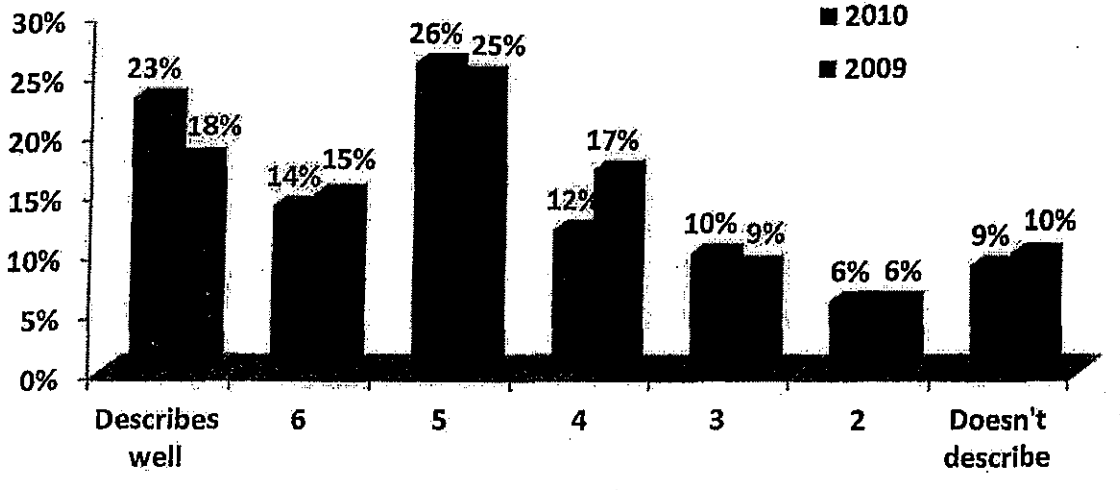
Evaluation of attributes of "good journalism" in local newspapers

As consistent with the design of the NNA research since 2009, the next set of questions of the 2011 survey was designed to see how readers would view the values of local newspapers. The items included "*[Newspaper name] is a newspaper that I really trust,*" "*[Newspaper name] has stories for people with my particular interests,*" "*[Newspaper name] provides more background and depth than any other news source,*" and so on. Respondent answered these questions on a 7-point scale where "1" is "Does not describe my newspaper" and "7" is "Describes my newspaper extremely well."

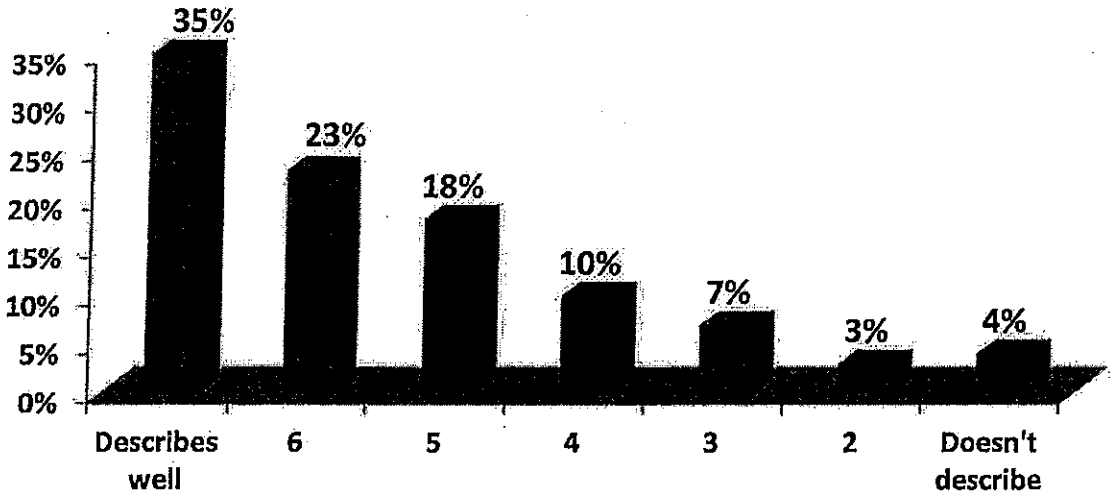
[Name of newspaper] is a newspaper that I trust more than other sources of news
2011



[Name of newspaper] is a newspaper that I trust more than other sources of news



[Name of newspaper] really understands the things that are of special interest & importance to people who live in the area
2011



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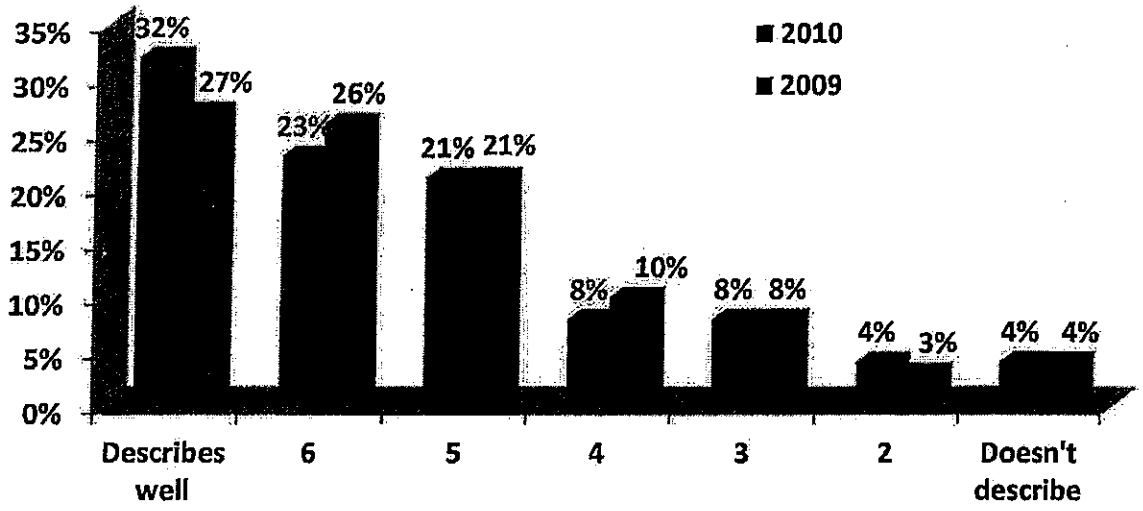
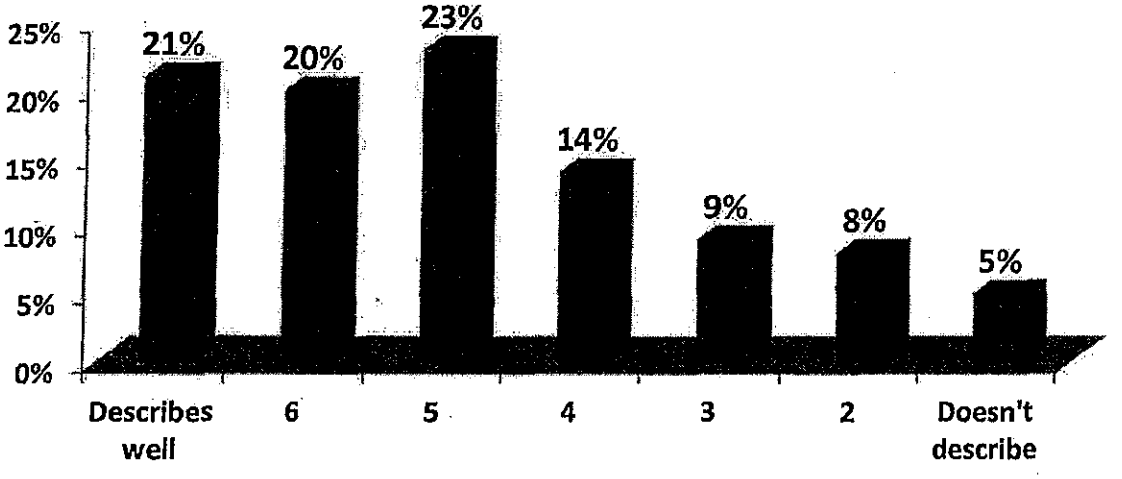


[Name of newspaper] has stories for people with my particular interests
2011



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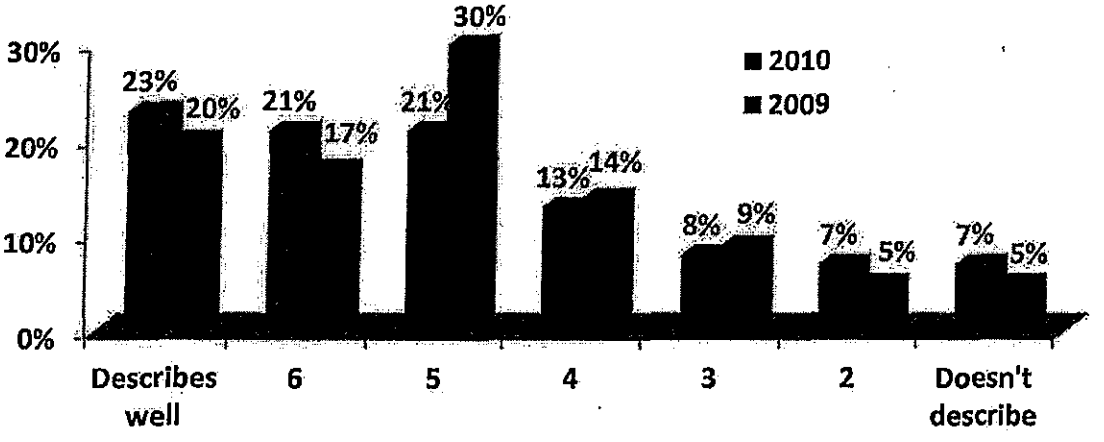
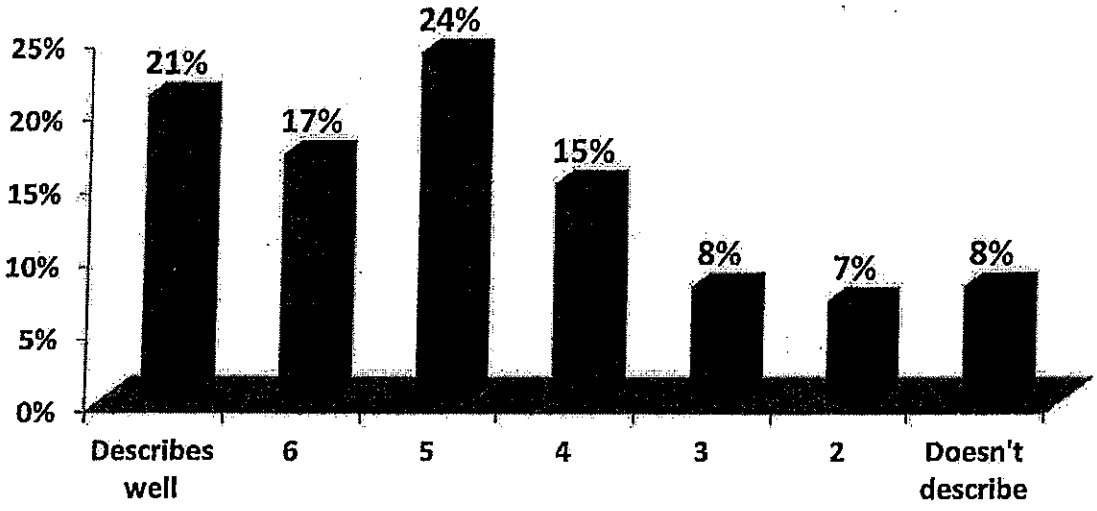
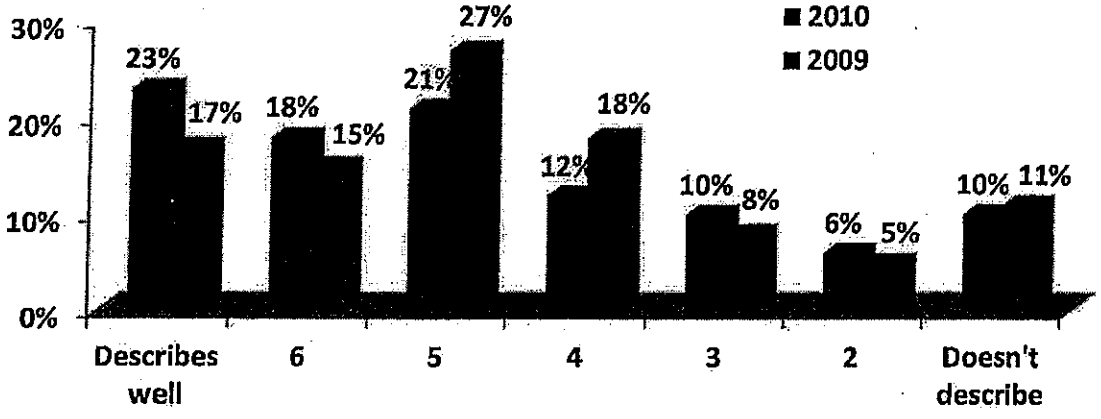


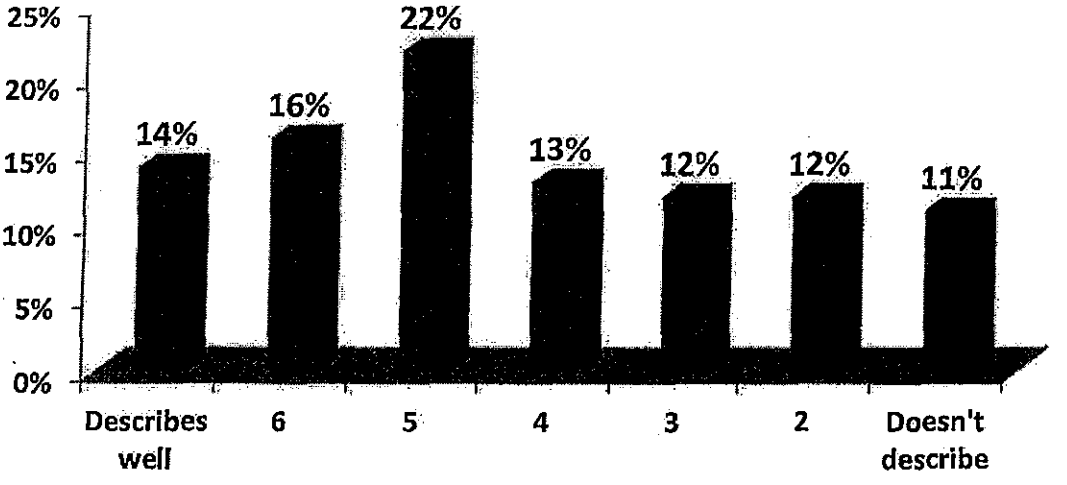
[Name of newspaper] really cares about people like me
2011



[Name of newspaper] really cares about people like me



[Name of newspaper] does a better job than any other news source of helping me understand the news
2011



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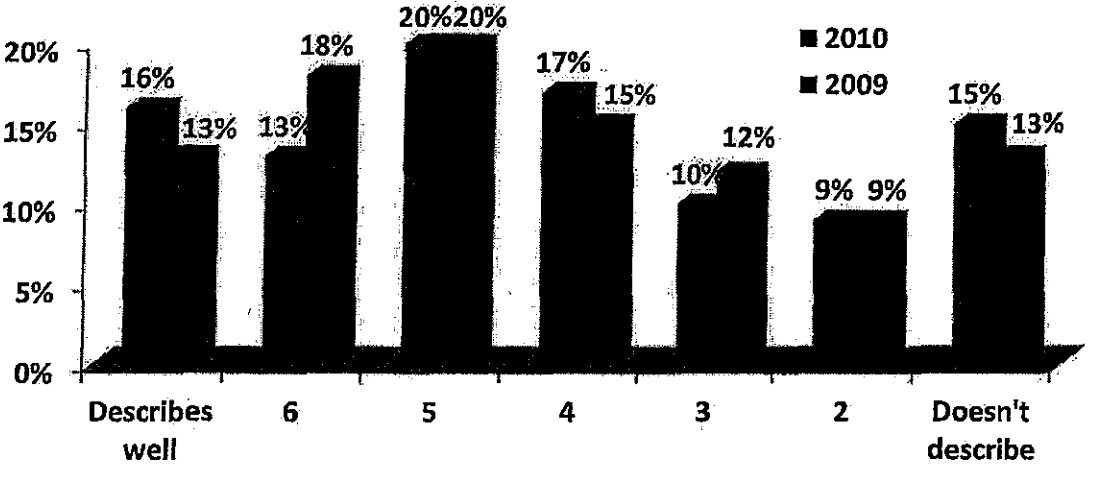
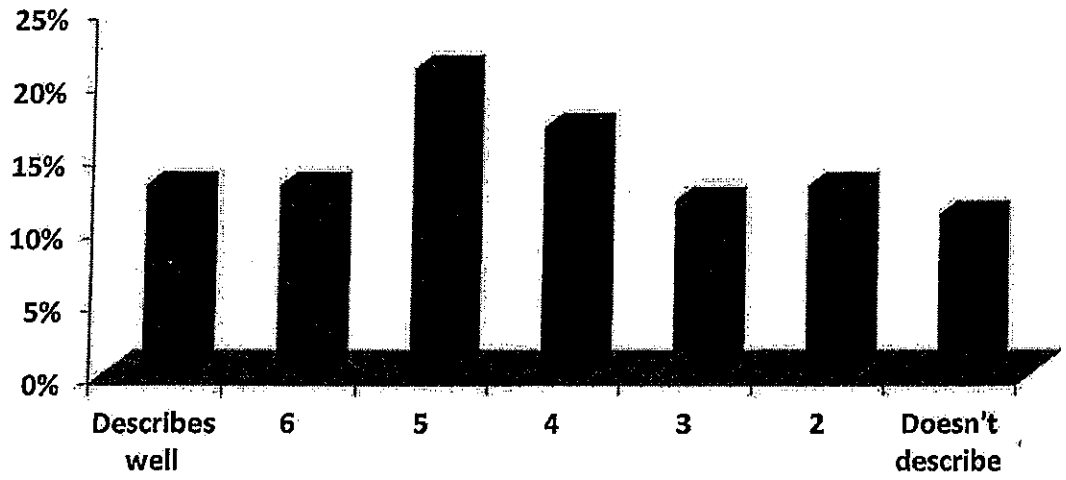


[Name of newspaper] provides more background and depth than any other news source
2011



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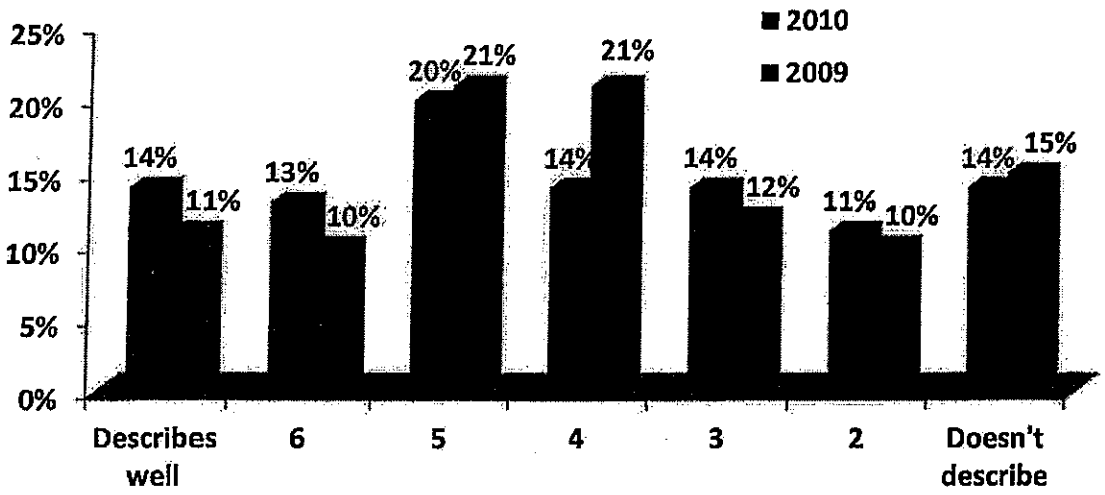
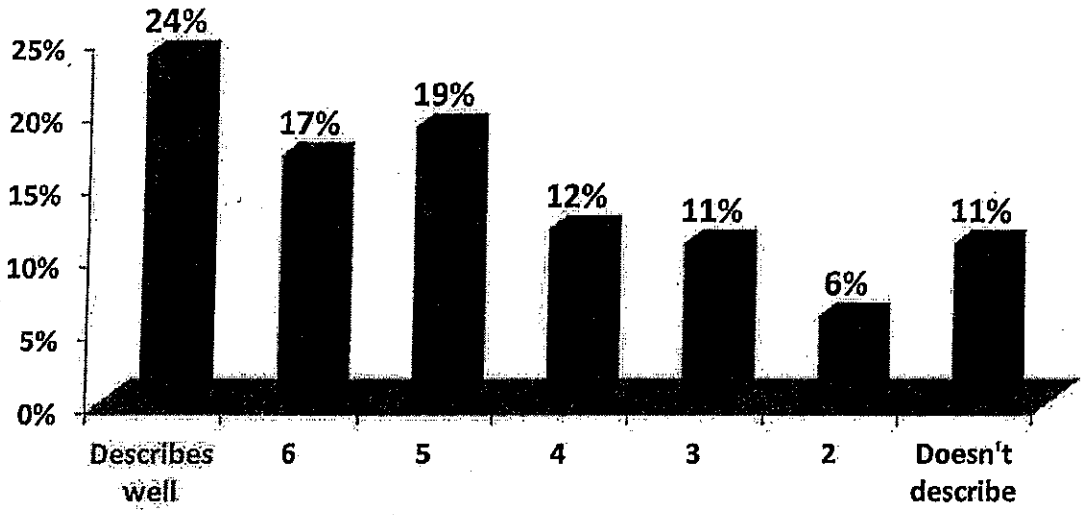
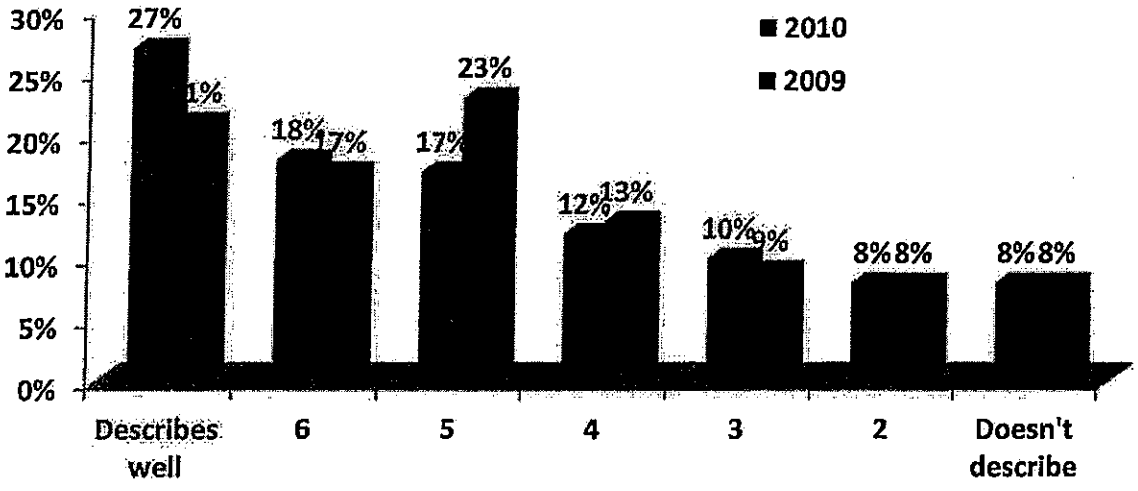


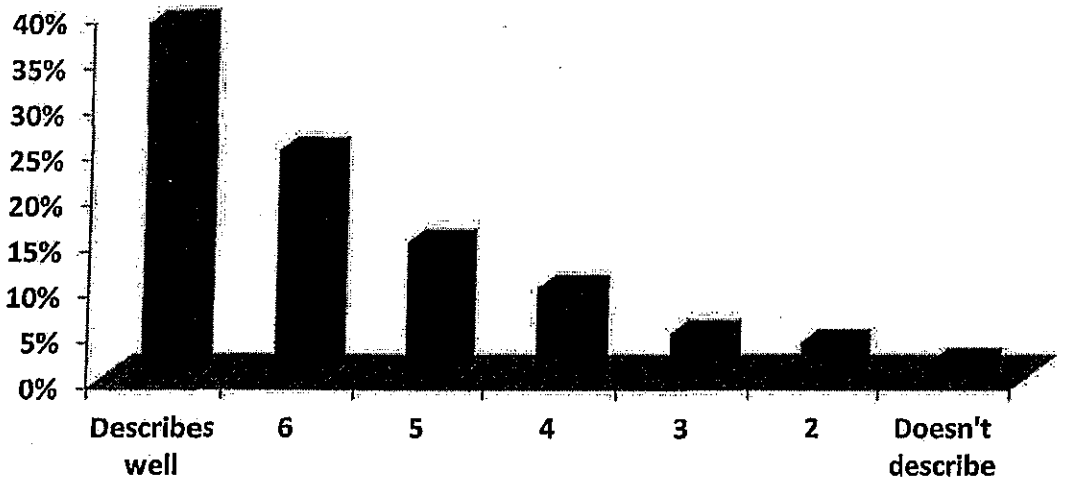
[Name of newspaper] is extremely useful to me personally
2011



[Name of newspaper] is extremely useful to me personally



[Name of newspaper] is very well organized and easy to get through
2011



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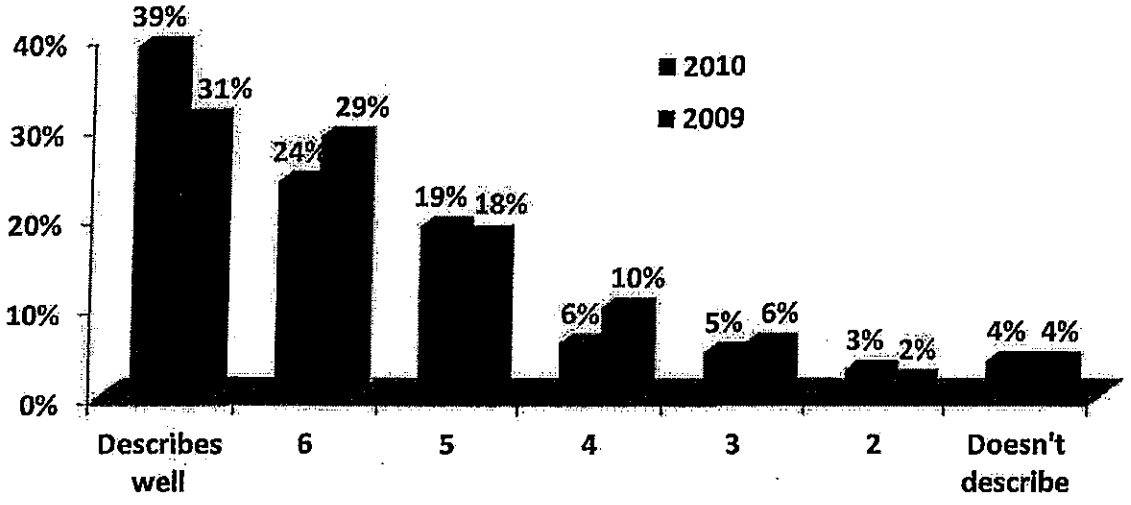
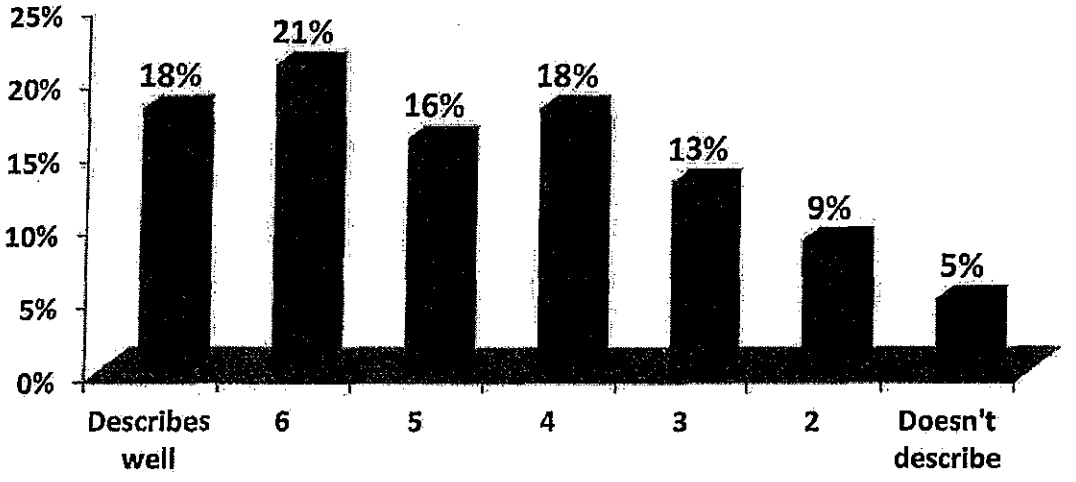


The website of the local newspaper is very well organized & easy to get through
2011



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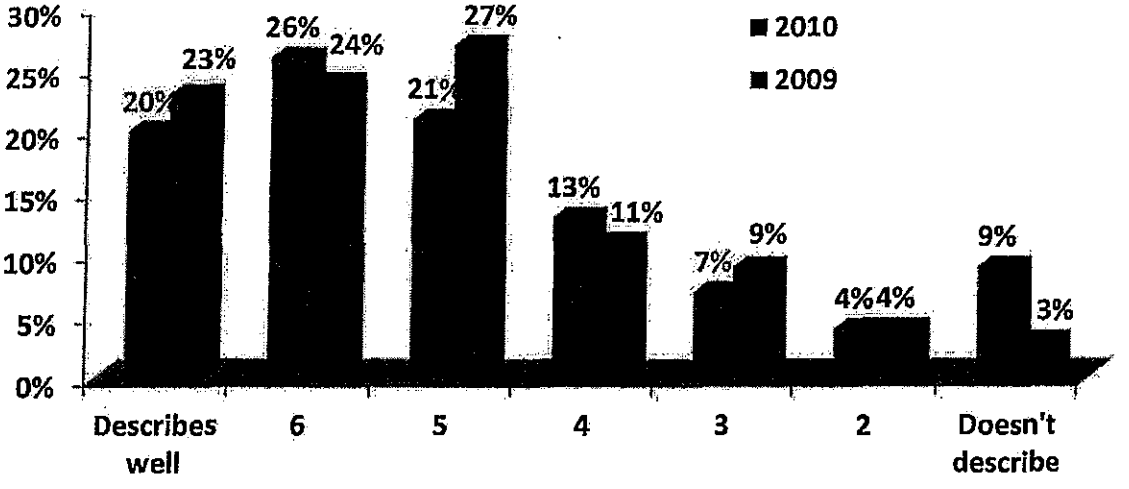
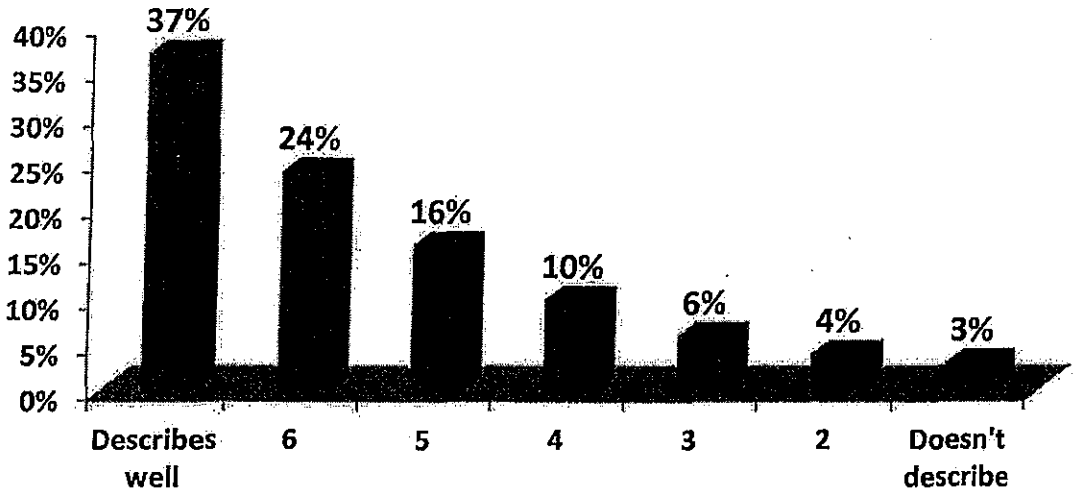
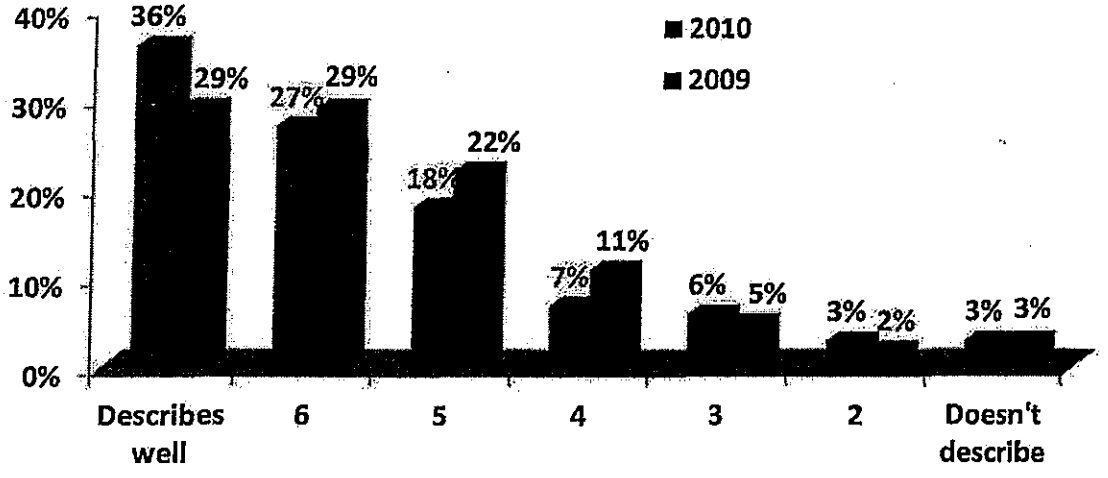


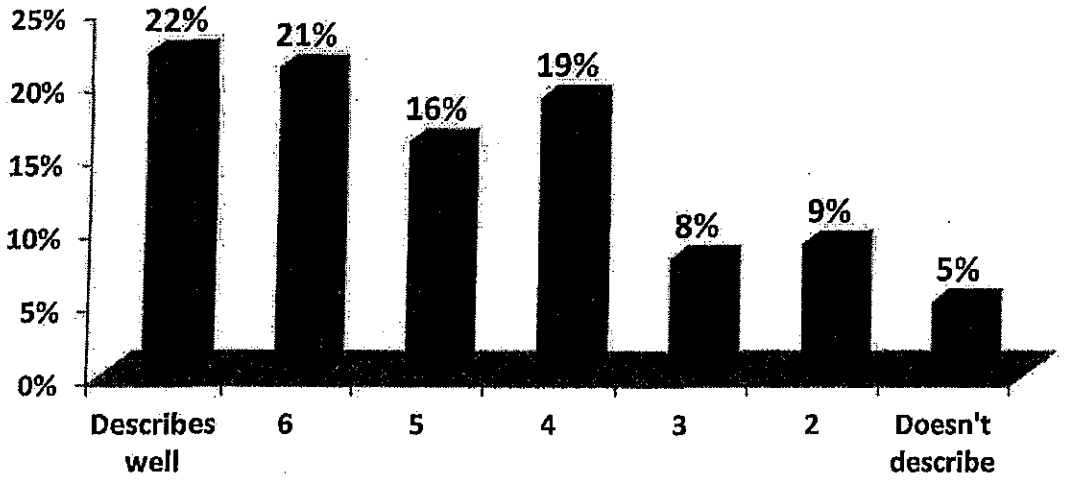
[Name of newspaper] makes it very easy to find the information I want
2011



[Name of newspaper] makes it very easy to find the information I want



The website of the local newspaper makes it very easy
to find the information I want
2011



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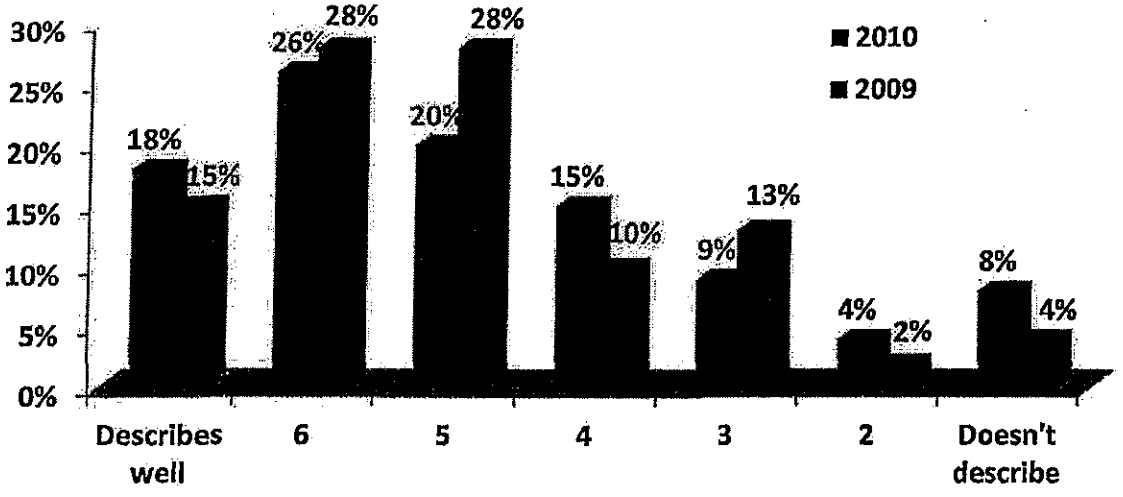
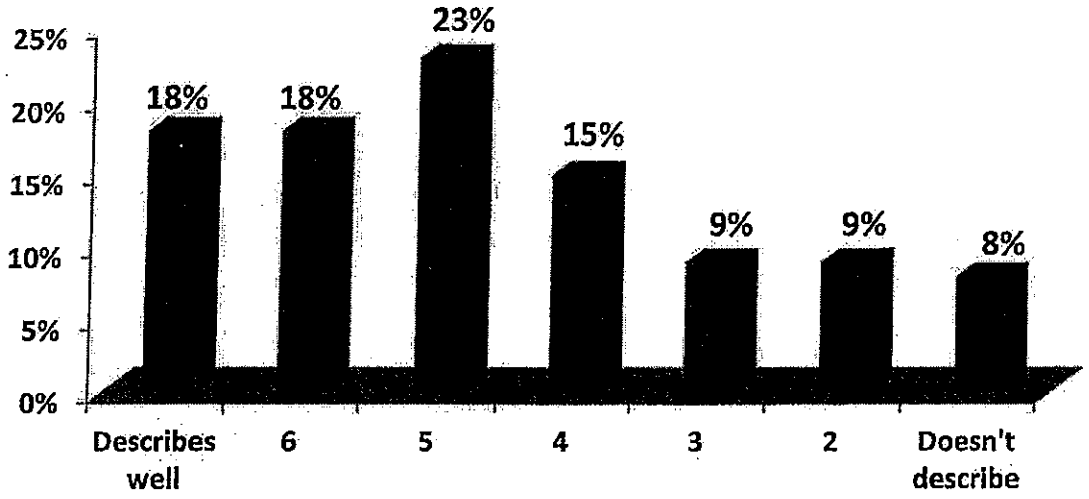
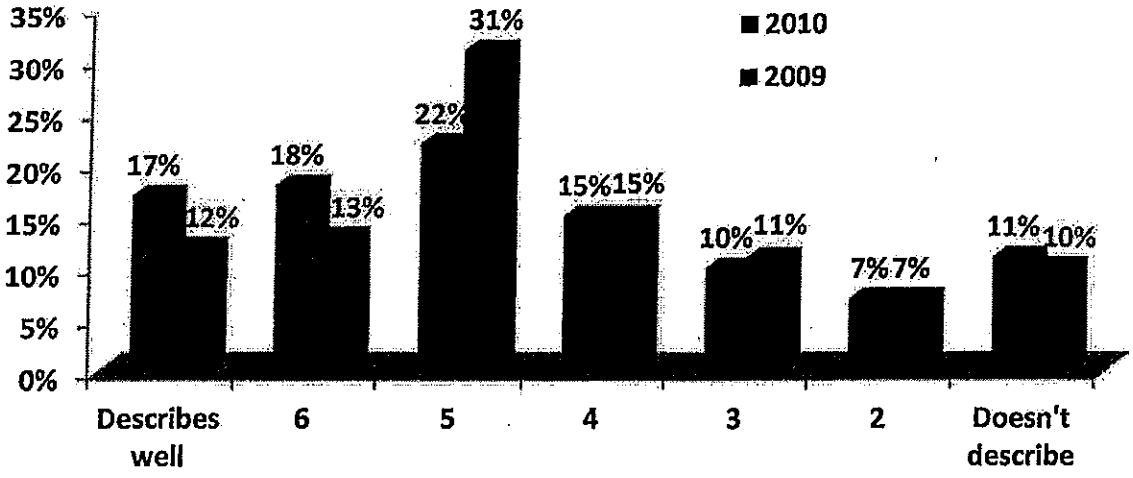


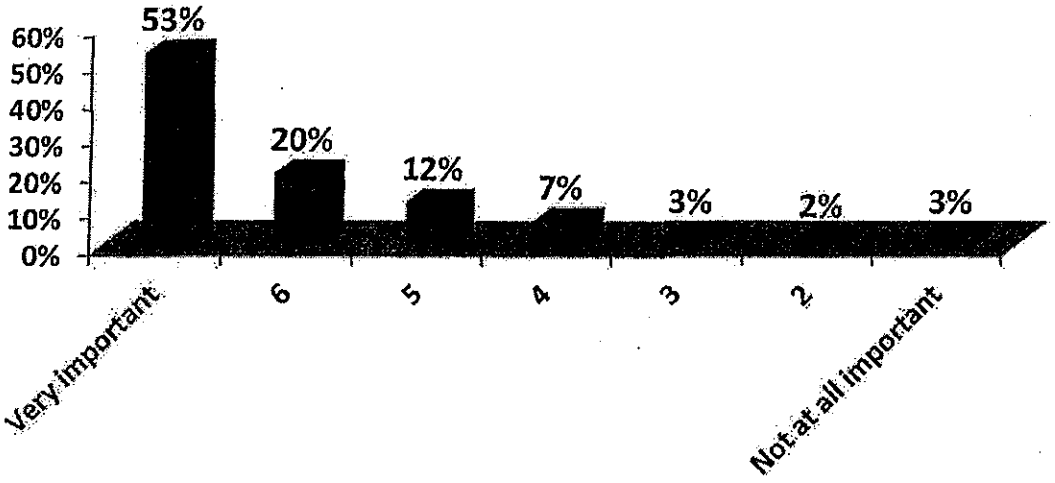
[Name of newspaper] gives me the information I need to hold government, Civic and business leaders to a high level of accountability
2011



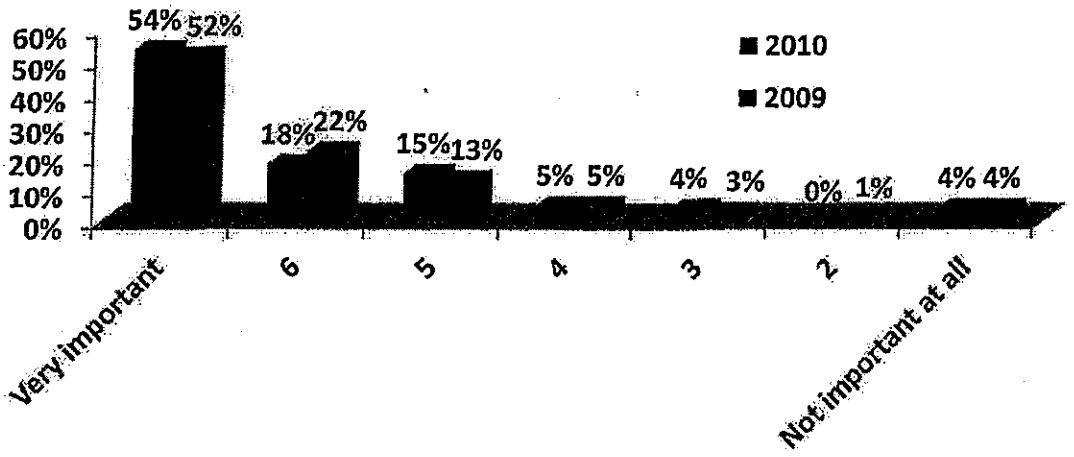
[Name of newspaper] gives me the information I need to hold government, Civic and business leaders to a high level of accountability



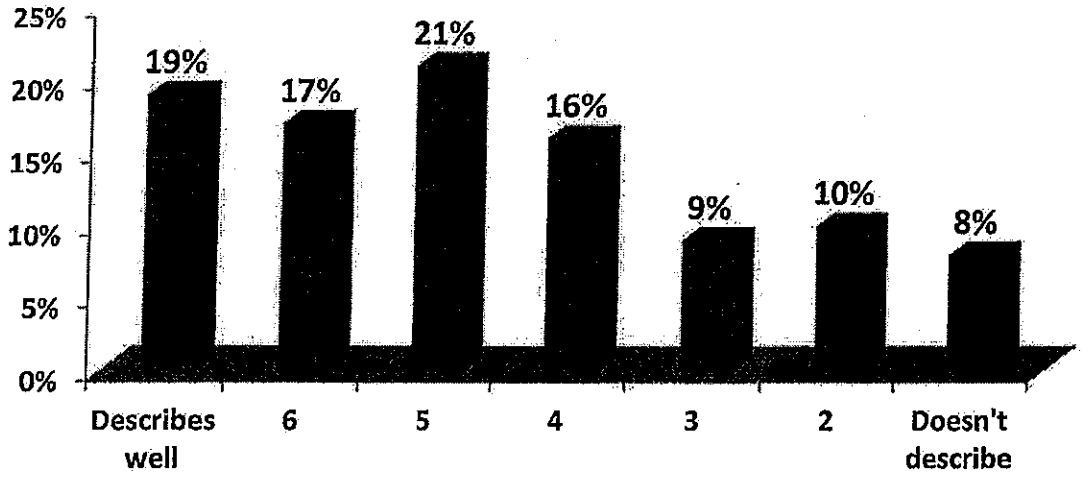
How important is it to you that the public, or the newspaper on the public's behalf, holds government, civic and business leaders to a high level of accountability?
2011



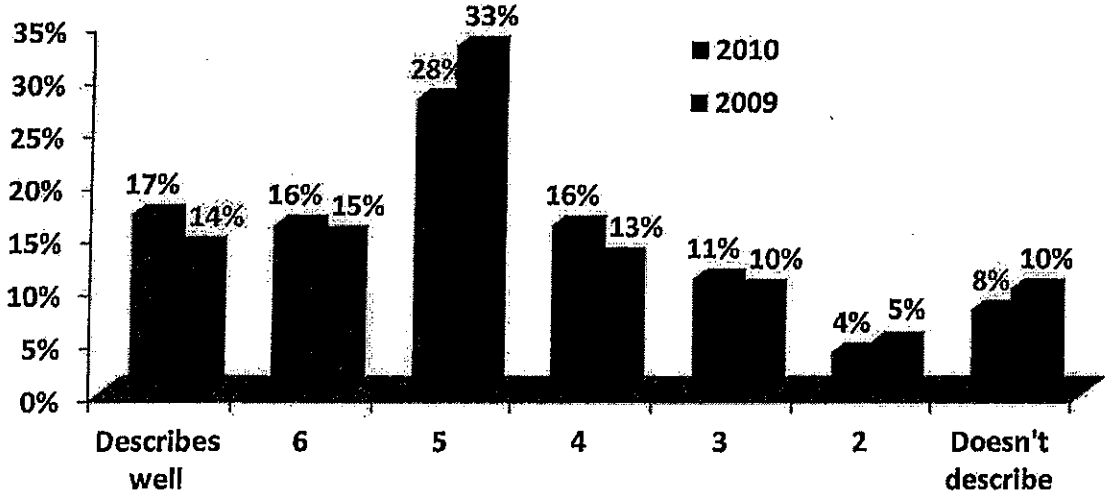
How important is it to you that the public, or the newspaper on the public's behalf, holds government, civic and business leaders to a high level of accountability?



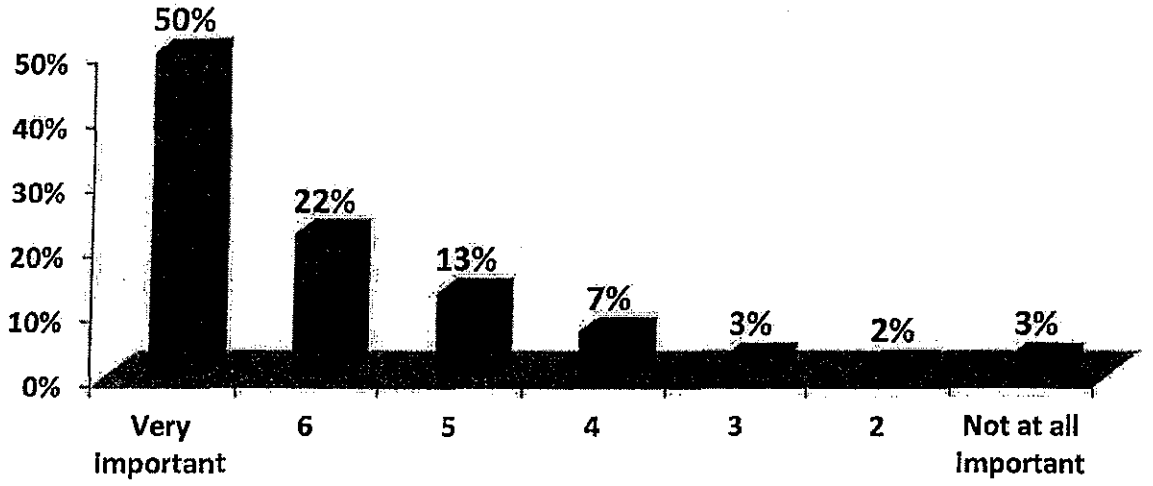
[Name of newspaper] does an excellent job investigating claims and statements made by government, civic and business leaders
2011



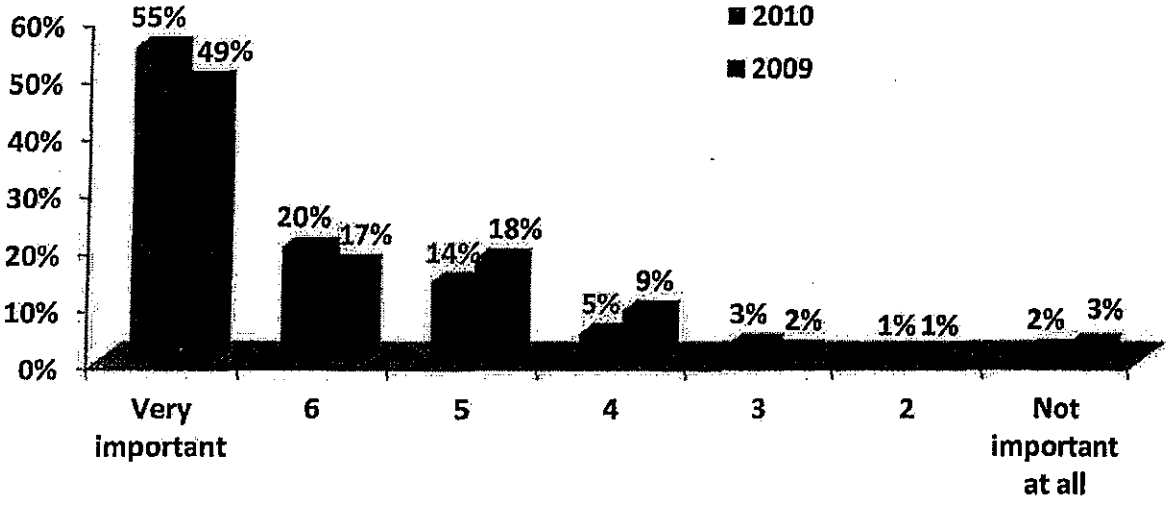
[Name of newspaper] does an excellent job investigating claims and statements made by government, civic and business leaders



How important is it to you that the public, or the newspaper on the public's behalf, investigates claims & statements made by government, civic and business leaders
2011



How important is it to you that the public, or the newspaper on the public's behalf, investigates claims & statements made by government, civic and business leaders



Primary (& preferred) sources of information about local communities

As shown in Table 7A, solid readership of local newspapers in small cities and towns in the United States was evident as nearly 52% of respondents in 2011 selected "newspaper" as their primary source of information about what was happening in their communities. This finding should be more noticeable when taking into consideration the fact that two-thirds of the readers in the 2011 NNA research read non-daily newspapers.

TABLE 7A: Primary source of information about local communities

Description of sources	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2010	Percent (%) 2011
Newspaper	50.1	45.3	58.8	60.0	49.3	51.8
Television	16.1	20.6	10.8	13.8	16.0	13.2
Radio	8.7	5.7	6.6	4.6	5.5	5.6
Internet	2.0	3.6	3.4	5.8	7.7	7.4
Friends/Relatives	15.1	12.9	8.8	13.4	17.5	16.0
Co-workers	0.8	1.6	0.4	0.6	1.3	1.8
Newspaper & TV	0.8	1.6	n.a.	n.a.	n.a.	n.a.
Newspaper & Radio	0.8	1.0	n.a.	n.a.	n.a.	n.a.
Social media	n.a.	n.a.	n.a.	n.a.	n.a.	1.0
Others	2.6	5.9	5.0	1.0	0.7	1.6
Don't know/Not sure	3.0	1.8	6.4	0.8	1.9	1.6

(2005: n = 503; 2007: n = 505; 2008: n = 502. 2009: n = 500. 2010: n = 670. 2011: n = 500)

When asked about their preference for *the* source of information about local communities, 54% of residents preferred "newspaper" over other local media outlets such as television, radio, and etc.

TABLE 7B: Where do you *prefer* to get news about your local community?

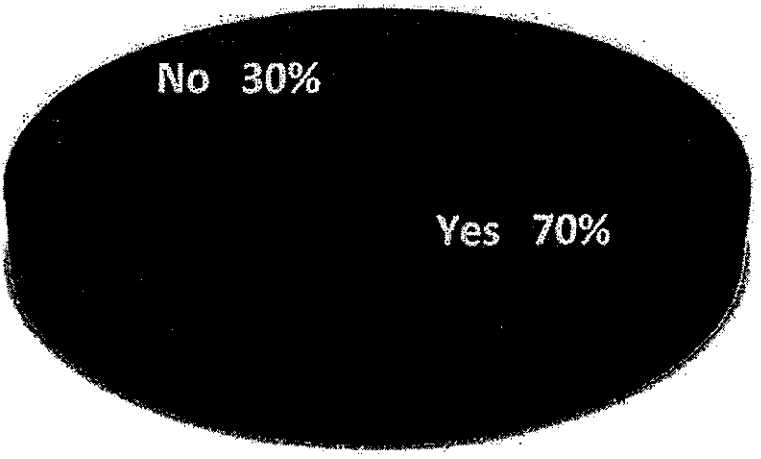
Description of sources	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2010	Percent (%) 2010
Newspaper	46.9	63.7	61.4	50.9	54.0
Television	18.6	10.0	11.2	16.3	14.6
Radio	5.7	5.4	4.8	6.7	7.2
Magazine	n.a.	n.a.	0.2	n.a.	n.a.
Internet	4.6	5.2	5.0	8.5	8.0
Friends/Relatives	8.5	5.2	9.2	11.9	11.0
Co-workers	0.2	1.4	1.2	1.3	0.8
Newspaper & TV	1.8	n.a.	n.a.	n.a.	n.a.
Newspaper & Radio	0.8	n.a.	n.a.	n.a.	n.a.
Others	7.7	6.0	3.4	0.7	1.0
Don't know/Not sure	5.1	3.2	3.6	3.6	3.4

(2007: n = 505; 2008: n = 502. 2009: n = 500. 2010: n = 670. 2011: n = 500)

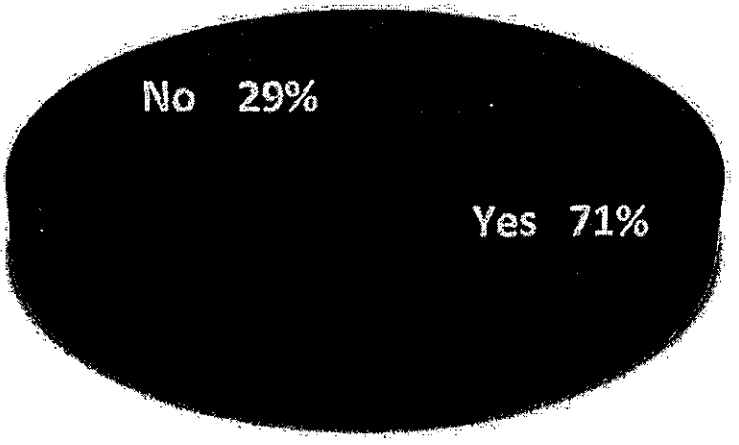
Access to and usage of the Internet

Consistent with previous NNA research, 70% of the 2011 survey participants in small towns and cities had access to the Internet at home.

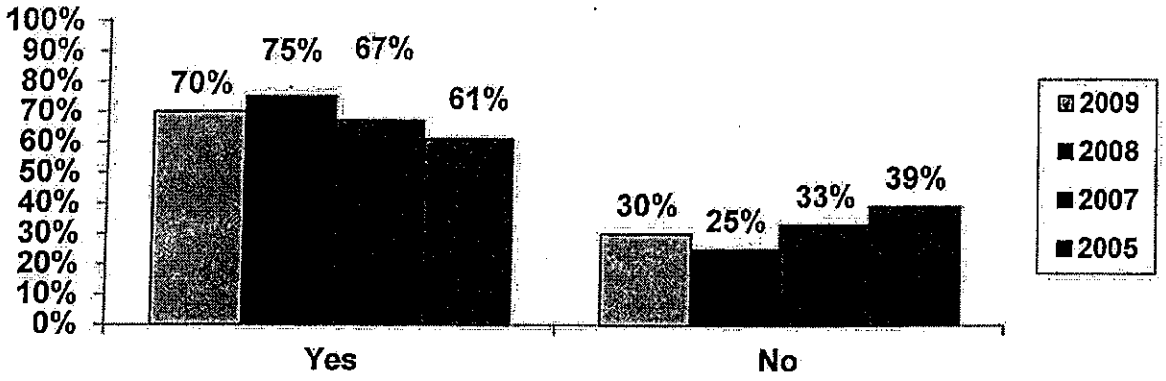
Do you have access to the Internet at home?
[2011]



Do you have access to the Internet at home?
[2010]

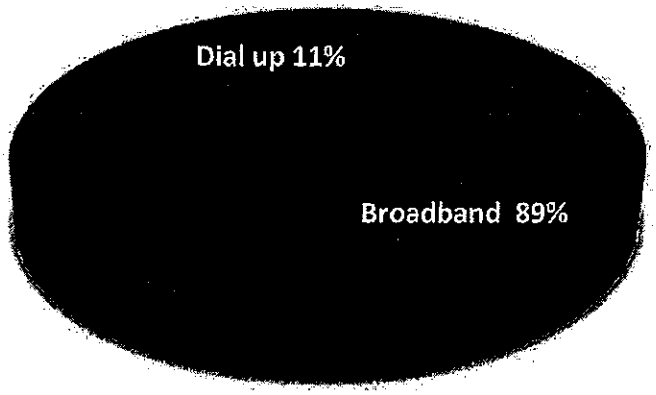


Do you have access to the Internet at home?

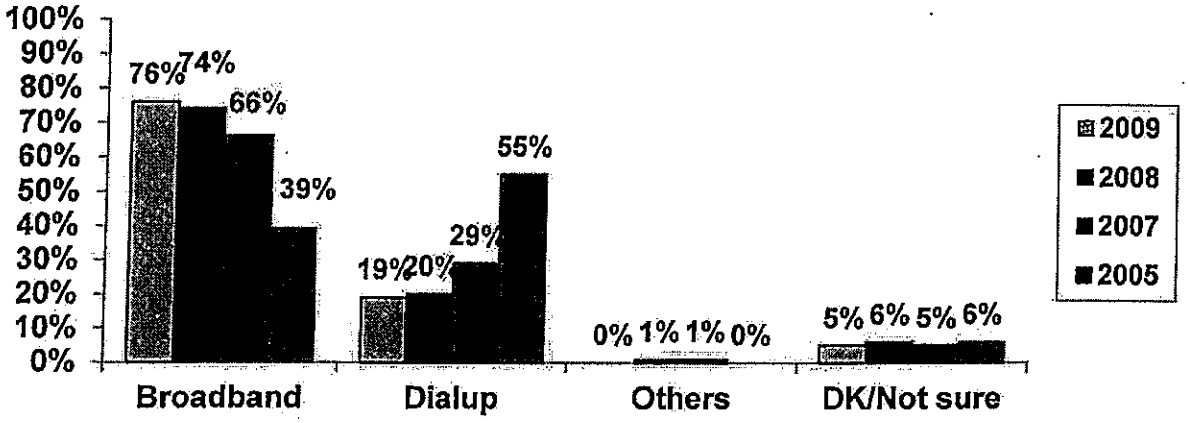


Nearly 9 out of 10 residents (89%) used broadband Internet technology (e.g., DSL, cable modem, WiFi, etc.) to access the Internet.

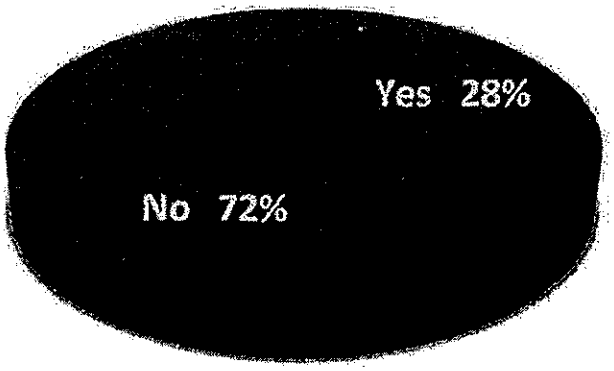
By which method do you access the Internet at home?
2011



By which method do you access the Internet at home?

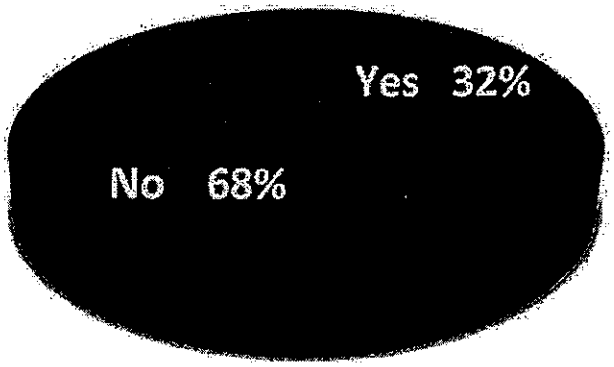


During the past month, have you visited the website of the local newspaper?
[2011]

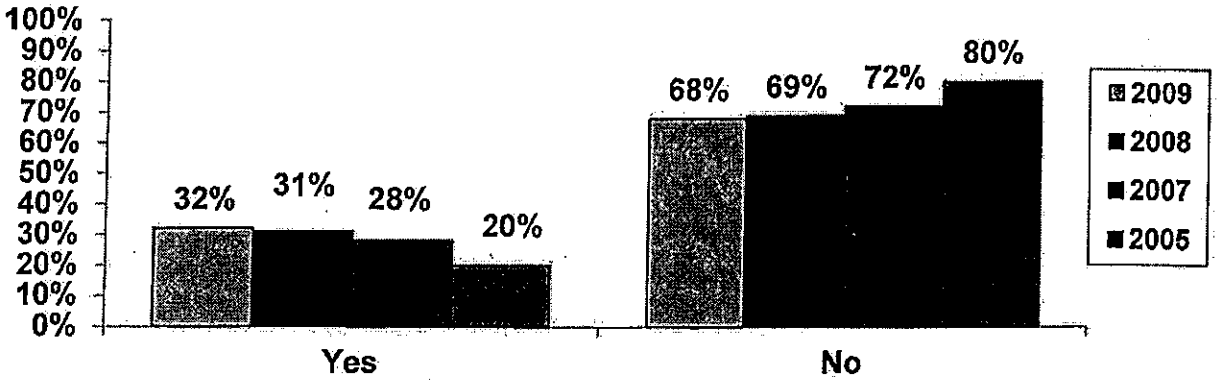


As shown above, nearly 3 out of 10 residents (28%) that had access to the Internet visited the website of their local newspapers during the past month. Review of all the NNA research since 2005 (see below) shows that the percentage of Internet users in small cities and towns that visited local newspapers' websites has been steady ranging from 20% to 32%.

During the past month, have you visited the website of the local newspaper?
[2010]

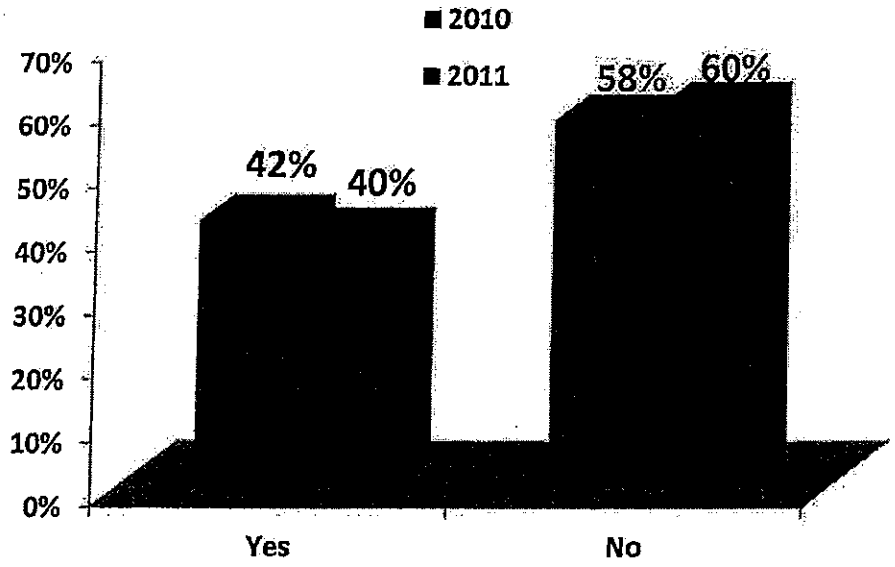


During the past month, have you visited the Web site of the local newspaper?

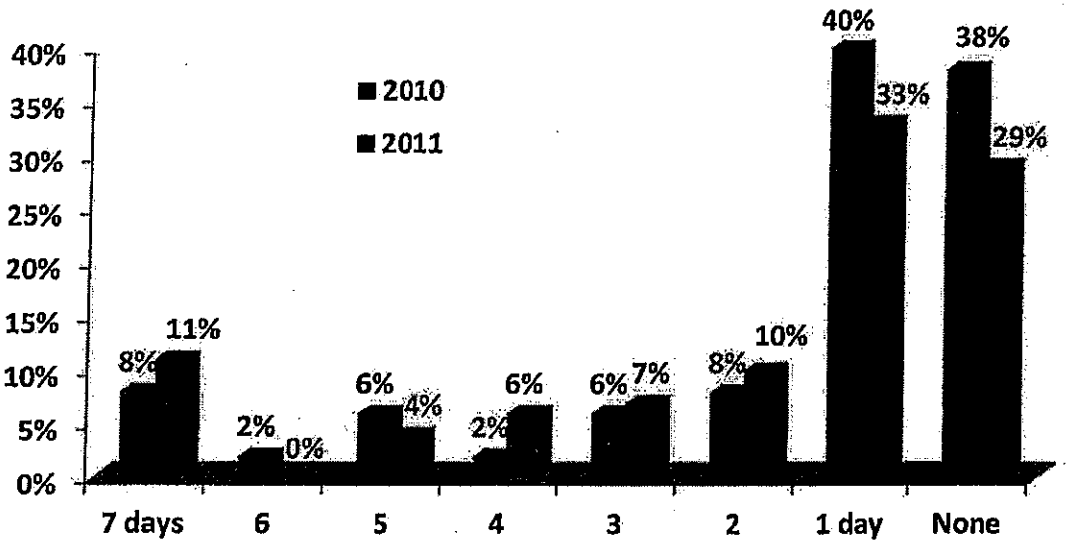


Similar to the 2010 finding, 40% of those who had access to the Internet in 2011 had visited other websites for local news and information.

Have you visited other Web sites for local news & information?



In a typical week, how many days do you visit the local newspaper's Web site?

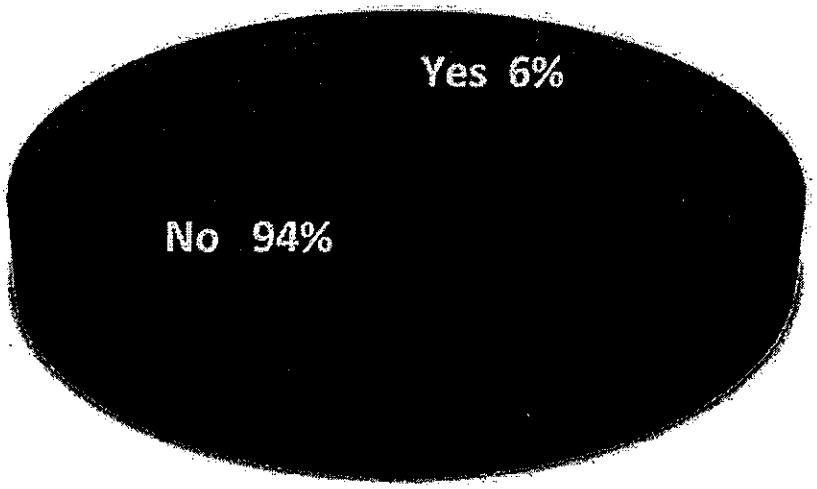


Respondents were also asked about what they liked the most and the least about the websites they visited. Their responses can be found in Appendix B – Open-Ended Responses.

Experience of paid content models in local newspapers

New to the 2011 NNA survey were question items about whether local residents who visited the websites of local newspapers had experienced any paywall online. The purpose was to see if local newspapers nowadays charge users for their online content and, if so, how readers evaluate the effectiveness of the paid content models.

Do you pay to view the content on the website?
2011
[n = 98]



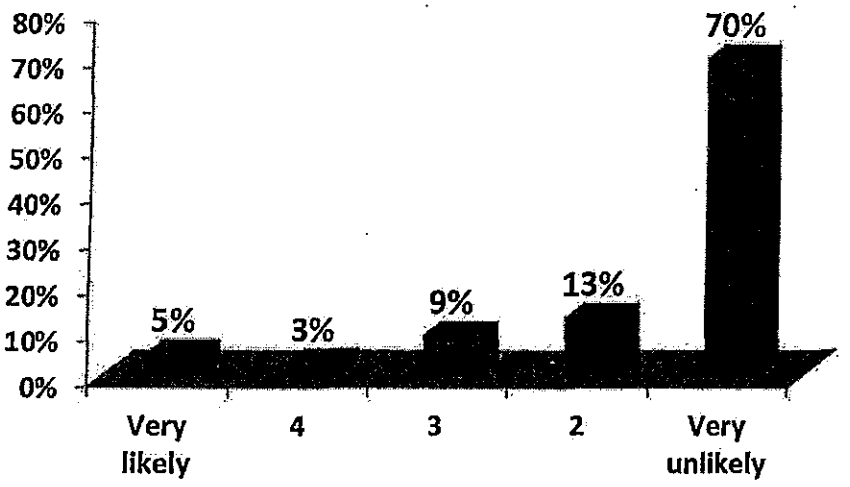
Of those who visited the websites of local newspapers, six percent said they experienced paywall, and 94% did not, suggesting that the practice of paid content models in daily and weekly newspapers in small cities and towns is in its very early stage.

The survey also asked those who experienced paywall how they paid for the online content (e.g., through a metered approach, etc.). The results are not reported here because the effective sample size was too small for the numbers to be statistically meaningful.

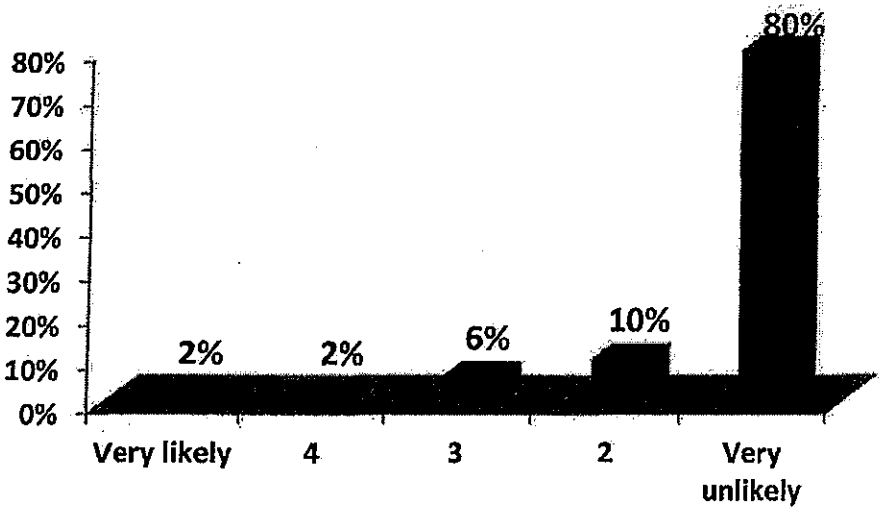
Likelihood of paying for content online & on mobile devices

Also new to the 2011 survey were three additional measures designed to see if local residents in small cities and towns would pay to view content of local newspapers if they were available on the Internet, mobile devices such as iPhone, and tablet such as iPad 2. Responses were coded on a 5-point scale where 5 was "very likely" and 1 was "very unlikely.'

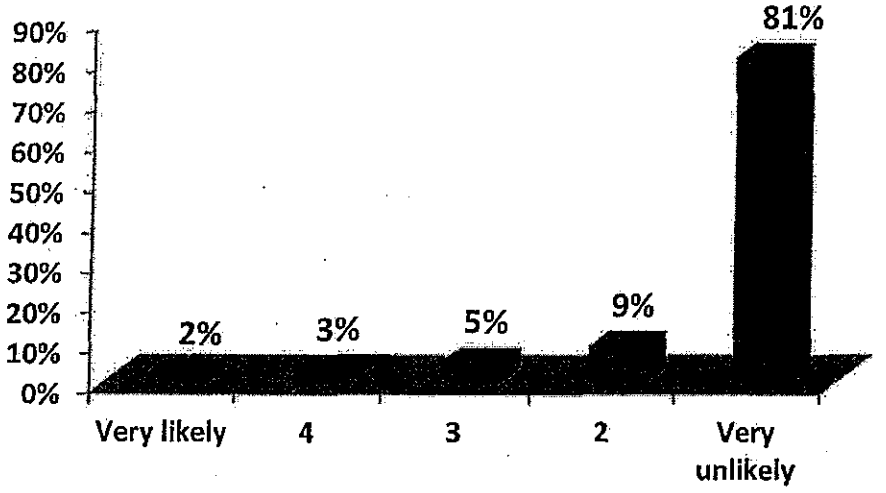
How likely is it that you would pay to view the content if your local newspaper was available on the Internet?
2011



How likely is it that you would view the content of your local newspaper if it were available on MOBILE devices but you had to pay to view it?
2011



How likely is it that you would view the content of your local newspaper on a tablet such as the iPad2 if it were available but you had to pay to view it?
2011



The survey shows that a combined 83% of readers of local newspapers in small cities and towns today said that it would be either "somewhat unlikely" or "very unlikely" for them to read the content if it were available on the Internet; 90% (combining responses of "somewhat unlikely" and "very unlikely") would not view the content of local newspapers on mobile devices and tablet if it were available and they had to pay to view it.

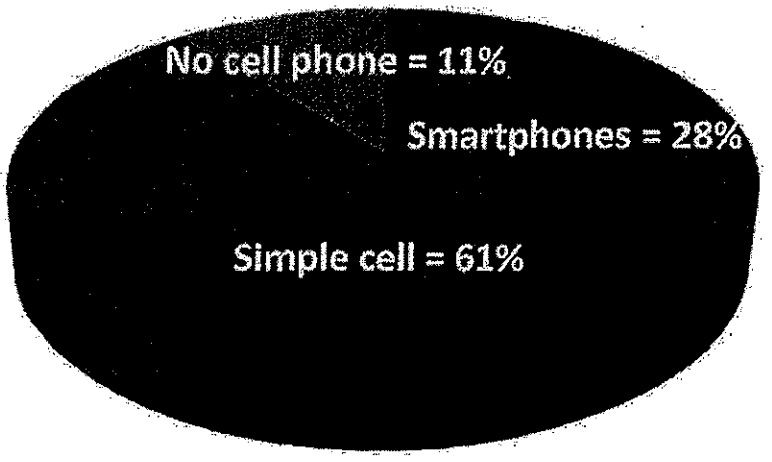
Multivariate regression analysis shows that the three likelihood measures were negatively and significantly associated with age, suggesting that younger adults in small cities and towns would view the content of local newspapers online and on mobile devices and table if it were available more likely than their older counterparts. Other demographic measures such as gender, education, total household annual income, and etc. did not play a significant role in their responses to the questions.

These findings imply that in small cities and towns in the United States today the perception that information online ought to be free may play a large role in the mindset of local residents about whether local newspapers should charge their content online or not. Their responses to the three questions may also be influenced by the fact that not many local newspapers in small cities and towns are charging users for online content, and hence majority of the readers have not had experience in seeing how paid content models work on the Internet, mobile devices, and tablet. In addition, the results reinstate the importance of attracting young audience to the online presence of local newspapers since younger adults have a higher probability of viewing the content online than older adults.

Use of mobile devices for news & information

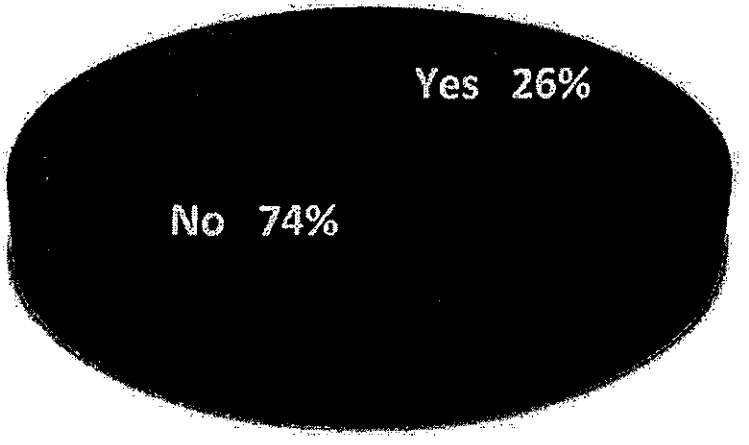
Because of the rising popularity of mobile devices such as smartphones, a number of question items were added to the 2011 NNA survey to measure (1) obsession of smartphones, (2) use of mobile devices for news and shopping information, (3) credibility of mobile devices in comparison to that of print newspaper, and (4) likelihood of using mobile phones for news and shopping information in the future.

Which of these types of phones do you have?
2011

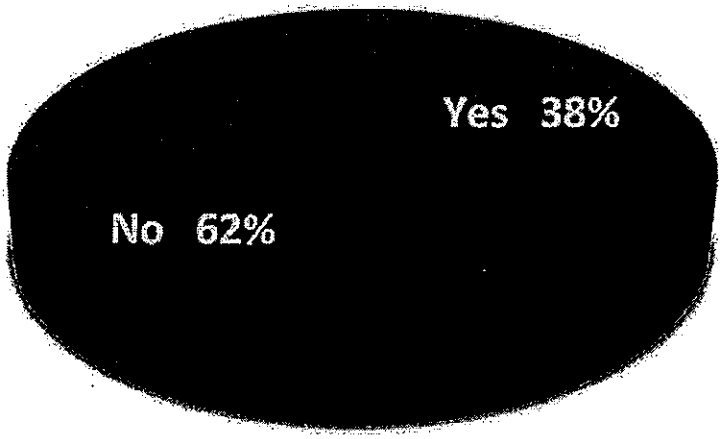


As shown above, 28% of local residents in small cities and towns had smartphones, 61% simple cell phones, and 11% did not cell phones.

Have you accessed the local news with your mobile phone within the last 30 days?
[n = 137]



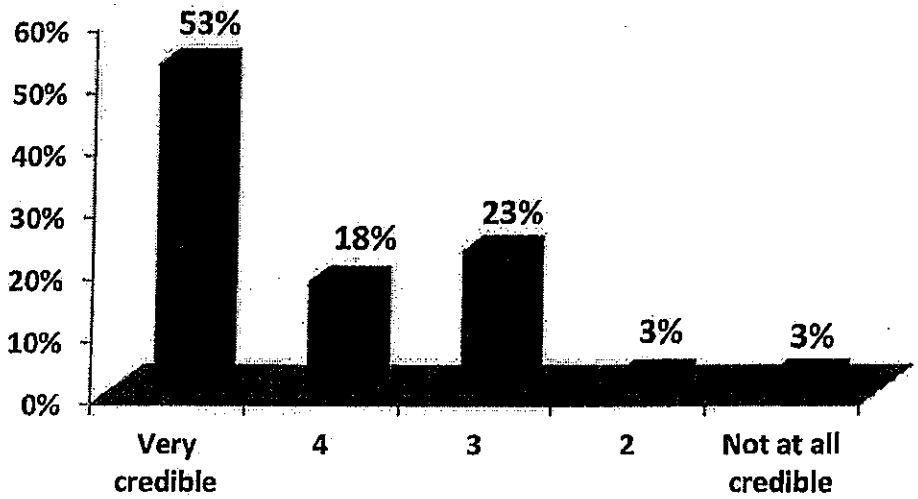
Have you accessed shopping information with your mobile phone within the last 30 days?
[n = 137]



Slightly more than one-fourth of smartphone owners (26%) had accessed local news on their mobile phones with the last 30 days. More than one-third of those who had a smartphone had accessed shopping information on their mobile phones with the last 30 days. These findings suggest that in small cities and towns smartphone owners make good use of their mobile devices for both local news and shopping information.

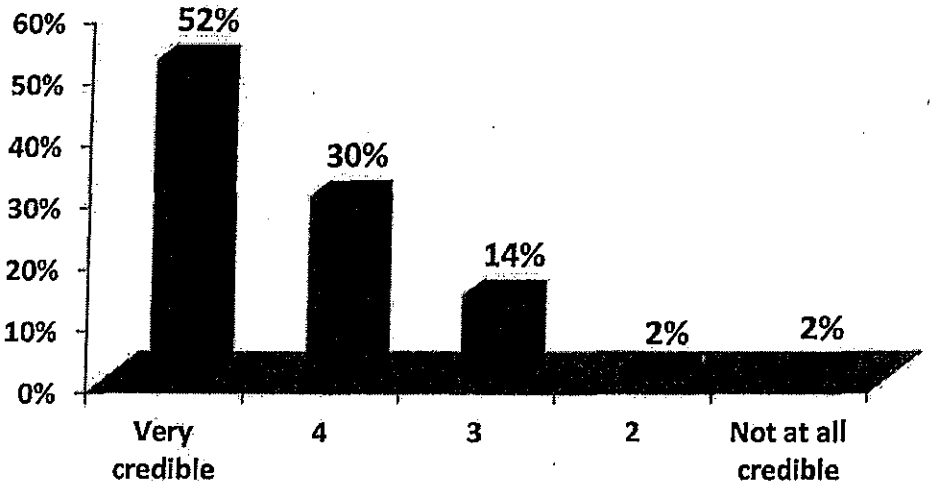
As shown below, 71% of those who used their mobile devices for local news thought the news was either "very credible" or "somewhat credible." However, caution is recommended in interpreting the finding because the effective sample size was small.

The local news you access on your mobile phone
[n = 35]

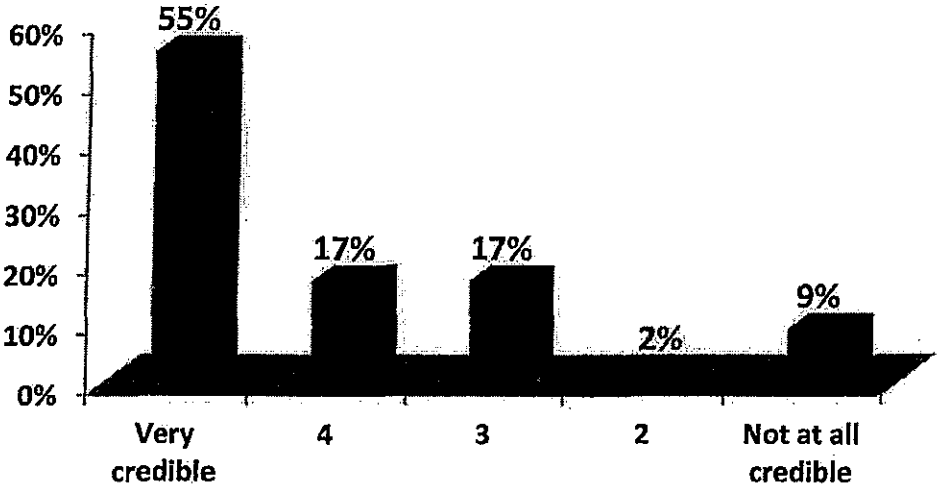


Similarly, those who used their mobile devices to access shopping information were asked how credible the information was. The survey shows that a combined 82% thought the information was either "very credible" or "somewhat credible." Again, caution needs to be taken in understanding the result because the effective sample size was small.

The shopping information you access on your mobile phone
[n = 52]

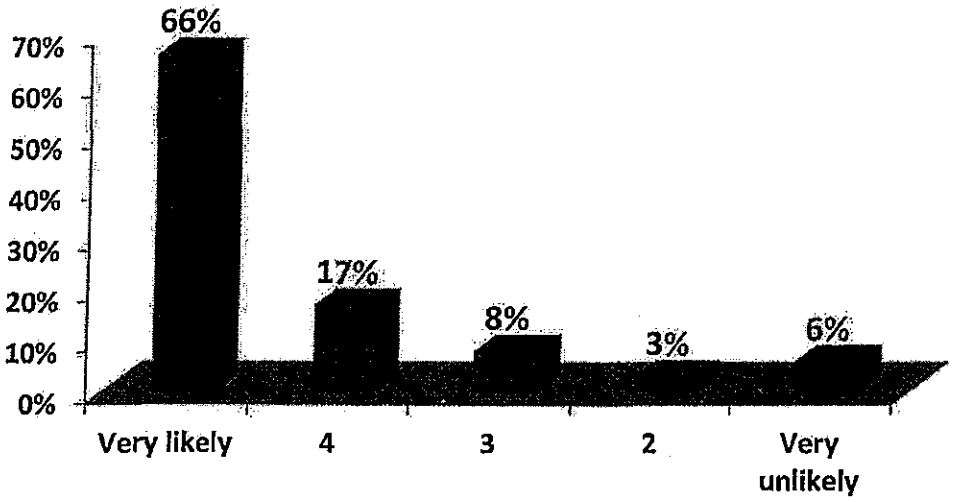


The local print newspaper
[n = 59]

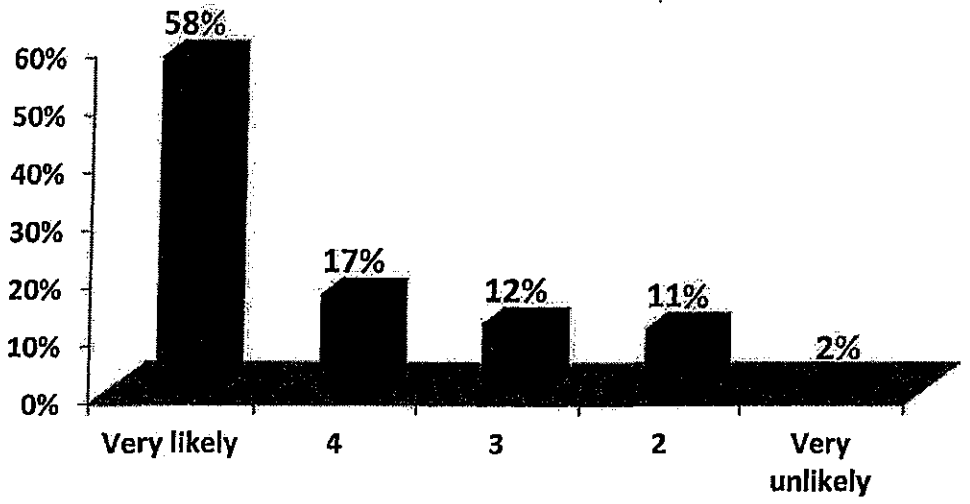


A combined 72% of those who have used mobile phones to access either local news or shopping information within the past 30 days thought the print local newspaper was either 'very credible" or "somewhat credible."

How likely will you continue to access the local news with your mobile phone in the future?
[n = 35]



How likely will you continue to access the shopping information with your mobile phone in the future?
[n = 52]

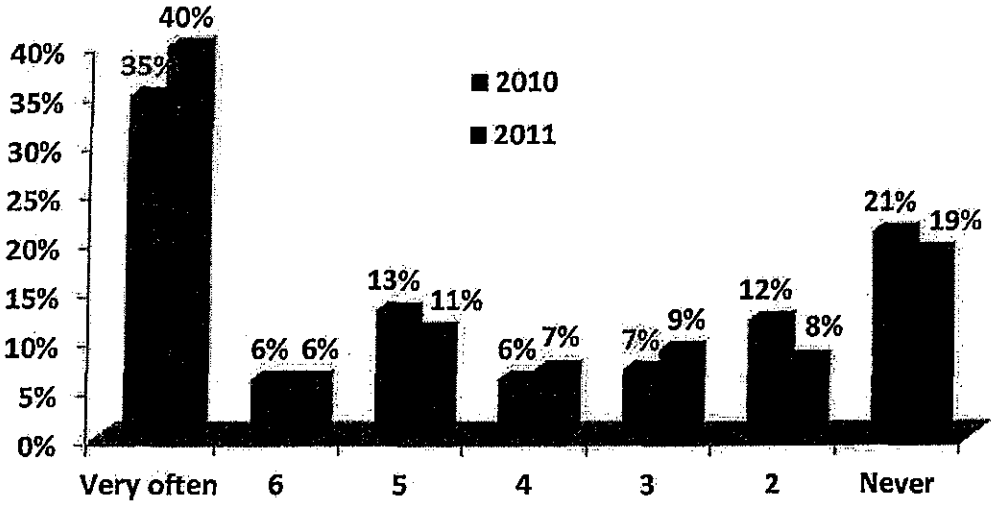


A combined 83% of those who accessed local news on their mobile phones said they would either "very likely" or "somewhat likely" continue to access local news on their mobile devices in the future. Similarly, a combined 75% of those who used their mobile phones to access shopping information would either "very likely" or "somewhat likely" continue to do so. Although the effective sample sizes were small, it is reasonable to argue that the experiences these users have had boost their confidence and further motivate them to continue to use their mobile phones for news and shopping information.

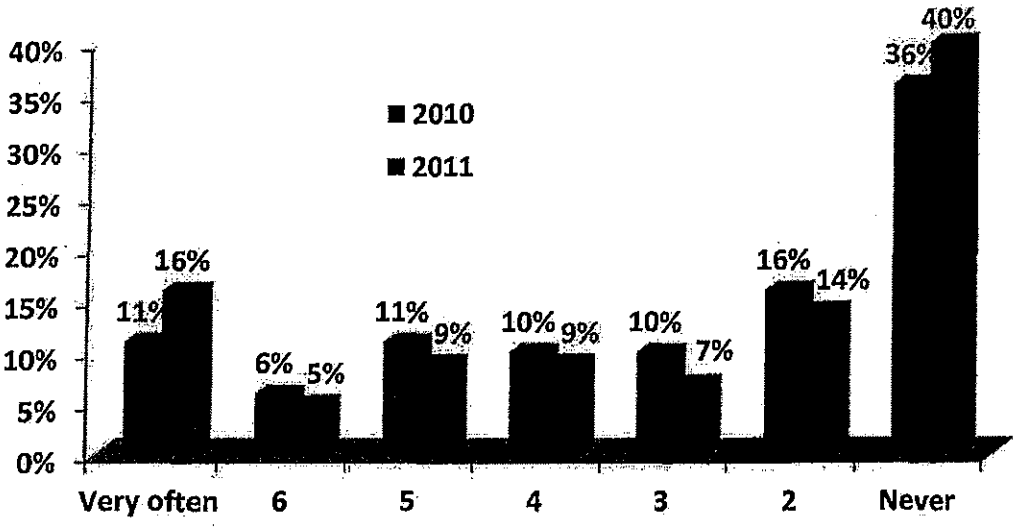
Readership of advertisements in local newspapers

Consistent with previous NNA research, readers of local newspapers in 2011 were asked a list of questions about how often they would read advertisements in local newspapers. The advertisements included grocery and supermarket, department stores, hardware stores, classified ads, discount stores, and public notice ads. Respondents were asked to use a 7-point scale (with "7" being "very often" and "1" being "never") to provide their answers.

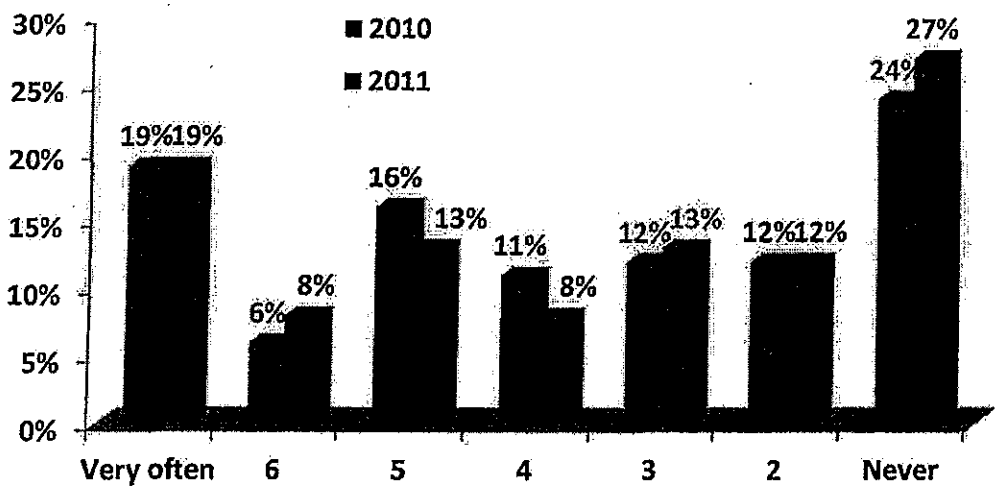
How often do you read grocery & supermarket ads or ad inserts in the local newspaper?



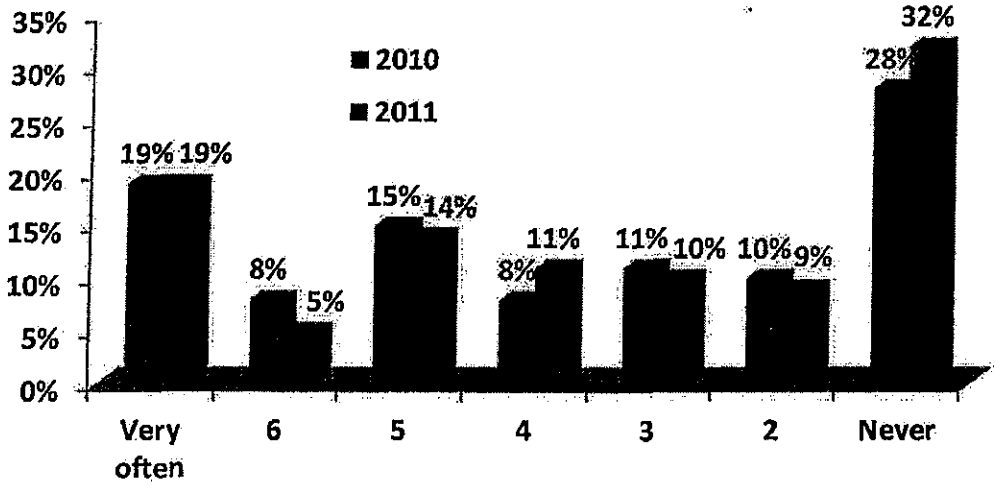
How often do you read department store ads or ads inserts such as J.C. Penney's and Sears' in the local newspaper?



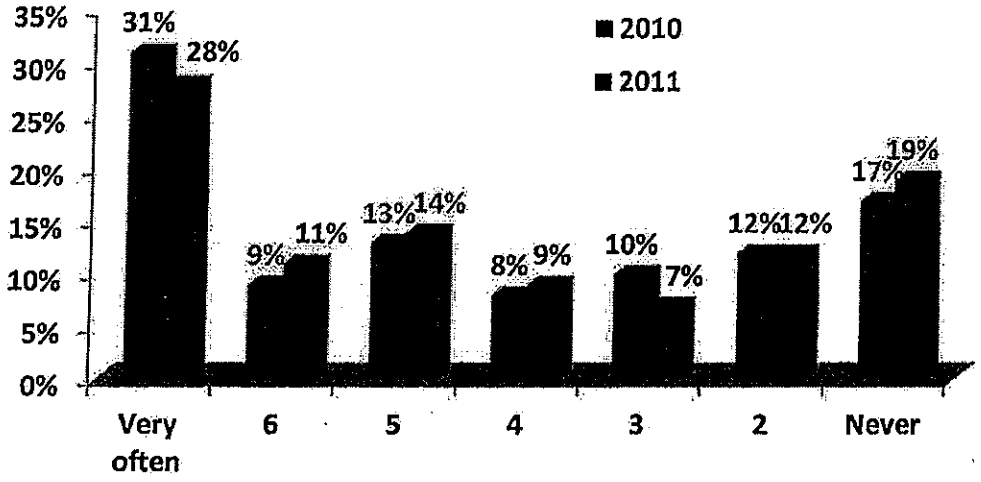
How often do you read discount store ads or ad inserts in the local newspaper?



How often do you read hardware store ads or ad inserts such as such as Home Depot', Lowe's, ACE, or True Value in the local newspaper?



How often do you read classified ads in the local newspaper?



How often do you read public notice ads in the local newspaper?

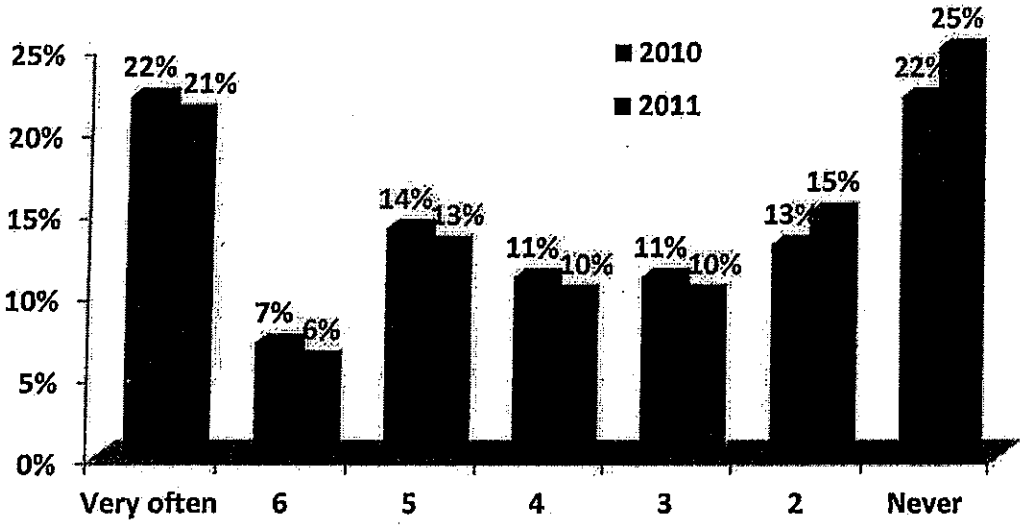


TABLE III: Mean scores regarding readership of advertisements in local newspapers

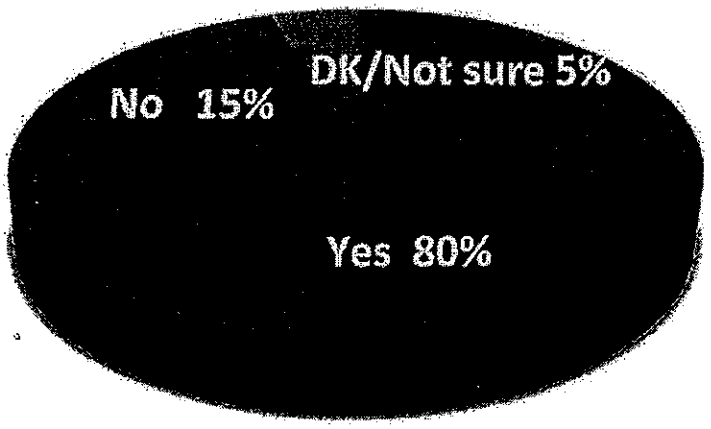
Question Items	Mean Score (2005)	Mean Score (2007)	Mean Score (2008)	Score (2009)
1. How often read grocery & supermarket ads	4.43	4.30	4.07	4.34
2. How often read department store ads	3.52	3.61	3.17	3.35
3. How often read hardware store ads	3.86	3.67	3.63	3.62
4. How often read classified ads	3.81	3.50	3.55	4.00
5. How often read public notice ads	3.18	2.72	3.09	3.17
6. How often read discount store ads	3.80	3.55	3.25	3.41

Question Items	Mean Score (2010)	Mean Score (2011)	Mean Score	Score
1. How often read grocery & supermarket ads	4.37	4.61		
2. How often read department store ads	3.05	3.12		
3. How often read hardware store ads	3.73	3.68		
4. How often read classified ads	4.42	3.56		
5. How often read public notice ads	3.90	4.30		
6. How often read discount store ads	3.76	3.71		

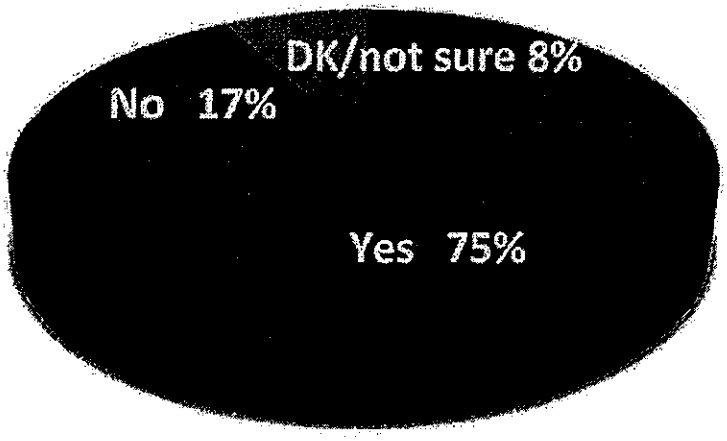
Notes:

1. The question items were measured on a 7-point Likert scale ranging from 1 (never) to 7 (very often).
1. n = 412 in 2005; n = 419 in 2007; n = 431 in 2008; n = 405 in 2009; n = 488 in 2010; n = 370 in 2011.

Do you think governments should be required to publish public notices in newspapers?
2011



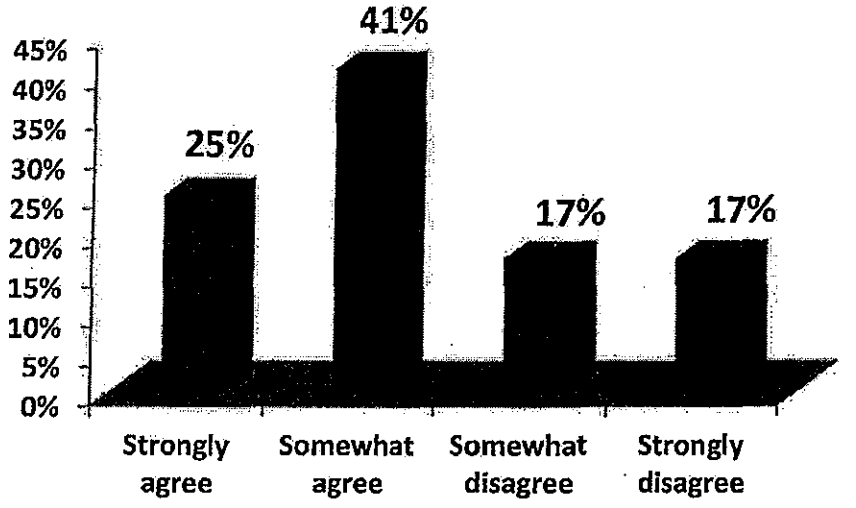
[2010]



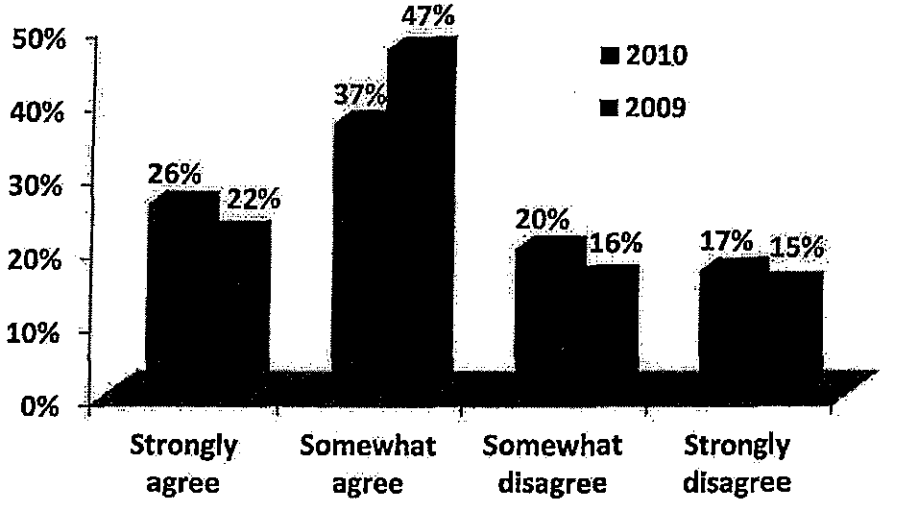
When asked "*Do you think governments should be required to publish public notices in newspapers?*" 80% of local newspaper readers said "yes," compared to 75% in 2010, 68% in 2009, 81% in 2008, 79% in 2007, and 71% in 2005.

The next set of question items was designed to measure public perceptions in small towns and cities about use of advertisements across different media outlets such as print, television, and online. The items were copied from a 2008 study by the Canadian Newspaper Association.

I often use newspaper advertising inserts to help me make purchasing decisions 2011



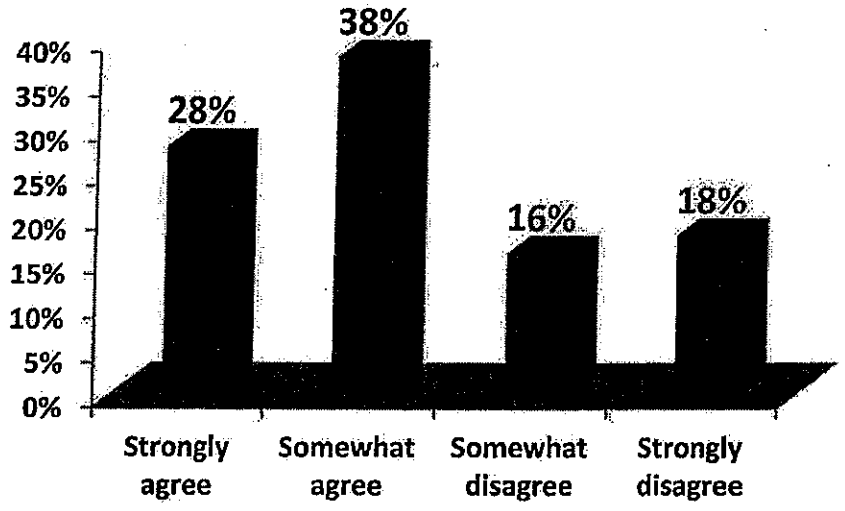
I often use newspaper advertising inserts to help me make purchasing decisions



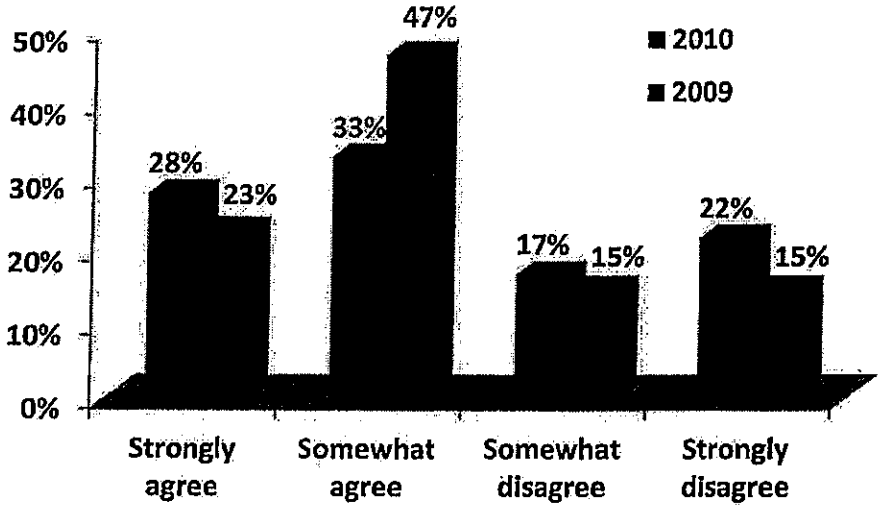
As shown above, two-thirds of readers in the 2011 survey (66%) either "strongly" or "somewhat" agreed that newspaper advertising helped them make purchasing decisions, similar to the findings in 2009 (69%) and 2010 (63%).

Similarly, two-thirds of readers (66%) either "strongly" or "somewhat" agreed that they would often look for newspaper advertising for information about the latest offerings and sales in their communities. This is consistent with what was reported in 2009 (70%) and 2010 (61%).

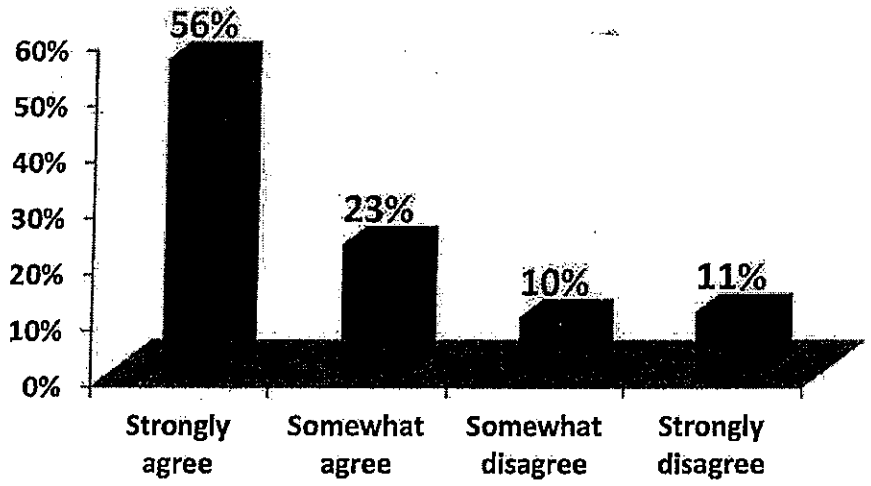
I often go looking for, or seek out, newspaper advertising to find information on the latest offerings and sales available in my area
2011



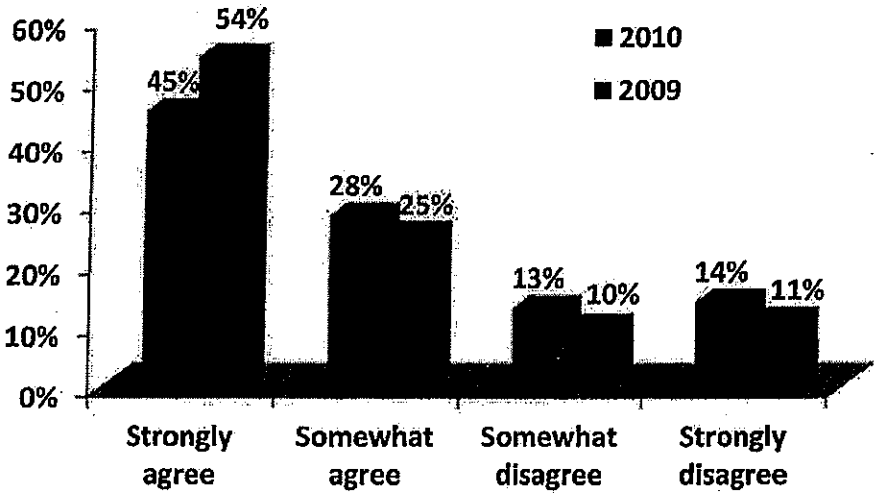
I often go looking for, or seek out, newspaper advertising to find information on the latest offerings and sales available in my area



If I had a choice, I'd rather look through the ads in the newspaper than watch advertisements on TV 2011

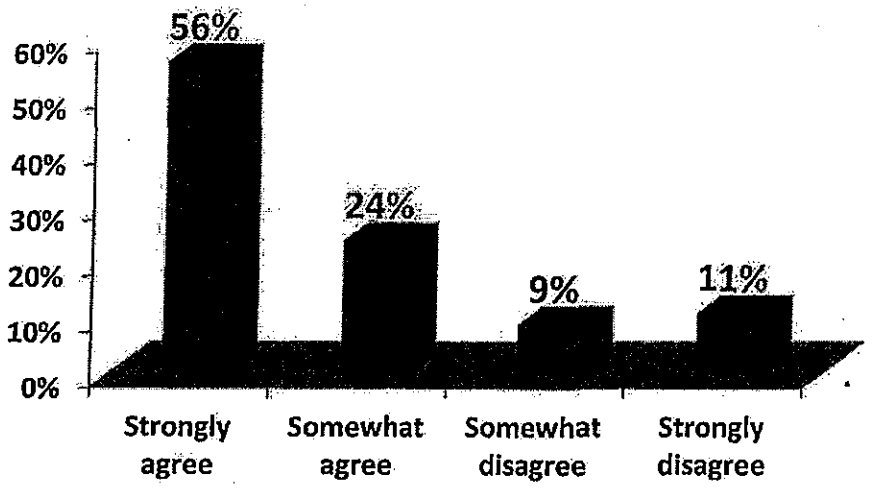


If I had a choice, I'd rather look through the ads in the newspaper than watch advertisements on TV

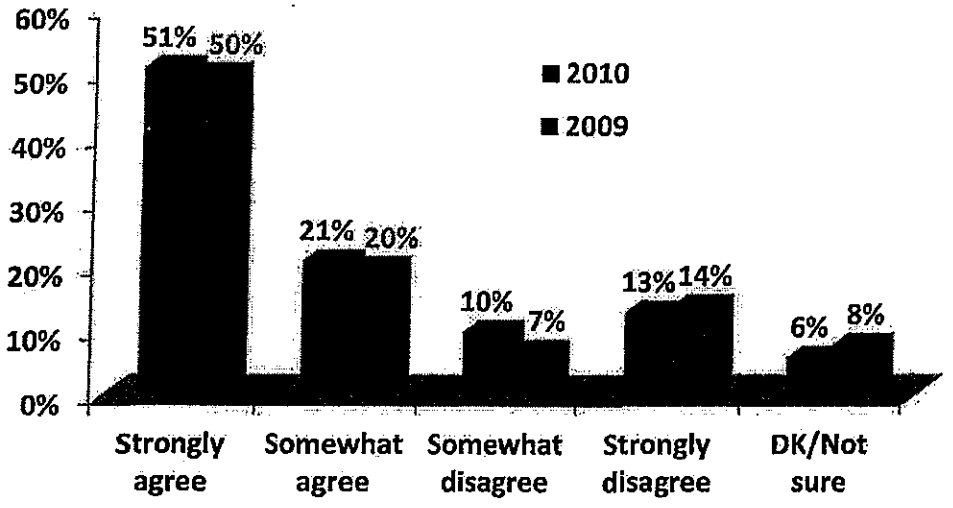


The 2011 NNA surveys shows that nearly 8 out of 10 local newspaper readers (79%) would rather look through the ads in the newspaper than watch advertisements on television, if they had a choice. Again, this finding is identical to 79% in 2009 and 73% in 2010, continuing to show public preference for newspaper advertising over advertisements on television.

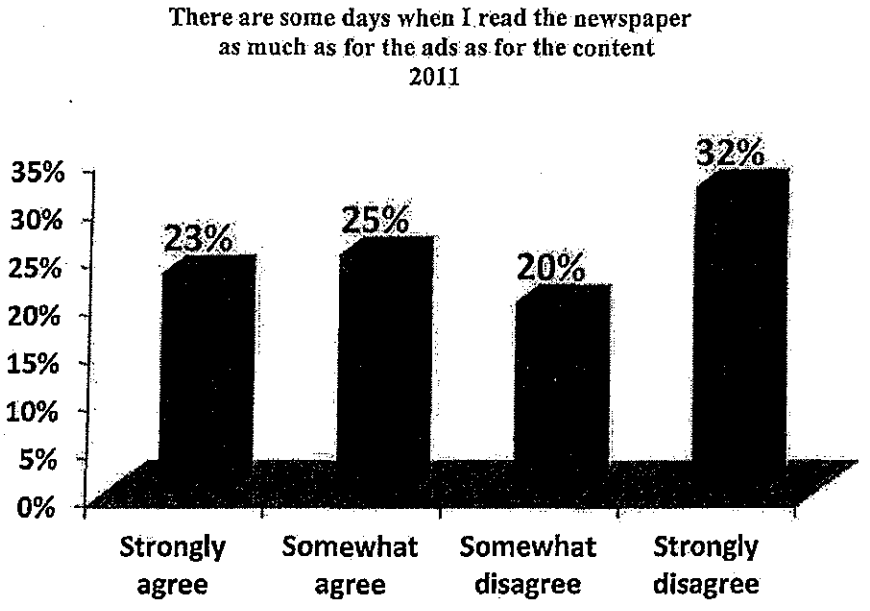
If I had a choice, I'd rather look through the ads in the newspaper than view advertisements on the Internet 2011

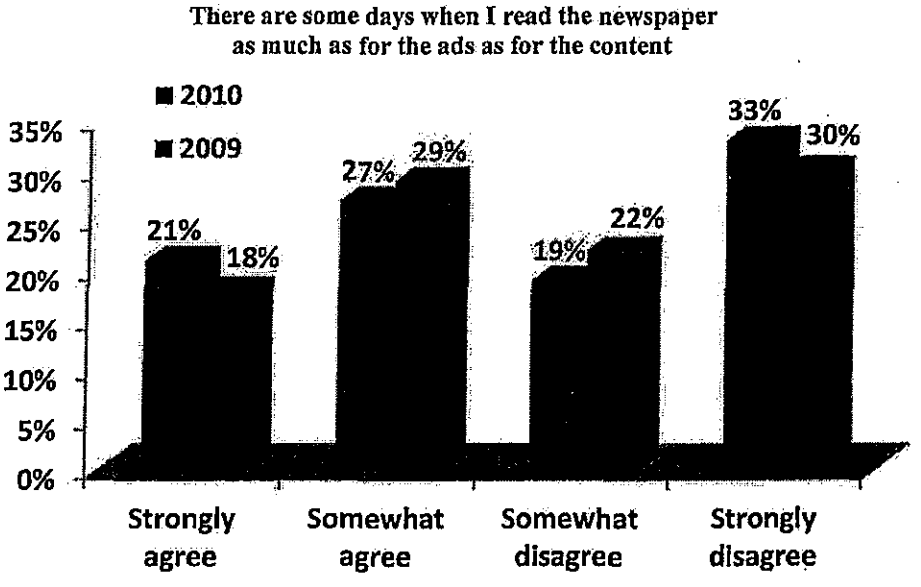


If I had a choice, I'd rather look through the ads in the newspaper than view advertisements on the Internet



Compared to advertisements on the Internet, local residents who read community newspapers in small cities and towns prefer ads in the newspapers, as 80% either "strongly" or "somewhat" agreed that they'd rather look through newspaper ads than view them on the Internet. Their preference is consistent with the findings in 2009 and 2010.





When asked whether they would agree or disagree with the statement "*There are some days when I read the newspaper as much as for the ads as for the content*," nearly half (48%) of local newspaper readers in the 2011 survey agreed, consistent with 47% in 2009 and 48% in 2010.

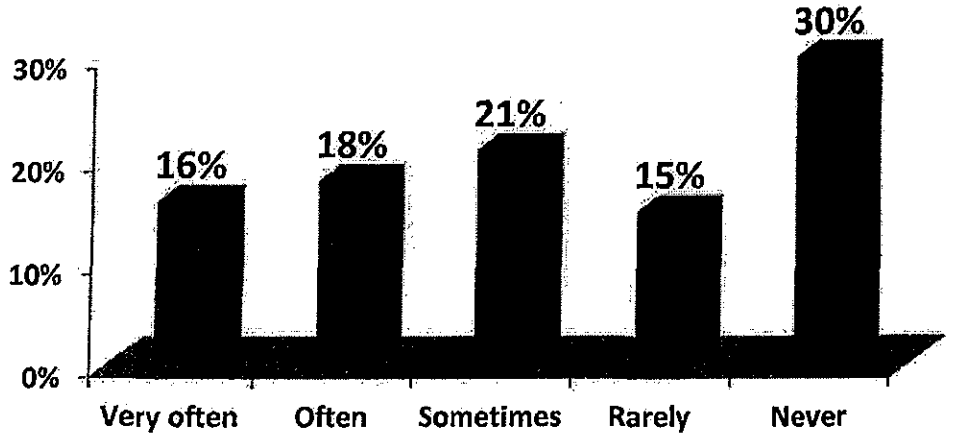
Purchasing plans for a variety of goods and services

Near the end of the survey, respondents were asked whether they planned to purchase a variety of goods or services within the next 12 months. As shown in Table 8, respondents to the items were consistent between 2005 and 2011, showing steady demand for "health or medical products or services" (72%), "women's clothing" (70%), "men's clothing" (57%), "travel / vacation" (48%), and "lawn, garden supplies" (47%), even though the economy was slow.

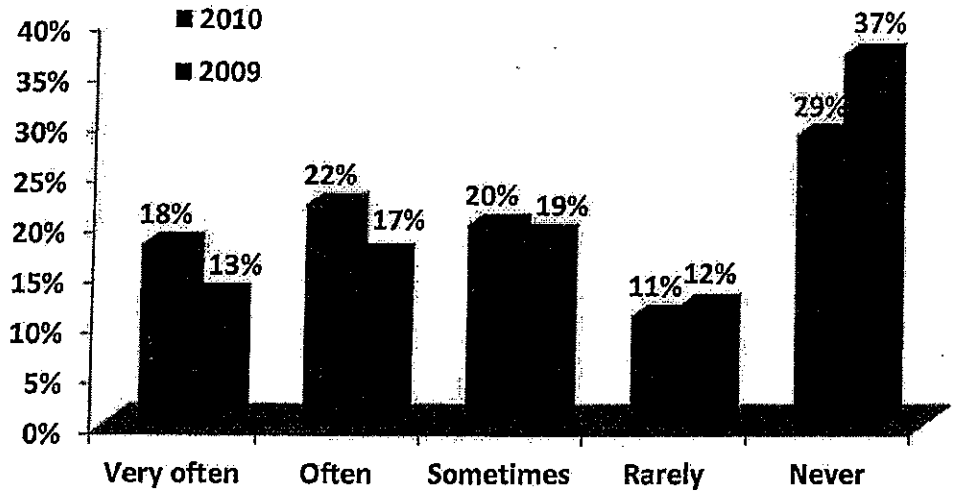
TABLE 8: What to purchase in the next 12 months?
[(Yes) responses only]

Description of products or services	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2010	Percent (%) 2011
Lawn, garden supplies	44%	45%	53%	45%	43%	47%
Furniture	25	23	25	19	23	24
Major appliances	20	21	16	15	20	20
Television/Electronics	35	39	41	25	32	27
A used vehicle	15	13	11	13	15	17
A new vehicle	11	11	9	12	11	9
Housing	8	9	7	5	7	8
Men's clothing	66	57	60	55	59	57
Women's clothing	73	75	73	69	65	70
Health or medical products or services	76	76	78	72	72	72
Travel/Vacation	48	59	58	48	52	48
Financial or insurance products or services	35	35	34	32	32	32

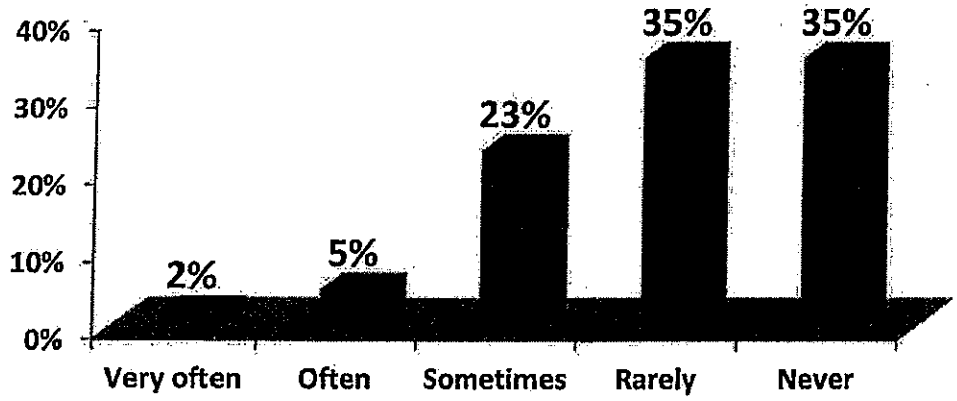
How often do you use the Internet to make purchasing decisions?
2011



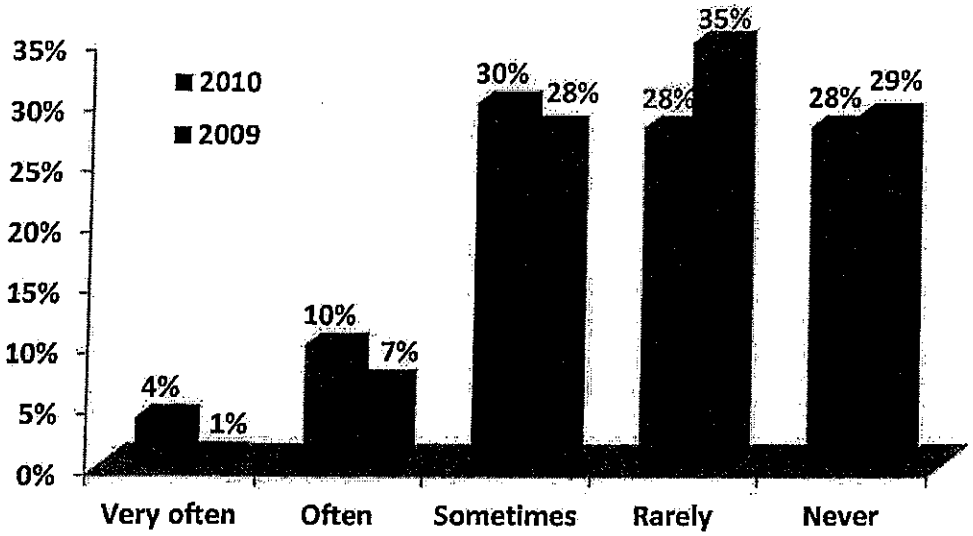
How often do you use the Internet to make purchasing decisions?



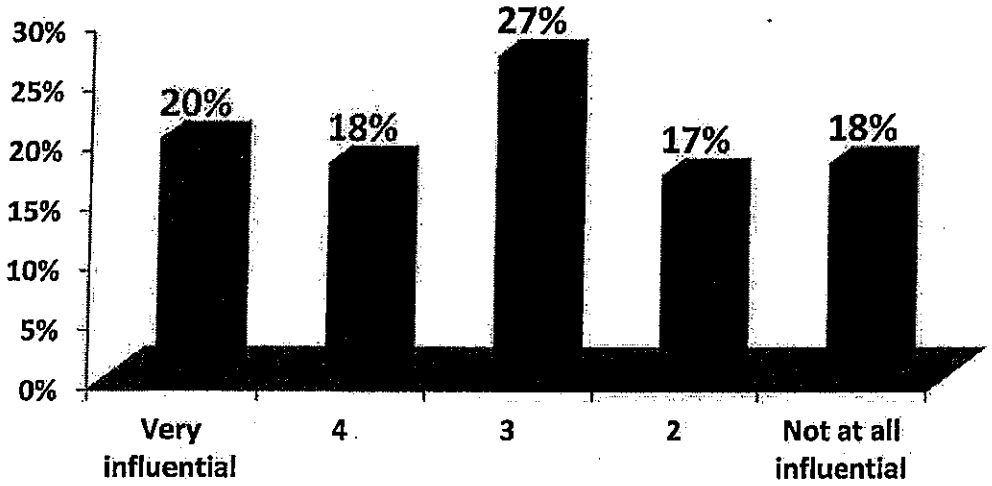
How often do you use television to make purchasing decisions?
2011



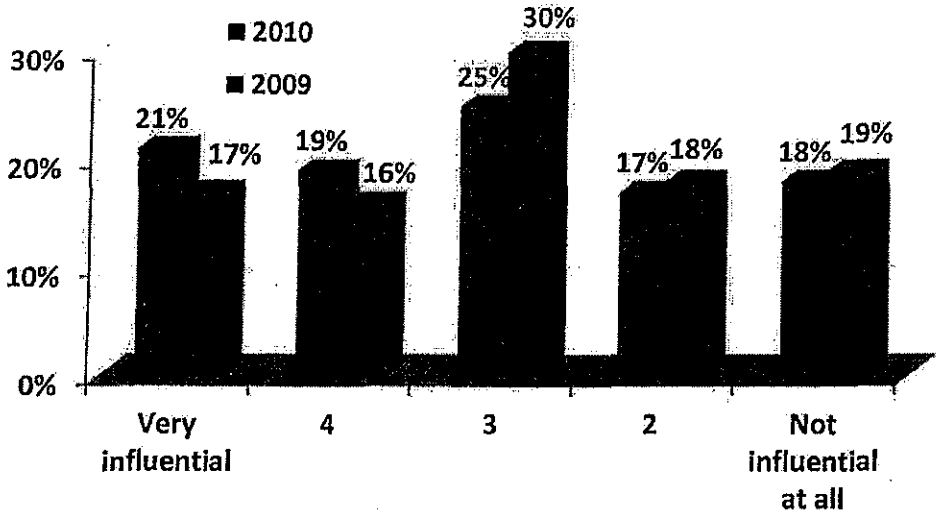
How often do you use television to make purchasing decisions?



How influential are newspaper ads in helping you make purchasing decisions?
2011



How influential are newspaper ads in helping you make purchasing decisions?



As shown above, a combined 38% of local newspaper readers thought newspaper ads were either "very" or "somewhat" influential in helping them make purchasing decisions, as 33% in 2009 and 40% in 2010 saying so. Meanwhile, the Internet continued to be an important source of information for purchasing decision making, as a combined 34% of readers either 'very often" or "often" used it to make purchasing decisions, similar to 30% in 2009 and 40% in 2010.

In addition, a combined 70% of readers in the 2011 study said they either "rarely" or "never" used television to make purchasing decisions, similar to 64% in 2009 and 56% in 2010 saying so.

TABLE 9: Which source of information do you rely on most for grocery shopping information?

Description of sources	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	50.9	49.5	48.8	49.2	40.2
Television	1.6	1.8	1.0	1.4	1.8
Radio	0.7	0.4	n.a.	n.a.	n.a.
Magazine	n.a.	n.a.	0.2	0.6	0.2
Internet	0.4	1.0	0.6	1.4	1.8
Yellow pages	n.a.	n.a.	0.2	n.a.	n.a.
Catalogs	1.0	0.6	1.0	1.0	1.2
Direct mail	4.8	3.6	4.8	6.4	n.a.
Billboards	n.a.	n.a.	n.a.	0.2	n.a.
Email	0.4	n.a.	n.a.	0.2	n.a.
Shopper/Ad sheet	2.4	3.6	3.8	n.a.	n.a.
In store	21.3	23.4	25.5	24.5	43.4
Relatives/Friends	3.6	3.6	1.6	n.a.	n.a.
Word of mouth	n.a.	2.0	0.4	n.a.	3.2
None	n.a.	3.4	n.a.	n.a.	n.a.
Others	3.6	0.2	0.6	7.2	1.0

Don't know/Not sure	9.1	6.5	11.2	7.6	2.6
Refused	0.4	0.6	0.4	n.a.	0.2

(2005: n = 503; 2007: n = 505; 2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 10: Which source of information do you rely on most for major appliances shopping?

Description of sources	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	32.2	26.9	25.5	25.6	19.8
Television	5.2	6.1	4.2	2.4	3.6
Radio	0.8	n.a.	0.2	0.4	n.a.
Magazine	5.2	2.6	6.0	6.2	4.0
Internet	9.1	13.9	18.7	15.8	22.6
Yellow pages	0.2	0.4	0.4	0.2	n.a.
Catalogs	2.2	1.4	2.2	0.8	1.0
Direct mail	2.0	1.2	1.8	2.6	1.6
Billboards	n.a.	n.a.	n.a.	0.4	n.a.
Email	n.a.	n.a.	n.a.	n.a.	n.a.
Shopper/Ad sheet	0.6	1.6	1.4	n.a.	n.a.
In store/Sales reps	21.7	16.4	19.5	21.3	30.8
Relatives/Friends	3.4	3.4	1.2	n.a.	n.a.
Word of mouth	n.a.	3.4	2.8	7.2	5.4
Don't buy at this time	n.a.	1.4	n.a.	0.9	n.a.
Consumer reports	n.a.	4.6	n.a.	1.0	n.a.
None	n.a.	3.0	n.a.	0.9	n.a.
Others	6.2	1.2	3.8	3.0	1.8
Don't know/Not sure	10.7	11.3	11.6	12.4	8.8
Refused	0.6	0.4	0.8	2.2	0.6

(2005: n = 503; 2007: n = 505; 2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 11: Which source of information do you rely on most for automobile purchasing decisions?

Description of sources	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	27.4	18.2	15.9	14.6	8.6
Television	2.2	3.4	3.8	3.4	2.8
Radio	0.2	0.2	0.8	0.4	0.6
Magazine	3.6	1.4	5.6	5.4	3.4
Internet	10.1	14.9	19.9	17.4	23.4
Yellow pages	n.a.	0.2	0.4	0.8	0.2
Catalogs	0.6	0.2	0.6	0.2	n.a.
Direct mail	0.8	0.8	0.2	0.6	0.4
Billboards	n.a.	n.a.	n.a.	n.a.	n.a.
Email	n.a.	n.a.	n.a.	n.a.	n.a.
Fliers/Ad sheet	1.0	0.2	0.4	n.a.	n.a.
Dealership/Sales reps	15.7	16.0	22.5	22.2	35.0
Relatives/Friends	5.2	3.6	5.4	n.a.	n.a.
Don't buy used cars	3.0	6.1	n.a.	1.0	n.a.
No particular sources	6.4	1.8	n.a.	n.a.	n.a.
Not applicable	1.0	n.a.	n.a.	n.a.	n.a.

Word of mouth	n.a.	7.1	4.0	10.4	10.4
Consumer reports	n.a.	1.8	n.a.	1.0	n.a.
Others	3.2	1.2	6.6	4.8	4.8
Don't know/Not sure	18.7	21.6	13.7	13.8	9.4
Refused	1.0	1.4	0.2	4.0	1.0

(2005: n = 503; 2007: n = 505; 2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 12: Which source of information do you rely on most for building & home improvement shopping information?

Description of sources	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2009
Newspaper	31.6	30.7	28.3	26.2	16.2
Television	5.2	3.4	4.4	2.6	1.6
Radio	n.a.	0.2	1.0	n.a.	n.a.
Magazine	2.2	0.6	1.4	1.2	1.4
Internet	6.8	7.9	10.2	9.0	12.6
Yellow pages	0.2	1.2	0.8	0.4	0.2
Catalogs	1.2	n.a.	0.8	0.6	0.4
Direct mail	3.6	1.8	1.0	1.6	1.0
Billboards	0.2	n.a.	n.a.	n.a.	n.a.
Email	0.2	n.a.	n.a.	n.a.	n.a.
Fliers/Ad sheet	2.4	0.8	1.4	n.a.	n.a.
In store	17.1	12.3	20.3	12.6	30.4
Relatives/Friends	6.0	4.6	2.6	n.a.	n.a.
No need to home improvement shopping	1.8	0.8	n.a.	1.4	n.a.
No particular sources	3.6	2.4	n.a.	0.2	n.a.
Not applicable	0.4	n.a.	n.a.	n.a.	n.a.
Word of mouth	n.a.	10.3	7.8	16.4	16.6
Consumer reports	n.a.	0.8	n.a.	n.a.	n.a.
Others	3.2	1.8	2.6	6.2	4.4
Don't know/Not sure	13.7	18.4	16.9	17.4	13.8
Refused	0.8	1.2	0.6	4.2	1.4

(2005: n = 503; 2007: n = 505; 2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 13: Which source of information do you rely on most for home furniture shopping information?

Description of sources	Percent (%) 2005	Percent (%) 2007	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	31.2	28.9	28.3	26.2	18.0
Television	5.6	5.5	5.4	2.8	3.2
Radio	0.8	0.4	1.2	0.2	0.2
Magazine	1.6	0.8	0.8	1.4	0.2
Internet	4.4	7.7	11.6	8.2	11.6
Yellow pages	0.4	0.4	n.a.	0.4	n.a.
Catalogs	0.6	0.2	1.4	1.4	0.2
Direct mail	2.6	1.2	0.8	1.0	1.0
Billboards	n.a.	n.a.	n.a.	n.a.	n.a.
Email	n.a.	n.a.	n.a.	n.a.	n.a.
Fliers/Ad sheet	0.8	0.6	0.8	n.a.	n.a.
In store	23.9	22.0	23.9	25.6	44.2

Relatives/Friends	2.8	3.0	1.2	0.2	n.a.
No need for furniture shopping	2.0	1.6	n.a.	1.4	n.a.
No particular sources	4.8	2.8	n.a.	0.2	n.a.
Not applicable	0.6	n.a.	n.a.	n.a.	n.a.
Word of mouth	n.a.	3.8	1.6	4.2	6.0
Consumer reports	n.a.	1.0	n.a.	0.2	n.a.
Others	1.0	1.8	2.6	4.6	2.0
Don't know/Not sure	16.5	17.0	18.7	17.6	12.0
Refused	0.3	1.4	1.8	4.6	1.4

(2005: n = 503; 2007: n = 505; 2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 14: Which source of information do you rely on most for television / electronics shopping information?

Description of sources	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	22.9	25.8	15.2
Television	6.4	4.2	3.0
Radio	0.2	n.a.	n.a.
Magazine	3.6	3.8	2.6
Internet	23.3	15.6	20.2
Yellow pages	n.a.	0.2	n.a.
Catalogs	0.4	0.6	1.2
Direct mail	1.0	1.2	0.4
Billboards	n.a.	0.2	0.2
Email	n.a.	n.a.	n.a.
Fliers/Ad sheet	0.4	n.a.	n.a.
In store	17.9	21.8	38.4
Relatives/Friends	5.2	n.a.	n.a.
No particular sources	n.a.	0.2	n.a.
Not applicable	n.a.	0.6	n.a.
Word of mouth	3.0	6.4	9.2
Consumer reports	n.a.	1.4	n.a.
Others	5.0	2.0	1.6
Don't know/Not sure	10.2	11.2	6.6
Refused	0.6	4.8	1.2

(2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 15: Which source of information do you rely on most for health or medical products or services?

Description of sources	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	11.2	9.4	4.4
Television	2.8	3.0	2.0
Radio	0.6	n.a.	n.a.
Magazine	1.8	1.4	0.4
Internet	14.3	9.6	14.0
Yellow pages	1.4	0.4	0.6
Catalogs	n.a.	0.4	0.2
Direct mail	1.2	1.6	0.8
Relative/Friends	2.0	n.a.	n.a.

Word of mouth	5.2	7.6	8.2
Doctors/Physicians	33.3	37.2	45.8
Insurance companies	2.6	2.4	7.8
Others	7.6	4.2	5.0
Don't know/Not sure	15.9	19.0	9.8
Refused	0.2	2.2	1.0
No need	n.a.	1.3	n.a.
Consumer report	n.a.	0.2	n.a.

(2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 16: Which source of information do you rely on most for travel / vacation information?

Description of sources	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	7.6	4.8	5.4
Television	2.2	2.4	2.4
Radio	n.a.	n.a.	n.a.
Magazine	3.4	5.6	1.2
Internet	40.8	34.2	42.0
Yellow pages	n.a.	0.2	0.2
Catalogs	0.6	0.2	0.2
Direct mail	1.0	1.0	0.4
Relative/Friends	2.0	n.a.	n.a.
Word of mouth	4.4	8.2	10.0
Travel agency	6.2	7.6	9.4
Others	11.0	7.0	6.4
Don't know/Not sure	19.9	20.4	21.6
Refused	1.0	6.0	1.0
No need	n.a.	1.8	n.a.
No particular source	n.a.	0.6	n.a.

(2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 17: Which source of information do you rely on most for financial or insurance products or services?

Description of sources	Percent (%) 2008	Percent (%) 2009	Percent (%) 2011
Newspaper	7.8	7.6	3.8
Television	3.2	1.8	2.8
Radio	1.0	0.2	n.a.
Magazine	2.0	1.6	0.2
Internet	16.5	13.0	13.8
Yellow pages	0.6	1.0	0.2
Catalogs	n.a.	n.a.	n.a.
Direct mail	2.6	2.4	0.6
Relative/Friends	1.8	n.a.	n.a.
Word of mouth	6.0	9.9	12.8
Bank/Financial advisor	31.1	29.0	42.6
Others	7.4	6.2	4.8
Don't know/Not sure	19.3	20.8	16.8
Refused	0.8	4.6	1.6

No need	n.a.	0.2	n.a.
No particular source	n.a.	1.6	n.a.

(2008: n = 502; 2009: n = 500; 2011: n = 500)

TABLE 18: Which source of information do you rely on most if you look for employment opportunities?

Description of sources	Percent (%) 2011
Newspaper	27.4
Television	0.2
Radio	n.a.
Magazine	n.a.
Internet	18.6
Yellow pages	0.2
Catalogs	n.a.
Direct mail	0.2
Relative/Friends	n.a.
Word of mouth	8.0
Others	12.6
Don't know/Not sure	29.4
Refused	3.4

(2011: n = 500)

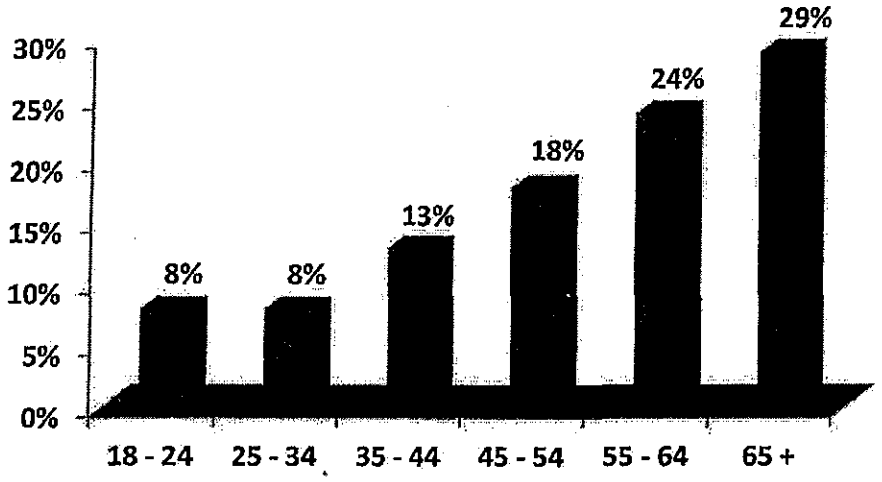
Demographics

In the end of the 2011 survey, demographic information such as age, education, ethnicity, employment status, income, and gender was collected. The purpose was to obtain a comprehensive profile of the survey participants for better understanding of the survey results.

Age

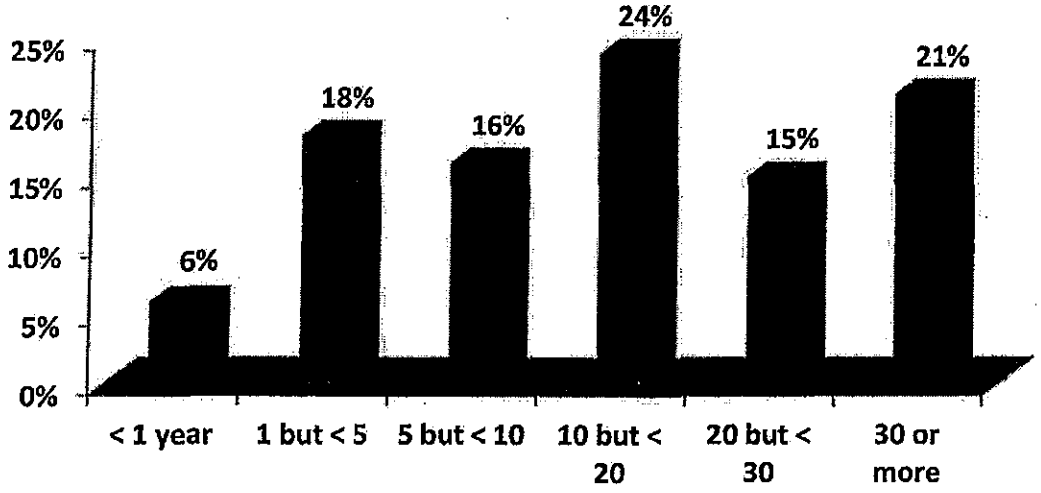
The average age of the sample (n = 500) was 53.7 years (standard deviation = 16.3 years) ranging from 18 to 84.

Age Groups
[n = 500]



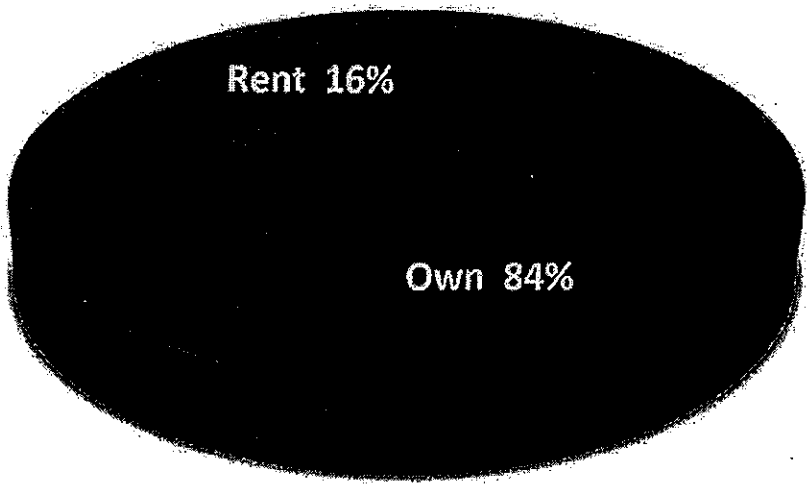
Length of residence

[n = 500]
[Average years of residency = 16.7 years]



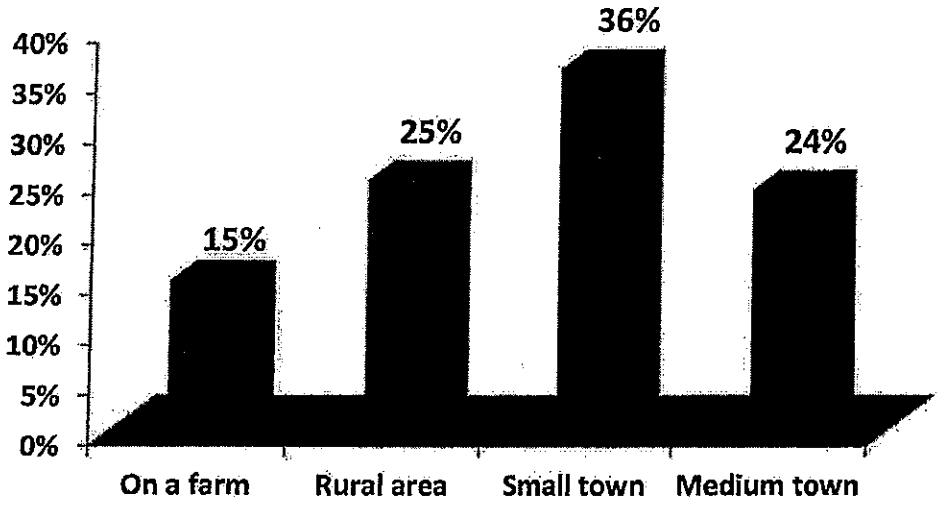
Home ownership

Do you own or rent your home?
[n = 500]



Location of residence

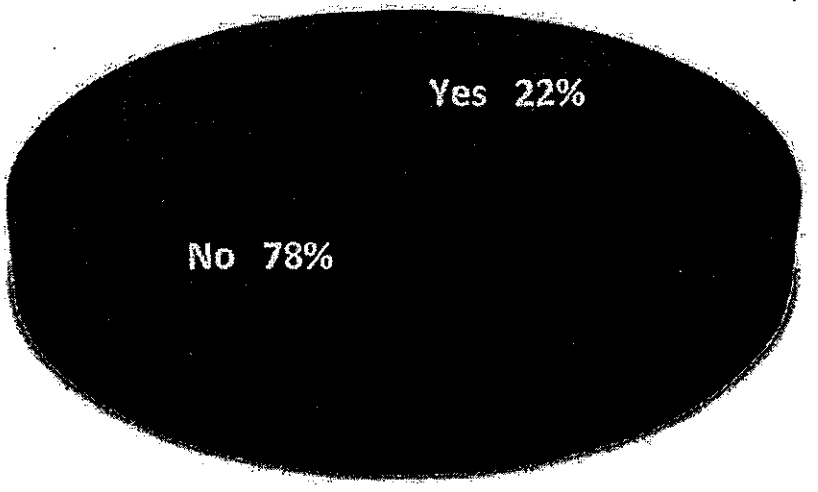
Do you live ...?
[n = 499]



In the research, small town was defined as having a population of fewer than 10,000 people, and medium town as fewer than 25,000.

Having children younger than 18

Do you have children under 18 living at home?
[n = 500]



Education

Level of Education

Level of Education	Percent (%)
Less than high school	8.4
High school / GED	25.8
Vocational/Technical/Community college	7.4
Some university but no degree	22.6
4 year college degree	20.2
Some graduate work but no degree	2.6
Master's degree	11.0
Doctoral degree	2.0

(n = 500)

Ethnicity

Ethnicity

Categories of ethnicity	Percent (%)
White	89.8
African American	6.0
Latino/Hispanic	1.0
Asian American	1.0
American Indian	1.6
Other – specify	0.6

(n = 500)

Marital status

Marital Status

Description of marital status	Percent (%)
Married	54.0
Single	14.6
Separated	3.0
Divorced	11.8
Widowed	14.4
Member of an unmarried couple	2.2

(n = 500)

Employment status

Employment Status

Description of employment	Percent (%)
Employed full time	35.4
Employed part time	15.8
Self-employed	11.2
Unemployed / out of work	4.6
Student	3.2
Homemaker	4.4
Retired	21.2
Disabled	4.2

(n = 500)

Income

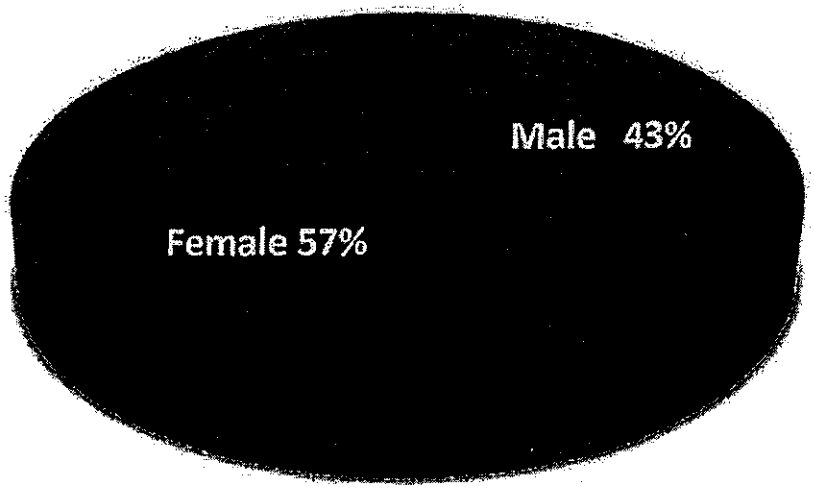
Household Income

Categories of Income	Percent (%)
Less than $10,000	6.4
$10,000 but less than $25,000	18.2
$25,000 but less than $50,000	31.0
$50,000 but less than $75,000	19.8
$75,000 but less than $100,000	10.8
$100,000 or more	11.0
Don't know/Not sure	1.8
Refused	1.0

(n = 500)

Gender

[n = 500]



1 CHAIRMAN GOLDWAY: Is there any additional
2 written cross-examination for Witness Heath?
3 (No response.)
4 CHAIRMAN GOLDWAY: If everything is in order
5 then, counsel, would you please proceed with oral
6 cross-examination?
7 Only the Postal Service has requested oral
8 cross-examination. Is there any other participant
9 that wants to cross-examine Witness Heath today?
10 (No response.)
11 CHAIRMAN GOLDWAY: If not, Postal counsel,
12 Mr. Tidwell? No?
13 MR. CONNOLLY: Thank you, Madam Chairman.
14 This is Matthew Connolly for the Postal Service.
15 CHAIRMAN GOLDWAY: Mr. Connolly, would you
16 begin?
17 CROSS-EXAMINATION
18 BY MR. CONNOLLY:
19 Q Thank you, Mr. Heath, for appearing before
20 the Commission this morning. I'd like to begin by
21 referring you to your response to Interrogatory
22 USPS/NNA-T1-5, Part D.
23 A Okay.
24 Q In that response you stated, "The mail
25 constitutes the most important single channel for

1 community newspaper delivery." What other channels
2 are you comparing newspaper delivery to in your
3 response here?
4 A Well, as we mentioned earlier in that same
5 response, the phrase home delivery, which is used as
6 an industry type nomenclature, generally refers to the
7 use of contract carriers, either youth or adult, who
8 deliver the paper directly to households or tubes
9 outside the households on walking routes or driving
10 motor routes, that in the more rural areas.
11 That's about it. There are some companies
12 that contract out with companies whose whole reason
13 for existence is to provide contract delivery service.
14 They are mainly in urban/suburban areas.
15 And so for the membership of our
16 association, I don't see much evidence yet of use of
17 them, but that is a potential growth area for our
18 industry to hire people who have decided to go into
19 contract delivery, depending on how things turn out
20 with the Postal Service.
21 Q Thank you. Would you please also refer to
22 your testimony on page 7, Lines 11 through 17?
23 A Page 7?
24 Q That's correct.
25 A And 11 through 17?

1 Q Yes.
2 A Okay.
3 Q Okay.
4 A All right. Go ahead.
5 Q There you've stated, "Our most recent poll
6 asked publishers what percentage of their newspapers
7 was delivered by mail. The results ranged from
8 2 percent to 97 percent, and these numbers are likely
9 heavily driven by the type of community where the
10 newspaper is published." Is that an accurate
11 quotation?
12 A Yes, sir.
13 Q Now, I reviewed the survey that you filed in
14 response to Postal Service Interrogatory
15 USPS/NNA-T1-6, and based on my review I saw one result
16 of 99 percent and even 100 percent. Those were on the
17 high end. On the low end I saw a percentage of
18 1 percent and a 0.1 percent.
19 Is there a reason that you excluded those
20 particular figures from this portion of your
21 testimony?
22 A We're talking about the same body of
23 research, I suppose?
24 Q This was the survey that was referred to in
25 your response to T1-6. I think it was performed by

1 SurveyMonkey.

2 A Yes. Well, through SurveyMonkey, yes. No,
3 I'm not sure why those anomalies would stand out
4 there. Maybe we missed a number somewhere, but the
5 ranges are still pretty close to the numbers that you
6 cited.

7 I'm not sure that I know of many papers that
8 are higher than that 97 percent. The 99 percent and
9 100 percent is certain an anomaly I think, but at the
10 high end. I'm not sure why there would be any
11 difference.

12 Q Okay. I just wanted to clarify for the
13 record. Is it correct that these figures were
14 self-reported by the publishers themselves?

15 A That is correct.

16 Q Okay. So for a publisher who is reporting a
17 2 percent distribution by mail, wouldn't it be safe to
18 assume that mail distribution isn't that important for
19 that particular mailer?

20 A As we referred to a couple lines later,
21 there are papers that are heavily newsstand, and also
22 there are papers that have this home delivery network
23 where they have chosen to have youth carriers and
24 maybe motor carriers, depending on whether it's rural
25 or suburban or exurban, whatever.

1 So those papers that have the home delivery
2 and also heavy single copies could end up being
3 2 percent mail. There are a few like that, no doubt.
4 Q Was there any guidance provided to the
5 publishers on how the percentage should be calculated,
6 or was it up to the publishers themselves to determine
7 how to respond to this particular question, the
8 question being --
9 A Well, we just asked for them to do their
10 best job they could at breaking down how they would
11 see their distribution patterns in a particular time.
12 Sometimes they can vary over a year too on certain
13 things. They may change from time to time, but we
14 asked them to make their best estimate.
15 Hopefully people would refer to their own
16 Statements of Ownership for Postal filing and their
17 own records that they keep for total paid circulation
18 that they show their advertisers, but to be honest
19 with you we're not looking over anybody's shoulder, so
20 we don't know exactly how they came up with it.
21 Q Okay. Thank you. Would you please refer to
22 your response to Interrogatory USPS/NNA-T1-6G?
23 A Okay.
24 Q Okay. There you stated, "For rural
25 communities, because of the low density of household

1 distribution, the mail is particularly critical." Is
2 that correct?
3 A Yes, sir. That's my opinion and my belief.
4 Q Okay. Would it be reasonable to assume that
5 those publishers who are distributing a higher
6 percentage of their newspapers by mail are doing so
7 because their subscribers live in rural areas?
8 A Well, that's absolutely the case. That's
9 why the mail is so important to whatever percentage of
10 the country lies outside the urban/suburban/exurban
11 network, but even outside the urban/suburban.
12 When we talk about low density of household
13 distribution, please understand it has to do with the
14 density of houses and farm areas in states like my
15 friend Dave Bordewyk. We might have houses five miles
16 apart in some cases, farmhouses and other rural houses
17 that you drive a little ways before you see the next
18 house, you know. It's the spacing between residential
19 addresses in most cases and even business addresses.
20 Q Okay. And building on your response there,
21 are you saying that mail distribution is more critical
22 because alternatives such as private carriage are not
23 available or are --
24 A Well, they're not cost effective.
25 Q Not cost effective.

1 A They could be available, but they're not
2 usually cost effective in the rural areas.
3 Q Okay. And conversely, in areas of higher
4 density would you agree that mail distribution is less
5 critical?
6 A In areas where we would be more suburban,
7 more exurban shall we say. We don't serve many urban
8 newspapers, although we have some. You know, downtown
9 Manhattan we have a member that's got a paper.
10 But the fact is is that generally speaking
11 our membership skews to the rural areas and, yes, your
12 assumption that if they were in higher density areas
13 like some papers we own in the Baltimore exurban area
14 that we have contracted with a private delivery
15 service, my company that I'm associated with.
16 So it's a function of household density,
17 yes, and the number of households would be able to
18 attract someone to be able to make a significant
19 amount of money to make it worth their while.
20 Q Okay. Thank you. Now, this survey also
21 asked publishers what percentage of their newspapers
22 are distributed through home delivery. Is that
23 correct?
24 A I think so, yes.
25 Q And based on your testimony on page 7, I'm

1 assuming that home delivery, and we talked about this
2 a little bit earlier, but the way I understand it is
3 you're referring to distribution by a private carrier
4 to a home or residence?
5 A Yes. It would be what we call a contract
6 carrier because they are generally contracted to be in
7 compliance with federal and state laws.
8 Q Thank you. When I looked at the responses
9 to this particular question I saw a range of zero
10 percent use of home delivery up to 95 percent of home
11 delivery. Are those results consistent with your
12 review?
13 A Yes. Like we said, there's some papers that
14 have embraced home delivery very aggressively and
15 really think that's the way to go in the type of
16 markets that they're in and experience they've had
17 with these carriers, and those 95 percent home
18 deliveries would be the ones that have those 5 to
19 2 percent mail on the low end of the mailstream in the
20 survey.
21 Q And again, were any instructions regarding
22 how to calculate the percentage provided to
23 publishers? I'm assuming this is the same as --
24 A No. I think we think it's a generally
25 understood concept to break down your circulation and

1 see how it breaks down. Everybody in our industry
2 understands the nomenclature of mail delivery, home
3 delivery, so forth and so on, in-county mail, outside
4 county mail, when we ask that type of question.
5 Q Thank you. Would you please refer to the
6 2011 Community Newspaper Readership Survey that was
7 filed as NNA/LR-N2012-1/2?
8 A Let's see. I'm trying to get to it here to
9 see if I've got it right here. 2011 Community
10 Newspaper Readership Survey?
11 Q Yes.
12 A Yes, sir. Okay. What page? What page do
13 you need?
14 Q We can start on page 1. This is the
15 introduction. From reading this introduction I
16 understand that the survey was conducted on behalf of
17 NNA. Is that correct?
18 A That's correct.
19 Q To what extent was NNA involved in designing
20 the survey?
21 A Well, it was an administrative office
22 function that Tonda unfortunately would speak more to
23 than I would, and she's not a witness here today. I
24 just don't quite know the exact answer to that
25 question.

1 Q Okay. So I guess you wouldn't know then
2 whether NNA had any involvement in selecting or
3 recommending which communities should be surveyed?
4 A I don't think so, although it may have been
5 a survey of our members so we designated our member
6 list available to them, the phone numbers and people
7 that they could chat with or whatever, however they
8 were doing it. They've got land line, cell line,
9 blah, blah, blah.
10 I'm sure we had some input in the questions
11 and the people that could be contacted on behalf of
12 our membership.
13 Q So you had some input into how the questions
14 were asked?
15 A I presume so. They would need some
16 guidance, I presume.
17 Q Okay. And from my understanding of the
18 survey, the participants were adults that lived in,
19 and I'm quoting here, "areas where the circulation
20 size of the local newspaper was 15,000 or less". Is
21 that correct?
22 A That's correct.
23 Q So in other words, if the circulation of the
24 local newspaper was greater than that the area was not
25 part of that study?

1 A Yes, sir.

2 Q Okay. Would it be fair to say that the
3 larger a community newspaper's circulation is the more
4 likely it's being published in a more populated area?

5 A Well, not necessarily. We have dailies,
6 regional dailies in our membership. There's always a
7 variety of papers. I'm thinking of Nebraska and
8 Kansas have some regional dailies that get pretty far
9 out there.

10 In other words, they cover several counties,
11 so their circulation could be 25,000 to 30,000, even
12 though they're community newspapers. That's not
13 common, but there are a few members like that that
14 could be over 15,000 because they happen to be a more
15 regional, small daily, if you will.

16 Q Okay. I guess conversely, if a newspaper
17 circulation was on the very low end, let's say 700.
18 The circulation number is 700 or 1,000. Do you think
19 that would be an indicator of whether the newspaper
20 was published in a rural area?

21 A Generally speaking. I've seen some small
22 circulation papers in suburban Denver where I've
23 operated, but generally speaking the small circulation
24 numbers are in very rural areas.

25 Q Okay. Thank you. Would you please turn to

1 page 7 of the survey?
2 A Okay.
3 Q And would you please refer to Table 2, which
4 is in the middle of the survey?
5 A All right. Okay.
6 Q The middle of the page. Excuse me.
7 A I'm with you.
8 Q Okay. Now, the question on the top of the
9 table is, "How do you receive the local newspaper?"
10 Is that correct?
11 A Yes, sir.
12 Q Okay. Was this the survey question that was
13 posed to survey participants?
14 A I presume it was. Yes, sir.
15 Q And so I would assume that the survey
16 results that we see here are based on participant
17 responses to that particular question. Is that your
18 understanding?
19 A I would presume so. Yes, sir.
20 Q Okay. I wanted to take a closer look at
21 this table. It appears that in 2011 the percentage of
22 survey participants that received the newspaper by
23 mail was 21.9 percent. Is that correct?
24 A That's correct. Yes.
25 Q And the percentage that were received via

1 home delivery was 47.8 percent. Is that correct?
2 A Yes, sir.
3 Q Okay. And for newsrack it's 29.7 percent.
4 A That's correct.
5 Q So it appears, based on these data, that of
6 the three distribution methods that I mentioned,
7 excluding electronic delivery, that the mail was used
8 the least for the receipt of newspapers. Is that an
9 accurate summary of the data here?
10 A It would certainly appear that way from this
11 particular summary, yes.
12 Q Okay. Would you please refer to your
13 testimony on page 7, Lines 18 through 19?
14 A Okay.
15 Q Okay. In that section you discuss how three
16 to four years ago you observed publishers switching
17 the mode they used to distribute their newspaper from
18 private carriage to mail. Is that a fair summary?
19 A Yes, sir, it is.
20 Q Okay. So the switching. You refer to that
21 as a conversion?
22 A That's correct.
23 Q Thank you. Would you please refer to your
24 response to Interrogatory USPS/NNA-T1-8D?
25 A Okay.

1 Q Okay. In that response you stated that in
2 your consulting experience you found that high fuel
3 prices were the prime motivator to converting to the
4 mail, but you also mention a few other factors such as
5 recruiting, contracting and training private carriers.
6 Is that correct?
7 A Yes.
8 Q Okay. In the typical situation in which a
9 publisher uses a contract carrier or private carrier
10 for distributing a newspaper, I take it that the
11 publisher would contract with the private carrier and
12 that carrier would supply the transportation and
13 labor? Is that the basic setup?
14 A That's the model.
15 Q Okay. In this situation, the private
16 carrier is the entity that's paying the fuel costs.
17 Is that correct?
18 A Correct.
19 Q But I take it that those fuel costs or the
20 costs for private carriage goes up because the private
21 carrier would pass that on to the publisher? Is that
22 your understanding?
23 A That's correct. As fuel prices have gone up
24 in recent years, and of course they go up and they go
25 down, but you would have grumbling from carriers that

1 they can't afford to work for whatever piece rate that
2 we're probably contracting for. Generally we pay by
3 piece, so much per piece.
4 In my company, working with counsel we
5 established what we call gas addendums, and we try to
6 give them an adjustment for a certain period of time
7 based on the increased price of gasoline to keep them
8 whole because they are contractors and they do agree
9 in the contract to work for a certain rate, but if
10 gasoline costs and in some cases wear and tear on
11 vehicles that we run into with people, depending on
12 the quality of the roads they're driving on, say they
13 can't do a certain route for this any longer.
14 If something changes we sometimes do
15 addendums to those contracts to make them whole, so to
16 speak, and to mainly keep the good carriers. You
17 know, if we've got really good carriers we want to
18 keep them and so we try to work with them. The
19 addendums are often done very much individualistically
20 based on route conditions, the number of papers, how
21 long they've been with us, what a good job they do and
22 that sort of thing. Is that helpful?
23 Q It is. Thank you. Going back real quick to
24 focus on, though, how fuel costs impact the costs of
25 private carriage, would it be fair to say then that

1 between 2007 and 2011 it's the fuel costs primarily
2 that were increasing during that period of time?
3 A That's what we saw, and that's the response
4 we got from people who came to me for advice on how to
5 convert to Postal mail, many of whom have been very
6 happy with it, by the way.
7 Q Okay.
8 A Certain other things happened, but yes.
9 They were trying to lower their cost of operation
10 because they, like other businesses in this country
11 and the Postal Service, have suffered during the great
12 recession of 2008, '09, '10, '11 and '12.
13 Q Would you acknowledge that just as the
14 private carriers have had to deal with increased fuel
15 costs so has the Postal Service?
16 A Absolutely understood.
17 Q And if say the cost for mail distribution
18 were to go up in the same way that costs or private
19 carriage distribution went up, you'd probably see less
20 conversions during that period of time? Would you
21 agree with that statement?
22 A It's possible. You know, I think we're in
23 another section of our testimony, but we have people
24 who would be converting today if there weren't other
25 obstacles and concerns as we've referred to, but I

1 understand the Postal Service does operate under a
2 price cap and they do the best they can do with that
3 price cap, I suppose.
4 We think that especially in-county mail is
5 still a good deal at almost any price right now for
6 gasoline is what I'm trying to say relative to if
7 other obstacles were removed, okay?
8 Q Thank you. Let's talk about those other
9 obstacles. In your testimony you've stated that the
10 wave of conversions began in 2007 and continued at a
11 regular pace through early 2011. I think this is in
12 your response to Interrogatory NNA/T1-8E, so I'll let
13 you refer to that and then we can discuss it.
14 A Okay.
15 Q Okay. You've also stated that the
16 conversions to mail have largely ceased due to
17 "upheaval in the mailing world". Is that correct?
18 A That's correct.
19 Q Okay. You've also stated that one of the
20 factors that has discouraged some publishers from
21 converting to the mail is the Postal Service's
22 proposal to shift from six-day to five-day delivery.
23 Is that correct?
24 A It has been, but those people who have a
25 Saturday issue, a lot of small papers don't print,

1 have not historically -- small dailies I'm speaking of
2 have not historically had a Sunday issue. They're a
3 Monday through Friday paper or Monday through Saturday
4 paper, that sort of a thing, and their Saturday paper
5 is their weekend paper so they kind of get more
6 advertising and more news to distribute to people
7 about weekend events and so forth and so on in that
8 Saturday paper.
9 We have other member who have found that
10 Saturday was a good day for people to have time to
11 read so they have free papers like one of our board
12 members in Preston, Kentucky, has a Saturday issue of
13 a twice weekly, and he started a free weekly by
14 standard mail with the survey, a military related
15 community near Fort Campbell, and Saturday was the day
16 of choice for those people who were busy Monday
17 through Friday. So Saturday can be an important day
18 for people in the newspaper business. Absolutely.
19 Q And I take it from your testimony that
20 publishers are reacting to the Postal Service's
21 proposal to shift from six- to five-day delivery and
22 not the actual because five-day delivery hasn't been
23 implemented yet, so they were reacting to the
24 proposal?
25 A As I have said here I think maybe in another

1 case -- I don't know, but I'm happy to say now -- the
2 Postal Service has presented this as a fait accompli
3 too many times, and even those who are insiders with
4 the Postal Service understand that this is their
5 proposal and it's controlled by Congress.
6 We've had expressions in field units of the
7 Postal Service, postmasters and district managers and
8 top leaders, with statements that make it sound like
9 it's going to happen. It sounded like it was going to
10 happen in '09 and '10 and '11 and '12, and it still is
11 not happening.
12 You know, the Postal Service has scared the
13 bejeebers out of a lot of people because they've made
14 it sound like it's going to happen any time now.
15 COMMISSIONER ACTON: Mr. Heath, you're
16 referring to the proposal for the elimination of
17 Saturday delivery?
18 THE WITNESS: Yes, sir.
19 COMMISSIONER ACTON: Thank you.
20 BY MR. CONNOLLY:
21 Q Mr. Heath, the Postal Service's request for
22 an advisory opinion on the proposal to transition from
23 six-day to five-day delivery was filed in early 2010,
24 correct, to the best of your recollection?
25 A Sounds about right. I don't have an exact

1 recollection on it.

2 Q According to your response to Interrogatory

3 No. 8, you stated that conversions to mail were

4 continuing at a "regular pace" after that filing,

5 correct?

6 A Well, what we saw is some continuation up

7 until maybe more like the middle of last year, of '11,

8 but I recall talking to one of the groups cited in

9 this study right there on page 8, the leader of a

10 group in Albuquerque, New Mexico, at our convention,

11 and he said we're not changing anything else until we

12 see how everything is going to shake out with the

13 Postal Service, which includes more than just Saturday

14 delivery.

15 I mean, a lot of people are scared that

16 delivery is going to get so bad that they can't count

17 on the Postal Service anymore, so there's a lot of

18 issues that people consider in the discussion of

19 closing plants and affecting service standards.

20 Frankly, again it's scared a lot of people.

21 I know that another group, CNHI, converted

22 25 newspapers, and the last I heard they've stopped

23 conversions waiting to see how things were going to

24 settle out. So it was a slowdown. Not a stop

25 necessarily, but very much a slowdown.

1 Q Okay. Thank you for that response. Would
2 you please refer to Part K of your response to
3 Interrogatory No. 8?
4 A Okay.
5 Q Okay. In that part you were asked to
6 provide any documents or records that you received
7 from publishers that supported your statement that
8 upheaval in the mailing world is deterring newspapers
9 that would otherwise use the Postal Service from
10 converting. Is that correct?
11 A Yes, sir.
12 Q And in your response you included seven
13 email strings that contained communications between
14 publishers, NNA and also the Postal Service. Is that
15 correct?
16 A That's correct.
17 Q All right. In my review I observed that all
18 of these publishers had made decisions to convert to
19 mail delivery. Is that consistent with your view?
20 A Well, some were already mail delivery. I
21 hadn't analyzed particularly for -- we were trying to
22 give you as much as we could find on different types
23 of problems that have arisen, but I'm not sure that
24 everybody here is a mail delivery conversion. I think
25 some of these people have been mail for a long time,

1 okay?

2 Q Okay.

3 A Their whole design was mail. I'm looking

4 for one here that was a conversion, but I'm not sure.

5 I'm not sure I found one in there, but we were trying

6 to show some of the problems that have come up.

7 Q Okay. Well, let's talk about those problems

8 really quickly. In my review, the issues that I saw

9 raised in these communications were related to

10 overnight drops, dispatch and exceptional dispatch,

11 DMM rules pertaining to bundling, and there was also a

12 customer service issue where papers were not

13 delivered. Is that consistent with your

14 understanding?

15 A That covers the waterfront. Yes, sir.

16 Q Okay. I didn't see any of the publishers

17 who participated in these communications make any

18 explicit reference to proposed rate increases. Is

19 that correct?

20 A I believe that's correct.

21 Q Okay. And I didn't see any of the

22 publishers make any explicit references to the

23 five-day case or the proposal in that case.

24 A I think you're right.

25 Q Okay. I only saw one publisher make a

1 reference to a "network change" I think, and that
2 might have been the third example.
3 A The Bristol issue, Bristol and so forth.
4 That was an issue regarding -- I think it was in
5 there. Maybe it wasn't and it was in our testimony.
6 Anyway, maybe. I'll have to do some digging, but I'm
7 willing to trust you.
8 Q Thank you. Your testimony also or just
9 generally I didn't find any discussion on whether any
10 publishers have converted from mail delivery back to
11 private carriage. Are you aware of any instances?
12 A Well, we were trying to illustrate the type
13 of problems that are hindrances to all mailers,
14 whether they're existing or whether they have recently
15 converted or whatever, okay?
16 Q Okay.
17 A What we're trying to say is that these are
18 the types of problems that our members encounter in
19 dealing with the Postal Service.
20 Q Fair enough. Thank you. Would you please
21 refer to page 4 of your testimony?
22 A Okay.
23 Q Okay. On page 4 you cited some statistics
24 from a survey. I believe this is the survey that was
25 filed as a library reference, NNA No. 2. Is that

1 correct?

2 A The R.J. Reynolds survey that we talked

3 about earlier?

4 Q Yes.

5 A Yes.

6 Q Here it is. Okay. What I see on page 4,

7 you cite some of the statistics or one of them was 74

8 percent read a local newspaper each week.

9 A Uh-huh.

10 Q Another one said readers prefer the printed

11 copy to the online version with 48 percent saying that

12 they never read local news online and another one that

13 said basically participants prefer to receive

14 advertising through the newspaper instead of on the

15 internet.

16 Would it be fair to say that you were citing

17 these findings in order to support the notion that

18 community papers are important to people in small

19 towns?

20 A Affirmative.

21 Q Okay. Would it also be fair to say that you

22 cited these statistics to support the notion that

23 small towns do not rely on online sources of news and

24 advertising?

25 A Not as much as other areas because there's

1 less broadband service. Our readership tends to skew
2 a little older and so therefore we find these results
3 to be believable and understandable in our markets.
4 Q Would you please refer to your response to
5 USPS/NNA-T1-9, Part C?
6 A Okay.
7 Q Okay. There you stated that, "Community
8 newspapers typically aim for Wednesday through
9 Saturday publication days, meaning those are the days
10 that they want the newspaper in the mailbox, because
11 most shopping, cultural events and community
12 activities occur on weekends." Is that accurate?
13 A Yes, sir.
14 Q You further stated that, "In communities
15 where the internet is available at home, the newspaper
16 has a particularly difficult time remaining
17 competitive if news is delayed." Is that correct?
18 A Let me read that over a minute.
19 Q Okay.
20 (Pause.)
21 A Yes. You're asking me if we said that or we
22 agree with that. Yes.
23 Q Is that because local news would move to an
24 online platform?
25 A Well, outside of the newspapers, in rural

1 communities there are not many websites that generate
2 local news. Radio stations don't generate it much.
3 But it does give them some other opportunities to find
4 news. It's not as much local as you might think.
5 But one of the problems with the internet
6 for all media is that people spend increasing time on
7 it, and therefore if you want to be competitive with
8 the internet you've got to be speedy. You've got to
9 be serving, if you're printed product, on time just
10 like all periodicals need to be on time.
11 Q I'm just trying to understand your statement
12 that if the internet is available at home the
13 newspaper has a particularly difficult time remaining
14 competitive. Is that because online provides an
15 alternative platform?
16 A Yes, it does. I'm not trying to say -- I
17 was trying to clarify that it's not always just local
18 news that finds its way into the house by the internet
19 to occupy people's time, though. I'm just saying that
20 they may look at other things.
21 So it is a medium that is like TV, radio and
22 all the others. It takes a certain amount of time
23 from everybody's time. If we want to be important,
24 we've got to be there when we say not necessarily
25 because all of the competing news in some other form

1 is on the internet, but just because it is a form of
2 media that takes people's time away. Try me again if
3 you don't like the answer.
4 Q Would you agree that to the extent that the
5 media or the online platforms aren't available that
6 the risk of a newspaper's news being undercut by that
7 is decreased?
8 A Well, we have some communities where third
9 parties or other parties have created online websites.
10 I mean, generally speaking we don't have a heavy
11 competitive nature from online alternative local news
12 sites. However, there are some. I can think of some
13 radio stations in Kentucky and a real estate agent in
14 Russell Springs, Kentucky, who put out a wonderful
15 Lake Cumberland news site, and it attracts thousands
16 of Ohioans that come down every weekend.
17 And so there are some things out there that
18 are sort of new and shiny and people like them, but
19 the point is internet in my mind at least, the
20 internet is a medium that does compete with all other
21 media, shall we say, and if we've got fresh news
22 versus old news we may be a fish wrapper or something.
23 You know, that's all I'm trying to say.
24 Q Okay. Thank you. This brings me to my last
25 set of questions. Would you please refer to your

1 testimony on page 17, Lines 5 through 9?
2 A Okay.
3 Q Okay. There you refer to and you use the
4 term closing deadline.
5 A Uh-huh.
6 Q Is that the time of the day that a news
7 story or advertisement must be finalized and available
8 for printing, or do you have a different understanding
9 of that term?
10 A Well, the closing deadline is a deadline
11 that would allow a few more hours for someone to
12 finish preparing the edition in PDF format, generally
13 speaking these days, for electronic transmission to a
14 printer. I'm speaking to a general practice.
15 So in some cases that might be two or three
16 hours. Other cases people operate differently. Some
17 people might take a late ad 15 minutes before the
18 paper goes out and decide to stick it in there because
19 they need the money pretty badly. So it is a time to
20 finish the preparation of the paper for transmission
21 to the printer.
22 Q Thank you for that clarification. Who
23 establishes the closing deadline for news or
24 advertising? Is it the printer or the publisher or --
25 A It's the publisher, but the printing

1 contracts often drive it. If someone is going to a
2 plant to contract for printing they have to see what
3 time slots are available.
4 In our company we have a great number, a
5 plethora, of people who want to print on Tuesday night
6 and have delivery on Wednesday. You know, you can't
7 print everybody on Tuesday night, so we try to work
8 with our customers to see if we can come up with
9 slots. Many, many times the slots that customers want
10 are just not available and so they end up not coming
11 to us. We had a gentleman just recently that we had
12 sent out to one of our plants in Indiana for 10 years
13 before we were able to get a slot open to get him back
14 in a plant in Elizabethtown, Kentucky.
15 So with reduced press capacity across the
16 country because a lot of presses have been closed
17 down, especially daily newspaper presses and
18 consolidation, there are fewer plants to choose from.
19 So it is pretty tricky these days to figure out how to
20 find the printing slot you want at the price you're
21 willing to pay.
22 Q You mentioned reduced capacity and how
23 certain printers have shut down, correct? Am I
24 understanding that correctly? Is that accurate?
25 A That's correct.

1 Q Okay. Do you have any sense of when this
2 printing capacity began shrinking just roughly?
3 A I'm trying to think relative to my company
4 and others that I know in the general area that I
5 know.
6 I think in general I could say without fear
7 of being wrong that this recessionary situation that
8 we've all been in for a number of years has
9 contributed greatly to the decision of companies to
10 consolidate their printing plants to try to run more
11 papers on fewer presses and have generally a better
12 operation and a more financially secure operation.
13 MR. CONNOLLY: Thank you, Mr. Heath. Madam
14 Chairman, I have no more questions at this time.
15 CHAIRMAN GOLDWAY: All right. Is there any
16 followup cross-examination?
17 (No response.)
18 CHAIRMAN GOLDWAY: Are there questions from
19 the bench? I think Commissioner Acton had some
20 questions.
21 COMMISSIONER ACTON: Thank you, Madam
22 Chairman. Welcome back, Mr. Heath.
23 THE WITNESS: Thank you.
24 COMMISSIONER ACTON: It's good to see you
25 again. In your testimony you present to us some

1 recommendations that the Commission should contemplate
2 that might help ameliorate some of the negative
3 impacts of this proposal for your constituents.
4 I had some questions about overnight
5 newspaper mail drop privileges. Can you speak a
6 little about how that works?
7 THE WITNESS: Yes. With the advent of the
8 SOX enforcement as applied by the Business Mail
9 Acceptance side of the Postal Service, newspapers,
10 which had been given traditionally a lot of liberty on
11 entry times because of the very nature of the cycles
12 that they operate -- you know, I used to joke and say
13 we work all day and drive at night. We drive to the
14 plant and back. Now some of it is electronic.
15 But the fact is we were in the habit for
16 years, and every newspaper that I worked at starting
17 back in 1966, we were dropping newspapers on the back
18 dock in the middle of the night. I think maybe in my
19 view at least some of those rules have been
20 overinterpreted.
21 But working with Bob Gallaher, who was
22 Manager of Business Mail Acceptance, in a very cordial
23 way back in I think 2008 or '09, but I'm thinking '09,
24 we had a situation in Plymouth, Wisconsin, where a
25 member ran a printing plant, and he did not want to

1 print his own personal paper until last in the
2 sequence because he wanted to make sure his printing
3 customers got priority.
4 He was right up against the wall with his
5 printing load on when he'd get his papers to the post
6 office, and he convinced me that in order to operate
7 efficiently he had to continue to be able to drop at
8 the post office at 5:00. People didn't want that to
9 happen anymore and so we worked with Mr. Gallaher over
10 several months and in consultation with the SOX
11 enforcers higher up, and we created mutually an
12 overnight drop policy that allowed papers, 5,000 and
13 under mail with a 300,000 annual cap, to be able to be
14 dropped overnight, continued overnight drops, with the
15 paperwork, postage statement, qualification report, to
16 be dropped by 11 a.m. the next morning, okay?
17 We've had very good cooperation for the most
18 part with people like Bob and a lady named Cher
19 Rupp-Rugger who had been tasked to administer this
20 program. They surveyed the field to see how many
21 papers fit that classification, and they were supposed
22 to designate them in the PostalOne! system with a
23 button, click a button just to say that this paper was
24 eligible for overnight drop.
25 So this helped a great number of our members

1 be able to continue the business practice that they
2 needed to operate and be successful and have late
3 deadlines of getting news and advertising out
4 overnight. You know, as with all programs there were
5 glitches. A lot of people in the Postal Service
6 didn't do what they were supposed to do and they
7 didn't fill out the buttons and so only when somebody
8 got in trouble and it happened to be an NNA member and
9 call me were we aware of the problems, but again we
10 had worked very well with these people.
11 Unfortunately, Mr. Gallaher is no longer
12 there, but he's surviving in private business. He was
13 very customer oriented, and we were able to develop a
14 policy that helped keep community newspapers in the
15 mail and happy operating more normally maybe than they
16 would have otherwise. There were several stipulations
17 to it, and I won't bore you with all those, but --
18 COMMISSIONER ACTON: Yes. I see those in
19 your testimony. Does the accommodation imply an
20 additional expense for the mailer? Are you
21 incurring --
22 THE WITNESS: Well, not necessarily. In
23 some cases there was a requirement to electronically
24 enter into the Postal Wizard they call it at the
25 business customer gateway, and for those that had to

1 do that that was doing the input of the work.

2 You know, we've testified here about the

3 mail.xml that we have wanted to see deployed and have

4 been trying to get deployed so that this thing will

5 work easier, but we don't want to imply that we're not

6 very happy. We are very happy with the overnight drop

7 policy so long as we can continue as we find members

8 who are in that situation and have not yet been the

9 victim -- I shouldn't say the victim. Have not been

10 subjected to the enforcement of the SOX policy.

11 We always find somebody new that just got a

12 SOX audit, and they just discovered oh, wait a minute.

13 Here's somebody that's dropping and they can't drop at

14 this time. They call us and we say well, wait a

15 minute. What's your circulation? We've got an

16 overnight drop policy.

17 COMMISSIONER ACTON: But the exception here

18 was developed in response to the implementation of

19 Sarbanes-Oxley requirements.

20 THE WITNESS: Yes, sir. Yes, sir.

21 COMMISSIONER ACTON: So this is a context

22 where there was a change made. In this case there was

23 a provision of a new statute in 2006 that called for

24 the implementation of SOX and that publishers, your

25 constituents, work with the Postal Service to craft

1 this solution, which worked for them to accommodate
2 that change.
3 THE WITNESS: Yes, sir. Yes, sir.
4 COMMISSIONER ACTON: And in your testimony
5 you provide suggestions that you might think that some
6 further adjustments of this agreement between your
7 mailers and the Postal Service might help ameliorate
8 some of these service change proposal changes.
9 THE WITNESS: Yes, sir. Thank you very much
10 for pointing that out.
11 When we first started negotiations with Mr.
12 Gallaher, the agreement that we had was 25,000 copies.
13 He ended up getting beat down to 5,000 by the powers
14 that be. But yes. We think that there is very little
15 risk involved in the money involved with periodicals
16 and newspapers. We've been customers for hundreds of
17 years, some of our newspapers, and we have money in
18 the account, which is a requirement, and we're good
19 for it.
20 Our circulation pattern has changed almost
21 none from week to week, and we believe that the Postal
22 Service could do a better job of accommodating more
23 papers. We did get it raised, the annual limit, to
24 500,000 copies a year in September of 2011, but really
25 we think it ought to be higher. Yes, sir.

1 COMMISSIONER ACTON: But you have some
2 variable inputs here on this agreement, and I guess
3 the core of my question is do you believe in your
4 expert opinion that your group or representatives of
5 your group could modify this agreement in a fashion
6 that would largely address these concerns that your
7 constituency has about a change in service standards?
8 COMMISSIONER ACTON: Well, that would be one
9 piece of it, sir. It wouldn't be all the concern that
10 I have about service standards.
11 But as far as getting timely delivery at a
12 local delivery office, which is our bread and butter
13 -- it's generally a county or a portion of a county
14 that we serve. Having the ability to do overnight
15 drop at our primary office and exceptional dispatch,
16 which is already in the rules, at our outlying offices
17 serves us very well, and we would like to be able to
18 keep and strengthen to some degree our right for this
19 overnight drop.
20 It has been an obstacle to several dailies.
21 I've had some requestors that were right at the 10,000
22 level. One woman owns nine requestor titles in New
23 York, New Jersey, Pennsylvania, and she's right at the
24 top of the spectrum of the 500,000. You know, she's a
25 very good, consistent saturation mailing customer in

1 periodicals as a requestor. So she's had trouble.
2 You know, it's trouble when you bump up
3 against something. There's always some customers that
4 you'd like to have it higher, and it would be very
5 helpful --
6 COMMISSIONER ACTON: Okay.
7 THE WITNESS: -- going forward to have more
8 consideration given for the overnight drop situation.
9 COMMISSIONER ACTON: You referenced earlier,
10 Mr. Heath, this proposal to eliminate Saturday
11 delivery. You have provided expert testimony in
12 earlier advisory opinion developments that this
13 Commission has undertaken in connection with that
14 proposal, and you also are providing expert testimony
15 here today in connection with this proposal.
16 I'd like to know if you have any viewpoints
17 about how these two proposals that the Postal Service
18 is putting forth to help ameliorate its situation, how
19 they compare relatively for your group of mailers. Is
20 one more dire than the other? How do you characterize
21 these two possibilities as separate implementations?
22 THE WITNESS: Yes. Commissioner Acton, I
23 haven't sat down and tried to think about which one
24 was more dire, and I suspect it depends on the member.
25 COMMISSIONER ACTON: Yes.

1 THE WITNESS: You know, if they are Saturday
2 now and want to go to mail -- there are some of the
3 dailies I have that want to go to mail, have wanted to
4 go to mail. That's a big blocker for them.
5 On the other hand, we are very concerned, as
6 we say here, that some of the changes put forward with
7 plant closings and CET changes for existing members
8 that are not necessarily involved in Saturday delivery
9 particularly other than that their outlying copies may
10 be getting delivered on Saturday in their secondary
11 tier through these hubs. It just depends on the
12 membership.
13 So I don't know that I could give you one
14 versus the other. It would have to be weighted
15 because it depends on the status of that particular
16 publication --
17 COMMISSIONER ACTON: Okay.
18 THE WITNESS: -- and what day they operate.
19 COMMISSIONER ACTON: That's fair. And the
20 last question I would have, and this is along the same
21 lines. The Commission often wonders what the
22 cumulative effect of these proposals' implementations
23 might be.
24 Given your answer to the previous question,
25 you probably don't have any definitive thoughts about

1 this, but what about the prospect of both a change in
2 service standards and the elimination of Saturday
3 delivery? I mean, is there a redundant or an
4 exponential impact at work here?
5 THE WITNESS: Well, in an outbreak of
6 exuberance I called that Postalgeddon in one of my
7 columns. I mean, I really thought it would be that
8 bad if they were able to combine drastic plant
9 closings, post office closings and five-day delivery
10 at the same time.
11 To some degree I think maybe the Postal
12 Service has woken up and understands that that is the
13 case I believe, if I'm not mistaken. But it would be
14 terrible. Really it would. The impact on everybody
15 of all that happening too much at the same time would
16 be terrible, in my opinion, on almost everybody that's
17 a periodical or newspaper.
18 COMMISSIONER ACTON: Thank you for your
19 testimony, Mr. Heath.
20 THE WITNESS: Thank you.
21 COMMISSIONER ACTON: Thank you, Madam
22 Chairman.
23 CHAIRMAN GOLDWAY: Other questions from the
24 bench?
25 (No response.)

1 CHAIRMAN GOLDWAY: No? I want to clarify a
2 couple of specific issues. You feel that it's
3 important that at future hubs that there be more
4 five-digit containers available. Could you explain
5 your --
6 THE WITNESS: Yes. We have spoken to that.
7 CHAIRMAN GOLDWAY: -- thoughts about that?
8 THE WITNESS: Yes. Yes, ma'am. Madam
9 Chairman, the 24-piece minimum container rule that we
10 saw looming for a long time, and it came about I guess
11 in 2008 as part of the 2007 rate case, as I recall,
12 the Time, Inc. rate case that you liked or that PRC
13 liked.
14 It is something that makes it difficult in
15 many cases for us to maintain direct containers should
16 the five-digit number for a particular small zip code
17 around us generally -- not in our primary market, but
18 in our secondary market, the donut. We do think it's
19 important to allow wise use I should say of containers
20 below 24.
21 We understand the cost impacts to some
22 degree of small volume containers. We've used them
23 over the years as small as one to get mail to people
24 and it worked, but on the other hand I understand the
25 cost problems. But we're also trying to keep mail in

1 the hubs and so a smaller five-digit or five-digit/
2 carry route tray could be achieved if we had the
3 optional use of a number below 24.
4 Now, I think I should say that a new mail
5 prep committee of MTAC, which convened last week on
6 Thursday, I believe. I had to work by phone because I
7 was traveling out of state that day, but I was able to
8 be on that call, and they actually have a proposal up
9 to allow -- Krista Finazzo and her department,
10 Operational Requirements & Integration, to allow the
11 optional use of below 24 containers.
12 I was stunned, but very appreciative and
13 thankful because there was so much work went into
14 going the other way. So I think there's maybe some
15 recognition, and if that goes forward it will be
16 helpful to us, Madam Chairman.
17 CHAIRMAN GOLDWAY: And do you think that's
18 more important because you'll be using hubs more and
19 without that the mail that goes --
20 THE WITNESS: Well, it would be important
21 now.
22 CHAIRMAN GOLDWAY: -- to three-digit zips
23 travels so much further?
24 THE WITNESS: It would help now in other
25 situations now where we can't make up as many direct

1 containers. I mean, I've seen in my own company
2 situations where --
3 CHAIRMAN GOLDWAY: In the future will it be
4 more important?
5 THE WITNESS: Yes, because of the fact that
6 we are not going to get mail worked at a hub.
7 Three-digit mail, SCF mail, won't get worked at an old
8 hub that is closed down, to the best of our
9 understanding.
10 And so maybe instead of that mail being
11 worked in Elizabethtown, for instance, Kentucky, where
12 we have a lot of newspaper it's going to go 45 miles
13 to Lowell to be worked. My experience is it won't be
14 as well worked there. So we think it would be very
15 much helpful going forward. Yes, ma'am.
16 CHAIRMAN GOLDWAY: Okay. There was
17 extensive questioning by your counsel of the Postal
18 Service with regard to its plans for hubs and
19 maintaining BMEU sites even if plants were closed. Do
20 you feel you understand what the Postal Service's
21 plans are with regard to those issues at this time?
22 THE WITNESS: Well, we're sort of operating
23 on a hope and a prayer right now. David Williams,
24 Vice President of Work Operations, has been very
25 generous in offering this operation of the hubs, but

1 when we've spoken to him and heard him speak at
2 numerous sessions, including the Periodicals Operation
3 Advisory Committee, four times a year at MTAC and then
4 at the National Postal Forum recently at the Great
5 Lakes meeting that's put on every year for mailers
6 that has speakers, the word is it's a work in
7 progress. So everybody sort of says you can count on
8 it, but.
9 And so our testimony here is designed to try
10 to underscore the hope and sort of a promise. We want
11 to see it get past the work in progress and to be a
12 reality. We think it makes sense, and the Postal
13 Service's new mantra is well, we've had hubs for years
14 and so they're acting like it's nothing new, but they
15 haven't had maybe these types of hubs for years where
16 you continue to hand off direct containers at old
17 hubs. And so we're wanting to get some degree of
18 assurance that this is going to happen. I think
19 that's fair to say.
20 CHAIRMAN GOLDWAY: And then there's another
21 suggestion you made about allowing mailers to drop off
22 and then have their mail.xml interface work so that
23 they can get the process handled perhaps the next
24 morning would be an easier way to transfer.
25 THE WITNESS: Yes. Yes, ma'am. The

1 mail.xml, as we understand it XML is an extendable
2 markup language. I'm not a computer nerd, but just a
3 Postal nerd.
4 Pritha Mehra actually came to Tonda and I in
5 either 2008 or 2009 and asked us to help get
6 newspapers to adopt mail.xml if the software industry
7 provided it. We immediately began putting our foot on
8 our software vendor's neck telling them we wanted it.
9 Get it out here. We asked others. We emailed every
10 vendor that we knew that served the industry.
11 But, as we say in our testimony, my primary
12 vendor spent over six figures and still doesn't have
13 it working today. I know they were trying to deploy
14 it in June for one of their largest customers and one
15 of our largest members, The Budget, which is the
16 largest Amish Mennonite paper in America out of Sugar
17 Creek, Ohio, because they had been moved to Cleveland
18 and Cleveland really wanted and demanded everything to
19 be sent electronically.
20 But the good people that operate the
21 programming work at Headquarters, who are mainly
22 contractors, there continue to be changes to the
23 program so that we never quite catch up with the next
24 release so that we can get everything working right.
25 There's been glitches and things like that.

1 So we're ready if somebody would get it
2 going. I know the Postal Service sort of disagrees to
3 some degree with my opinion, but we've done a lot of
4 checking and we can't find anybody that's actively
5 using mail.xml for periodicals except in test mode.
6 TEM, test environment.
7 CHAIRMAN GOLDWAY: Okay. Thanks. I know
8 Vice Chairman Langley has a question for you.
9 VICE CHAIRMAN LANGLEY: Thank you, Madam
10 Chairman. I have really just one question. Also,
11 thank you for your testimony here today. You've shed
12 a lot of light on some of the challenges facing the
13 nation's community newspapers.
14 As you probably know, the Postal Service has
15 modified its consolidation plan, as well as its
16 service standards, and I'm just curious whether or not
17 Phase 1 allows community newspapers better
18 opportunities to get the mail into the system for
19 overnight delivery?
20 THE WITNESS: Well, I don't think it
21 particularly has any negative effects on that topic,
22 but the fact that it only targets 48 plants I believe
23 and keeps many of the larger plants open that I think
24 are very critical to a good operation of this
25 mailstream is a bonus.

1 It's not a change that directly affects our
2 in-county material in that regard so much, but as far
3 as our distant and maybe secondary layers of mail some
4 of the plants will be affected, will affect our
5 ability to move those containers that have working
6 mail in them and so go back to the 24-piece concept.
7 If we get some relief on that we can live
8 within the concept of closing some of the smaller SAFS
9 that are close to us. We don't like it, but we can
10 live with it somehow. But it's a good first step to
11 do it this way. In my view there never should have
12 been as many plants closed at once as was proposed.
13 It's just too harmful.
14 See, I've never seen an airmail processing
15 closure that worked as far as seamlessly. There were
16 always delays. The mail gets there before the
17 employees that handle it and stuff backs up and then
18 it gets sent out by truck to other plants to work.
19 Frankly, in my view I think the airmail processing
20 system has been quite a disaster for most mailers, but
21 I know people differ on that and that's my view.
22 But we're pretty comfortable with where we
23 are. Certainly this size reduction in 2012 is much
24 preferable to what was laid out there, and now we've
25 got to worry about what comes next.

1 VICE CHAIRMAN LANGLEY: Thank you for your
2 opinion.
3 THE WITNESS: All right.
4 CHAIRMAN GOLDWAY: Any other questions?
5 COMMISSIONER ACTON: It's not a question,
6 but I would just add, Madam Chairman and Mr. Heath,
7 that an important element of your testimony is that
8 you offer some suggestions and recommendations that
9 will help the Postal Service management in targeting
10 where it is that they can work with you and your group
11 to help reach accommodation and workable solutions
12 because some sort of change seems imminent.
13 I don't know at what level or in what exact
14 perspective yet, but my experience with the Postal
15 Service management team is that when they are given
16 the opportunity to work with the mailers in developing
17 good solutions to some of these particular problems
18 like the ones you raise in your testimony they're
19 largely successful at it.
20 Each time they do it it may cut into some of
21 the cost savings that they are anticipating in
22 connection with the program change, but nonetheless it
23 makes the proposal more workable. That's an important
24 part of what you've contributed today.
25 CHAIRMAN GOLDWAY: I would have said exactly

1 the same thing, Commissioner Acton, so I appreciate
2 your comments and I second them.
3 We have an opportunity for questions,
4 redirect from our counsel. Ms. Rush, would you like
5 some time with your witness?
6 MR. CONNOLLY: Madam Chairman? I apologize.
7 I was wondering if this would be the appropriate time
8 to ask one followup question before redirect.
9 CHAIRMAN GOLDWAY: Sure. Absolutely.
10 CROSS-EXAMINATION RESUMED
11 BY MR. CONNOLLY:
12 Q Mr. Heath, in the previous discussion you
13 mentioned that you did not see -- you haven't ever
14 seen -- an AMP that works. I'm wondering whether you
15 could identify any specific AMPs that formed the basis
16 for that conclusion?
17 A Well, I think one of the most terrible
18 horror stories that I know of is Lima, Ohio. At an
19 MTAC general session with Postmaster General Donahoe I
20 raised the question of Lima, Ohio, because I had had
21 calls from people who were negatively affected by the
22 AMP of Lima. I guess it's Lima and not Lima. I made
23 the same statement to him that I'd never seen an AMP
24 that worked, worked effectively. He said Max, we'll
25 get you one. I'm still waiting. I haven't ever been

1 given that one that they allege that worked.

2 You know, the fact that you take mail out of

3 a small plant and put it into a larger plant, which in

4 my view historically has always been more efficient

5 than the large plant, means that they've got more work

6 that they're not familiar with. Frankly, I don't find

7 the training within these plants to be very good.

8 Periodicals, especially periodicals/

9 newspapers we know. For instance, in Louisville,

10 Kentucky, it's not an AMP, but we know there are

11 plants going into Louisville, Kentucky, but

12 Louisville, Kentucky, has periodical/newspaper

13 processing problems often, and I know people who are

14 very helpful there and fix those problems and three to

15 six months later the same problems exist again.

16 There's just no consistency. Nothing that's

17 ever been fixed stays fixed. And so that type of

18 atmosphere that works in larger plants, casuals that I

19 think are improperly trained and others creates

20 problems

21 MR. CONNOLLY: Thank you, Mr. Heath. I

22 don't have any other questions, Madam Chairman. Thank

23 you.

24 CHAIRMAN GOLDWAY: Okay. Thank you. Ms.

25 Rush, do you need time with your witness?

1 MS. RUSH: I do, Madam Chairman. We might
2 need maybe 10 minutes.
3 CHAIRMAN GOLDWAY: All right. Well, let's
4 break for 15 minutes and then we'll come back.
5 MS. RUSH: Thank you.
6 (Whereupon, a short recess was taken.)
7 CHAIRMAN GOLDWAY: Ms. Rush, do you want to
8 begin?
9 MS. RUSH: Yes. Thank you, Madam Chairman.
10 Tonda Rush for National Newspaper Association.
11 REDIRECT EXAMINATION
12 BY MS. RUSH:
13 Q Mr. Heath, counsel asked you quite a few
14 questions about the several surveys that you mentioned
15 in your testimony, and I want to spend just a couple
16 of minutes asking you to explain the differences
17 between these and what your role was.
18 In your understanding of the SurveyMonkey
19 questionnaire, was it prepared by you or primarily for
20 the support of your testimony?
21 A Not to my knowledge. It was not. We were
22 trying to find general mail characteristics of our
23 membership, I believe. I know that I looked at an
24 early draft that you sent me just as proofing things
25 sort of and made a suggestion to it, but that was it I

1 think.

2 Q Is your understanding of the methodology of

3 that survey that the invitation to participate goes

4 out to members and they choose for themselves whether

5 they want to be involved or not?

6 A Correct.

7 Q Is it done online?

8 A Yes. Yes, ma'am.

9 Q Is your understanding that the opportunity

10 to participate was ongoing and may have continued past

11 the deadline of the filing of your testimony?

12 A Yes. I believe it was open-ended. It's out

13 there.

14 Q Without having had an opportunity to check,

15 is it conceivable that the differences between the

16 responses that counsel noted from responses to the

17 interrogatories and the responses in your testimony

18 are attributable to later responses that came after

19 your testimony was --

20 A That's certainly very conceivable, yes.

21 Q With respect to the Community Newspaper

22 study of 2011 that was conducted by the R.J. Reynolds

23 Institute, were you at all involved in the design of

24 those questions?

25 A Not at all.

1 Q Did you review the report from that survey
2 as you prepared your testimony?
3 A No. I just used it -- I actually saw it
4 later, I guess.
5 Q But you did examine the results?
6 A Yes, I did. I looked at it, yes.
7 Q Counsel for the Postal Service asked you to
8 refer to a table that discussed how recipients in that
9 survey receive their newspapers. Did you detect in
10 those responses that there was any distinction made
11 between weekly and daily newspapers that those
12 recipients may have been discussing?
13 A No, I don't. I don't think we made any
14 distinction.
15 Q Would you expect there to be a difference in
16 the distribution patterns between the weekly and the
17 daily newspapers involved?
18 A Yes.
19 Q And how might those differences have
20 displayed themselves?
21 A Well, the difference, there would be more
22 home delivery, generally speaking, on the daily side
23 than there would be on the nondaily side. There would
24 be generally less outside county mail because the
25 greater the frequency the fewer people generally that

1 subscribe to a daily the further it goes and the
2 pricing being what it is. That's two off the top of
3 my head.
4 Q Would you find that the weekly newspapers
5 are relatively more reliant on the mail for their
6 distribution?
7 A Generally speaking, yes, although as I
8 referred to there's been a trend of interest in
9 dailies going to the mail.
10 Q Also Chairman Goldway asked you and
11 Commissioner Acton also about how you saw the Postal
12 Service's modified plan and the changes particularly
13 with respect to Phase 1. Is it your understanding
14 that the service standards actually are implemented
15 differently during Phase 1?
16 A It looks like based on a filing that was
17 just made I guess May 25 that I hadn't really had time
18 to review that there will be interim changes that are
19 closer to what the long-term are, if I understand that
20 right, but at least it doesn't affect as many places.
21 Q You referred to changes in the number of
22 mail processing plants that would be designated for
23 closure in Phase 1. Are you anticipating that after
24 that phase ends that there will be an affect upon the
25 newspapers that you consult with and their service

1 standards?

2 A I think it will be a gradual thing, but yes.

3 MS. RUSH: Okay. I have nothing further,

4 Madam Chairman.

5 CHAIRMAN GOLDWAY: Thank you. Any further

6 questions from the bench?

7 (No response.)

8 CHAIRMAN GOLDWAY: If not, I believe that

9 that completes your testimony here today, Mr. Heath.

10 It's always a pleasure for us at the Commission to

11 have you here as a witness.

12 You give very precise information about the

13 part of the mailing industry you represent and always

14 in colorful and articulate ways. We're delighted that

15 you're here and look forward to working with you in

16 the future. Thank you. Good. So we've got the

17 record straight now, and we will bid Mr. Heath a fond

18 farewell.

19 (Witness excused.)

20 CHAIRMAN GOLDWAY: Ms. Rush, you have

21 another witness?

22 MS. RUSH: Yes. Thank you, Madam Chairman.

23 NNA would like to call David Bordewyk to the stand.

24 CHAIRMAN GOLDWAY: It's Bordewyk, is it?

25 //

1 Whereupon,

2 DAVID BORDEWYK

3 having been duly sworn, was called as a

4 witness and was examined and testified as follows:

5 CHAIRMAN GOLDWAY: Thank you. You may sit

6 down.

7 (The document referred to was

8 marked for identification as

9 Exhibit No. NNA-T-2.)

10 DIRECT EXAMINATION

11 BY MS. RUSH:

12 Q Mr. Bordewyk, I'm going to hand you two

13 copies of a document titled Direct Testimony of David

14 Bordewyk on behalf of the National Newspaper

15 Association and ask you whether these documents were

16 prepared by you or under your supervision?

17 A Yes.

18 MS. RUSH: Madam Chairman, NNA would like to

19 present these copies to the reporter and ask them to

20 be moved into evidence.

21 CHAIRMAN GOLDWAY: Is there any objection?

22 (No response.)

23 CHAIRMAN GOLDWAY: Hearing none, I will

24 direct counsel to provide the reporter with two copies

25 of the corrected testimony of David Bordewyk. That

1 testimony is received into evidence and is to be
2 transcribed into the record.
3 (The document referred to,
4 previously identified as
5 Exhibit No. NNA-T-2, was
6 received in evidence.)
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BEFORE THE

POSTAL REGULATORY COMMISSION

WASHINGTON, D.C. 20268-0001

Mail Processing Network

Rationalization Service Changes, 2012 **Docket No. N2012-1**

DIRECT TESTIMONY
OF DAVID BORDEWYK, NNA T-2
ON BEHALF OF NATIONAL NEWSPAPER ASSOCIATION

(April 23, 2012)

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I. Introduction

My name is David Bordewyk. I am general manager of the South Dakota Newspaper Association, a 130-year old organization. SDNA represents 11 daily newspapers and 119 weekly newspapers. Our mission is to represent the state's newspapers with a variety of programs and services including public policy advocacy.

I have managed the association since 1996. My professional background includes work as a reporter and editor for newspapers in South Dakota and as a magazine editor for a national trade organization representing community banks.

I appear before the Commission because the proposed changes in mail service standards will have grave effects upon the ability of the newspapers in my state to reach readers. Because a mail processing facility in my state was one of the early closings in the Postal Service's network optimization, we have had the opportunity to see first-hand how much disruption can be caused when the mail is slowed.

My purpose is to share with the Commission information SDNA has gathered on how newspapers and others in South Dakota have been affected by the closing of the Mobridge Sectional Center Facility and the resulting decline in service performance.

II. South Dakota is a largely rural state that must depend upon the mail

South Dakota is a largely rural state with about 825,000 people--roughly the size of Jacksonville, Florida, in population. Household income for 2011 was reported by the Census Bureau as $46,369, lower than the US median of $51,914. The total driving distance from east to west is more than 400 miles, more than 725,000 square miles. Our population is slightly older than the rest of the US with 14.3 percent over age 65, compared to about 13 percent nationally. We also enjoy a significant Native American population with well-known reservations at Rosebud and Pine Ridge. Our Native American population is 8.8 percent, compared to the national average of .9 percent.

Perhaps most significant is that household broadband adoption rate for South Dakota is only 66 percent, according to 2011 statistics from the National Telecommunications Information Agency at the Department of Commerce. About a quarter of South Dakota households do not own a computer. The trends I have seen continue to show that while broadband use is slowly rising, significant populations lag behind the national averages quite a bit. In older, more rural states and states with significant minority populations, like South Dakota, the digital gap is pronounced. These numbers are confirmed by data from the Pew Center for the Internet and American life indicating that only 41 percent of adults older than 65 are using the Internet. From a third to a quarter of minority groups are not using the Internet. Pew says about one in five non-Internet users say price is one reason they do not use the Internet. Pew also says 33% percent of Americans in the median income range of South Dakotans do not have broadband access at home.

In a rural state with great distances between towns and between mailboxes in a sparsely-settled geography, the mail is a lifeline for our local economies and our political and civic lives. For all of these reasons, the mail is particularly important in South Dakota.

III. South Dakota has already experienced disruption from a mail processing facility closing.

It was a dubious honor for our state to be in at the early edge of mail processing facility closures. In 2011, we lost the Sectional Center Facility at Mobridge in the north central part of the state--a very rural area. Because our newspapers depend heavily upon the mail, the closing put our entire association on alert. The problems we began to hear from our newspapers in the Mobridge area gave us an indication of the problems to come as other plants were targeted for closing.

SDNA has four newspapers in the Mobridge area. To prepare for this testimony, I conducted an informal survey with the publishers of these newspapers and also asked them to survey a few of their own customers. While our survey results were informal

1 and not intended to be statistically valid, I believe the feedback from this a small sample
2 of affected customers provides an instructive view of the types of disruptions that occur
3 in businesses when the mail slows down.

4 **A. Cash flows are affected by slower mail.**

5 All four reporting newspapers said their own businesses had been affected by delays in
6 mailing bills and receiving payments.

7 A ranch operator in Trail City, SD, said she was concerned about the effect on her
8 credit.

9 Kathy Nelson at the Timber Lake Topic, a weekly newspaper in the north central part of
10 the state, said it is taking longer to get money in.

11 The owner of Herreid Livestock, a livestock auctioneer in Herreid, SD, said: "Our
12 business depends on the checks arriving quickly and we are not getting our money in
13 time."

14 A clerk at the City of Herreid said, "Some of our customers are getting their bills late,
15 and many more complaints of them not even showing up."

16 **B. Businesses are concerned about shipping of essential supplies and products.**

17 One newspaper said its local car dealership felt its business was at risk because car
18 parts come by mail from Minot, ND, where an additional Sectional Center Closing is
19 contemplated.

20 The City of Timber Lake reports that it must mail water samples for within 24 hours of
21 being drawn. The slowed mail service resulted in a first-ever violation for non-
22 compliance with water quality rules. The City of Herreid reported a similar problem and
23 said it had to hire a courier at public expense to comply with rules.

24 The owner of Biegler Equipment in Timber Lake said she was concerned about
25 customers' complaints that they are not receiving items they ordered on time.

Another ranch owner in Firesteel, SD, complains that everything is arriving late, from greeting cards to equipment. He said, "We are having to make extra trips to businesses 60 miles away to insure that we get medicine and vet supplies timely or pay a courier. The Pony Express was actually faster back in 1860 than the USPS!"

A lumber company owner in Pollock, SD, said the mail was being slowed by more than three days.

C. Rural residents are concerned about receiving essential items.

Retired rancher Adele Enright described the situation faced by many rural residents: "The price of gas makes a 200 mile drive to a major shopping area difficult so the mail was a very important part of our lives.

D. Publishers are experiencing significant delays to subscribers and are having to absorb new expenses to get issues delivered on time where it is possible to do so.

The Mobridge Tribune told SDNA:

> "We are still seeing frustratingly poor mail service to long distance subscribers and have recently started mailing some out-of-state subscribers by first class mail since they receive their papers sporadically--and often damaged--and are threatening to cancel their subscriptions after years of loyalty because they are not consistently receiving the product for which they paid."

A first-class mail piece costs a publisher about a dollar per copy, depending upon the distance and other characteristics in the mailing. When multiplied by many copies on a daily or weekly basis, the additional postage is significant. For a weekly paper to mail first class to even 100 readers, the postage cost would increase by nearly $4,000 a year. These costs do not add to the quality of the news or any other valuable aspect of the newspaper from the subscriber's standpoint. That makes it unlikely that an increase in the subscription can be enacted to cover that cost. So a publisher would be expected to absorb this increase. For many small newspapers in this challenging economy, that is an additional expense they could not bear.

The Emmons County Record in Linton, ND, which also owns the Prairie Pioneer in South Dakota, provides a good illustration of the impact.

The publisher is absorbing an additional $55 a week in shipping and labor cost to continue to get its paper to drop-shipped locations. The publisher reports that until these drop-ships were set up, the Wednesday paper was arriving as late as Saturday.

Allen Burke, the publisher reports:

> "The driver goes from Linton to Herreid, SD, 30 miles south, and drops off papers for Herreid and Mound City and then to Eureka, SD, another 35 miles. In Eureka, she mails all of the other Prairie Pioneers addressed to South Dakota addresses (other than to Herreid, Mound City and Pollock). Then, she goes to Pollock, S.D., where she mails the Pollock zip code papers."

The rest of the mail that was sorted at Mobridge now goes to Bismarck, where persistent service problems continue. Burke fears that mail from other cities will be routed through Bismarck as USPS continues its consolidations. He believes under-staffing at Bismarck will deepen his problems.

These extra costs will rise as fuel prices continue to spike, which seems almost inevitable.

An additional $55 a week may not sound like much in an urban area. But for a rural newspaper, it is about what they spend for a free-lance photographer to shoot pictures at community events each week, or for a correspondent to cover an area city council. Small newspapers operate on extremely small profit margins and must tightly control expenses to be able to continue to cover the news in small towns. Without them, though, the residents have no other source of local information.

E. Options for work-arounds have not been provided.

I understand that the Postal Service is considering transfer hubs in some facilities that are scheduled to be closed so that local mail does not have to travel inordinate distances only to return to the locality.

But this option was not offered in the Mobridge circumstance. One publisher told me USPS may be considering a new highway route from Mobridge to Selby, which is about 20 miles away, though nothing has yet been confirmed.

I would recommend that in such circumstances the hub option should be put into place before the facility closes. Waiting to put this work-around into place until there are already demonstrable service impacts puts customer relationships at risk. These may not be repaired by a restoration in mail service. For a newspaper, a lost subscriber may be hard to get back.

But even where hubs are offered, the availability of a USPS truck route may not work. The Mobridge Tribune newspaper finds that the window between the end of its press runs and the critical entry time is too tight to be trusted.

IV. SDNA collected information from residents in its efforts to protect our mail service

The negative impact upon this small segment of our state mobilized SDNA to try to protect our remaining mail processing plants.

We conducted a petition drive to collect signatures of persons concerned about these plants. From those signatures, I produced a report titled: "Deliver the Mail. South Dakotans for Timely Mail Delivery." A copy of the report is being filed with this testimony as NNA Library Reference 1. The report focused on all aspects of timely mail delivery, including both overnight and 6 day delivery.

Just as important as the signatures themselves are the unfiltered comments provided by hundreds of petitioners. Comments that demonstrate how much South Dakotans depend on good, timely mail delivery in their personal lives and in their business and professional lives and how strongly they feel about ensuring that timely, six-day mail delivery continues in South Dakota.

Here is one comment that well-represents the nature of opinions from Jim and Kathy Nelson, publishers of the Timber Lake Topic.

> "We are distressed by the many negative effects of the closing of the mail processing center at Mobridge. Our mail now goes to Bismarck, ND, for processing. The local mail comes back a day or two later. Even our in-town mail has to be sent to Bismarck! Some days the mail does not all fit on one truck so some is left behind. We have not received an Aberdeen daily paper on the right day since this started. Sometimes we get three in one day. The first week, it took the Mobridge paper 6 days to get to Timber Lake--40 miles. People don't know when they will receive their prescriptions. We can't argue with the closing of some very small post offices where there are good alternatives but we can't understand the USPS reducing delivery standards so drastically. We publish the newspaper in Timber Lake and we pay about $12,000 a year in postage; we feel like the USPS does not want our business but we have no good alternatives. People say the Post Office should be run like a business. No real business could treat customers this way and stay in business."

Another resident commented on the challenges of living in a rural state and noted slowing mail delivery could be costly to residents:

> "Rural South Dakota's mail is already 1 day longer service to arrive to many locations. Closing the Rapid City processing center will add an additional 2 day delay...It takes the first day for mail from here to get to RC now just to be sorted and a day to sort it and a day to return it. Add another day to SF (Sioux Falls) to sort it and a day back. If you remove the one day of sorting in RC (Rapid City), that's five days. 2 days longer for my local payments if mailed to arrive at their destination. I receive my water bill and it is due 10 days from the billing date, same goes for my Verizon and BHP bills. MDU allows more time to make your payment. Late fees are imposed by all 3 if they are as much as a single day late..."

One theme resonated throughout these comments: South Dakotans oppose the proposed wholesale consolidation and closure of mail processing centers in our state and the discontinuation of Saturday mail delivery. Our state would suffer. Our economy would suffer. South Dakotans who depend on timely mail delivery for medical prescriptions, business mail, news, legal documents and much more would be negatively affected.

The report has been provided to our Congressional delegations.

V. Conclusion

It is alarming to residents in rural areas how easily their interests are written off by people in our nation's capital. Our ranches, agriculture and small-scale manufacturing and after-market suppliers are essential to the nation's economy. Yet it seems that in the nation's capital the needs of these communities are insignificant, dismissed as special interests or ignored because population densities do not impress people who have lived in urban areas all of their lives.

It is a fact of life for most rural states--from South Dakota to the population centers of the Pacific--that the mail is a lifeline for the economy and for civic life.

The Postal Service has made some powerfully damaging decisions with respect to mail service in rural areas by deciding it is more important to stockpile mail in urban centers so that sorting machines can be run longer than it is to actually get the mail to people. USPS appears poised to make even more of these decisions.

I believe that further research into the true needs of rural areas is needed.

My colleague Max Heath is recommending some steps to help community newspapers reach their readers. I endorse his recommendations. But these steps for newspapers will not necessarily help the residents who need the mail for other items--medicines, parts, agricultural supplies and, most essentially, cash to run their businesses.

I firmly believe more information about the impacts on rural America is needed before the Postal Service changes its service standards and closes more facilities. I ask the Commission to recommend a serious study of truly rural areas--not of the few big cities in rural states, like Pocatello, ID, which USPS did study--but of America's small towns like Linden, ND, and Mobridge, SD. I believe the results would be incredibly informative.

1 CHAIRMAN GOLDWAY: Counsel, can you identify
2 any library references that have been filed by Witness
3 Bordewyk in this docket?
4 MS. RUSH: Madam Chairman, there was some
5 motion practice with respect to a library reference in
6 2012-1. The Postal Service earlier objected to NNA's
7 characterization of that reference and asked the
8 Commission to have that designated for the public
9 comments file.
10 NNA really has no objection to that and so
11 consequently although Mr. Bordewyk may be asked some
12 questions about it with reference to its
13 interrogatories he's not relying upon that study in
14 evidence.
15 CHAIRMAN GOLDWAY: Thank you. It's clear
16 from the record that this material informed Mr.
17 Bordewyk's thinking as he developed his testimony.
18 However, the material appears to be background
19 material more properly categorized as Category 6
20 Library Reference so it will not be admitted into
21 evidence to prove the truth of what the witness
22 asserts, and we appreciate your cooperation.
23 Next we will receive written cross-
24 examination. Mr. Bordewyk, have you had an
25 opportunity to examine the packet of designated

1 written cross-examination that has been made available
2 to you in the hearing room today?
3 THE WITNESS: Madam Chair, yes, I have with
4 one correction. On page 11, response to
5 USPS/NNA-T2-8, Response A, I refer to Kathy Wilson.
6 It should be Kathy Nelson.
7 MS. RUSH: Madam Chairman, the witness just
8 noticed that need for an errata. We'll file an errata
9 this afternoon.
10 CHAIRMAN GOLDWAY: Thank you. I'm glad
11 someone else is misspelling or mispronouncing names
12 this morning. There are no other corrections?
13 THE WITNESS: No, Madam Chairman.
14 CHAIRMAN GOLDWAY: Okay. If the questions
15 contained in this packet were posed to you orally
16 today, would your answers be the same as those you've
17 provided previously in writing?
18 THE WITNESS: Yes.
19 CHAIRMAN GOLDWAY: If everything is in order
20 then, counsel, please provide two copies of the
21 corrected designated written cross-examination of
22 Witness Bordewyk to the reporter. That material is
23 received into evidence and it is to be transcribed
24 into the record.
25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. NNA-T-2 and was
4 received in evidence.)
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL NEWSPAPER ASSOCIATION
WITNESS DAVID BORDEWYK
(NNA-T-2)

Party	Interrogatories
United States Postal Service	USPS/NNA-T2-1-2, 7-16

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL NEWSPAPER ASSOCIATION
WITNESS DAVID BORDEWYK (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NNA-T2-1	USPS
USPS/NNA-T2-2	USPS
USPS/NNA-T2-7	USPS
USPS/NNA-T2-8	USPS
USPS/NNA-T2-9	USPS
USPS/NNA-T2-10	USPS
USPS/NNA-T2-11	USPS
USPS/NNA-T2-12	USPS
USPS/NNA-T2-13	USPS
USPS/NNA-T2-14	USPS
USPS/NNA-T2-15	USPS
USPS/NNA-T2-16	USPS

RESPONSES OF
NATIONAL NEWSPAPER ASSOCIATION WITNESS DAVID BORDEWYK
TO THE INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/NNA-T2-1. Please refer to your testimony (NNA-T-2, hereinafter "your testimony) on page 1, lines 3 through 4. You state, "SDNA represents 11 daily newspapers and 119 weekly newspapers."

(A) Please confirm that the term "daily newspapers" refers to newspapers that are each published at least five days per week. If not confirmed, please explain what you mean by the term "daily newspapers."

(B) What percentage of the total number of daily newspapers based in South Dakota does SDNA represent?

(C) What percentage of the total number of weekly newspapers based in South Dakota does SDNA represent?

(D) What percentage of the total circulation of daily newspapers based in South Dakota does SDNA represent?

(E) What percentage of the total circulation of weekly newspapers based in South Dakota does SDNA represent?

RESPONSE:

(A) Confirmed

(B) 100 percent.

(C) 100 percent of the legal weekly newspapers of general circulation as defined by state law. All legal newspapers as defined by state law are eligible for membership in the association.

(D) 100 percent.

(E) 99 percent. There are one or two weekly newspapers in South Dakota that are not eligible for membership in SDNA because they do not fit the association's bylaws criteria for membership, which are the same as defined under state law for legal newspapers (general circulation, published at least 50 issues per year, etc.).

RESPONSES OF
NATIONAL NEWSPAPER ASSOCIATION WITNESS DAVID BORDEWYK
TO THE INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/NNA-T2-2. Please refer to your testimony on page 1, lines 11 through 13. You state, "Because a mail processing facility in my state was one of the early closings in the Postal Service's network optimization, we have had the opportunity to see first-hand how much disruption can be caused when the mail is slowed." Please also refer page 2, line 22, of your testimony as well as Library References USPS-LR-N2012-1/5 and USPS-LR-N2012-1/6.

(A) Please confirm that the "mail processing facility" referenced on page 1, line 11, of your testimony is the Sectional Center Facility at Mobridge that you reference on page 2, line 22, of your testimony. If not confirmed, please identify the mail processing facility to which you referring on page 1, line 11, of your testimony.

(B) Please refer to Library Reference USPS-LR-N2012-1/6 and please confirm that the Sectional Center Facility at Mobridge referred to on page 2, line 22, is not included among the facility consolidation opportunities that were studied in association with the service changes under review in this docket. If not confirmed, please state where in the spreadsheet "Network.Rationalization.Study.List.xls" the Sectional Center Facility at Mobridge is identified.

(C) Please refer to Library Reference USPS-LR-N2012-1/5 and please confirm that the Sectional Center Facility at Mobridge referred to on page 2, line 22, is not included among list of "Current Active AMP Proposals" contained in USPS-LR-N2012-1/5. If not confirmed, please state where in the document "PAEA.Sec.302.List.PDF" the Sectional Center Facility at Mobridge is identified.

(D) Please provide the date (month, day and year) that the Sectional Center Facility at Mobridge was closed.

RESPONSES:

(A) Confirmed.

(B) Confirmed.

(C) Confirmed.

(D) Dec. 5, 2011, is when the mail from the Mobridge SCF started going to Bismarck, N.D.

RESPONSES OF
NATIONAL NEWSPAPER ASSOCIATION WITNESS DAVID BORDEWYK
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USPS/NNA-T2-7. Please refer to your testimony on page 2, lines 27 through 29, and page 3, lines 1 though 3. You state, "SDNA has four newspapers in the Mobridge area. To prepare for this testimony, I conducted an informal survey with the publishers of these newspapers and also asked them to survey a few of their own customers. While our survey results were informal and not intended to be statistically valid, I believe the feedback from this a small sample of affected customers provides an instructive view of the types of disruptions that occur in businesses when the mail slows down." Please also refer to your testimony on page 3, lines 5 through 6. There you state, "All four reporting newspapers said their own businesses had been affected by delays in mailing bills and receiving payments."

(A) Please provide the name and location (city and 5-digit ZIP Code) of the four newspapers referenced in this portion of your testimony.

(B) For each newspaper, please state whether the newspaper is a daily newspaper or a weekly newspaper.

(C) Please provide all records or documents that you relied upon in support of your statement, "All four reporting newspapers said their own businesses had been affected by delays in mailing bills and receiving payments", including any communications (*e.g.*, e-mail messages or letters) between SDNA and each of the four newspapers.

(D) Please define the term "delay" as you use it in your testimony. Please include in your definition an explanation of whether the term "delay" includes instances in which a newspaper was not delivered by the Postal Service in accordance with the applicable service standard.

(E) What percentage of the total number of "bills" mailed by the four newspapers experienced delays?

(F) With respect to the "bills," what was the average length of the delay?

(G) What percentage of the total number of "payments received" was affected by these delays?

(H) With respect to the "payments received," what was the average length of the delay?

(I) On what date or dates (month, day and year) did the "delays" for these newspapers begin.

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(J) Please provide all documents or records that you relied upon in support of your responses to parts (E) through (I) of this interrogatory (USPS/NNA-T2-7).

RESPONSES:

(A)-(B)

Newspapers responding to SDNA's survey:
Timber Lake Topic, Timber Lake, SD 57656 (weekly)
Mobridge Tribune, Mobridge, SD 57601 (weekly)
Pollock Prairie Pioneer, Pollock, SD 57648 (weekly)
Emmons County Record, Linton, SD 58552 (weekly)

Newspapers in the area not responding to survey but that have been affected by the closure:
Corson/Sioux Co. News-Messenger, McLaughlin, SD 57642 (weekly)
West River Eagle, Eagle Butte, SD 57625 (weekly)
Isabel Dakotan, Isabel, SD 57633 (weekly)
Bison Courier, Bison, SD 57620 (weekly)
Lemmon Leader, Lemmon, SD 57638 (weekly)
Lemmon Dakota Herald, Lemmon SD 57638 (weekly)

(C) My conclusions were drawn from personal conversations with publishers.

(D) By "delay," I mean mail arrivals that lag the delivery times customers generally received before the closure of the mail processing plant.

(E) I did not ask the newspapers responding to the survey to tally their total numbers of bills mailed or the number delayed. Weekly newspapers are thinly-staffed. Such a request would have been burdensome for them as well as for SDNA, which is also thinly-staffed. But if they had not perceived a negative effect from slower mail, they would not have been motivated to complain.

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(F) I did not ask the average length of delay, but publishers have commented to me that their cash flows have been affected. Any delay for a business with a small capital structure can affect their ability to pay their own bills on time.

(G) Please see my response to (E).

(H) When SDNA began asking publishers for reactions to slower mail times, we were seeking information for letters to Congress. We did not attempt to conduct an empirical study whereby we measured all bills going out and payments coming in, but publishers have told me they were experiencing delays ranging from a couple of days to a couple of weeks.

(I) See my response to (H). We did not attempt to measure service.

(J) Except for documents provided in response to this question, all information from the SDNA survey is available at NNA LR N 2012-1/1.

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USPS/NNA-T2-8. Please refer to your testimony on page 3, lines 5 through 15.

(A) Please state whether any of the mail users identified in lines 7 through 15 are among the "four reporting newspapers" identified in lines 5 through 6, and please identify those newspapers.

(B) With respect to each of mail users identified in lines 5 through 15, is it your understanding that bills sent by those mail users and payments received by those mail users were, prior to the consolidation of the Mobridge Sectional Center Facility (SCF), being processed at that SCF? If your answer is yes with respect to any or all of the mail users identified in lines 5 through 15, please state the basis for your understanding, and include any documents or records that informed your understanding.

(C) With respect to the delays in mail delivery/receipt alleged by each of the mail users identified in lines 5 through 15, please provide the number of delays per month for each of the the six months prior to the consolidation of the Mobridge SCF and for each of the six months after the consolidation of the Mobridge SCF.

RESPONSES:

(A) Yes. See lines 9-10, referring to Kathy Wilson at the Timber Lake Topic, one of the newspapers in the Mobridge area.

(B) Yes, I believe all mail referenced in these reports was previously processed in the Mobridge SCF.

(C) I do not have the information.

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USPS/NNA-T2-9. Please refer to your testimony on page 3, lines 20 through 23. You state, "The City of Timber Lake reports that it must mail water samples...within 24 hours of being drawn. The slowed mail service resulted in a first-ever violation for noncompliance with water quality rules. The City of Herreid reported a similar problem and said it had to hire a courier at public expense to comply with [the] rules."

(A) To whom must the City of Timber Late transmit water samples under the "water quality rules" referenced in your testimony?

(B) Please confirm that the speed of the mail service provided to the City of Timber Lake could not have precluded the city from mailing water samples "within 24 hours of being drawn."

(C) Is it your understanding that there are no other resources available to the City if Timber Lake for the transmission of water samples to the appropriate location? If your answer is affirmative, please state the basis for your understanding.

(D) Please confirm that the "rules" referenced on line 23 are the same as the "water quality rules" referenced on line 22. Also provide a citation to or a copy of the rules.

(E) Please state the cost expended by the City of Herreid to hire the courier referenced on line 23.

(F) Please state whether the City of Herreid explored whether the use of Express Mail or Priority Mail would have effected the delivery of its mail in a manner consistent with the "rules" referenced on line 23. If the use of Express Mail or Priority Mail was explored by the city, please state why neither of these options was chosen by the city.

RESPONSES:

(A) State of South Dakota Department of Environment & Natural Resources.

(B) Confirmed. The closing of the facility created a problem in the receipt of the samples within 24 hours of being drawn.

(C) I do not know whether Timber Lake has found an alternative courier. Note lines 14-15 in my testimony that a private courier is evidently being used by Herreid.

(D) Confirmed.

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USPS/NNA-T2-9 (con't)

(E) I do not know.

(F) I do not know.

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USPS/NNA-T2-10. Please refer to your testimony on page 4, lines 1 through 4. You state, "Another ranch owner in Firesteel, SD, complains that everything is arriving late, from greeting cards to equipment. He said, 'We are having to make extra trips to businesses 60 miles away to insure that we get medicine and vet supplies timely or pay a courier. The Pony Express was actually faster back in 1860 than the USPS!'"

(A) Is it your understanding that mail received by this mail user were, prior to the consolidation of the Mobridge Sectional Center Facility (SCF) or other processing facility, being processed at that SCF or other processing facility? If your answer is affirmative, please state the basis for your understanding, and include any documents or records that informed your understanding. Additionally, with respect to the delays in mail receipt alleged by this mail user, please provide the number of delays per month for each of the six months prior to the consolidation and for each of the six months after the consolidation.

(B) Please state whether it is your understanding that the assertion, "The Pony Express was actually faster back in 1860 than the USPS!" was intended to be a factual statement. If so, please provide a summary of the underlying factual basis for the statement.

RESPONSES:

(A) Yes.

(B) I believe it was meant sardonically by this disappointed mail user.

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USPS/NNA-T2-11. Please refer to your testimony on page 4, lines 15 through 19.

(A) Please provide a complete copy of the source document or record that contains the quote that appears in this portion of your testimony.

(B) If not apparent in the document provided in response to part (A), please provide the date the quoted statement was made.

(C) Are "out-of-state subscribers" considered "long distance subscribers"? If the answer is yes, does the phrase "long distance subscribers" encompass subscribers other than "out-of-state subscribers"? If the answer is yes, please describe those subscribers.

(D) With respect to the Mobridge Tribune, what percentage of its total number of subscribers is comprised of "long distance" subscribers and what percentage is comprised of "out-of-state" subscribers?

RESPONSES:

(A) This quotation came from Haden Bowie, Marketing & Circulation Manager, Mobridge Tribune, Mobridge, SD

(B) See response to (A)

(C) Not necessarily. South Dakota newspapers often have subscribers within the state but outside of their immediate markets. The Mobridge Tribune tells me approximately 27 percent of its subscribers are outside its immediate market. 11 percent of its subscribers are out of state.

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USPS/NNA-T2-12. Please refer to your testimony on page 4, lines 20 through 28. You state, "A first-class mail piece costs a publisher about a dollar per copy, depending upon the distance and other characteristics in the mailing. When multiplied by many copies on a daily or weekly basis, the additional postage is significant. For a weekly paper to mail first class to even 100 readers, the postage cost would increase by nearly $4,000 a year. These costs do not add to the quality of the news or any other valuable aspect of the newspaper from the subscriber's standpoint. That makes it unlikely that an increase in the subscription can be enacted to cover that cost. So a publisher would be expected to absorb this increase. For many small newspapers in this challenging economy, that is an additional expense they could not bear."

(A) Is it your understanding that the typical subscriber to a weekly or daily newspaper would terminate or suspend his or her subscription to that paper rather than absorb a subscription price increase of any magnitude due to a publisher's decision to mail the newspaper via First-Class Mail? Please state the basis for your understanding.

(B) Is it your understanding that the typical "long distance" or "out-of-state" subscriber to a weekly or daily newspaper would terminate or suspend his or her subscription to that paper rather than absorb a subscription price increase of any magnitude due to a publisher's decision to mail the newspaper via First-Class Mail? Please state the basis for your understanding.

(C) If a publisher were to communicate to its subscribers that a subscription price increase was necessary to cover an increase in the publisher's overhead due to the publisher's decision to mail a newspaper via First-Class Mail, would such communication have an effect on your responses to parts (A) and/or (B) above. If your answer is affirmative, please state the effect it would have on your responses.

Responses:

(A) Yes. I draw this conclusion from long personal experience in the newspaper business. Major subscription price increases have always created cancellations, but in the present economic environment, I believe it would be even more true today.

(B) I do not know. Many long-distance subscribers are so attached to their home town newspapers that some would probably accept a price

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(USPS/NNA T2-12 con't)

increase. Some would not. I believe it would be impossible to predict. But I also do not have confidence that First-Class mail would receive appreciably faster service, so the subscriber might be asked to pay a higher price for no better service.

(C) Some newspapers have already added postage to the subscription price for out-of-market newspapers. So long as the increase is not unreasonable, some subscribers are willing to pay it. Many are not willing or are not able. I believe, however, that loss of faith in the Postal Service is driving a level of consumer disgruntlement to the point that an attempt to blame USPS for a price increase would cause more subscribers to cancel their subscriptions than in previous years.

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USPS/NNA-T2-13. Please refer to your testimony on page 5, lines 1 through 17.

(A) Please provide the date (month, day and year) that the publisher began paying "an additional $55 a week in shipping and labor costs[.]"

(B) By "drop-shipped locations" do you mean exceptional dispatch locations?

(C) With respect to the "Wednesday paper," does the "Wednesday" refer to (1) the day of publication, (2) the day the newspaper is printed, (3) the day the newspaper is presented to the Postal Service, and/or (4) the day the newspaper is expected to be delivered. If Wednesday is the day the newspaper is expected to be delivered, please provide the day that the newspaper is typically mailed.

(D) Please describe in detail the "persistent service problems" discussed on line 13.

RESPONSES:

(A) Feb. 7, 2012.

(B) Yes.

(C) The day the newspaper is expected to be in readers' hands

(D) I have conducted no empirical studies, but my member publishers continue to report widespread delays of mail being handled in Bismarck. As noted on lines 13-15, the publisher in Linton is concerned that additional shifts of mail volume into Bismarck will compound the delays.

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USPS/NNA-T2-14. Please refer to your testimony on page 6, lines 10 through 11. You state, "The Mobridge Tribune newspaper finds that the window between the end of its press runs and the critical entry time is too tight to be trusted."

(A) Please identify the person or entity providing transportation between the location where the "the end of [Mobridge Tribune's] press runs" takes place and the place where the newspaper must be entered by the Critical Entry Time (CET).

(B) Please state the reasons, if any, that the Mobridge Tribune cannot advance the end of its press runs to allow more time between the time its press runs end and the applicable CET.

RESPONSES:

(A) Gordy and Marilyn Atkinson (parents of Mobridge Tribune Publisher Larry Atkinson) deliver newspapers to the Pollock post office. Tribune employee Bill Kohn delivers newspapers to the Selby post office. Tribune employee Jackie Rawstern delivers newspapers to the Trail City post office.

(B) Advancing press runs can be impossible for newspapers for many reasons. Sometimes the available press time is claimed by other newspapers. Sometimes earlier closings (deadlines) for news and advertising cannot be accomplished without losing valuable revenues or compromising the news. Because the Mobridge Tribune printing plant also prints various area newspapers and other printing products on a set, tight weekly schedule, the Tribune has very little flexibility in adjusting its own print schedule. In fact the Tribune's print schedule is so tight that pages are converted to plates and put on the press almost as quickly as the newsroom is finished editing and paginating the news and advertising pages.

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USPS/NNA-T2-15. Please refer to your testimony on page 8, lines 18 through 21. You state, "The Postal Service has made some powerfully damaging decisions with respect to mail service in rural areas by deciding it is more important to stockpile mail in urban centers so that sorting machines can be run longer than it is to actually get the mail to people. USPS appears poised to make even more of these decisions."

(A) Please specifically identify the "damaging decisions" to which you refer in your testimony on line 18.

(B) Please provide citations to Postal Service testimony submitted in this docket that supports your characterization that the Postal Service proposes to "stockpile mail."

(C) Please specifically identify the "decisions" that "USPS appears poised to make" to which you refer in your testimony on line 21.

RESPONSES:

(A) I am referring to decisions to end Saturday mail delivery, slow the mail stream and change the service standards that more heavily impact rural areas than urban areas.

(B) I understand the entire rationale of this service standards case is to enable USPS to aggregate more mail in urban areas where its machines are located so that machines can run longer.

(C) I am referring to the implementation of 5 day mail, the further closing of mail processing centers and the actuality of eliminating overnight mail service for important categories of mail. Judging from the survey SDNA took and that is summarized in NNA N2012-LR 1/1, many in South Dakota consider these decisions unwise.

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USPS/NNA-T2-16. Please refer to page 8, lines 2 through 7, of your testimony. There you state, "One theme resonated throughout these comments: South Dakotans oppose the proposed wholesale consolidation and closure of mail processing centers in our state and the discontinuation of Saturday mail delivery. Our state would suffer. Our economy would suffer. South Dakotans who depend on timely mail delivery for medical prescriptions, business mail, news, legal documents and much more would be negatively affected." Please also review page 53, lines 5 through 24, page 54,and page 55, lines 1 through 9 of the official transcript of the field hearings in Chicago, Illinois on Monday, June 21, 2010, in Docket No. N2010-1 (testimony of Ken Czarnecki, Senior Vice President, Caremark Mail Pharmacies), available at http://www.prc.gov/Docs/68/68858/Hearing__06-21-2010.pdf.

(A) Is there any reason to believe that South Dakota recipients of medicine delivered via the mail are not notified by their suppliers that their prescriptions need to be refilled? If your answer is affirmative, please state the basis for your answer.

(B) Please state your understanding of the percentage of medical prescription shipments that are delivered to recipients in South Dakota by:
(i) Express Mail;
(ii) Priority Mail;
(iii) First-Class Mail;
(iv) Standard Mail; and
(v) Non-postal delivery service providers.

(C) Assume hypothetically that the delivery time for First-Class Mail mailpieces containing prescription medicines is enlarged by one day in the rationalized mail processing network. Please confirm that, ceteris paribus, the recipient could avoid a delay in the receipt of his or her prescription medication delivery by placing his or her order one day earlier than he or she would have placed it in the current mailing environment (*i.e.*, the status quo). If you do not confirm, please explain the basis for your response.

RESPONSES:

(A) I have no personal knowledge of the array of practices that mail-order pharmaceutical companies follow to notify individuals that their medications are due for a refill. I would assume there are host of reasons people do not request refills until their supply is empty, including the fact that many are infirm or otherwise impaired and that daily management of their affairs presents a serious

challenge. I am aware that for some people the expense of a co-pay presents an additional issue that may discourage them from seeking refills until the last minute. I am not certain that all prescriptions are filled via a mail-order pharmaceutical company. It may be that some individuals living in rural areas are relying on an independent pharmacy located in a community that may be 30, 50 or more miles away to fill their prescription and send it to them. I also note that in this same hearing, Mr. Czarnecki expressed his serious concern with a retraction of services--in that case Saturday delivery--as presenting challenges to mail recipients and to his own company in growing the use of the mail. Please see his comments on p. 34, lines 8-11. I do not know Mr. Czarnecki, but I would presume any slowdown in mail delivery would cause his company concerns.

(B) I have not looked into the manner of shipping used for medical prescriptions.

(C) Confirmed if, indeed, all things were equal. But I am not assuming that massive changes in the USPS network will slow the mail only a day. And I do assume that there are significant and legitimate reasons why people--particularly sick people--could not easily adapt to this change. For some, it's not simply a matter of a refill on an existing prescription. Some rural residents may be forced to rely on mail delivery on a new prescription ordered by their physicians. Weather, illness or great distances may prohibit them from traveling to personally pick up the prescription and therefore must rely on mail delivery. Please see my response in part (A).

1 CHAIRMAN GOLDWAY: Is there any additional
2 written cross-examination for Witness Bordewyk today?
3 (No response.)
4 CHAIRMAN GOLDWAY: If everything is in order
5 then we can proceed to oral cross-examination. Only
6 the Postal Service has requested oral cross-
7 examination. Is there any other participant who
8 wishes to cross-examine Witness Bordewyk today?
9 (No response.)
10 CHAIRMAN GOLDWAY: Mr.?
11 MR. CONNOLLY: Madam Chairman, this is
12 Matthew Connolly for the Postal Service.
13 CHAIRMAN GOLDWAY: Mr. Connolly, you're
14 going to proceed? Okay. Mr. Connolly, please begin.
15 MR. CONNOLLY: Thank you, Madam Chairman,
16 and thank you, Mr. Bordewyk, for appearing today.
17 CROSS-EXAMINATION
18 BY MR. CONNOLLY:
19 Q I just have a few questions about the
20 campaign that formed the basis for the report that was
21 filed as a library reference. Some of my questions
22 may refer to the report itself so you might want to
23 have that handy, but I just want to talk about the
24 campaign generally.
25 You've stated, as I understand it, that

1 SDNA, and that's South Dakota Newspaper Association,
2 initiated a campaign to rally support among South
3 Dakotans for timely six-day mail delivery. Is that an
4 accurate characterization?
5 A Yes.
6 Q Okay. And the way I understand it, this was
7 a campaign that was basically critical of the proposal
8 for the Postal Service to transition to five-day
9 delivery, and it was also critical of the
10 consolidation of mail processing facilities. Is that
11 a fair description of the campaign?
12 A Yes.
13 Q Now, you've described in the report, which
14 I'm referring to the page that comes immediately after
15 the cover page, and you've described this campaign as
16 Deliver the Mail, and you've also described it as a
17 grassroots campaign. Is that correct?
18 A Correct.
19 Q As part of this campaign I understand that
20 people were encouraged to sign a petition and submit
21 comments at newspaper offices or through an online
22 website. Is that correct?
23 A Correct.
24 Q Okay. And according to the report, 2,598
25 people signed a petition that was called Deliver the

1 Mail. Is that correct?

2 A Correct.

3 Q Does this number include -- well, actually

4 the first question I have is were online signatures

5 also collected?

6 A Correct.

7 Q Okay. So does this number, the 2,598

8 number, represent signatures submitted online, as well

9 as in hard copy?

10 A Correct.

11 Q Thank you. And I take it that some of the

12 people who signed the petition also submitted

13 comments?

14 A That is correct.

15 Q And these comments appear on pages 1 through

16 30 of the report? Is that correct?

17 A Yes.

18 Q Okay. How was this campaign advertised to

19 the public?

20 A Primarily through promotional ads that South

21 Dakota Newspaper Association, we created and

22 encouraged our 130 member newspapers across the state

23 to publish in their newspaper earlier this year when

24 we initiated the campaign shortly after the first of

25 the year.

1 We didn't require the newspapers to run
2 those promotional ads. We simply asked them to
3 contribute space within their newspaper as they saw
4 fit to run some ads that encouraged readers to either
5 stop by their local newspaper office to sign a
6 petition form or go online to sign a petition form if
7 they had concerns about what they were reading and
8 hearing in the news regarding these proposals to close
9 processing plants, post offices and possibly end
10 Saturday delivery.
11 Q And what you've described there, was that
12 the total content of what was in these advertisements
13 as far as the information that was provided to the
14 public?
15 A Yes. You know, the ads probably didn't
16 allow us to put that much information into it.
17 Basically we were saying if you're concerned about the
18 future of mail delivery in South Dakota and slower
19 mail delivery, if you're concerned about losing
20 Saturday mail delivery, sign this petition.
21 Q If someone wanted to submit comments as part
22 of the campaign, could that person submit them online
23 only or could comments be submitted at the newspaper
24 office?
25 A They could submit them at the newspaper

1 office, but the comments that are in the report that
2 we filed are all the online comments. They're
3 strictly coming from the online form only, yes.
4 Q Okay. What information was provided to the
5 public when people visited the local newspaper
6 offices? And I'm referring specifically to
7 information that was related to the campaign.
8 A Basically the only information that I think
9 the newspaper probably had was the petition form which
10 you see in this report as well that has all the
11 signatures and the address list of people that signed
12 the hard copy version, and oftentimes that petition
13 form was on the front counter of the newspaper office
14 and they could come in and simply, you know, fill it
15 out there. We didn't have any other peripheral
16 materials that we created to support that.
17 Q Thank you for that response. I see that a
18 website was established for the campaign.
19 A Correct.
20 Q Okay. And just for the record, it's
21 www.deliverthemail.org and deliverthemail is one word,
22 is that --
23 A Correct.
24 Q Okay. Was this webpage established on or
25 around the same time that the campaign was launched?

1 A Yes.

2 Q Okay. And that I take it was around

3 January 1?

4 A Yes.

5 Q Of this year?

6 A Yes.

7 Q Okay. I visited the webpage a few days ago

8 and I read several blog entries from you dating back

9 to January 9, 2012. Would it be fair to say that all

10 of your blog posts were fairly critical of the Postal

11 Service's proposals in this docket and the five-day

12 case?

13 A I think some of my blog posts were simply

14 reposting other articles that I had found elsewhere as

15 this news developed and was being made available. But

16 certainly there are probably some critical comments in

17 there. I don't dispute that.

18 Q Are you aware of any comments that were in

19 favor of the Postal Service's proposal?

20 A No.

21 Q Okay. On the right-hand side of the webpage

22 I saw that there was information about the campaign,

23 and I also saw that you were the point of contact for

24 this campaign.

25 A Correct.

1 Q And there was a 1-800 number that people
2 could call to reach you regarding questions about the
3 campaign.
4 A Correct.
5 Q Okay. How many phone calls did you receive?
6 A You know, over the course of a couple months
7 while we sort of actively promoted the campaign in
8 January, February, into early March, I had, you know,
9 a dozen or two dozen phone calls at that time. We
10 thought it was important, I thought it was important,
11 to have some contact information on the website so
12 that people knew who was behind this initiative, who
13 was behind this campaign and that it was not
14 anonymous, and we just simply wanted to make it as
15 transparent as possible, that if anyone had questions
16 or wanted to know who's behind it that they knew who
17 to call, who to contact.
18 Q When people called you, did you field any
19 questions about the Postal Service's proposal itself
20 or about details about what the Postal Service was
21 proposing in the five-day docket and this docket?
22 A I remember taking phone calls from folks who
23 were very concerned about the proposal to close the
24 area mail processing center at Heron, South Dakota. A
25 few of those calls came from people who worked at that

1 plant, and others were people who lived within that
2 area and were concerned about the loss of jobs and the
3 loss of that mail processing center at Heron.
4 Q So people would call you with these concerns
5 and generally how did you respond to those concerns?
6 A Well, I mean, I listened to them, listened
7 to their story and oftentimes encouraged them to
8 support this campaign or tell their friends to support
9 this campaign because we were simply still in the
10 stage of gathering signatures and trying to spread the
11 word.
12 Q In responding to these concerns, did you
13 work from any prepared scripts or talking points or
14 other documents?
15 A I did not.
16 Q Okay. Now the cover of the report states
17 that SDNA realizes that "The Postal Service must seek
18 reforms in efficiencies if it is to survive." Is that
19 correct?
20 A Correct.
21 Q Was that sentiment communicated to members
22 of the public?
23 A I wrote a few letters to the editor in
24 conjunction with this campaign that appeared in a few
25 daily and weekly newspapers around the state, and I

1 believe I conveyed that, that same sentiment in those
2 letters to the editor.
3 This document, this cover letter was also
4 part of the report that we gave to our congressional
5 delegation, who we really wanted to make sure we
6 delivered this, got this to in March. And so that was
7 sort of part of our -- we wanted to convey to our
8 members of our congressional delegation that, look, we
9 understand that there are challenges and issues that
10 the Postal Service needs to deal with and we're not
11 trying to be blind to those, but at the same time,
12 we're just asking for some consideration, more
13 consideration than what we thought we were seeing in
14 terms of a rural state like South Dakota in terms of
15 what the impact of these changes would be for our
16 state.
17 MR. CONNOLLY: Thank you, Mr. Bordewyk.
18 Madam Chairman, I have no further questions.
19 CHAIRMAN GOLDWAY: Is there any followup?
20 Are there any questions from any of the other
21 participants for the witness? Are there questions
22 from the bench?
23 COMMISSIONER HAMMOND: I had one question if
24 I could, Madam Chairman.
25 CHAIRMAN GOLDWAY: Thank you. Commissioner

1 Hammond.

2 COMMISSIONER HAMMOND: Mr. Bordewyk, in your
3 original testimony, which I enjoyed reading, you said
4 that you wanted to share with us, the Commission, the
5 information that the South Dakota Newspaper
6 Association had gathered on how newspapers and others
7 in South Dakota had been affected by the closing of
8 the Mobridge sectional center facility.

9 And I noted in their interrogatories to you
10 the Postal Service focused questions on the fact that
11 the Mobridge SCF is not included among the facility
12 consolidation opportunities that were studied in
13 association with the service changes that are under
14 review in this docket. So what I wanted to know is
15 does the fact that the Mobridge SCF isn't included
16 make the information you provided any less relevant?

17 THE WITNESS: Madam Chair, if I may?

18 CHAIRMAN GOLDWAY: Yes, yes, by all means.

19 THE WITNESS: Commissioner, I don't think it
20 does. We simply wanted to use an example of where a
21 closure had happened. I think that SCF closed in
22 December of 2011, and we were already seeing the
23 effects of what that was having on our member
24 newspapers in that area, so we thought to use some
25 evidence from that closure that had already happened.

1 COMMISSIONER HAMMOND: To serve as a typical
2 example of what actually does happen?
3 THE WITNESS: Exactly, sir. Correct.
4 COMMISSIONER HAMMOND: Okay. That's just
5 what I was wondering.
6 THE WITNESS: Yes.
7 COMMISSIONER HAMMOND: Thank you very much.
8 CHAIRMAN GOLDWAY: And I have a followup
9 actually to that. When Mr. Heath was here, he
10 mentioned several positive adjustments that the Postal
11 Service could make to ease any consolidations that
12 would occur. Were you able to make some adjustments
13 in the remaining processing plants in South Dakota to
14 ease the situation that your community faced when the
15 one plant was closed?
16 THE WITNESS: Madam Chair, at this point,
17 no, I mean, and I think, you know, Mr. Heath touched
18 upon that and I think we talk about it a little bit
19 here that setting up the hub transfers within an SCF
20 so that, for instance, in Mobridge the mail doesn't
21 have to go all the way to Bismarck, North Dakota, and
22 come all the way back. Now if they could set up a
23 transfer within the Mobridge area to handle that. I
24 don't believe that has happened.
25 CHAIRMAN GOLDWAY: Okay. Any other

1 questions?

2 VICE CHAIRMAN LANGLEY: I have a followup on

3 that.

4 CHAIRMAN GOLDWAY: Vice Chairman Langley.

5 VICE CHAIRMAN LANGLEY: Before the closing

6 of the Mobridge SCF, did the Postal Service indicate

7 what type of alternate service you might be getting?

8 Were you given an opportunity to meet with the Postal

9 Service to just look into the type of service that

10 could be provided upon the implementation of the

11 closure?

12 THE WITNESS: Commissioner Langley, there

13 was a public hearing held in Mobridge I believe last

14 summer, summer of 2011 after it was announced that the

15 Mobridge SCF would be closed. I did not attend it.

16 Several of our member newspapers in the area did

17 attend. In my conversations with them, with those who

18 attended that public hearing, I did not get the

19 impression that they got any answers in terms of

20 adjustments that would be made to alleviate their

21 concerns, no.

22 VICE CHAIRMAN LANGLEY: But you do believe

23 that they expressed concerns to the Postal Service at

24 this public meeting, which of course occurred prior to

25 the I think it was December 11, 2011, closing?

1 THE WITNESS: Yes, they did. They did
2 express those concerns, yes.
3 VICE CHAIRMAN LANGLEY: And have they
4 followed up with you as far as what problems they
5 might be encountering now, if any?
6 THE WITNESS: Have our member newspapers
7 followed up with us?
8 VICE CHAIRMAN LANGLEY: Right, that are in
9 the Mobridge area.
10 THE WITNESS: Commissioner, yes. You know,
11 I continue to talk to those publishers on occasion in
12 the course of my job, and those frustrations are still
13 there. Those delivery problems are still there since
14 that closure. They have not found, you know, any
15 other solutions to alleviate some of that, so those
16 frustrations are real and exist today.
17 VICE CHAIRMAN LANGLEY: Thank you. You
18 know, using this as an example, I realize it's not on
19 the list that we're considering, but it does give us a
20 better understanding of what happens once a facility
21 is closed. Thank you.
22 CHAIRMAN GOLDWAY: Ms. Rush, do you need a
23 break to consult with your witness for a few minutes?
24 MS. RUSH: Madam Chairman, I have a couple
25 of questions I'd like to pose, but I'm pretty sure the

1 witness can readily respond. I don't think we're
2 going to need a break. We can just proceed.
3 CHAIRMAN GOLDWAY: All right.
4 MR. CONNOLLY: Madam Chairman, I do have one
5 particular follow-up question, and I'm wondering.
6 CHAIRMAN GOLDWAY: Why don't you do that.
7 MR. CONNOLLY: This is Matthew Connolly for
8 the Postal Service by the way. I'm sorry. I want to
9 identify myself.
10 CHAIRMAN GOLDWAY: Yes, please, by all
11 means.
12 MR. CONNOLLY: Thank you, Madam Chairman.
13 CROSS-EXAMINATION (Continued)
14 BY MR. CONNOLLY:
15 Q I have one follow-up question based on your
16 discussion with Commissioner Hammond, and this is
17 concerning the comparison between the Mobridge
18 consolidation and the consolidations in this docket.
19 I'm just wondering if you reviewed any particular
20 documents or studies or other materials to determine
21 whether the Mobridge consolidation is a good
22 comparison to the consolidations proposed in this
23 docket?
24 A I don't have any research or data to compare
25 that to, no. I mean, it is anecdotal. It is based on

1 what I'm hearing from my member newspaper publishers
2 in South Dakota and the affected areas strictly based
3 on what they're telling me.
4 MR. CONNOLLY: Thank you, Mr. Bordewyk.
5 Madam Chairman, I have no further questions
6 at this time.
7 CHAIRMAN GOLDWAY: Thank you. Then, if Ms.
8 Rush wants to just proceed with her witness, that's
9 fine.
10 MS. RUSH: Thank you.
11 REDIRECT EXAMINATION
12 BY MS. RUSH:
13 Q Mr. Bordewyk, Mr. Connolly was asking you at
14 the beginning of his cross-examination about what you
15 thought the respondents to the campaign requests may
16 have understood from the newspapers. Prior to the
17 decision of SDNA to do this campaign had there been
18 news coverage in your member newspapers about the
19 plans to close the Mobridge facility?
20 A Yes.
21 Q Did the campaign cover the Heron proposal
22 also or was it for the area or was it not just
23 confined to Mobridge, correct?
24 A It was not contained just to Mobridge. It
25 pertained to the proposal to close the Heron

1 processing center, Aberdeen processing center, Rapid
2 City processing center, Pierre processing center,
3 across the state, several.
4 Q Do you have any reason to believe that the
5 editors of those newspapers received press releases
6 from the Postal Service or had interviews with Postal
7 officials as they compiled those stories?
8 A I do know that some of our newspapers do
9 receive press releases from the Postal Service, and
10 some of those refer to, for instance, if there's a
11 public hearing that's going to be held regarding a
12 proposal to consider the closure of the Heron
13 processing center, that a hearing will be held at such
14 a place and time, and that some our newspapers receive
15 those types of public releases from the Postal
16 Service.
17 Q Was there coverage of the hearing prior to
18 the Mobridge closing, news coverage?
19 A Yes. Yes.
20 Q So the people responding to the request for
21 the campaign that may have seen those ads in the
22 newspapers, would it be reasonable to conclude that
23 those people at least had the opportunity to read the
24 news stories in advance of seeing the ad?
25 A Correct.

1 MS. RUSH: Okay. Thank you, Madam Chairman.
2 Nothing further.
3 CHAIRMAN GOLDWAY: Any other questions? If
4 not, that concludes your testimony here today, Mr.
5 Bordewyk. I want to assure you that South Dakota is
6 well regarded here at the Commission. We had a field
7 visit there not long ago to Rapid City where we met
8 with some of your stalwart and hearty constituents and
9 learned first-hand how important postal services are
10 to a rural community.
11 We also have an important person here in our
12 office, our Director of Public Affairs and Government
13 Relations, who's from South Dakota, so we get to hear
14 you accent almost every day there. And I particularly
15 appreciate the efforts you provided to give us input
16 from the citizenry, which is hard to get here in
17 Washington all the time, so even if it's anecdotal at
18 best it's really important to have that, and thank you
19 for making an effort to come here today and
20 participate with us. This concludes your testimony
21 and I can excuse you from the hearing.
22 THE WITNESS: Thank you, Madam Chair, and I
23 welcome you to come back and visit us again soon again
24 in South Dakota.
25 CHAIRMAN GOLDWAY: We'll try.

1 (Witness excused.)

2 CHAIRMAN GOLDWAY: Now I understand that

3 there's been an agreement to -- thank you, Ms. Rush --

4 to change the order of witnesses, and now I've lost my

5 notes. Counsel, can you --

6 MR LAVER: Yes, Madam Chairman. Chris Laver

7 on behalf of the Public Representative. Postal

8 Service counsel has indicated that they have less

9 time-wise cross-examination for Witness Raghavan and

10 ask that he could go possibly now, and we have no

11 objection.

12 CHAIRMAN GOLDWAY: So then we could complete

13 the testimony for Mr. Raghavan now, then break for

14 lunch and continue with your second witness

15 afterwards.

16 MR. LEVER: Yes, Madam Chairman.

17 CHAIRMAN GOLDWAY: I think that's a suitable

18 way to arrange things, and we'll proceed.

19 I see counsel for APWU has a comment?

20 MR. ANDERSON: Thank you, Madam Chairman.

21 Darryl Anderson for the APWU. At the appropriate

22 time, the APWU wishes to designate certain

23 interrogatory responses for the record.

24 CHAIRMAN GOLDWAY: Are they for Witness

25 Raghavan?

1 MR. ANDERSON: Yes.

2 CHAIRMAN GOLDWAY: Okay.

3 MR. ANDERSON: USPS/PRT-214.

4 CHAIRMAN GOLDWAY: All right. Well, I think

5 that will happen after we swear the witness in --

6 MR. ANDERSON: Thank you.

7 CHAIRMAN GOLDWAY: -- and get the other

8 written testimony, so please stay here.

9 MS. ANDERSON: And we apologize. Two of

10 these, we actually have designations for Witnesses

11 Bordewyk and Heath as well, so I hope we don't need

12 them for that purpose or maybe I can retrieve them.

13 CHAIRMAN GOLDWAY: Why don't you consult

14 with our counsel to see how we might proceed with

15 introducing those into the record.

16 MR. ANDERSON: Thank you.

17 CHAIRMAN GOLDWAY: Maybe we can do that at

18 the end of the hearing, okay?

19 So then we will begin with Witness Raghavan.

20 Counsel for the Public Representative, Mr. Laver, do

21 you want to introduce your witness?

22 MR. LAVER: Thank you, Madam Chairman.

23 Chris Laver on behalf of the Public Representative.

24 I'd like to call Subramanian Raghavan to the stand.

25 CHAIRMAN GOLDWAY: Mr. Raghavan, will you

1 please stand?

2 Whereupon,

3 SUBRAMANIAN RAGHAVAN

4 having been duly sworn, was called as a

5 witness and was examined and testified as follows:

6 CHAIRMAN GOLDWAY: Thank you. Please be

7 seated.

8 Counsel, proceed.

9 DIRECT EXAMINATION

10 BY MR. LAVER:

11 Q Professor Raghavan, early this morning I

12 handed you two copies of a document entitled The

13 Direct Testimony of Subramanian Raghavan on Behalf of

14 the Public Representative, PR-T-2. Have you had a

15 chance to examine these copies?

16 A I am doing that right now, yes.

17 Q Was this testimony prepared by you or under

18 your supervision?

19 A Yes.

20 Q Do you have any changes or corrections to

21 make to your testimony?

22 A No.

23 Q If you were to testify orally today, would

24 the content of your testimony be the same as that

25 contained in the written testimony?

1 A Yes.

2 Q Do you sponsor any library references

3 associated with your testimony?

4 A I did.

5 Q Would those be PR-LR-N2012/1 through /3 and

6 PR-LR-N2001-1/NP1?

7 A Those are correct.

8 MR. LAVER: Madam Chairman, I'd like to move

9 that the testimony of Witness Raghavan be entered into

10 the record.

11 CHAIRMAN GOLDWAY: Any objections?

12 (No response.)

13 CHAIRMAN GOLDWAY: Hearing none, I will

14 direct counsel to provide the reporter with two copies

15 of the corrected testimony of Subramanian Raghavan and

16 that testimony is received into evidence and it is to

17 be transcribed into the record.

18 (The document referred to was

19 marked for identification as

20 Exhibit No. PR-T-2 and was

21 received into evidence.)

22 //

23 //

24 //

25 //

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PR-T-2

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

Mail Processing Network
Rationalization Service Changes, 2012

Docket No. N2012-1

DIRECT TESTIMONY OF SUBRAMANIAN RAGHAVAN

ON BEHALF OF THE

PUBLIC REPRESENTATIVE

April 23, 2012

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I. INTRODUCTION

A. Autobiographical Sketch

My name is Subramanian Raghavan and I am a Professor of Management Science and Operations Management at the University of Maryland. I have been teaching there since 1998. Prior to that I worked in the telecommunications industry. My expertise is in the field of applied optimization. I obtained my Ph.D. in Operations Research from the Massachusetts Institute of Technology.

Much of my work has focused specifically on network optimization, and many of my academic papers are motivated by real-world optimization problems. Areas in which I have conducted research include telecommunications network design, supply chain and logistics, game theory and auctions, as well as data mining. I have published over 40 papers in these areas. I have extensive experience directing research as I have served on over 30 doctoral dissertation committees. I hold two patents, and have won numerous awards for my research work. These awards include

1) the Dantzig award for the best doctoral dissertation in operations research,
2) the INFORMS Computing Society Prize (twice); once for innovative contributions to the field of data mining, and a second time for my contributions to public sector auction design,
3) the Management Science Strategic Innovation Prize from the European Operations Research Society for my research contributions applying optimization techniques to telecommunications problems,
4) the Glover-Klingman Prize for the best paper in the journal Networks,

5) Finalist for the European Operations Research Society Excellence in Practice Award, and

6) Finalist for the Wagner Prize for Excellence in Operations Research Practice.

I have edited six books ranging from topics in vehicle routing and logistics to network design. I teach statistics, optimization, and quantitative decision making courses at the University of Maryland, and have previously won the Legg-Mason Teaching Innovation award at the Smith School of Business.

The following is a sampling of some of my research papers in the area of applied network optimization. They include papers that are based on real-world optimization problems.

"Multi-period Traffic Routing in Satellite Networks," European Journal of Operational Research, **219**(3), 738-750, 2012, with I. Gamvros.

"The Mobile Facility Routing Problem," Transportation Science, **45**(3), 413-434, 2011, with R. Halper.

"Dual-Based Local Search for the Connected Facility Location and Related Problems," INFORMS Journal on Computing, **22**(4), 584-602, 2010, with M. G. Bardossy.

"The Regenerator Location Problem," Networks, **55**(3), 205-220, 2010, with S. Chen and I. Ljubic.

"Investment Analysis and Budget Allocation at Catholic Relief Services," Interfaces, **36**(5), 400-406, 2006, with I. Gamvros and R. Nidel.

"Long Distance Access Network Design," Management Science, **50**(3), 309 325, 2004, with R. Berger.

B. Purpose and Scope of Testimony

The purpose of my testimony is to evaluate the Postal Service's analysis of the design of the rationalized mail processing network under the proposed service standard (Docket No. N2012-1). To that end my analysis focuses mainly on Postal Service witness Rosenberg's (USPS-T-3) testimony that is at the heart of the Postal Service's case. I also discuss and analyze some of the testimony and analysis of Postal Service witnesses Martin (USPS-T-6), Neri (USPS-T-4), and Bradley (USPS-T-10).

My testimony examines the models used and analysis conducted by Postal Service witness Rosenberg, and points out several shortcomings in this analysis. Witness Bradley uses productivity improvement estimates and transportation cost savings estimates provided by witnesses Neri and Martin respectively to compute cost savings in the rationalized network[1] under the proposed service standard. To that end, I examine the calculations underlying the productivity improvements provided by witness Neri, and transportation costs savings provided by witness Martin. I point out some fundamental problems in the assumptions relating to these calculations. Since these calculations inform witness Bradley's calculation of cost savings, they significantly affect these numbers, implying that the suggested cost savings may not be achievable.

An important question that is not addressed in Postal Service case set forth in Docket No. 2012-1 is an estimate of the cost savings associated with an optimized mail processing network that preserves the current service standard. This would provide a comparative analysis to the rationalized network under the proposed service standard.

[1] I use the term rationalized network to refer to the rationalized mail processing network under the proposed service standard.

To that end I run witness Rosenberg's Logic Net optimization model under the current service standard. Notwithstanding the fact that I cannot provide specific cost savings estimates (the model does not provide these), the structure of the optimized network[2] under the current service standard in terms of the number of mail processing facilities suggests that significant cost savings may be achievable while preserving the current service standard.

C. Library References Sponsored

Along with this testimony I am sponsoring the following public library references: PR-LR-2012-1/1 through PR-LR-2012-1/3. I am also sponsoring one non-public library reference associated with my testimony: PR-LR-201201/NP1.

[2] I typically use the term optimized network to refer to the optimized mail processing network under the current service standard. When not clear from context, I explicitly make clear whether I am referring to the current or proposed service standard.

II. ANALYSIS OF POSTAL SERVICE OPTIMIZATION MODEL & COST SAVINGS CALCULATIONS UNDER PROPOSED SERVICE STANDARDS

A. Overview of Analysis

In this section, I first consider the Postal Service's optimization model under the proposed service standard. I examine the analysis, and associated cost savings calculations. I first discuss witness Rosenberg's testimony and analysis that forms the core of the Postal Service's analysis. I then discuss witnesses Martin, Neri, and Bradley's testimony and point out some significant concerns that underlie the assumptions (and calculations) associated with the cost savings estimates that follow from their analysis. In Section III, I discuss potential cost savings under the current service standard, which to some extent provides a comparative analysis between the optimized network under the proposed and current service standards.

B. Evaluation of Postal Service Witness Rosenberg's Analysis

Witness Rosenberg describes the process employed to develop an operating plan that would allow the Postal Service to use its equipment and facilities more efficiently. The first step employs an Excel based scoring tool to evaluate different options for expanded mail processing windows. The second step is an optimization model (run using Logic Net) to determine which mail processing facilities to keep open, and to determine an assignment of 3-digit ZIP Codes to mail processing facilities. These two steps provide starting points that were then refined to determine the final operating

windows and the mail processing facilities and 3-digit ZIP Codes to mail processing assignments in the rationalized network. Consequently, these two modeling efforts are of significant importance in determining the Postal Service's rationalized network as they provided a set of options that Postal Service management was then able to refine. The remaining steps were focused on checking the feasibility of the proposed solutions. These included modifying the 3-digit ZIP Code to mail processing facility assignments and performing a detailed equipment analysis.

The analysis I undertook focused on understanding the assumptions, mathematical models, and calculations described in witness Rosenberg's testimony. The purpose was to determine whether the models, as methodologies, provide reasonable approximations to address the Postal Service's problem of designing the rationalized network. Since witness Rosenberg's analysis informs witness Bradley's calculations of the cost savings of the rationalized network, it is important to ascertain that the models used are reasonable approximations for the rationalized network optimization problem.

The analysis below focuses on the first two steps of witness Rosenberg's analysis, the Excel scoring tool and the Logic Net optimization model. In these two cases, witness Rosenberg's testimony and the libraries available provided sufficient documentation in the timeframe I was allotted to carefully review these two pieces of the analysis. The latter parts of witness Rosenberg's analysis (USPS-T-3 21-33), where the detailed equipment modeling is performed, are not documented to an extent that it was

possible for me to replicate the analysis. Nor was it possible for me to ascertain the analysis to the extent that I could replicate it from the library references provided.[3]

1. Analysis of Postal Service's Excel Scoring Tool to Evaluate Expanded Operating Windows

Postal Service witness Rosenberg uses an Excel scoring tool to evaluate the costs and benefits of expanding the operating windows and travel times between collection points, mail processing centers, and delivery units (see USPS-T-3 pages 4-5).

Specifically, the scoring tool takes as input possible values for travel time for C2C (collection to cancellation) trips and D2D (DPS to delivery) trips and possible lengths of operating windows for cancellation and DPS; the tool iterates through the set of combinations, calculating for each one (1) the corresponding start and arrival times for the various transportation segments, (2) the corresponding start times, CET (critical entry time), and clearance times for the various processing operations, (3) the feasibility of the solution, (4) the number of machines required, (5) the associated transportation, labor, overhead, and administrative costs, and (6) a scenario "score".

While the calculations are detailed, there are unfortunately some significant weaknesses of the model built within the Excel scoring tool. It is important to note that the scoring tool is a *single facility model*. Witness Rosenberg states that she "assumed national standardization of mail processing", meaning that the start time and the end

[3] Witness Rosenberg's testimony describes at a high level the analysis associated with AFCS, DBCS, AFSM100, APPS, and APBS equipment determination. Library reference USPS-LR-N2012-1/18 contains a DPS tool that is used to determine DBCS requirements. I did not find any library references that contained the calculations used to determine AFCS, AFSM100, APPS, and APBS equipment. I found the documentation in the DPS tool and within witness Rosenberg's testimony insufficient to replicate the equipment determination analysis.

time for each processing step were the same for all mail processing facilities. *Id.* at 6. In addition, she assumed that the mail processing workload was the *same for all facilities*, and the workload was spread evenly across the 3,119,884.69 square miles of the contiguous states of the United States. Therefore, the scoring tool evaluates the impact on the processing windows and the associated costs for a representative mail processing facility in *isolation*. Total costs are computed by multiplying the single facility costs by the number of (identical) facilities required. As one will see, these assumptions make the tool provide *grossly inaccurate* assessments of the number of facilities required to process the workload, and as such lead to some healthy skepticism about the validity of its results.

It is reasonable to make a large number of approximations or simplifying assumptions in building a model for strategic purposes. However, it is important that such approximations or simplifying assumptions do not take the model too far from the problem it is trying to solve to the extent that there are questions about the results of the model. In simple terms, any model that is used for planning purposes should be tested in some form, if possible, to confirm its validity. To this end, I tested the Excel scoring tool by using the current service standard and operating windows. If the Excel scoring tool's calculations are reasonable, then it should provide a number of facilities in the ballpark of the current number of mail processing facilities.

Scoring Tool Overview

The scoring tool is provided as an Excel workbook in library references USPS-LR-N2012-1/14 and USPS-LR-N2012-1/NP3. The "Assumptions" worksheet holds all of

the data inputs to the tool. The scenario options are mainly defined by the following cells:

Cell	Description
E22	Number of days for earliest delivery (1= current standard, 2= proposed service standard)
J12, K12, L12	C2C trip hours and D2D trip hours (J12 = min number of hours, K12 = max number of hours, L12 = increment value)
J17, K17, L17	Cancellation processing window (J17 = min number of hours, K17 = max number of hours, L17 = increment value)
J20, K20, L20	DPS processing window (J20 = min number of hours, K20 = max number of hours, L20 = increment value)

Additional options can be set in cells E21 (round cost of workhour shifts to 8 hours), J24 and K24 (turn hubbing on), J25 and K25 (number of trips from collections to cancellation) and J26 and K26 (number of trips from DPS to delivery). To run the tool, one clicks on "Generate Iteration Results", which starts a Visual Basic macro to loop through all of the iterations; for each combination of settings, the calculations on the "Calculations" worksheet are completed and the corresponding results are added to the "Results" worksheet, if the scenario is feasible.

The top two sections of the worksheet "Calculations", labeled "Operation" and "Transportation", use the trip hours and the processing windows information from the assumptions to do the flow-through sequence of the processing steps and the transportation segments. At the end, there are start times, critical entry times, and clearance times for each operation and trip start times and arrival times for each transportation segment. The third section, labeled "Locations", calculates the equipment requirements and the facility costs by operation. The fourth section, labeled "Cost

Summary", computes the scenario costs and compares them to the defined baseline costs. The fifth section, labeled "Feasibility", checks whether the combination of trip hours and processing times result in a feasible operations plan. There are seven criteria, all of which must be true for a feasible solution:

1. Last Collection Trip Arrives Before Collection CET
2. Last Outgoing Trip Arrives Before Incoming CET
3. Incoming CT is after Incoming ST (start time)
4. Trip to 918 (DPS) starts before the 918 is scheduled to start
5. 1st Trip to Delivery arrives before Delivery Start Time
6. AFCS needed for cancellation < current inventory
7. Total Automation needed < current inventory

To reflect the current service standards for First Class Mail, I assume that the maximum length of C2C and D2D trip hours is about 2 hours.[4] I refer to Figure 5 on page 13 of witness Neri's (USPS-T-4) testimony for the appropriate cancellation window and DPS window. In Figure 5 of USPS-T-4 the cancellation window is 6.5 hours, from 3:00 p.m. to 9:30 p.m. However, since the first trip from collections does not begin until 4:00 p.m. in the scoring tool (worksheet "Assumptions", cell E31) and travel time between the earliest collection and cancellation times must be accounted for, I set the cancellation window to 4 hours. In witness Neri's Figure 5, the DPS window is 8 hours, from 11:00 p.m. until 7:00 a.m. The scoring tool takes the DPS window for each phase

[4] In the proposed service standard the maximum length of the C2C and D2D trip hours is four hours. Witness Rosenberg's Scoring Tool makes C2C and D2D hours equal to each other (cells J12, K12, and L12). Based on (i) the current operating windows, (ii) current average distance from post office to mail processing facility (see response to PR/USPS-T3-24), (iii) the current maximum distance from post office to mail processing facility (see response to PR/USPS-T3-33), as well as (iv) discussions with Public representative technical staff; it was my assessment that a maximum C2C and D2D trip length of two hours is a reasonable approximation of the current service standard.

as an input, so I set the DPS window to 4 hours. Therefore, I set the following options in the scoring tool:

Cell	Description
E22	Number of days for earliest delivery: 1
J12, K12, L12	C2C trip hours and D2D trip hours: from 1.75 hrs to 2.25 hrs in increments of 0.05 hrs
J17, K17, L17	Cancellation processing window: 4 hours
J20, K20, L20	DPS processing window: 4 hours

With these settings, the scoring tool iterates over the trip hour settings, doing its calculations for a 4 hour cancellation window and a 4 hour DPS window for each DPS phase. The tool reports that there are three feasible solutions (when worksheet "Assumptions" cells K25 and K26 are both set to 2, meaning that there are two C2C and two D2D trips); the partial results are shown in Table 1 below.[5]

Table 1: Results of Excel Scoring Tool Under Current Service Standard

Trip Time	# Facilities	Cancellation Window	DPS 1st Pass	DPS 2nd Pass
1.8	928	17:25 – 21:25	23:12 – 3:12	2:32 – 6:32
1.85	878	17:26 – 21:26	23:09 – 3:09	2:29 – 6:29
2.05	715	17:32 – 21:32	22:57 – 2:57	2:17 – 6:17

The cancellation window and the DPS window for these three feasible solutions are in line with the windows in Figure 5 of USPS-T-4. However, the number of facilities far exceeds the number of mail processing facilities currently operating. Because the

[5] Library reference PR-LR-N2012-1/1 contains the settings and results of this analysis.

number of facilities is calculated only as a function of the C2C/D2D trip hours and does not depend on the operating windows or the workload volume, the number of facilities can be grossly exaggerated. For example, if I set the C2C and D2D trip hours to 1.3 hours with the 4 hour cancellation window and the 4 hour DPS window, the scoring tool calculates the number of facilities to be 1778!

In other words, for the current mail processing windows, the Excel scoring tool requires a number of facilities far in excess of the 487 mail processing facilities there are in the mail processing network (USPS-T-4 at 3). It is true that the tool was used as a starting point for discussions on proposed operating windows; and further calculations were done at later steps to validate the final proposed solutions in later stages of the Postal Service and witness Rosenberg's analysis. However, since the tool was used to analyze different windows and come up with a set of alternatives as a starting point, it is important that its results be viewed as "reasonable". In this case, the results of the scoring tool should be treated with *significant skepticism*, since it provides results that are at odds with the current service standard and mail processing windows.

2. Analysis of Postal Service's Logic Net Optimization Model

Once the operating windows were established the second step of witness Rosenberg's analysis focused on determining the configuration of the mail processing network under the proposed service standard.

The Postal Service's problem of configuring the rationalized mail processing network can be described at a high level as follows. One is given a set of potential mail processing facility (or plant) locations, each with a set of associated facility costs (which

1 includes fixed and variable costs) and mail processing capacity. One is also given a set
2 of 3-digit ZIP Codes, each with associated demand, and transportation costs from 3-
3 digit ZIP Code to mail processing facilities. The problem is to determine the optimal set
4 of mail processing facilities to open in order to minimize the overall facility and
5 transportation costs. The problem is one that has been studied previously in the
6 operations research literature.[6] I have studied and solved similar problems during my
7 career in the telecommunications industry. In the telecommunications context switches
8 take the role of mail processing facilities and area codes take the role of 3 digit ZIP
9 Codes.

10 Witness Rosenberg uses the Logic Net software to solve her model of the Postal
11 Service's mail processing network configuration under the proposed service standard.
12 While the modeling and solution methodology are well grounded in the field of
13 optimization there are several issues in the analysis of witness Rosenberg that raise
14 some concerns. First, she completely ignored the transportation cost between mail
15 processing facilities in her analysis.[7] Plant to plant transportation cost is an important

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[6] This problem is referred to as the "Capacitated Hub Location Problem with Single Assignment" in the operations research literature. The following is a sample of papers that discuss the problem and solution procedures. The paper by Ernst and Krishnamoorthy specifically describes a postal mail processing network as a motivating example.

1) A.T. Ernst and M. Krishnamoorthy. Solution algorithms for the capacitated single allocation hub location problem. *Annals of Operational Research*, **86**:141–159, 1999.
2) G. Carello, F. Della Croce, M. Ghirardi, and R. Tadei. Solving the Hub Location Problem in Telecommunication Network Design: A Local Search Approach. *Networks*, **44**(2): 94-105, 2004.
3) M. Labbe, H. Yaman, and E. Gourdin. A branch and cut algorithm for hub location problems with single assignment. *Mathematical Programming*, **102**(2):371–405, 2005.
4) I. Contreras, J.A. Díaz, E. Fernández, "Branch and price for large-scale capacitated hub location problems with single assignment", *INFORMS Journal on Computing*, **23**: 41-55, 2011.

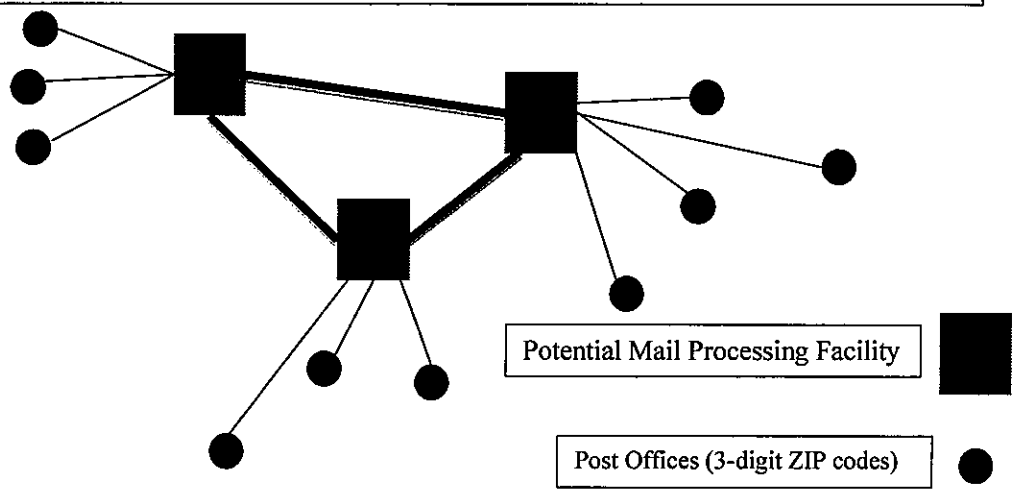
[7] The problem obtained by ignoring plant to plant transportation cost the problem is referred to as the "Capacitated Facility Location Problem" in the operations research literature. This is also a classic and well-studied problem in the academic literature. For a nice "technical" survey on the capacitated facility location problem, see: V. Verter. Uncapacitated and Capacitated Facility Location Problems. Chapter 2 of Foundations of Location Analysis. H. Eiselt and V.Marianov (editors). Springer, 2011. Thus from a

consideration because the analysis of witnesses Martin and Bradley indicate that plant to plant transportation cost is a significant portion of the transportation costs of the Postal Service network (witness Bradley's testimony indicates that in FY2010 plant to plant transportation costs amounted to $865 million while plant to post office transportation costs amounted to $1,047 million). *See* Tables 12 and 15 in USPS-T-10. In the optimization problem there is a natural tension between the plant to plant transportation cost and the post office (3-digit ZIP Code) to plant transportation cost. If the plant to plant cost dominates, then the model will open plants closer to each other and have longer plant to post office links. If the post office to plant cost dominates, then the plants will be located farther from each other and closer to the post office. When these costs are closer to each other the tension between them determines the solution. The traffic matrix indicating the mail flows between different originating and destinating 3-digit ZIP Codes also play a significant role in determining the optimal solution. In other words, if a lot of the mail stays within a mail processing facility because it both originates and destinates in 3-digit ZIP Codes serviced by the facility, then it won't need to be transported plant to plant. All of these different factors affect the optimal layout of the network.[8] Using a model that included the plant to plant transportation costs and included a traffic matrix of mail volumes amongst the 920 3-digit ZIP Codes would have helped in identifying a *better* starting point for discussions with the domain experts.

technical perspective witness Rosenberg solves a capacitated facility location problem, instead of a capacitated hub location problem with single assignment.

[8] One mitigating factor in witness Rosenberg's model is the 4 hour drive time limit on 3-digit ZIP Code to plant assignments. To a small extent this dampens the tension between the plant to plant transportation cost and the plant to post office transportation cost.

Figure 1: Pictorial representation of Capacitated Hub Location Problem with Single Assignment



A second criticism is that witness Rosenberg does not do any iterative analysis. Although her testimony suggests that the process was iterative (where the high level model was vetted through multiple rounds of local input to determine the facilities to move forward in studying), it is not truly iterative in the sense that the mathematical analysis was not redone after the iterative use of local input. *See* USPS-T-3 at line 10, page 3. For example, the proposed operating windows in Figure 3 of USPS-T-3 and Figure 8 of USPS-T-6 are not used in the optimization model. Instead witness Rosenberg runs the Logic Net model with a 12 hour window for cancellation. Once the cancellation windows were shortened (as is the case in Figure 8 of USPS-T-6) it would have been prudent to rerun the Logic Net optimization model. A longer window effectively increases the capacity of the facilities. Since the windows were shortened, it would result in a solution requiring more than the 177 processing facilities activated by the Logic Net optimization model.

Many of the facilities opened by the model are deactivated. Specifically 61 of the facilities opened by the Logic Net model were deactivated and 71 facilities not opened by the Logic Net model were activated. These changes were made on the basis of Area management expertise and judgment about feasibility. *See* USPS-T-3 at 17. Again, some of the area management expertise could have been incorporated within an optimization model. To be specific, let us consider the solution obtained by the Logic Net model as solved by witness Rosenberg. It does not open the Dulles airport mail processing facility, but after consulting with area management expertise it is activated. Clearly, there are some facilities that should be favored or always open in any solution. This can be accomplished in most optimization software by indicating that a facility must be necessarily opened. That allows the inclusion of domain knowledge to open facilities that absolutely must be opened in the rationalized network, and lets the model focus on optimizing the remaining facilities to open (which <u>ensures that the network even after adjustments that incorporate Area management expertise remains optimized</u>). Given that this type of iterative analysis was not done, the rationalized network designed under the proposed service standard may not be as efficient as possible.

A third issue deals with the use of average mail volumes within the Logic Net optimization model. Mail volume is variable and it is important to plan so that there is adequate capacity for peak loads. In determining 3-digit ZIP Code to mail processing facility assignments the average traffic volume from each 3-digit ZIP Code is used. The Logic Net model ensures that the total average traffic volume assigned to a mail processing facility does not exceed its capacity. While this is feasible for the average mail volumes, it could be the case that an assignment may bring a facility close to its

capacity with the average workload. Such a facility would have difficulty handling the mail volumes on peak load days. To some extent this issue is mitigated by witness Rosenberg analysis in the third part of her study where detailed equipment modeling is done using the 95th percentile of DBCS mail volume. However, incorporating peak load considerations in the Logic Net phase might have yielded a better starting point for discussion with Area management.

A fourth issue concerns how workload volume was decomposed to the 3-digit ZIP Code level and the implications to the transportation cost calculated in the Logic Net optimization model. Witness Rosenberg describes how the Fiscal Year 2010 MODS data were decomposed. USPS-T-3 at 15, footnote 20. To start, to get the originating demand from post offices to plants, truck information from April 2010 was retrieved from the Transportation Information Management Evaluation System (TIMES). The "TIMES" worksheet in the workbook USPS.LR.N2012.1.13.xls lists for each 3-digit ZIP Code a "totalutil" value and a "count". For each mail processing facility, a facility value is calculated as the sum of the "totalutil" values of the 3-digit ZIP Codes that are currently assigned to that mail processing facility. Then, for each 3-digit ZIP Code, a percentage contribution is calculated by dividing its "totalutil" value by the facility's total value. Multiplying this percentage contribution by the appropriate FY2010 MODS workload provides the 3-digit ZIP Code originating workload by shape and process step.

Next, to get the destinating demand from plants to post offices, Origin Destination Information System (ODIS) information was used in a similar manner. The "ODIS" worksheet in the workbook USPS.LR.N2012.1.13.xls lists a value for each 3-digit ZIP Code and for each shape and process step. For each mail processing facility, a facility

value is calculated as the sum of the "ODIS" values of the 3-digit ZIP Codes that are currently assigned to that mail processing facility. Then, for each 3-digit ZIP Code, a percentage contribution is calculated by dividing its "ODIS" value by the facility's total value. Multiplying this percentage contribution by the appropriate FY2010 MODS workload provides the 3-digit ZIP Code destinating workload by shape and process step.

There are thirteen categories of shape and process step in the model that eventually get rolled up into three products (LETTER, FLAT, PARCEL). For the categories CANC, L-OGP, L-OGS, F-OGP, F-OGS and P-OGP, both the originating and destinating workloads are calculated. However, *the originating workload* (as calculated using the TIMES percentage) is the workload that is used in calculating the demand (square footage requirements) for a 3-digit ZIP Code. Therefore, using the originating workload to calculate demand means that the transportation cost only captures the cost of the originating (post office to plant) traffic. If the values of originating traffic and destinating traffic from a 3-digit ZIP Code are balanced (meaning approximately the same volume is sent from post office to plant and plant to post office) then considering just one of the two legs (post office to plant or plant to post office) is reasonable. Otherwise, one should use the average of the originating and destinating volumes since the originating and destinating percentages for a 3-digit ZIP Code can be quite different. Table 2 below highlights just three examples of CANC workloads (from "CANC" worksheet in USPS-LR-N2012-1/LR13) that differ significantly in the originating and destinating percentages:

Table 2: Differing Originating and Destinating Workload Percentages		
3-digit ZIP Code	TIMES % (originating)	ODIS % (destinating)
012	49.6	1.27
029	17.3	72.29
233	15.4	92.5

3. Analysis of Postal Service's Detailed Equipment Modeling

Once the operating windows and mail processing facilities were determined, the next step of witness Rosenberg's analysis focused on determining the equipment requirement at each of the mail processing facilities configuration of the mail processing network under the proposed service standard.

Three concerns emerge from my evaluation of this analysis. They are all interrelated and specifically tie into the issue of peak load capacity.

The first concern is related to the peak load and the percentiles used for the analysis. Table 3 below provides percentiles and peak load factors used in witness Rosenberg's equipment determination calculations. The table also provides the peak factors for the 96th, 97th, 98th, and 99th percentile. These are in responses of witness Rosenberg to PR/USPS-T3-45 and PR/USPS-T3-46. This provides a sense of how spiky the daily mail volumes associated with different operations are, and whether there would be adequate capacity in the mail processing network on peak volume days.

Table 3: Peak Factors for Fiscal 2010						
	Percentiles and Peak Factors				Percentile Used	Peak Factor Used
	96th	97th	98th	99th		
Cancellations	181%	196%	222%	238%	75th	115%
Outgoing Primary Letters	172%	182%	197%	213%	95th	155%
DPS Letters	141%	143%	149%	155%	95th	120%
Outgoing Primary Flats	159%	165%	176%	190%	95th	150%
Incoming Primary Flats	164%	169%	180%	193%	95th	120%
Incoming Secondary Flats	166%	171%	180%	191%	95th	120%

Table 3 above shows that cancellation volume can be highly variable. While cancellation equipment planning is done for a peak factor of 115 percent, on peak load days the cancellation volume can be close to double that! Similarly, incoming primary and secondary flats equipment determination is done for a peak factor of 120 percent, while the peak load volume can approach close to 200 percent. This raises a natural question about the use of an appropriate percentile value for equipment planning. When traffic is extremely spiky a higher percentile value (and higher peak factor) may be more appropriate. The issue of peak volume days and planning for the peak gets trickier if peak volume days occur back to back (for example in mid-December or close to Mother's day in May). When a network does not have sufficient capacity to handle its mail volume, the mail will slow down as excess mail that cannot be handled waits for capacity in the network. If a peak volume day is followed by a light volume day, there is sufficient capacity in the network the following day to deal with the excess volume and get the network back to its planned operational status. However, if the days with peak load occur in a back to back fashion then there is no slack in the network to handle the

peak load, and the repetition of peak load in a back to back fashion for several days could cause severe disruptions in the ability to handle and move mail through the network. Thus when the peak load days occur in a back to back fashion, and the daily mail volumes are spiky it may be prudent to plan for percentiles and peak load factors that are at the 98th or 99th percentile.

A second critical issue is that under the proposed service standard a large quantity of mail that previously was handled overnight (and thus went into and out of the mail processing facility very quickly) is now going to be held at a mail processing facility for processing the next day. Thus in the new environment, on a given day one deals with a much greater inventory of mail---the originating mail for a given day and the destinating mail (some of which was originating mail the previous day at the mail processing facility) for a given day. Previously (*i.e.*, under the current service standard) the same piece of mail was frequently originating and destinating on the same day at the same mail processing facility. Under the proposed service standard and mail processing environment the same piece of mail will not count as originating mail and destinating mail on the same day. From an operational perspective, <u>the implication of this observation is that the staging space for mail is going to increase very significantly</u>. The analysis of the layout of a facility needs to account for this critical fact, and ensure that there is adequate space to deal with the originating and destinating mail inventories separately. None of witness Rosenberg's (or any of the other Postal Service witnesses) analysis discusses this issue. In witness Rosenberg's analysis there is an increase of staging space for machinery (at 20 percent) to deal with the additional workload that will be available at the start of the window. However, there is no discussion of staging space

to store destinating mail overnight for processing the next day. Again, this can become a critical issue on peak volume days if there is inadequate space to store the inventory of mail. If peak volume days occur in a back to back fashion, that would compound the problem causing significant slowdowns in the mail processing network.

A third concern is the lack of any simulation studies to analyze a mail processing facility under the proposed service standard. There is no detailed simulation analysis of the layout of a mail processing facility under the proposed service standard (which could be different because of the difference in how mail inventories will flow through the mail processing network). Conducting a simulation study, with appropriately modeled mail volumes, equipment, and facility specific information would provide the most convincing analysis that the facilities in the proposed mail processing network can adequately handle peak load volumes, and there is adequate equipment and capacity in the network.

C. Evaluation of Witness Martin's Analysis

Witness Martin describes the process employed to estimate the reduction in transportation activity anticipated from the service standard changes and the network rationalization. Her analysis considers separately three components: plant to plant transportation, plant to post office transportation, and surface vs. air transportation. The results of the analysis are estimates of (1) a reduction in plant to plant trips, (2) a reduction in plant to post office operating miles, and (3) the increase in mail volume transported by air. The estimates are used directly in witness Bradley's calculations of the cost savings of the rationalized network under the proposed service standard. Therefore, it is important that the analysis underlying the estimates is as rigorous and as complete as possible.

1. Plant to Plant Network Rationalization

Witness Martin asserts that "a reduction in the number of processing facilities in the postal network will significantly reduce the number of individual links in the transportation network." USPS-T-6 at 6. To illustrate her point, witness Martin provides two figures of hypothetical networks. Figure 1 (USPS-T-6 at 7) is intended to show a portion of the mail processing network under the current service standard. There are 10 plant to plant links connecting 5 plants in 2 service areas. Figure 2 (USPS-T-6 at 8) is intended to show a rationalized network with 1 link connecting 2 plants. Witness Martin asserts that, even if the mail volume remains constant between the two areas and the number of trips needs to be increased, the overall effect will still be a net decrease in transportation activity. The problem with comparing the two figures is that Figure 1

represents the worst-case scenario in terms of the number of required links. In an optimized transportation network, hubs could be used to reduce the number of links. Consequently, while the rationalized network may have fewer links, the decrease will not be as dramatic as depicted in Figures 1 and 2 of witness Martin's testimony.

In her original testimony, Martin states that she analyzed a subset of 322 routes (not selected via statistical sampling) and 1,723 trips that comprised those routes. A manual process was used to determine which trips might no longer be needed in the rationalized network. The result of the analysis is shown in Table 4 below:

Table 4: Plant to Plant Trip Reduction[9]

Region	Total Routes	Total Trips	Potential Trips Eliminated	Percent Reduction
Northeast	40	247	86	35%
Eastern	102	434	156	36%
Cap Metro	48	290	89	31%
Great Lakes	51	262	67	26%
Southwest	38	168	44	26%
Western	38	210	34	16%
Pacific	5	112	4	4%
Total	**322**	**1723**	**480**	**24.71%**

Based on her analysis, witness Martin estimates that *the number of plant to plant trips could be reduced by 24.71 percent*. However, this number cannot be extrapolated

[9] The information is extracted from USPS-LR-N2012-1/11.

to the entire network because it is based on a random subset of routes that is most likely not representative of the network.

In her supplemental testimony, Martin reports that she analyzed ALL of the routes in the network and additionally incorporated feedback from each Area office as to which routes were candidates for elimination. The result of the analysis is shown in Table 5 below:

Table 5: Revised Plant to Plant Trip Reduction[10]

Region	Total Routes	Total Trips	Potential Trips Eliminated	Percent Reduction
Northeast	107	2450	476	19%
Eastern	305	2539	200	8%
Cap Metro	117	1073	57	5%
Great Lakes	191	1568	139	9%
Southwest	216	2286	219	10%
Western	200	4095	173	4%
Pacific	102	2194	83	4%
Total	**1,238**	**16,205**	**1,347**	**8.44%**

There are several points to note here. First, the 8.44 percent is a simple average of the 7 areas, not a weighted average. Second, the reduction is in the number of trips,

[10] The information in this table is extracted from USPS-LR-N2012-1/77.

with no indication as to the length or frequency of the trips eliminated.[11] Third, a manual process was used to determine how volume would flow in a rationalized network. There is no indication as to how any necessary increases in trip frequency were considered or whether any of the new transportation links (if necessary) were incorporated. Thus while a lower estimate in the revised testimony is probably closer to the actual savings in the rationalized network, it is still not clear if the number of 8.44 percent is reliable enough to take forward into witness Bradley's calculations.

2. Plant to Post Office Network Rationalization

For the plant to post office network, witness Martin asserts that, within a geographic area, deactivating some mail processing facilities and consolidating two service areas into one will lead to a reduction in operating miles for that area. However, if there are fewer mail processing facilities, at least some mail is being transported a longer distance, so it cannot always be the case that consolidation will lead to a reduction in operating miles. In fact, in the rationalized network one would expect there to be significant savings in the plant to plant transportation portion and an increase in the post office to plant transportation costs.

In her original testimony, to assess the impact of network rationalization, witness Martin analyzed the trips contained within 14 AMP studies that were available on December 15, 2011 to identify trips that could be eliminated. For each AMP study, the difference between the current annual miles and the proposed annual miles was

[11] Although library reference USPS-LR-N2012-1/77 contains the annual costs associated with the trips they are not used in computing the plant to plant trip reduction. In other words, the calculation is a computation of the number of trips eliminated with no corresponding cost savings calculation.

calculated. Then, the average of the differences was calculated, which was 13.68 percent. This estimate of a 13.68 percent reduction in operating miles cannot be extrapolated to the entire network as there is no reason to assume that the 14 studies are representative of the complete set of studies.

In her supplemental testimony, witness Martin updates the analysis to include all of the routes within the AMP studies that were approved by the Postal Service and announced on February 23, 2012. *See* USPS-ST-2. There are 206 studies included in the new analysis. Witness Martin reports in her supplemental testimony that she estimates that network rationalization could lead to a reduction of 3.18 percent in the number of plant to post office operating miles. The 3.18 percent reduction is a simple average of the differences between current annual miles and proposed annual miles in the 206 studies. Looking at the data for the individual studies, I see that, for 59 of the studies, there is an increase in the miles, ranging from 0.04 percent to 318 percent. For 132 of the studies, there is a decrease in the miles, ranging from 0.01 percent to 100 percent (indicating the facility was closed). For the remaining 15, the change was 0 percent.

Finally, witness Martin describes opportunities for savings in costs of plant to post office and post office to plant trips by "scheduling trips between plants and post offices throughout the day and into the evening when collection mail will be available for transport from the post offices to the plants." There are two issues that might prevent such savings. First, depending on how far the post office is from the plant, and when collection at post office must occur transportation may have to leave a plant as early as 2:00 pm to avail of such savings. However it is unlikely that 2nd pass DPS mail would

be available that early (since DPS sortation starts only at noon), which would prevent such a trip. Further, from witness Martin's cross-examination by the public representative it is my understanding that it would be unlikely to have separate plant to post office transport for letter, flats, and parcels/bundles. *See* Tr. 4/1212-13. In that case, based on the proposed operating plan from Figure 8 of USPS-T-4 it is unlikely that the opportunities that witness Martin describes could be availed off (meaning that plant to post office trips may take place later in the day when all three types of mail are ready for dispatch to the post office).

In summary, in the rationalized network under the proposed service standard one might expect the plant to post office (and post office to plant) transportation costs to increase slightly (or stay level). In this regard the savings estimate of 3.18 percent in the number of plant to post office operating miles should be taken with some caution.

D. Evaluation of Witness Neri's Analysis

Witness Neri draws upon his extensive operational experience and knowledge of the Postal Service's network to provide an overview of the current mail processing network, some of the operational challenges associated in the current mail processing network, and discusses the proposed mail processing network with some key insights about how some of the operational challenges are mitigated in the proposed mail processing network.

Figure 12 of USPS-T-4 provides an estimate of productivity improvements associated with different operations in the rationalized network under the proposed service standard. These numbers are critical, as they inform the calculations of witness

1 Bradley on the cost changes due to productivity improvements. *See* USPS-T-10 at 11-
2 17. Using these numbers witness Bradley estimates cost savings of $964 million from
3 productivity improvements.

4 In response to POIR No. 1 Question 7, witness Neri provides library references
5 USPS-LR-N2012-1/49 and 50. The calculations in USPS-LR-N2012-1/50 are based on
6 smoothing the workload perfectly (or evenly) over a 24 hour day. These calculations
7 show that there would be an approximately 28 percent lower staffing level across all
8 operations. This number of 28 percent (deflated to 15 percent to account for the fact
9 that all operations will not be perfectly spread) along with witness Neri's operational
10 experience are then used as a basis to provide the productivity improvements in Figure
11 12 of USPS-T-4.

12 The analysis aggregates data across the country by hour and type of mail. These
13 are then used to calculate the needed complement, by hour, for each shape. The Postal
14 Service uses eight hour tours for staffing. By using the maximum value of staffing
15 required for each 8 hour tour the needed staffing is computed. Next, the workload is
16 smoothed evenly over 24 hours and staffing requirements are computed again based
17 on the eight hour tours. These calculations inform the decrease in staffing and
18 productivity improvement estimates.

19 There are several critical assumptions associated with this computation. As I will
20 show any changes from these assumptions result in widely varying estimates of
21 productivity improvements, thereby <u>raising significant doubts about the savings due to</u>
22 <u>productivity improvements in the Postal Service's case</u>.

The first critical (and most problematic) assumption in this analysis and USPS-LR-N2012-1/50 is that in the new environment the workload can be smoothed out perfectly over a 24 hour day. In other words the workload is spread equally over the 24 hour day. However, given that the windows associated with each of the operations generally do not cover a 24 hour period, and there is scheduled downtime or maintenance time, *it is unlikely that the workload would indeed be spread evenly over 24 hours*. Take for instance cancellation operations. According to Figure 8 in USPS-T-4 cancellation operations are expected to take place between 5 pm and midnight. Further, since this workload is not available in advance like DPS sortation, it is unlikely that this volume could be spread evenly across the 7 hour window. Consequently, I went back into USPS-LR-N2012-1/50 and instead of distributing the workload over the 24 hours, I smoothed the workload evenly over the period in which it was expected to occur. In other words I followed the premise that the workload could be smoothed evenly (which to begin with is a big assumption and not clear if that can be achieved perfectly operationally), but conducted the smoothing of workload only over the window the operation was expected to occur. I then followed the identical methodology as witness Neri to compute the reduction in workforce requirements.

Product	**Window**
Letter	8 am to 4 am
Flat	8 am to 4 am
FSS	Noon to 6 am
Pkg	8 am to midnight
Cancellation	5 pm to midnight

The table above provides the windows over which the workload was smoothed. These are broadly based on Figure 8 of USPS-T-4. The calculation associated with

these windows over which the workload is smoothed shows a decrease of 6.52 percent in staffing as opposed to the 28 percent in witness Neri's library reference.[12] The critical lesson here is that the window over which the traffic is smoothed plays a critical role in this productivity improvement calculation.[13] When that changes the productivity improvement value changes very significantly. It is clear that 24 hour workload smoothing is probably not achievable (given the windows proposed in Figure 8 of USPS-T-4). Thus the productivity improvement estimates as informed by USPS–LR-N2012-1/50 are likely to be significant overestimates.

A second factor is the arbitrary nature of the tours used. If it is possible to schedule 8 hour tours other than the ones used by witness Neri, and if labor contracts allow for tours with fewer work hours then the baseline calculation (from which the workforce savings and productivity improvement calculations are made) would be smaller (require less staff). This would substantially reduce any estimate of productivity improvements under the proposed service standard.

In summary, both the assumption that workload can be perfectly and evenly distributed over a 24 hour day, and the rigidity in the assumption of the 8 hour tours result in significantly overestimating the productivity savings. As mentioned previously, these productivity savings are used by witness Bradley to estimate a $964 million annual cost savings in productivity improvements in the rationalized mail processing

[12] My calculations are shown in PR-LR-N2012-1/3. My selection of windows may not be perfect and are my best attempt from Figure 8 of witness Neri. What should be clear though is when the workload is not smoothed over 24 hours as in USPS-LR50 the productivity improvements will be significantly less than 28%.

[13] In fact a change in the smoothed window for letters from noon to 4 am (from the values in the table) results in a loss in productivity!

network. My calculations would suggest they would be far lower than those implied by Figure 12 of witness Neri's testimony (and calculated by witness Bradley).

E. Evaluation of Witness Bradley's Analysis

I found the methodology underlying witness Bradley's testimony generally sound. What is of *significant concern* however is the fact that the savings calculations are heavily dependent on the transportation costs estimates produced by witness Martin, and the productivity improvement estimates produced by witness Neri. Given the uncertainty associated with these numbers and the likelihood that they are far less than in the original testimonies of witnesses Martin and Neri, it is unclear if the savings computed by witness Bradley can indeed be achieved under rationalized network in the proposed service standard.

III. OPTIMIZATION OF THE POSTAL SERVICE NETWORK UNDER CURRENT SERVICE STANDARD

A. The Need for a Comparative Analysis

The Postal Service's analysis focuses on optimizing the service network under the new service standard. The analysis is detailed. However, none of the analysis attempts to answer the question "Can one keep the current service standard and optimize the postal network?" Specifically, Postal Service witness Williams states "More importantly, the Postal Service has determined that, to align its infrastructure with current and projected mail volumes and to bring costs in line with revenues, it must also modify current First-Class Mail and related market-dominant product service standards on a system-wide basis." USPS-T-1 at 8. It would have been ideal if instead of solely focusing on the cost savings associated with the proposed service standard, the Postal Service had also conducted a similar network optimization analysis on the current network identifying opportunities to change mail processing windows, optimize their network by shutting down mail processing facilities, generating efficiencies in transportation, and by smoothing the workload to the extent possible within the current service standard. A comparison of the cost savings between maintaining the current service standard and the savings with the rationalized network under the proposed service standard, and the associated mail revenues under each of the two scenarios would go a long way in supporting the determination that the change in service standards is the best option for the Postal Service.

To that end to the extent possible I replicated the analysis of witness Rosenberg to determine the optimal number of facilities required under the current service standard

and the optimal ZIP Code to mail processing facility assignments. Determining the number of facilities needed for a mail processing network under today's service standards and comparing that with the number of facilities required under the proposed service standard as well as the current number of mail processing facilities gives some sense of the possible savings achievable by optimizing the current network. The analysis described is similar to Postal Service witness Rosenberg's analysis, and is theoretical in the sense its results have not been vetted with Postal Service Area management expertise. To take this analysis to its logical conclusion, additional analysis needs to be conducted as was done by the Postal Service in the case of the rationalized network under the proposed service standard to obtain numerical estimates of cost savings. The aim of the analysis here is to 1) demonstrate that significant savings are potentially available by optimizing the current network, and 2) emphasize that quantifying the savings of the optimized network under the current service standard would provide a benchmark against which to compare the shift to the proposed service standard and the associated savings.

B. Determining the Number of Mail Processing Facilities under the Current Service Standard

I now describe how I applied the Logic Net optimization model under *an approximation of the current service standards*. Specifically, I adjust, to the best of my ability, the inputs to the Logic Net model so that they represent the demands, capacities, costs, and system constraints consistent with the current operating environment. As stated earlier, the goal is to develop a reasonable solution that can be used as a representative baseline mail processing network for comparative analysis.

I first describe the data inputs to witness Rosenberg's Logic Net model and the process by which I modified the inputs to model the mail processing network under the current service standards.

1. Data Inputs and Changes

Witness Rosenberg's Logic Net model considers 920 3-digit ZIP Code service areas; non-contiguous 3-digit ZIP Codes (all 3-digit ZIP Codes within Alaska, Hawaii, Puerto Rico, US Virgin Islands and Guam) are excluded from the analysis. Within the model, the "demand" of each customer (3-digit ZIP Code) is expressed in terms of the square footage required to process the mail generated by and delivered to that 3-digit ZIP Code (p. 15 of USPS T-3). That is, Rosenberg converts the mail volume associated with a 3-digit ZIP Code into a processing footprint by product (letter, flat, and parcel/bundle). The conversion from mail volume to processing footprint depends on the *machine characteristics* and the *operating window* for each processing step. These calculations are done within the worksheet "Model MODS" in Library Reference USPS-LR-N2012-1/13 (USPS-LR-N2012-1/NP2).

To use the Logic Net model for the current service standard, one can modify the values on the "Model MODS" worksheet for the operating time windows in cells A11 to H25 and the machine characteristics in cells A1 to D8. I first discuss how I modified the operating time windows.

Operating Time Windows: The operating time windows I use to model the current service standard are shown in Table 6 below. These operating windows are taken from Figure 5 of Postal Service witness Neri's testimony (page 13 of USPS T-4). The length

of the operating window appears in the denominator of the square footage calculation equation, hence, the footprint requirement increases if one decreases the length of the operating window.[14] For most of the operations in Tables 6 the operating window is shorter under the current service standard than the proposed service standard. Therefore, one would expect the footprints to be larger in my Logic Net optimization model than in witness Rosenberg's model.

[14] To calculate a square footage requirement for each 3-digit ZIP Code by product and by process the following nine categories are considered: CANC, L-OGP, L-INP, L-INS1, L-INS2, F-OGP, F-INP, F-INS, and P/PRI-OGP/INP(a combination of P-OGP, P-INP, PRI-O, and PRI-I). Then, for each category, the square footage is calculated as follows:

$$\text{square footage} = \frac{\text{daily workload} \times \text{machine sq ft}}{\text{machine throughput} \times \text{length of processing window}}$$

For CANC, the machine is AFCS. For L-OGP, L-INP, L-INS1, and L-INS2, the machine is DBCS. For F-OGP, F-INP, and F-INS, the machine is AFSM100. For P/PRI-OGP/INP, the daily workload is the sum of the daily workloads for P-OGP, P-INP, PRI-O, and PRI-I, the machine is SPBS, and the length of the processing window is the sum of the window for PRI-O and PRI-I.

TABLE 6: Operating Windows used in my Logic Net Model[15]				
Operation	Machine	Start	End	Window
CANC	AFCS	15:00	21:30	6 hrs, 30 min
L-OGP	DBCS	16:00	23:00	7 hrs
L-OGS	DBCS	N/A	N/A	N/A
L-INP	DBCS	14:00	23:00	9 hrs
L-INS1	DBCS	23:00	28:00	5 hrs
L-INS2	DBCS	26:00	31:00	5 hrs
F-OGP	AFSM100	17:00	23:00	6 hrs
F-OGS	AFSM100	N/A	N/A	N/A
F-INP	AFSM100	14:00	23:00	9 hrs
F-INS	AFSM100	23:00	31:00	8 hrs
P-OGP	SPBS	17:00	23:00	6 hrs
P-INP	SPBS	14:00	23:00	9 hrs
PRI-O	SPBS	15:10	22:30	7 hrs, 20 min
PRI-I	SPBS	17:00	28:00	11 hrs

Machine Characteristics: Table 7 below describing machine throughput and square footage requirements is obtained from witness Rosenberg's testimony and worksheet "Model MODS" in USPS-LR-N2012-1/13. According to witness Rosenberg's testimony the equipment square footage in the column labeled "Actual" is from the Handbook AS-504 Space Requirements. USPS-T-3 at 18. The square footage in the

[15] This data is pulled from excel worksheet "Model MODS" in PR-LR-N2012-1/2. This is equivalent to excel worksheet "Model MODS" in USPS-LR-N2012-1/13.

column labeled "Model" is the square footage value that was used in the footprint calculations. She notes that the actual value was inflated "to ensure that there was adequate staging room under this new concept when all volume is available at the start of the windows." *Id.* Since I was modeling the current service standard I did not inflate the equipment square footage values and used the actual values.

Table 7: Machine Characteristics

		Sq Ft	
	Throughput	Actual	Model
AFCS	25,000	3,893	4,580
DBCS	27,500	2,491	2,931
AFSM100	13,500	7,792	9,167
SPBS	3,000	16,384	19,275
APPS		59,079	

Mail Processing Facility Capacity: In witness Rosenberg's model input files there are 476 candidate mail processing facilities.[16] Within the model, the capacity of each facility is expressed in terms of the facility's available square footage. The starting point for the available facility capacity is the current facility capacity, which was "acquired from the Facilities Database (FDB), USPS Facility Surveys, and current mail processing equipment sets" (*See* USPS T-3 at 14) and provided in library references USPS-LR-

[16] I note that some of these 476 facilities may already be closed, or otherwise under AMP study. Since, the purpose of this exercise was to obtain an estimate of the number of facilities needed for the current service standard, and is not a specific recommendation on which facilties (or plants) to keep open, I included all of the 476 candidate mail processing facilities in witness Rosenberg's model input files.

N2012-1/17 and USPS-LR-N2012-1/52 (Access database table "PLANTS"). Then, some adjustments are made. *See* USPS-T-3 at 16-17.

1. If the facility has no cancellation equipment, then its available capacity (square footage) for letter processing was set to one-third of the facility capacity to allow for additional travel time to an automated cancellation processing facility.
2. If a facility has no current cancellation workload and no automation equipment, then its available capacity (square footage) for letter processing was set to zero.
3. If a facility has no flat sorting equipment, then its available capacity (square footage) for flat processing was set to the maximum of 2000 square feet or 12.5 percent of its current square footage.
4. If a facility has no package sorting equipment, then its available capacity (square footage) for package sorting was set to the minimum of 13,500 square feet or 50 percent of its current square footage.

Outside of these conditions, the entire available square footage of a facility could be assigned to one product (letter, flat, or package) or divided among multiple products. For my model of the current service standard, I use these same capacity rules with minor adjustments as necessary for feasibility on a case by case basis as I discuss later.

Transportation Constraints: Under the proposed service standard modeled in witness Rosenberg's work, overnight service standards for first class mail are eliminated and hence additional transportation time is available. In witness Rosenberg's model,

she assumes that each 3-digit ZIP Code workload can be transported up to 200 miles to be processed by a plant (*see* USPS-T-3 at 13). To incorporate the distance restriction into the Logic Net optimization model, witness Rosenberg defines mileage bands, which specify the maximum allowable distance between a customer and its assigned plant. Witness Rosenberg defines the following mileage bands:

GROUP_Under_100	GROUP_140_to_150
GROUP_100_to_110	GROUP_150_to_160
GROUP_110_to_120	GROUP_170_to_180
GROUP_120_to_130	GROUP_180_to_190
GROUP_130_to_140	GROUP_190_to_230

For all of the mileage bands except GROUP_190_to_230, the maximum distance is set to 200 in the PlantToCustomer lanes worksheet in USPS-LR-N2012-1/15. Each customer is assigned to one of the mileage band groups.[17]

To model the current service standard, which accommodates overnight service, I assume that a 3-digit ZIP Code workload could be transported up to about 100 miles (see footnote 4 on page 10). Looking at the worksheet "SiteDistances" in USPS-LR-N2012-1/15, I see that there are 3-digit ZIP Code service areas for which the minimum distance to a plant is more than 100 miles. Therefore, if I were to set 100 miles as the maximum distance, there would be no feasible solution. Instead, I need to set different

[17] In her response to PR/USPS-T3-33, witness Rosenberg describes how Logic Net was used to derive the mileage bands and the customer assignments. Due to the heuristic nature of the process, some customers are assigned to higher value mileage bands than necessary. For example, the minimum distance from 3-digit ZIP Code 768 to a plant is 136.2 miles. Although it could be assigned to the group GROUP_130_to_140, it is assigned to the group GROUP_150_to_160.

maximum values for different customers (3-digit ZIP Codes) to better approximate the current situation (where indeed there are 3-digit ZIP Code assignments to facilities that far exceed 100 miles).

I modify the mileage band assignments made by Rosenberg so that the mileage band assignment of a customer reflects the minimum distance to a mail processing plant. For example, the minimum distance from 3-digit ZIP Code 768 to a plant is 136.2 miles, so it is assigned to the group GROUP_130_to_140. Then, in the PlantToCustomer lanes input file, I set the maximum distance for each group equal to its upper bound value. For example, for the GROUP_Under_100, the maximum distance value is 100. For the GROUP_100_to_110, the maximum distance value is 110 miles, and so on.

For my model of current service standards, I consider two alternatives: (1) I assume that witness Rosenberg's assignment of 3-digit ZIP Codes to mileage bands is appropriate and (2) I modify that assignment of 3-digit ZIP Codes such that they reflect the minimum distance between a 3-digit ZIP Code and a plant. In both cases, I set the maximum distance value for each mileage band equal to its upper bound value. Note that, with witness Rosenberg's mileage bands, 795 of the 920 (86.4 percent) 3-digit ZIP Codes are in the GROUP_Under_100 group. With the revised mileage bands, 894 of the 920 3-digit ZIP Codes are in the GROUP_Under_100 group.

Cost Functions: For my Logic Net optimization model of current service standards, I use the same facility costs and transportation costs as witness Rosenberg.

2. Solving the Optimization Model

In this section, I describe the results of solving the Logic Net model under the current service standard.

I enforce the same system constraints as in witness Rosenberg's model: (1) all demand must be satisfied, (2) each 3-digit ZIP Code service area must be assigned to a mail processing facility within the maximum distance assigned to its mileage band, (3) all of the mail of a particular type (LTTR, FLAT, PRCL) must be processed at one plant and at most two plants can process mail volume for a single 3-digit ZIP Code, and (4) the total square footage required by all of the 3-digit ZIP Codes assigned to a facility must not exceed the facility's capacity.

I describe the results of the optimization using the mileage band (as described above) in two different ways.

<u>Alternative #1: Using Witness Rosenberg's 3-digit ZIP Code mileage band assignments</u>

When I solved the optimization model (setting the optimization gap to 0.25 percent), there were some minor infeasibility issues. The solver returns a partial solution where it can only satisfy 99.96 percent of the demand. While it appears that there is insufficient capacity available at the plants within the maximum allowable distance, closer examination reveals that this is not quite true. The source of infeasibility is not because the overall facility is at capacity but rather that the product specific capacity is depleted due to the capacity adjustment rules imposed by witness Rosenberg. *See* USPS-T-2 at 16-17. I relaxed these rules for 5 plants as described below.

Specifically Plant IDs 144, 200, and 396, correspond to Jackson, TN, Gaylord, MI, and Ely, NV respectively. Currently, none of these facilities has cancellation

equipment, so the letter processing capacity was set to one third of the facility's capacity. Instead, I allow for the installation of cancellation equipment and allow the entire facility's capacity to be used for letter processing. Similarly, Plant ID 198 corresponding to Grand Rapids, MI has no package sorting or flat sorting equipment. Therefore, the space available for flat sorting and package sorting is limited according the capacity adjustment rules. I treat this facility as one with existing flat and package sorting equipment, thereby allowing the entire capacity of the facility to be used. Plant ID 395 corresponding to Las Vegas currently has no package sorting equipment. Given the large amount of square footage available, I allow the package sorting equipment to use as much space as necessary (as in facilities where there already exists package sorting equipment). Table 8 below summarizes these modifications.

Table 8: Capacity Adjustments in my Logic Net Model

Plant ID	Line	Line Option	Product	(old) Max Production	(new) Max Production
144	P144	Low Volume	LTTR	8644	25,931
198	P198	Low Volume	FLAT	2000	101,687
198	P198	Low Volume	SPBS	13,500	101,687
200	P200	Low Volume	LTTR	7080	21,264
395	P395	Low Volume	SPBS	13,500	176,812
396	P396	Low Volume	LTTR	1666	4998

When I run the optimization model with these changes, I get a feasible solution with an optimality gap[18] of 0.23 percent. This solution selects 239 plants overall. The solution activates 226 facilities for letter processing, 226 for flat processing, and 224 for package processing. The average travel distance (not weighted) is 52.87 miles. There are 2712 product lanes (3-digit ZIP Codes by product demand); 2450 of them have a distance less than or equal to 100 miles. The input files and the results for this optimization model are in PR-LR-N2012-1/2.

Alternative #2: Using the modified 3-digit ZIP Code mileage band assignments

Next, I modified the mileage band assignments for the 3-digit ZIP Codes as described above and solved the optimization model (keeping the facility capacity adjustments as described in Table 8 under Alternative #1). In addition to the above 6 facility capacity adjustments, I had to relax the capacity at one additional facility, Plant ID 470 corresponding to Moreno Valley, CA. It currently does not have packing sorting equipment, so its capacity was limited. I increase the package sorting capacity to a larger value. The specific adjustment is as follows:

Plant ID	Line	Line Option	Product	(old) Max Production	(new) Max Production
470	P470	Low Volume	SPBS	13,500	20,000

When I run the optimization model with this change, I get a feasible solution with an optimality gap of 0.25 percent. The solution selects 277 plants overall. The solution

[18] The optimality gap provides a worst-case scenario for how far the solution obtained is from the optimal solution to the problem. In this case, an optimality gap of 0.23% can be interpreted as follows. Although one does not know the optimal solution to the problem, the cost of the solution obtained by the software is provably within 0.23% of the optimal solution to the problem.

activates 264 facilities for letter processing, 265 for flat processing, and 264 for package processing. The average travel distance (not weighted) is 47.37 miles. There are 2712 product lanes (3-digit ZIP Codes by product demand); 2604 of them have a distance less than or equal to 100 miles. The input files and the results for this optimization model are in PR-LR-N2012-1/2.

Rather than focusing on the specific facilities opened under this Logic Net optimization model, which would be subject to change due to area management expertise, I would like to focus on the number of mail processing facilities. The rationalized network under the proposed mail processing standard will contain 199 mail processing facilities (per witness Rosenberg and witness Neri's testimony). My analysis shows that maintaining the current service standard, using the Postal Service's Logic Net model, results in a network that has somewhere between 239 and 277 facilities (the larger number of 3-digit ZIP Codes that are may be spaced more than a hundred miles from a facility, the fewer the number of facilities). Thus it should be clear that some significant savings could be achieved by optimizing the current mail processing network under today's service standard. While this saving would be less than that achievable by changing the service standard, it may have fewer risks associated with declines in revenue because of the change in service standard.

IV. SUMMARY AND CONCLUSIONS

In my testimony I have described my analysis of the optimization models used by the Postal Service in rationalizing their network under the proposed service standard.

Witness Rosenberg conducts a multi-stage analysis to design the rationalized network. The most significant concerns relating to this analysis lie with the scoring tool used to evaluate different operating windows, and some of the analysis associated with the detailed equipment modeling (specifically the lack of a detailed simulation analysis, and concerns related to peak volume and mail inventory within the mail processing network). Additional concerns related to the Optimization model are discussed within my testimony. Addressing the concerns related to the optimization model would help provide a better starting point for discussion with Area management expertise, as well as a more efficient network.

Witness Martin analyzed the savings in transportation costs under the proposed service standard. Witness Neri provides productivity improvement estimates based on the notion that under the proposed service standard the workload can be smoothed significantly. The intuition and premise behind the argument is logical. However, his estimates of productivity savings are informed by calculations where the entire workload is smoothed over a 24 hour period. This provides an overly optimistic estimate of the productivity improvements. When the workload is not smoothed over a 24 hour period the productivity estimates (using witness Neri's calculations) are significantly lower. Since both witnesses Martin and Neri's estimates inform witness Bradley's cost savings estimates, there is considerable doubt if the savings stated in witness Bradley's

1 testimony can actually be achieved and is likely to be significantly lower than suggested
2 in his testimony.

3 I also conducted an analysis to optimize the Postal Service's mail processing
4 network under the current service standard. The aim of this analysis was to get a sense
5 of the approximate number of mail processing facilities that would be required under the
6 current service standard. To this end, I used the Postal Service's Logic Net optimization
7 model, appropriately modified for the current service standard. This analysis suggests
8 that the Postal Service can potentially maintain the current service standard, and obtain
9 considerable costs savings by optimizing their mail processing network.

10 In summary, it is clear that with the significant decline of mail in the Postal
11 Service there are significant opportunities to optimize the mail network and reduce
12 costs. This will eliminate excess capacity in the network. However, the computation of
13 cost savings by the Postal Service is informed by analysis that at the present stage is
14 not precise. Consequently this overestimates the savings associated with the
15 rationalized network under the proposed service standard. By my analysis of the
16 optimization of the Postal Service network under the current service standard, it would
17 appear that there also exist considerable cost savings opportunities under the current
18 service standard. In evaluating the Postal Service's proposal to change the current
19 service standard and to rationalize the network, it would be of considerable benefit to
20 provide a comparative analysis of the cost savings and revenue estimates associated
21 with both the optimized network under the proposed and current service standards.

1 CHAIRMAN GOLDWAY: Counsel, can you identify
2 the library references that have been filed by Witness
3 Raghavan in this docket?
4 MR. LAVER: Yes, Madam Chairman. Witness
5 Raghavan identified the three library references just
6 a moment ago along with the testimony.
7 CHAIRMAN GOLDWAY: Okay. Next we will
8 receive written cross-examination. Dr. Raghavan, have
9 you had an opportunity to examine the packet of
10 designated written cross-examination that was made
11 available to you in the hearing room today?
12 THE WITNESS: I have.
13 CHAIRMAN GOLDWAY: Are there any corrections
14 or additions that need to be made?
15 THE WITNESS: There was one question that I
16 had filed a revised answer to. I believe that was
17 filed yesterday and along with it there was a library
18 reference. That's the only change.
19 CHAIRMAN GOLDWAY: Have you included that in
20 the packet?
21 MR. LAVER: Madam Chairman, I've included
22 that in the packet and Postal Service counsel was
23 copied on that as it was filed.
24 CHAIRMAN GOLDWAY: Okay. So then if the
25 questions contained in this packet were posed to you

1 orally today, would your answers be the same as those
2 you previously provided in writing?
3 THE WITNESS: Yes.
4 CHAIRMAN GOLDWAY: With everything in order
5 then, counsel, would you please provide two copies of
6 the corrected designated written cross-examination of
7 Witness Raghavan to the reporter. That material is
8 received into evidence and it is to be transcribed in
9 the record.
10 (The document referred to was
11 marked for identification as
12 PR-T-2 was marked for
13 identification and received
14 into evidence.)
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PUBLIC REPRESENTATIVE
WITNESS SUBRAMANIAN RAGHAVAN
(PR-T-2)

Party	Interrogatories
United States Postal Service	USPS/PR-T2-1-13

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
PUBLIC REPRESENTATIVE
WITNESS SUBRAMANIAN RAGHAVAN (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/PR-T2-1	USPS
USPS/PR-T2-2	USPS
USPS/PR-T2-3	USPS
USPS/PR-T2-4	USPS
USPS/PR-T2-5	USPS
USPS/PR-T2-6	USPS
USPS/PR-T2-7	USPS
USPS/PR-T2-8	USPS
USPS/PR-T2-9	USPS
USPS/PR-T2-10	USPS
USPS/PR-T2-11	USPS
USPS/PR-T2-12	USPS
USPS/PR-T2-13	USPS

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-1. Please refer to PR-T-2 at 1.
(a) List all mail processing network analysis, design and/or optimization projects for which you have been a contributor and provide a brief description of each such project.
(b) Please list all US Postal Service facilities at which you have observed the mail processing operations described in your testimony, the approximate dates of those observations, and summarize those observations.

RESPONSE

a) The autobiographical sketch in my testimony documents my expertise in optimization efforts, such as the effort undertaken by Witness Rosenberg in this docket. Prior to this testimony I have not worked on mail processing network analysis.

b) None.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-2. At PR-T-2, pages 7-12, you use the scoring tool to estimate a baseline (current) number of facilities.
(a) Please confirm that you use a 4-hour cancellation window in estimating the baseline. If you do not confirm, please explain.
(b) Please confirm the current USPS cancellation window is generally 6.5 hours. If you do not confirm, please explain your understanding of the current cancellation window and the basis for that understanding.
(c) If (a) and (b) are confirmed, do you agree that the results from the scoring tool would overestimate the number of facilities required for the current network? If you do not agree, please explain.
(d) Please confirm that 1.8, 1.85, and 2.05 hours of drive time were used in the scoring tool for collection-to-cancellation (C2C) and Deliver Point Sequencing-to delivery (D2D) transportation. If you do not confirm, please explain.
(e) Is it your understanding that for each mail processing plant service area, all subordinate Post Offices are within 2.05 hours drive time of the plant? If not, what is your understanding of the extent to which the Post Office-to-plant drive time exceeds 2.05 hours?
(f) If (a) and (b) are confirmed, please state whether the results from the scoring tool using 1.8, 1.85, or 2.05 hours of drive time for C2C and D2D transportation would overestimate the number of facilities required for the current network. If you do not agree that such overestimation would occur, please explain.

RESPONSE

a) Confirmed. See line 19 of Page10 of my testimony.
b) Confirmed. See lines 15 and 16 of Page 10 of my testimony.
c) Disagree. Please see lines 1-3 on page 12 of my testimony. The cancellation windows do not affect the calculation of the number of facilities in the scoring tool. They only affect the feasibility of a mail processing network using those windows.
d) Not confirmed. As explained on lines 2 through 10 on page 11 of my testimony I incremented the drive time from 1.75 to 2.25 hours (in increments of 0.05 hours). The only feasible solutions obtained from the scoring tool were for 1.8, 1.85, and 2.05 hours.
e) The scoring tool assumes that all subordinate Post Offices are within the C2C/D2D drive time of the plant.
f) I do not understand this question. (a) and (b) are not relevant.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-3. At pages 12-18 of PR-T-2, you analyze the application of the LogicNet Model.
(a) Please confirm the main drivers of the resulting facility count and locations are the facility capacities and ZIP Code-to-facility distance constraints. If you do not confirm, please explain.
(b) If (a) is confirmed, please confirm the Plant-to-ZIP Code and Plant-to-Plant transportation networks are driven by the resulting facility count and locations. If you do not confirm that facility counts and locations drive Plant-to-ZIP Code and Plant-to-Plant transportation networks, please explain.

RESPONSE

a) Confirmed.

b) Not confirmed. There are no Plant-To-Plant transportation links or costs in the Logic Net Model.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO
UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-4. Please refer to table 2 on page 19 of PR-T-2.
(a) Please identify the process step represented by the column entitled "TIMES % (originating)."
(b) Please confirm that the percentages specified in the "ODIS % Destinating" column represent an alternative secondary calculation for cancellation percentage in a 3-digit ZIP Code.
(c) Please identify the process step represented by the column titled "ODIS % (destinating)."

RESPONSE

a) Please see Page 17, line 9 through 19 of my testimony.

b) Confirmed.

c) Please see lines 20-23 of Page 17 and lines 1-6 of Page 18 of my testimony.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-5. PR-T-2, page 20 at lines 7-9 states: "When traffic is extremely spiky a higher percentile value (and higher peak value) may be more appropriate."

(a) Please confirm that your testimony suggests that addition equipment will be needed to handle peak volume. If you do not confirm, please explain.
(b) Please confirm that, as an alternative to additional equipment, an extended operating window could also be used to process peak volume. If you do not confirm, please explain.

RESPONSE:

a) Not confirmed. Line 7-9 of page 20 of my testimony suggests that if traffic is extremely spiky a higher percentile value may be more appropriate. The spikiness of the traffic needs to be evaluated in conjunction with an analysis to determine if peak volume days occur in a back to back fashion, to determine if a higher percentile value is necessary. If a higher percentile value is used, then additional equipment will be needed to handle peak volumes. Best practices would entail such an evaluation.
b) Not confirmed. It depends upon the flexibility associated with changing operating windows, and also depends upon whether peak volume days occur in a back to back fashion.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO
UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-6. At PR-T-2, page 28, lines 9-12, you state that you would expect Plant to-Post Office transportation cost to increase. Please provide and/or identify the data and other information that serve as the basis for this expectation.

RESPONSE:

See lines 12 to 17 on Page 26 of my testimony.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-7. At PR-T-2, page 30, lines 9-10, you state that it is unlikely that cancellation volume could be spread evenly over the 7 hour operating window. Please explain the basis for this conclusion. In doing so, provide specific citations to any testimony or operations data filed in this proceeding, or to any mail processing observations identified in response to USPS/PR-T2-1.

RESPONSE:

Please see page 30, lines 9-10 of my testimony, which explains that unlike DPS sortation, the cancellation workload is not available in advance. Consequently, there is no opportunity to spread the workload to smooth it out. Please see USPS-LR-N2012-1/50, Sheet 1, Row 10, for data that indicates that cancellation volume is not smooth.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-8. At PR-T-2, page 43, table, 8 you summarize capacity adjustments to your LogicNet Model.
(a) Please confirm that, without these adjustments, the model would be infeasible. If you do not confirm, please explain.
(b) Please confirm that you could have alternatively adjusted the Plant-to-ZIP Code distance constraints to solve the infeasibility issues. If you do not confirm, please explain.
(c) Please confirm that if distance constraints were relaxed, the model may have selected additional facilities that would have resulted in a higher facility count. If you do not confirm, please explain.

RESPONSE:

a) Confirmed.

b) Confirmed with qualifications. The result would not necessarily provide Plant-to-ZIP Code distances that are appropriate for the current service standard.

c) Not confirmed. Relaxing the distance constraints could only reduce the number of facilities.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES – 6/12/12 ERRATA

USPS/PR-T2-9. At PR-T-2, page 45, line 12, you define the current service standards as requiring somewhere between 239 and 277 mail processing facilities.
(a) Please confirm that a DBCS with 222 bins would not be able to sort letters to all 239 to 277 destinating facilities separately during the outgoing primary operation.
If you do not confirm, please explain.
(b) If (a) is confirmed, please state whether you agree that an outgoing secondary DBCS operation would have to be performed to finalize letters to between 239 to 277 destinations. If you do not agree, please explain.
(c) If (b) is confirmed, please state whether you agree that additional DBCS machines would need to be utilized to perform the outgoing secondary operation. If you do not agree, please explain.
(d) If (c) is confirmed, please state whether you agree that addition workroom square footage would be required to accommodate the additional DBCSs referenced in (c). If you do not agree, please explain.
(e) If (d) is confirmed, please state whether you agree that additional facilities would be required by the model. If you do not agree, please explain.

RESPONSE:

a) Confirmed.
b) Confirmed.
c) Not confirmed. It depends upon the volume of outgoing secondary and the peak requirement for DBCS machines which is generally during the DPS sort.

To do my analysis of the mail processing network under the current service standard, I used the input data provided by witness Rosenberg in library references USPS-LR-N2012-1/13 (USPS-LR-N2012-1/NP2) and USPS-LR-N2012-1/15, with the modifications explained in my testimony. Neither witness Rosenberg's input files nor her Logic Net data files account for the fact that outgoing secondary processing may be necessary when the number of facilities in the mail processing network is greater than 222. Thus, one could conclude that an implicit and unstated assumption in witness Rosenberg's analysis is that any solution obtained could have no more than 222 facilities. To reiterate this is not explicitly stated anywhere in her testimony or within the LogicNet model.

(Response to USPS/PR-T2-9 continued)

To account for outgoing secondary processing volume when the LogicNet model is used to build the network under current service standards, I modified the Model MODS worksheet in Library Reference USPS-LR-N2012-1/13. Since outgoing secondary volume is a function of the number of facilities in excess of 222, the fraction by which the FY2010 outgoing secondary volume is multiplied is calculated as a function of the number of facilities in the network. Specifically, the fraction is the ratio of the excess number of destinating facilities in the "current service standard" network to the excess number of destinating facilities in "today's" network. Then, the outgoing secondary volume in the Model MODS worksheet is multiplied by this fraction and included in the calculations to determine the required square footage. My original testimony considered two cases: 1) where I used witness Rosenberg's 3-digit ZIP Code mileage band assignments and 2) where I modified them as discussed in my testimony. *See* PR-T-2 at 44.

For alternative #1, in which I use witness Rosenberg's 3-digit ZIP Code mileage band assignments, I calculate the fraction as (239-222)/(461-222) = 0.07, since the LogicNet solution reported in my testimony required 239 facilities. However, when the input includes the outgoing secondary, the solution requires 240 facilities. Therefore, I recalculated the fraction as (240-222)/(461-222) = 0.075 and re-solved the LogicNet model. The resulting solution includes 240 facilities. Hence, including the outgoing secondary volume in this case requires one additional processing facility.

For alternative #2, in which I modify the 3-digit ZIP Code mileage band assignments, I calculate the fraction as (277-222)/(461-222) = 0.23, since the LogicNet solution reported in my testimony required 277 facilities. When I re-solved the LogicNet model using a smaller optimality gap (0.05%), I obtained a solution with 276 facilities for the current service standard network. When the input includes the outgoing secondary, the same solution with 276 facilities is

(Response to USPS/PR-T2-9 continued) feasible. Hence, including the outgoing secondary volume in this case does not require any additional processing facilities.

Library reference PR-LR-N2012-1/NP2 includes the input data files and library reference PR-LR-N2012-1/4 contains the results of my analysis.

d) N/A.

e) Do not agree. I reran the LogicNet model after making modifications as described below to take into account the outgoing secondary mail volume that would exist under current service standards. I ran two scenarios as described in subpart c) above. Neither of them resulted in a significant change in the number of plants needed to handle the mail volume.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-10. In PR-T-2 at page 8, line 15, when discussing the USPS-T-3 scoring tool, you use the phrase "any model that is used for planning purposes . . . ."
(a) Is it your understanding that the scoring tool discussed in USPS-T-3 was designed and/or used for planning purposes? If your response is anything other than an unqualified negative, please explain.
(b) Is it your understanding that the scoring tool discussed in USPS-T-3 was designed and/or used to evaluate the feasibility of expanding operating windows? If your response is anything other than an unqualified affirmative, please explain.
(c) Is it your understanding that the scoring tool discussed in USPS-T-3 was designed and/or used to evaluate any financial savings involved with each scenario? If your response is anything other than an unqualified negative, please explain.

RESPONSE:

a) Yes, my understanding is that the scoring tool was used to evaluate operating windows. Hence it was used for planning purposes.

b) Yes.

c) No.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-11. On page 15 of your testimony, you suggest that the LogicNet Model in USPS-T-3 was not run through enough iterations.
(a) Is it your understanding that the USPS-T-3 model was only used to provide a starting point for network redesign? If your response is anything other than an unqualified affirmative, please explain.
(b) Is it your understanding that the final design of the December 5, 2011 network concept proposal was designed after consideration of input from postal field managers familiar with and experienced in managing facility-specific logistics and workfloor space constraints, as well as general workforce constraints? If your response is anything other than an unqualified affirmative, please explain.

RESPONSE:

a) Yes.

b) It is my understanding from pages 19-20 of witness Rosenberg's testimony (USPS-T-3) that input from Area managers was used to make changes to the ZIP Code to plant assignments provided by LogicNet. I cannot comment on how familiar they were and what specific constraints were accounted for. Other than a couple of examples on page 20 of her testimony witness Rosenberg does not elaborate much on the specifics of how and why she changed the solution provided by LogicNet to the final design of the December 5, 2011 network concept proposal. Witness Rosenberg confirms that after "ZIP code assignments that LogicNet had come up with" "were essentially modified by human discussion", they were "not then fed back into any sort of computer model to see how that would work out" (Tr.4/1481-1482). Hence, the assertion in my testimony that witness Rosenberg does not do any iterative analysis.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-12. On page 16 of PR-T-2, you suggest that "some of the area management expertise could have been incorporated within an optimization model" and on page 17 you suggest "incorporating peak load considerations in the Logic Net phase might have yielded a better starting point for discussion with Area management."
(a) Is it your understanding that the USPS models were designed to be optimization models? If your response is anything other than an unqualified negative, please explain.
(b) Do you agree that the proposed redesign of a mail processing network is ultimately dependent on the experience-based input of mail processing and transportation managers? If your response is anything other than an unqualified affirmative, please explain.
(c) Do you agree that the experience-based input of mail processing and transportation managers may materially alter any model outputs that form the starting point for their proposed redesign? If your response is anything other than an unqualified affirmative, please explain.

RESPONSE:

a) It is my understanding the Logic Net optimization model used by the Postal Service is an optimization model. Beyond that, I am unsure what this question is asking.
b) Disagree. If it is ultimately dependent on the experience-based input then there would be no place for the quantitative analysis in the proposed redesign.
c) Disagree. Managers may alter any model outputs if the model did not account for all of the constraints appropriately. However, if the model was designed so that it accurately and reasonably accounted for their knowledge and constraints, then it is not clear that the alteration of model outputs based on experience necessarily results in a better decision.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-13. On page 18 of PR-T2, you recommend averaging originating and destinating volumes. Please explain the advantages of averaging these volumes that are being moved in different directions, at different times of the day, and that are destined for different operating processes.

RESPONSE:

These volumes are used in the LogicNet model to compute demands from 3 digit ZIP Codes. Hence they affect the transportation costs and the feasibility of assignments. If a solution was computed just based on originating volumes it may not be feasible when both originating and destinating volumes are taken into account. Nor would the costs be optimal. By taking the average of these two volumes the model would get a more appropriate demand volume from each 3 digit ZIP Code (originating and destinating) and compute a better solution to the problem.

1 CHAIRMAN GOLDWAY: Is there any additional
2 written cross-examination for Witness Raghavan?
3 MR. ANDERSON: Darryl Anderson for the APWU,
4 Madam Chairman. The APWU wishes to designate USPS/PR-
5 T2-14, and I have copies to show the witness and
6 counsel and for the reporter.
7 CHAIRMAN GOLDWAY: Please go ahead.
8 Witness Raghavan, are there any corrections
9 or additions that need to be made to this written
10 cross-examination?
11 THE WITNESS: No.
12 CHAIRMAN GOLDWAY: Then if everything is in
13 order, counsel, would you please provide two copies of
14 the corrected written cross-examination of Witness
15 Raghavan to the reporter.
16 MR. ANDERSON: Actually, Madam Chairman, I'm
17 doing that now.
18 CHAIRMAN GOLDWAY: That material will be
19 received into evidence and it is to be transcribed
20 into the record.
21 (The document referred to was
22 marked for identification as
23 Exhibit No. USPS/PR-T2-14 and
24 was received in evidence.)
25 //

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T2-14. On page 19 and 20 of PR-T-2, you recommend that 95th percentile peak factor may not be sufficient because of the possibility of back-to-back peak days.
(a) Please explain the extent to which your analysis reflects any understanding that of and takes into account whether weekends historically have provided the ability for mail processing plants to catch up when processing peak volumes?
(b) Is it your recommendation that the Postal Service should use the 99th or 98th percentile peak factor as a basis for network design?
(c) If your response to part (b) is anything other than an unqualified negative, explain why the Postal Service should install mail processing equipment that would only be used 4 to 7 days each year?

RESPONSE:

a) My analysis highlighted the fact that there is no clear justification for the use of the 95th percentile in the testimony of Postal Service witness Rosenberg. I use the term back-to-back peak days to indicate peak volume days that occur within the same week, and highlight the problems that could occur in the proposed mail network when this occurs. In this situation weekends are not available for mail processing plants to catch up (until the end of the week).
b) My recommendation is to not simply focus on a percentile value like the 95th percentile without understanding how spiky the traffic is, and if peak days occur on a back-to-back fashion. Without further analysis of postal analysis data I cannot give a specific percentile recommendation. Suffice to say from my testimony there is a problem in using the 95th percentile without a proper understanding of the traffic profile.
c) See my response to b) above. However, as Table 3 on page 20 of my testimony indicates the traffic volume is spiky. If in addition peak volume days occur in a back to back fashion then I do recommend using the 98th or 99th percentile. If not, there could be severe disruptions in the ability to move mail through the postal network (which is already being slowed down in the proposed network). It is well known in the service marketing literature that consumers are more likely to remember poor service. (For instance, Bateson (1995) and Zemke and Schaaf (1989) indicate that customers need to have as many as twelve positive experiences with a service provider in order to overcome the negative effects of

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS RAGHAVAN TO UNITED STATES POSTAL SERVICE INTERROGATORIES

(Response to USPS/PR-T2-14 continued)

one bad experience. For additional research on service recovery, see Smith and Bolton (1998).) If in times of high volumes (when a larger number of consumers use postal facilities) postal service quality deteriorates (for example mail that currently takes 1 day, could take 3 days if there are disruptions and postal service quality deteriorates), then a larger fraction of consumers may use alternatives to the Postal Service. Ultimately it is up to postal management to make a determination whether to install additional mail processing equipment that is only used for 4-7 days a year.[1]

References:

1) Bateson, John E.G., *Managing Services Marketing: Text and Readings*, Fort Worth, TX. The Dryden Press. 1995.
2) Smith, Amy K. and Ruth N. Bolton, "An Experimental Investigation of Service Failure and Recovery: Paradox or Peril?" *Journal of Service Research*, **1** (1), 1998, 65-81.
3) Zemke, Ron and Dick Schaaf, *The Service Edge: 101 Companies That Profit from Customer Care*, New York: New American Library. 1989.

[1] According to witness Rosenberg's testimony (Page 21, Line 22) the number of days is 14-15 days a year, not 4-7 days as indicated in the interrogatory. Further, looking at aggregate numbers to compute the 95th percentile provides a view of system wide peaks. Looking at traffic at a facility (disaggregate) level, it is possible (when the behavior of traffic volumes is not similar at all plants) that some processing facilities may have a greater amount of spikiness in the traffic. This suggests at an individual facility level some facilities may have more than 14-15 days with traffic volumes above the volume planned for.

1 CHAIRMAN GOLDWAY: And that should bring us
2 to oral cross-examination. Only the Postal Service
3 has requested oral cross-examination. Is there any
4 other participant who wishes to cross-examine Witness
5 Raghavan?
6 Mr. Tidwell, are you handling this witness?
7 Would you please proceed?
8 MR. TIDWELL: Good morning, Madam Chairman.
9 Michael Tidwell for the Postal Service.
10 CROSS-EXAMINATION
11 BY MR. TIDWELL:
12 Q Good morning, Mr. Raghavan.
13 A Good morning.
14 Q Just a few brief questions in relation to
15 your testimony and interrogatory responses.
16 I'd like to direct your attention to your
17 revised response to Postal Service Interrogatory No. 9
18 and in particular subpart (e).
19 A Okay.
20 Q Do you have that? Good. I'm just trying to
21 make sure I'm clear. In the first two lines of that
22 response, you refer to "modifications as described
23 below". And in the next sentence, you refer to
24 scenarios "as described in subpart (c) above".
25 Just to be clear, are you referring to the

1 same matters there? I mean, are the scenarios defined
2 or identified in subpart (e) that are described as
3 being below the scenarios described up in subpart (c)?
4 A Yes. So where it says "as described below",
5 it's really talking about what was in the answer to
6 subpart (c). Earlier it was below and I guess when we
7 moved it to subpart (c) it should have said "above".
8 So they're both referring to the same thing.
9 Q Yes, I just wanted to be clear there was
10 nothing missing. Let's turn your attention to page 30
11 of your testimony.
12 A Okay. Yes.
13 Q Focus your attention on lines 9 and 10 and
14 ask you whether it's fair to summarize your testimony
15 there as expressing the view that it's unlikely that
16 mail processing plants have an opportunity to spread
17 cancellation mail work out evenly over the seven-hour
18 operating window?
19 A Can you repeat that question?
20 Q Is it fair to summarize your testimony there
21 as expressing your view that it's unlikely that mail
22 processing plants have an opportunity to spread the
23 cancellation mail workload evenly over the seven-hour
24 operating window?
25 A You mean do not have the opportunity?

1 Q Correct.
2 A I thought you said "have the opportunity".
3 Q It's unlikely that they have the
4 opportunity.
5 A Okay. Yes.
6 Q Okay.
7 CHAIRMAN GOLDWAY: Could you repeat that
8 question for me? I got a bit confused.
9 MR. TIDWELL: I was asking the witness
10 whether it was a fair characterization of his
11 testimony at lines 9 and 10 that mail processing
12 plants do not have the opportunity to smooth or to
13 spread the cancellation mail workload evenly during
14 the processing window, and he confirmed.
15 CHAIRMAN GOLDWAY: Okay.
16 BY MR. TIDWELL:
17 Q Turn if you will then to your response to
18 Postal Service Interrogatory No. 7. That would be T2-
19 7.
20 A Can you repeat which interrogatory that was,
21 please?
22 Q Postal Service No. 7.
23 A Okay.
24 Q And there in that response you say there is
25 no opportunity to spread the workload to smooth it

1 out. Can you reconcile those two statements for me?
2 A You mean one that says unlikely and there is
3 no opportunity?
4 Q Yes. I mean, is it your testimony that
5 there is absolutely, it's impossible for postal mail
6 processing managers to take the incoming cancellation
7 volume and spread it out over the seven-hour operating
8 window, that it absolutely cannot occur?
9 A Okay. I think I would characterize --
10 again, you have to take this in context of the
11 modeling that I was doing. With regards to the
12 cancellation in the proposed mail network versus what
13 is the current network, the mail volume for
14 cancellation is not going to be available in advance.
15 For DPS sort, because of holding that mail and then
16 only starting it the next day at noon, the DPS sort
17 mail was completely available prior to the DPS sort
18 window. So the testimony, what I am trying to assert
19 is whatever is the situation now, which per my
20 understanding of Witness Neri's testimony is that
21 there is not that opportunity to smooth out the volume
22 for cancellation workload currently, that would be the
23 same in the new proposed mail network because the
24 cancellation volume is not available in advance of the
25 cancellation window, just like it is currently.

1 So, in that context, I'm saying it's the
2 same as before and my understanding from Witness
3 Neri's testimony is that there is not that much of an
4 opportunity. So, you know, I don't want to say the
5 blanket there's no opportunity, but I think what I'm
6 trying to assert is that it is the same in terms of
7 cancellation as the current mail processing network.
8 If there are no opportunities, as Witness Neri seems
9 to suggest in his testimony, then there would be no
10 such opportunities.
11 Q Okay. So you're tracing that to Witness
12 Neri's testimony. Okay.
13 I'd like to direct your attention to your
14 response to Postal Service Interrogatory No. 6.
15 A Six, okay. Yes.
16 Q Okay. Would you agree that if the Postal
17 Service implements these service standard changes that
18 are at issue in this case that there's an opportunity
19 to consolidate the transportation of mail from post
20 office to plants with the relaxed service standards?
21 A From post office to plants.
22 Q Yes.
23 A What do you mean by consolidate mail from
24 post office to plants?
25 Q To run fewer trucks from post office to the

1 plants to which they're assigned if there is less
2 pressure. Let's say for collection mail, for
3 instance, that has a two-day, that might have a two-
4 day service standard as a result of the service
5 standard changes. Would the relaxation of the service
6 standard that would apply to that mail create an
7 opportunity to create less urgency to get mail from
8 the post office to the plant and perhaps create
9 opportunities to run fewer trucks and consolidate mail
10 on fewer trucks from that post office to its
11 associated plant?
12 A Okay. That's not clear to me that there is
13 that opportunity because, again, with regards to the
14 cancellation things are not changing that
15 significantly. It's really in the incoming and the
16 DPS sort having that extra day is providing those
17 larger windows. Given that the trucks are driving
18 further and windows for cancellation mail are not
19 significantly changing, at least to me it's not
20 immediately clear how much those opportunities are, so
21 I guess I would not venture to say that it's
22 immediately clear to me that there would be fewer
23 trucks.
24 Q It's not clear to you, but is it a
25 possibility?

1 A It is a possibility certainly.
2 Q You wouldn't rule it out?
3 A No, I wouldn't rule it out.
4 MR. TIDWELL: Okay. Madam Chairman, that's
5 all we have.
6 CHAIRMAN GOLDWAY: Are there any other
7 questions, followup on this from other participants?
8 If not, are there questions from the bench?
9 VICE CHAIRMAN LANGLEY: Yes.
10 CHAIRMAN GOLDWAY: Vice Chairman Langley.
11 VICE CHAIRMAN LANGLEY: Yes. Thank you, Dr.
12 Raghavan. As we sometimes have, we do have questions
13 that our technical staff, our analysts have asked to
14 be queried of our witnesses, so I do have a set of
15 questions for you.
16 THE WITNESS: Okay.
17 VICE CHAIRMAN LANGLEY: Your testimony
18 discusses your past experience with network
19 organization. Could you characterize the size of the
20 Postal Service mail processing and transportation
21 network in the context of other industries or
22 companies with which you have examined?
23 THE WITNESS: Okay. So are you talking
24 about the size of the mail processing network?
25 VICE CHAIRMAN LANGLEY: Yes.

1 THE WITNESS: In terms of how large of a
2 problem that is compared to other types of network
3 problems that I have looked at or worked at?
4 VICE CHAIRMAN LANGLEY: It's more the size,
5 the actual size of the organization, the scope of what
6 they must do, the number of facilities, the cost, work
7 hours, not the problem of the Postal Service but the
8 scope of what they do and number of facilities, costs,
9 all of that.
10 THE WITNESS: Okay. Again, I'm not sure I
11 fully understand the question. I'll try to answer it
12 and then you can ask me more if it wasn't quite.
13 I think the problem that they have and the
14 size of the problem is large and complex. In my prior
15 experience before I became a professor, I used to work
16 at a phone company called US West, and there, instead
17 of dealing with mail networks, we were dealing with
18 designing and again flow of data and voice calls on a
19 telephone network, and I would say these problems are
20 of comparable size.
21 VICE CHAIRMAN LANGLEY: Do you believe the
22 level of detail in modeling usually relates directly
23 to the size of the network's problem and problem is
24 analogous to like a question on a test?
25 THE WITNESS: I mean, I think again there

1 were different pieces of this modeling, so I'm not
2 sure which part. You know, there is the LogicNet,
3 there was the scoring tool, there was work done after
4 the LogicNet. Then there was work done by Witness
5 Martin. So there are lots of different pieces, so I'm
6 not sure if you're referring to the whole thing or
7 you're referring to a specific part.
8 COMMISSIONER ACTON: Can I, Professor? Vice
9 Chairman Langley I think is trying to cast some
10 information here for the record about how familiar you
11 are with modeling operations on the scale that the
12 United States Postal Service brings to the table,
13 which most people recognize as rather extraordinary.
14 CHAIRMAN GOLDWAY: And what level of detail
15 is needed. Do you need more detail when you have a
16 bigger problem or less detail because it's nationwide.
17 COMMISSIONER ACTON: Yes.
18 VICE CHAIRMAN LANGLEY: The complexity, does
19 that become overwhelming.
20 THE WITNESS: Right, I think that the larger
21 the problem the more complex it becomes, but I think
22 it's hard to say here is sort of the rule that, you
23 know, I think there is an art between how much of the
24 problem you want to model versus -- you know, I don't
25 know what time pressures one needs to get answers

1 within. So these are different factors to look at.
2 But certainly the larger the scale the larger the
3 scope, the larger the network the more the
4 constraints. It becomes a much more and much larger
5 and much more complex network or optimization problem
6 to try and find a good solution to.
7 VICE CHAIRMAN LANGLEY: Okay, I appreciate
8 that. Let me ask one more question again that is
9 being posed by our staff.
10 Is there an academic or industrial consensus
11 on how detailed network models need to be for the
12 solution to yield actionable results? I've never been
13 able to stump a professor before, so I do apologize.
14 THE WITNESS: Again, I'm not sure exactly
15 how to answer this question, so maybe you have stumped
16 me here. You know, I think the way I look at it, and
17 I don't think the Postal Service is unique. There are
18 other large organizations with similar complex
19 problems, some actually in the same sector that have
20 large teams of operations research professionals who
21 work on logistics problems on a day-to-day basis.
22 So I think I won't say that there is a
23 consensus that says, you know, here is the minimum
24 threshold, but I think there is consensus that, you
25 know, at some level you have to feel comfortable with

1 the extent to which you model the problem, and once
2 you get the results you have you need to make sure to
3 validate them. And in this particular case, if I may
4 add, there were no followup simulation studies that
5 were done to see whether the proposed mail, you know,
6 the changed proposed mail sorting network
7 operationally, if it had enough capacity, what might
8 be problems in going from sort of the current network
9 to the proposed mail sorting network.
10 And maybe, and I don't know if I'm going
11 beyond the scope, but I think to answer your question
12 it also depends on how significant change there is.
13 If there is a smaller change to a given, you know,
14 scenario from let's say this is what it is today and
15 here is where we want to go, if the change is not that
16 significant, then perhaps -- you know, you talked
17 about a threshold, maybe that threshold of how
18 stringent you are in terms of making sure, you know,
19 you dot all the Is and you cross all the Ts may be a
20 little bit lower than something where you completely
21 change the expectations and you slow down the mail
22 where there is no going back once you've made that
23 change.
24 And so I think that also plays into this
25 question of, you know, how much -- what is sort of

1 standard, and so I would say that if the change is a
2 complete change, then certainly you want to be sure in
3 terms of dotting the Is and crossing the Ts that, you
4 know, that it's right because there may be no chance
5 to sort of roll it back.
6 VICE CHAIRMAN LANGLEY: All right. Thank
7 you. Bear with me and let me ask one more question
8 which has two parts, and hopefully this is
9 understandable to both of us. When developing an
10 optimization model for an industrial or commercial
11 producer, is it standard practice to build a baseline
12 model to reflect the current process? Do you know
13 where you're starting from?
14 THE WITNESS: I don't think I can -- you
15 know, there is no -- I don't think I can say that
16 there is standard practice, you know, to build a model
17 for the current process, no. It really depends on the
18 context and what one is trying to achieve.
19 VICE CHAIRMAN LANGLEY: So you really don't
20 calibrate the model costs with current costs?
21 THE WITNESS: No. No, typically you're
22 going to try to improve the efficiency of let's say
23 the supply chain or whatever problem you're looking
24 at, and certainly, yes, you do look at what the
25 current costs are and you want to make an assessment

1 of how much better you are doing than the current
2 scenario. Sometimes that may involve building an
3 optimization to model the current situation, sometimes
4 it may not, but certainly a baseline would be what are
5 you doing currently.
6 VICE CHAIRMAN LANGLEY: So what are you
7 doing currently. Thank you very much.
8 COMMISSIONER ACTON: But, Professor, I'm a
9 little confused. I'm not sure I was clear if your
10 answer is yes, you do build a baseline or no, you do
11 not.
12 THE WITNESS: My answer is you start with a
13 baseline. Do you need an optimization model? I don't
14 know. It depends on the context.
15 COMMISSIONER ACTON: We're trying to get to
16 the matter of whether or not building a baseline is a
17 standard approach when you're doing this type of
18 optimization work because for me it seems otherwise
19 how would you gauge the relative improvement of
20 whatever it is you're trying to accomplish if you
21 don't know where you began before you arrive at where
22 you're heading.
23 THE WITNESS: So it's very problem-driven.
24 I think we both agree that you need a baseline, but I
25 think the question you're asking is do you need an

1 optimization model for the baseline, and I think that
2 really it depends on the context of the problem.
3 In this particular case, there is a change
4 in service standard, but there could be other problems
5 where things were done manually or by other processes
6 and you're building an optimization model to do a
7 better job. You know, I'll give you an example in
8 terms of scheduling airplanes, and so a baseline there
9 is not necessarily building an optimization model for
10 the current scenario. You already know the cost.
11 So let me maybe get back to your question.
12 I do think you need a baseline, and if you're changing
13 something in terms of how you're doing your
14 operations, it's certainly good to have an
15 optimization model to see what you would have done
16 currently versus what you would do in the new
17 scenario.
18 COMMISSIONER ACTON: Thank you.
19 CHAIRMAN GOLDWAY: So I think Commission
20 Acton's had the benefit of taking course work from
21 you, so he may understand this better than I, but
22 there is a baseline of what the Postal Service or any
23 client you might have is doing. There is an
24 optimization model for if they stayed the same but
25 optimized it.

1 THE WITNESS: Right.

2 CHAIRMAN GOLDWAY: What their baseline cost

3 would be, and then there's the model for the change.

4 THE WITNESS: That's correct.

5 CHAIRMAN GOLDWAY: So you're saying at a

6 minimum you need the baseline for existing, whatever

7 it's doing, but it might be that you would also want

8 an optimization model for staying the same as well to

9 compare the relative savings of the optimizing current

10 operations versus --

11 THE WITNESS: Yes.

12 CHAIRMAN GOLDWAY: But that depends on the

13 client.

14 THE WITNESS: It depends on the problem. It

15 depends on the --

16 CHAIRMAN GOLDWAY: In this case, the Postal

17 Service, did it have a baseline for costs?

18 THE WITNESS: In this case, I think the

19 Postal Service -- did it have a baseline for costs? I

20 think they have a computation of what they think their

21 savings are. What they did not do, which is what I

22 tried to do in my testimony, was to see whether there

23 were opportunities for bringing about efficiencies in

24 the current -- using the current service standard.

25 So they did I think do a very good job about

1 explaining where they could have operational
2 efficiencies and the cost pressures, but I think then
3 they went to this proposed service standard without
4 looking at what kind of operational gains they could
5 achieve in the current service standard, and so I
6 believe that was missing in terms of their analysis
7 of -- in their analysis.
8 CHAIRMAN GOLDWAY: The Postal Service did
9 use a model, the LogicNet model.
10 THE WITNESS: Yes.
11 CHAIRMAN GOLDWAY: But then you said they
12 also used other adjustments beyond that, didn't you?
13 THE WITNESS: Yes.
14 CHAIRMAN GOLDWAY: So one of the questions
15 that our staff wanted your opinion on is, is there a
16 typical range of alterations that can be made to model
17 results without going back and starting over again
18 with a model with new inputs? Has the Postal Service
19 made changes to such a degree that the model they're
20 presenting is worthwhile, or would you say it is not
21 necessarily reliable?
22 THE WITNESS: You know, I think the Postal
23 Service made a lot of changes to the answers from the
24 model. I don't want to say that the model is not
25 worthwhile. I certainly, you know, respect the

1 efforts involved and the expertise of the individuals
2 in terms of, you know, postal expertise and trying to
3 do all of the modeling. Given the scale, and I'd have
4 to look at my testimony, but there were a large number
5 of facilities that the model picked that were removed
6 and that were then put in because of operational
7 reasons. It might have been worthwhile to go back and
8 do some additional analysis, but I wouldn't go as far
9 as saying, you know, it's worthless.
10 I mean, it's hard to know. It's one of
11 these things unless -- I think that the number of
12 changes are significant enough that it raises
13 questions about the results of the model in terms of,
14 you know, going back and recalibrating or readjusting
15 the model to see if you can incorporate those
16 operational constraints that they then took into
17 account later.
18 CHAIRMAN GOLDWAY: And another question was
19 one of the things they did was to use their management
20 expertise to adjust the findings of the model. Can
21 you give us an example of how some other projects you
22 might have worked on have incorporated management
23 expertise?
24 THE WITNESS: So let me see. Do you mean by
25 management expertise in the modeling or management

1 expertise --

2 CHAIRMAN GOLDWAY: Well, they used a model

3 and then they said, well, but we have some management

4 expertise that says we should substitute one plant for

5 another or we should input a different number than

6 what came out of the model.

7 THE WITNESS: Right.

8 CHAIRMAN GOLDWAY: And I gather there is

9 always some reason, as you just said, for doing that,

10 and we were wondering whether you could give us an

11 example of how that's done in some other project other

12 than in the Postal Service.

13 THE WITNESS: I don't think I can give you a

14 specific example because in general when I have worked

15 on projects I've generally tried to incorporate as

16 much of the, you know, domain knowledge, and then

17 after that the organization has generally typically

18 used what we've come up with.

19 COMMISSIONER ACTON: What's domain

20 knowledge?

21 THE WITNESS: Domain knowledge meaning -- so

22 let me give you a very specific example. In this

23 case, apparently the LogicNet didn't pick Dulles

24 Airport as a sorting facility, but for operational

25 reasons it needs to be a mail sorting facility. So,

1 if you know ahead of time because of your expertise
2 these 75 facilities have to be in the network, you can
3 optimize around that in terms of incorporating that
4 information and saying let's fix these and then let
5 the LogicNet or whatever software you're using try to
6 optimize the rest of the network, and that is what I
7 mean by using --
8 COMMISSIONER ACTON: This gets to the point
9 we're trying -- well, this is the core of the question
10 is Postal Service management has made no secret of the
11 fact that they have employed apparently what you refer
12 to as domain knowledge in developing this assessment,
13 and the Commission is trying to gauge from your
14 professional experience how uncommon that is.
15 We're not necessarily at this point looking
16 to know whether or not you feel that it compromised or
17 enhanced the outcome. We want to know how unique
18 incorporating what apparently has a term of its own,
19 term of art, domain knowledge into this type of
20 assessment occurs.
21 CHAIRMAN GOLDWAY: No, no, I think what he's
22 saying is that the Postal Service didn't incorporate
23 this domain knowledge when it did its --
24 THE WITNESS: That's correct. They took the
25 results and they changed it.

1 CHAIRMAN GOLDWAY: And that he would have
2 advised that they should have.
3 COMMISSIONER ACTON: Okay. Then what's the
4 distinction between domain knowledge and the Postal
5 Service using information that it has about the
6 specifics of its localities when developing an
7 optimization?
8 THE WITNESS: I didn't quite catch that.
9 COMMISSIONER ACTON: I'm sorry, Professor.
10 CHAIRMAN GOLDWAY: I don't think they put
11 the specifics there.
12 THE WITNESS: Right. They did not, so there
13 are constraints that say that Dulles Airport has to be
14 in the optimization model. There were no such
15 constraints is what I was trying to say. LogicNet was
16 free to pick whatever facilities and clearly there are
17 operational constrains that for various reasons
18 certainly mail processing facilities, you know, have
19 to be there. So all I'm saying is that was not
20 incorporated and they made the changes after the fact.
21 It could have been incorporated in the modeling.
22 COMMISSIONER ACTON: All right, thank you.
23 CHAIRMAN GOLDWAY: Okay. And then there was
24 another question that I think sort of relates to that.
25 The appropriateness of the Postal Service's input

1 data, specifically the cost per square foot
2 assessment, what's your assessment of the cost per
3 square foot assessment as useful input data?
4 THE WITNESS: Cost per square foot, where
5 specifically?
6 CHAIRMAN GOLDWAY: The Postal Service, as we
7 are told by our staff, used an input data into the
8 model --
9 THE WITNESS: Okay.
10 CHAIRMAN GOLDWAY: -- which was including
11 the cost per square foot of facilities.
12 THE WITNESS: Okay. I took that number to
13 be appropriate. I did not focus on trying to figure
14 out if that was a correct or wrong number, so I can't
15 say anything about that.
16 CHAIRMAN GOLDWAY: Okay. And you estimate
17 that the Postal Service could maintain overnight
18 service with a network of around 250 facilities.
19 THE WITNESS: There was a range I think --
20 CHAIRMAN GOLDWAY: A range.
21 THE WITNESS: -- from 240 to --
22 CHAIRMAN GOLDWAY: To 270 or something.
23 THE WITNESS: -- 276 I think.
24 CHAIRMAN GOLDWAY: Two seventy-seven.
25 THE WITNESS: And, you know, with the caveat

1 that, you know, the modeling that was done as part of
2 the work that I did did not have the luxury of having
3 access to Postal Service people and, you know,
4 whatever other additional steps were taken. So, you
5 know, you have to sort of take that into account, that
6 the modeling that I did was sort of based on trying to
7 see what somebody else did and replicate it, and I did
8 not do all of the pieces. Particularly there was this
9 piece of figuring out the actual equipment in each
10 facility.
11 But in terms of if you are saying LogicNet
12 provided the baseline for the number of facilities,
13 yes, then using the same LogicNet model that the
14 Postal Service used and the windows that Witness Neri
15 provided for the current operations, it appears that
16 let's say 276, let's go with the larger number, is the
17 facilities can handle the current --
18 CHAIRMAN GOLDWAY: Did your work provide any
19 way to indicate what the cost savings to the Postal
20 Service would be if it went to that number rather than
21 the other?
22 THE WITNESS: No. No, there was no analysis
23 of the cost savings. The reason is that the numbers
24 that are used in the LogicNet model cannot be used as
25 numbers that would be actual cost savings, so the cost

1 savings piece of the analysis is done by Witness
2 Bradley, and I think that uses different pieces of
3 information that come from Witness Neri and Witness
4 Martin.
5 CHAIRMAN GOLDWAY: If there had been a
6 baseline cost, could this logic model then have been
7 used to measure cost savings?
8 THE WITNESS: The LogicNet only deals with
9 the transportation costs at a high level, so the plant
10 to post office, and unfortunately LogicNet cannot
11 model the plant to plant costs, so it wasn't modeled
12 in their model. So I would say that you couldn't use
13 it to get an exact -- you know, you could get a sense
14 of how much perhaps you could save approximately, but
15 no, I would not use it to get an exact sense of what
16 the cost savings were. And one of the issues is it
17 can't be used to do the plant to plant transportation
18 costs, so it's only modeling the piece that's plant to
19 post office in the LogicNet model.
20 CHAIRMAN GOLDWAY: Vice Chairman Langley has
21 a question and then I have one more.
22 VICE CHAIRMAN LANGLEY: I'm just curious.
23 So do you believe it's important to rerun a model if
24 there are modifications made to the original model?
25 You reran your model in response to I guess it was

1 Interrogatory No. 9.

2 THE WITNESS: Right.

3 VICE CHAIRMAN LANGLEY: So bottom line,

4 should the Postal Service have rerun its model?

5 THE WITNESS: Rerun its model after the

6 management changes?

7 VICE CHAIRMAN LANGLEY: Yes.

8 THE WITNESS: It would have --

9 VICE CHAIRMAN LANGLEY: Would it have

10 changed in your opinion?

11 THE WITNESS: See, I think it would have

12 given a larger level of confidence in the results that

13 have been provided if they had gone back and rerun the

14 model.

15 VICE CHAIRMAN LANGLEY: Thank you.

16 CHAIRMAN GOLDWAY: And then a few other

17 questions from the staff. Have you had a chance to

18 review the Postal Service's most recent update to its

19 network plan which divides the consolidations

20 opportunity into two phases?

21 THE WITNESS: I have not reviewed any

22 testimony related to that. I believe maybe a few

23 weeks ago I may have looked at the presentation that

24 was posted on their website where they talk about a

25 Phase I and a Phase II, but I haven't gone through any

1 detailed calculations or anything like that.

2 CHAIRMAN GOLDWAY: And in your academic or

3 professional experience, is it standard or common

4 practice to implement network changes in phases?

5 THE WITNESS: I guess I don't think I'm

6 qualified to answer that question. I think my

7 experience is more on the academic side in terms of

8 doing the modeling. This is more of an operational

9 question, so, you know, I'm not sure that I'm the best

10 person to answer that.

11 CHAIRMAN GOLDWAY: Do you have a sense if

12 you make a change in the network --

13 THE WITNESS: Right.

14 CHAIRMAN GOLDWAY: -- and then the phase

15 that kicks in is over a longer period of time or a

16 shorter period of time, is there less reliability if

17 the phasing takes a longer period of time, or is there

18 some sort of relationship between time for

19 implementation and the different phases?

20 THE WITNESS: I think maybe, and I alluded

21 to this earlier, I think if there's a very significant

22 change that you're completely changing the whole way

23 that the mail is processed, then as I said before, you

24 want to be a lot more careful that all of these

25 calculations you're doing are indeed, you know,

1 accurate. You want to hold it to a much higher
2 standard in terms of the modeling so that you're
3 absolutely sure that it's going to work.
4 In this case, if you're doing things in
5 phases, and my understanding is then in this Phase 1,
6 for the most part, it's going to be like the current
7 mail processing network except that overnight is only
8 for things that go to the same sorting facility, then
9 that's not as significant a change and there are fewer
10 risks in terms of looking at the modeling and getting
11 a sense of are you actually achieving the savings
12 because I think whatever numbers I may come up with or
13 the Postal Service may come up with or staff at the
14 PRC may come up with, in the end, unless you go and
15 make an operational change, you won't actually see --
16 that's really the final proof in terms of what the
17 savings are.
18 CHAIRMAN GOLDWAY: So it might be worthwhile
19 to do some measurement of actual savings after Phase
20 1?
21 THE WITNESS: I would certainly recommend
22 something like that because Phase 1 is closer to where
23 they are. I believe based on my testimony that
24 significant savings are possible in the current,
25 keeping the current standard or something close to

1 that, and it would be good to see what those savings
2 are before making a decision whether to really go and
3 go all the way.
4 CHAIRMAN GOLDWAY: Great. We have one other
5 kind of question here, but do we want to -- since you
6 took this course, maybe this is the question you
7 should ask.
8 COMMISSIONER ACTON: Professor, did you say
9 that LogicNet should not be used to estimate plant-to-
10 plant transportation costs?
11 THE WITNESS: I said LogicNet doesn't
12 incorporate the plant-to-plant transportation costs.
13 That is what I said.
14 COMMISSIONER ACTON: Would you say that
15 LogicNet is a central component of this part of this
16 discussion, I mean, of the contribution for Witness
17 Rosenberg?
18 THE WITNESS: Yes. I think LogicNet was
19 used to get a sense of how many facilities should be
20 used or should they have for the given mail processing
21 network.
22 COMMISSIONER ACTON: Have you used LogicNet
23 before?
24 THE WITNESS: No, I have not used LogicNet
25 previously.

1 COMMISSIONER ACTON: Do you know if LogicNet
2 is a respected analytical tool?
3 THE WITNESS: Yes, LogicNet is a respected
4 analytic tool. As I said in my testimony, it solves a
5 different problem than the problem that the post
6 office has. It's used a lot in supply chain context,
7 but it's solving a very specific problem.
8 COMMISSIONER ACTON: Do you believe that
9 formal training in its use is important to optimizing
10 the use of the optimizer?
11 THE WITNESS: No.
12 COMMISSIONER ACTON: Do you believe that
13 formal training in the interface usage of this
14 application is important to maximize the benefits of
15 the use of this application, training from the
16 developer of the product?
17 CHAIRMAN GOLDWAY: Somebody should know how
18 to use this product, be trained on how to use it?
19 COMMISSIONER ACTON: Well, let's see what he
20 thinks.
21 THE WITNESS: I'm not sure in the sense
22 that, you know, when we used it, the person who used
23 it on my behalf, you know, did not have specific
24 training from the vendor, so I really think it depends
25 on the skills of the individual, you know, but I

1 think --

2 COMMISSIONER ACTON: Well, there --

3 THE WITNESS: Go ahead, sorry.

4 COMMISSIONER ACTON: I think there is a

5 distinction between the value added proposition of an

6 individual being trained to use the interface of the

7 software as opposed to the value of your testimony

8 because of your wealth of experience on this front.

9 I'm just trying to understand that if you're

10 going -- the Commission has encouraged the Postal

11 Service to employ modern technology in trying to

12 develop these sorts of proposals, and it's encouraging

13 to see that they are indeed doing that using LogicNet.

14 I'm trying to understand if they have compromised that

15 progress in any fashion by not also investing in

16 officially training the operators of their LogicNet

17 and other new technologies to get the most out of

18 their investment.

19 THE WITNESS: Okay. Again, I mean, I would

20 say that whatever tools I used, it would be best for

21 the people who used them to sort of know as much about

22 it to maximize the value. But I think maybe I want to

23 add that it's not just LogicNet. There are other

24 optimization packages and tools that can be used to

25 directly solve the Postal Service's problem, and

1 LogicNet was one of the things that they used.
2 CHAIRMAN GOLDWAY: Do you have a
3 recommendation about what might have been better to
4 use?
5 THE WITNESS: I mean, again, I don't know
6 what constraints they were working on, what resources
7 they have, you know, how quickly they needed to get an
8 answer. So I guess all I could say is if it was
9 important to model the plant-to-plant transportation
10 costs, which you can do in LogicNet, again, if it was
11 important, it's possible to directly solve the problem
12 without using LogicNet.
13 LogicNet is something that's sitting between
14 the optimization software. It's a way to input the
15 problem and then it hands it over to a software
16 package. In this case, I believe it's an IBM package
17 called CPLEX. But it's possible to directly write a
18 model and solve it directly in an optimization
19 package. There are several of them, CPLEX, Gurobi,
20 and of course it needs significantly more expertise.
21 That's why I said I don't know what
22 constraints they were on in terms of time, whether
23 they had those types of people. Many large
24 organizations have 25 people with Ph.D.s in OR,
25 operations research, who work on these types of

1 problems. So I think perhaps given the constraints
2 they had LogicNet was the best option, but if they had
3 wanted to do these additional things, there are
4 certainly other packages you could use.
5 COMMISSIONER ACTON: Well, generally
6 speaking, the Postal Service is operating under an
7 enormous level of constraints, but I don't want to
8 belabor the point. I'm just trying to get some
9 informed viewpoints from --
10 THE WITNESS: Okay. So let me be very
11 specific --
12 COMMISSIONER ACTON: -- but let me say,
13 Professor, before you give another effort to enlighten
14 me, we're going to be writing a report and making some
15 viewpoints and recommendations, and if you take this
16 out of the LogicNet context and sort of speak about
17 your professional experience in this on whether or not
18 training is something worthy of investment. Maybe it
19 isn't. I'm not looking to ask you to say what I want
20 to hear. I want the benefit of your honest opinion.
21 THE WITNESS: Okay. I think the -- so let
22 me back up. I do think training is important, and
23 I'll be very specific. I'll give you examples of two
24 organizations that are in the package industry, UPS
25 and FedEx. They have large teams of operations

1 research professionals, people who have expertise like
2 Witness Rosenberg but many more people. They have
3 Ph.D.s in operations research, and they work on these
4 types of problems on a daily basis.
5 I don't know enough about the Postal Service
6 to know if they have that or they don't have that, but
7 when you have that in-house expertise, then certainly
8 you can go beyond LogicNet and do the kinds of things
9 that were suggested in my testimony.
10 COMMISSIONER ACTON: Okay.
11 CHAIRMAN GOLDWAY: So I think what I'm
12 presuming from those recent comments is that a
13 proposal by FedEx or UPS to change its network, which
14 would not be subject to public review the way this is,
15 but it would be at a level that's more sophisticated
16 with more of the potential options and conditions put
17 into it than what we have here?
18 THE WITNESS: I can only hypothesize
19 because, you know, I haven't seen a -- you know, as
20 you said, it's not subject to review. But I know
21 former Ph.D. students have gone and worked at FedEx
22 and UPS in these organizations and they use these
23 operations research models. There is a vast
24 literature, and I'm happy to share some with you,
25 where FedEx and UPS have written about the kinds of

1 operations research modeling they've used to improve
2 their operations in their package sort or, you know,
3 in their networks.
4 CHAIRMAN GOLDWAY: Okay. Thank you. I
5 think I've asked all my questions.
6 COMMISSIONER ACTON: One last one.
7 CHAIRMAN GOLDWAY: Commissioner Acton?
8 COMMISSIONER ACTON: One last one, please,
9 Professor.
10 THE WITNESS: Yes.
11 COMMISSIONER ACTON: You know there's a lot
12 of rhetoric in the industry which you may be familiar
13 with or not that calls for the Postal Service to
14 behave more like a business, a private sector pursuit
15 rather than a government agency. If you were in a
16 business school context and applying strictly business
17 school principles and best-business practices and we
18 were looking at the questions of solutions, of process
19 and then solutions and you were grading your students
20 upon how they performed in presenting and analyzing
21 this case study, what sort of metrics would you employ
22 to better understand and better convey to those
23 people, to your students, how it is they might have
24 done a better job to craft a good process with good
25 solutions?

1 THE WITNESS: Again, are you talking about
2 sort of the overall big picture Postal Service problem
3 or are you talking about just this mail processing --
4 COMMISSIONER ACTON: I'm not being specific
5 to the industry. I'm talking about when you teach
6 students how to develop solutions and process to find
7 those solutions, are there a common set of
8 denominators that you're employing when you look at
9 their work and try to decide if they are doing even
10 the most basic sort of application of the typical sort
11 of principles you would expect to see? I mean, are
12 there some touchstones that are in common? Maybe the
13 answer is no. I don't know.
14 THE WITNESS: I think this question is too
15 open-ended. I don't think I should -- I don't feel
16 comfortable answering that.
17 COMMISSIONER ACTON: That's fair. I hope
18 you'll give my best regards to all of your esteemed
19 colleagues at Smith School of Business.
20 THE WITNESS: Certainly.
21 VICE CHAIRMAN LANGLEY: Let me ask just one.
22 CHAIRMAN GOLDWAY: Oh, sure.
23 VICE CHAIRMAN LANGLEY: One further
24 question. It's something that struck me when you said
25 that both UPS and FedEx have the professional

1 resources to really apply and utilize operation
2 research modeling.
3 For the Postal Service, which is under
4 financial duress as well as being limited in what it
5 can pay employees, what would be a typical salary of
6 somebody with a Ph.D. who can bring this experience,
7 academic and professional experience, to bear. And I
8 imagine, as you said, they have perhaps 20 people
9 working on these problems at UPS and FedEx. So what
10 would the Postal Service need in order to be on par
11 with that?
12 THE WITNESS: I think that it's not --
13 VICE CHAIRMAN LANGLEY: You may not be able
14 to answer that.
15 THE WITNESS: Well, I mean, I think there is
16 certainly a cost, but I think you also have to look at
17 how much that group or that organization is helping
18 you in terms of finding savings. And I think sort of
19 the bottom line is perhaps it's a significant cost,
20 but if they're bringing you, you know, 10 or 50 times
21 or 100 times as much savings from using these
22 analytical techniques, then perhaps it's worth it.
23 And in terms of specific numbers, you know,
24 I don't know because then you've got to add up
25 benefits and so on and so forth, but, you know, I

1 think in general those organizations that have used or
2 have such in-house expertise have found that it has
3 more than paid for itself.
4 VICE CHAIRMAN LANGLEY: Thank you.
5 CHAIRMAN GOLDWAY: Is there any other
6 question from the Postal Service? Do you want to
7 follow up on any of this?
8 MR. TIDWELL: Give me a minute, Madam
9 Chairman.
10 No.
11 CHAIRMAN GOLDWAY: Mr. Laver, do you need
12 some time with your witness?
13 MR. ANDERSON: Madam Chairman, if I may.
14 CHAIRMAN GOLDWAY: Oh.
15 MR. ANDERSON: Darryl Anderson for the APWU.
16 I'd like to follow up in two areas that were raised by
17 the Commission if I may. I'll try to be brief. Thank
18 you for indulging me.
19 CROSS-EXAMINATION
20 BY MR. ANDERSON:
21 Q Hello, sir. I'm Darryl Anderson. I'm
22 counsel for the American Postal Workers Union. We're
23 an Intervenor here. I wanted to follow up on the
24 issue of operations expertise in Mr. Neri's testimony.
25 I didn't see any examples in Mr. Neri's testimony or

1 in yours where specific areas of his expertise were
2 employed to refine the Postal Service analysis.
3 Quite the contrary, I want to see whether
4 you agree with me that on the issue of 24-hour
5 operating, when smoothing the workload over a 24-hour
6 operating window, which was one of the assumptions his
7 analysis used, my understanding of your testimony is
8 you're very critical of that because in fact that does
9 not comport with Postal Service reality, is that
10 correct?
11 A I don't know about what Postal Service
12 reality is, but I think my testimony was effectively
13 that -- and this was my concern -- Witness Bradley was
14 using those productivity gains from Witness Neri's
15 testimony. I think that was close to $900 million,
16 and when I was trying to understand where that number
17 came from, I understood it was from the spreadsheet
18 where they looked at what happened if they smoothed
19 traffic.
20 And I think the point I was trying to make
21 was given the new windows, the traffic or the mail
22 volume was not really being smoothed over 24 hours as
23 he was presuming in his calculation.
24 Q Yes. If you needed to refresh your
25 recollection, this is on page 30 --

1 A No, I remember what I did, but I don't know
2 what Postal Service reality is. All I'm saying is
3 that calculation was making an assumption that did not
4 fit in with what were the new windows in the proposed
5 mail processing network.
6 Q My point is that Witness Neri was held up as
7 an example of a postal manager with expertise whose
8 judgment was used to sort of take his word for it, he
9 knows what he's talking about. But when you bore into
10 the specifics of the assumptions he made, it reflected
11 the opposite of expertise about postal or insight into
12 postal management. In fact, he was making an
13 assumption which did not reflect the reality of the
14 Postal Service processing. Even in its revised
15 system, it would be different. And I gather you agree
16 with that.
17 A I agree with what I said in my testimony,
18 but I did not say that Witness Neri was not an
19 operational expert. You know, I'm not saying that.
20 Q You may well be, but I think it's fair to
21 say that you didn't in this -- with regard to
22 smoothing operations over a 24-hour period, if he has
23 that expertise, he didn't apply it there.
24 A Okay. He did not coincide with what the
25 windows were, and so in my opinion, that wasn't the

1 right way to do the calculation for the productivity
2 gain.
3 Q And another example where he may have
4 applied his expertise but didn't is with regard to the
5 assumption of eight-hour tours, and you discuss this
6 on page 31 of your testimony.
7 MR. TIDWELL: Madam Chairman, the Postal
8 Service is going to object to this line of
9 questioning. It doesn't follow up on any of the
10 Postal Service's cross or any of the questions from
11 the panel.
12 MR. ANDERSON: No, it certainly does.
13 Commissioner Acton was asking the witness about Mr.
14 Neri's operational expertise and whether that was an
15 appropriate basis on which the Postal Service could
16 assume savings for operational efficiencies. And the
17 fact is that we wonder the same thing because we
18 studied Witness Neri's testimony seeking to find where
19 these operational insights were, and I think this
20 witness's testimony was quite helpful in piercing that
21 bubble because --
22 MR. TIDWELL: But I don't recall there --
23 CHAIRMAN GOLDWAY: I think, Mr. Anderson, if
24 you have a question for this witness rather than --
25 MR. TIDWELL: Arguing.

1 CHAIRMAN GOLDWAY: -- you know --

2 MR. ANDERSON: I wanted to ask him --

3 CHAIRMAN GOLDWAY: -- making the argument

4 that I assume you will make in the written documents

5 to us.

6 MR. ANDERSON: I'm just responding to the

7 objection, Madam Chairman.

8 CHAIRMAN GOLDWAY: Yes, but I'm not sure

9 where your question was going and if you're --

10 MR. ANDERSON: Well, the question was, is

11 one would have -- if management expertise is to be

12 applied, wouldn't an area of expertise be how in fact

13 workload is assigned to workers. I mean, Witness Neri

14 assumed that what this witness characterized in his

15 testimony as the arbitrary nature of the tour is used,

16 that is, eight-hour blocks of time. And as the

17 witness explained in his testimony, that's not

18 reality. As he said, labor agreements permit much

19 more flexibility than that.

20 And so on the topic of whether Mr. Neri's

21 testimony reflects the application of management

22 expertise and should therefore be credited, at least

23 in these two areas the witness found specific fault.

24 And I just want to --

25 CHAIRMAN GOLDWAY: Well, you had a question

1 for him about the 24-hour window.

2 MR. ANDERSON: Right.

3 CHAIRMAN GOLDWAY: Now you have a question

4 for him about the eight-hour blocks of time.

5 MR. ANDERSON: Yes.

6 CHAIRMAN GOLDWAY: The witness can respond

7 to whether he thinks the eight-hour block of time

8 impacts the question of smoothing out the processing

9 over a 24-hour period.

10 THE WITNESS: Okay. So I'm still not sure

11 what the question is, but let me try. Or do you want

12 to repeat a specific question?

13 BY MR. ANDERSON:

14 Q No, go ahead. That's fine.

15 A Witness Neri assumed three eight-hour tours

16 that started at specific times and ended at specific

17 times. Are you asking me that if those eight-hour

18 tours started at different times as well as if they

19 were part-time workers if those productivity numbers,

20 calculations would be lower or -- I'm not sure.

21 Q I think that was -- I think your written

22 testimony actually addresses that issue.

23 A Yes.

24 Q Okay. So what I really meant to say was in

25 addressing a problem like this, and maybe this is not

1 within your expertise, but in addressing a problem
2 like this, would you not expect management to provide
3 the insight that you provided in your testimony? If
4 management expertise is to be credited, it should
5 instead of using eight-hour blocks of time use the
6 more sophisticated analysis that you alluded to on
7 page 31 of your testimony?
8 MR. TIDWELL: And, Madam Chairman, the
9 Postal Service's objection still stands out there.
10 This line of questioning doesn't follow up either on
11 our cross-examination or on the questions that came
12 from the bench. It isn't appropriate followup.
13 CHAIRMAN GOLDWAY: Well, I think it does
14 tangentially, but I think the arguments based on the
15 conversations we've already had with Mr. Raghavan
16 could be --
17 MR. ANDERSON: I think the point has been
18 brought up --
19 CHAIRMAN GOLDWAY: -- mentioned in the
20 APWU's arguments without further imposing on the
21 witness.
22 MR. ANDERSON: Thank you, Madam Chairman. I
23 have one specific question that I think is appropriate
24 on a different topic. I think it's appropriate for
25 this witness.

1 CHAIRMAN GOLDWAY: Try it.

2 BY MR. ANDERSON:

3 Q Dr. Raghavan? Have I got that right?

4 A That's correct.

5 Q From your analysis, do you understand that

6 the first portion of the Postal Service's Phase 1

7 deployment of its network consolidation plan is to

8 begin in July and is to entail the closing of

9 approximately 48 facilities? Are you familiar with

10 that?

11 A I saw that on a PowerPoint on their website.

12 Q Do you have a level of confidence that would

13 permit you to offer an opinion as to whether in

14 closing 48 facilities they would be able to maintain

15 service standards without reducing them with closure

16 of merely 48 facilities? Can you answer? Do you have

17 an opinion on that subject?

18 MR. TIDWELL: Objection, Madam Chairman. I

19 don't see how that question follows up on any of the

20 cross earlier today.

21 CHAIRMAN GOLDWAY: Well, we asked about the

22 first phase and phasing it in, but I think the witness

23 is going to say no, so let him just say no and then

24 move on.

25 THE WITNESS: I haven't done any specific

1 calculations, so, you know, my earlier testimony gives
2 you a ballpark on the number of facilities that are
3 likely to be needed to maintain the current service
4 standard. But with regards to their specific
5 proposal, you know, I haven't done a logic -- you
6 know, I haven't done the modeling, but 48 sounds small
7 enough.
8 MR. ANDERSON: Thank you.
9 CHAIRMAN GOLDWAY: Okay. Thank you.
10 Now, Mr. Laver, would you like some time
11 with your witness?
12 MR. LAVER: Please, Madam Chairman. I would
13 not anticipate I would need more than about five
14 minutes of redirect and about five minutes with the
15 witness, so we could wrap up before 1 if we could have
16 about a five-minute break.
17 CHAIRMAN GOLDWAY: Okay. And just before we
18 do that, Postal Service, do you have an estimate of
19 how long your questions are going to be for the last
20 witness?
21 MR. TIDWELL: Madam Chairman, I'm told that
22 it could be in the neighborhood of 45 minutes.
23 CHAIRMAN GOLDWAY: Okay. So we do
24 definitely need to break for lunch. So 10 minutes you
25 say you need?

1 MR. LAVER: Five minutes with my witness.
2 Thank you.
3 CHAIRMAN GOLDWAY: Okay. So we'll come back
4 here in five minutes. Thank you.
5 (Whereupon, a short recess was taken.)
6 CHAIRMAN GOLDWAY: We're back. Six minutes.
7 MR. LAVER: I apologize for the minute
8 delay, Madam Chairman. Hopefully I can make it in
9 four minutes worth of questioning.
10 CHAIRMAN GOLDWAY: All right, Mr. Laver.
11 REDIRECT EXAMINATION
12 BY MR. LAVER:
13 Q Dr. Raghavan, I have a few questions
14 following up on what counsel and the Commission had
15 asked you, and specifically you talked a little bit
16 earlier about validation of a modeling effort. So
17 what steps would you in general expect to see in
18 validating a modeling effort?
19 A I think if you have something that's
20 existing to compare your model to, then using that,
21 you know, making sure that for something you know the
22 answer for your model gives you the same answer or
23 something in the ballpark would be a step in
24 validating a model.
25 Q So drilling down to this specifically with

1 the Postal Service's model, if you were to take that
2 example and extrapolate to the Postal Service's
3 situation, what would you expect to validate their
4 model here?
5 A Again, there are lots of different pieces of
6 the analysis, so I'll give you maybe a couple of
7 examples. One was this scoring tool that was used to
8 find or to come up with some ideas of mail processing
9 windows, but we found that it didn't really -- if I
10 looked at the mail processing windows currently, the
11 scoring tool came up with a number of facilities that
12 were twice as many as they currently have. So it
13 didn't really do a reasonable job of modeling the
14 current network. So I would say that in this case,
15 it, you know, wasn't validated, and as I said in my
16 testimony, I will not rely on its results.
17 Q Okay. Now my second question is more from a
18 general perspective here, and I'm going to ask you
19 because we've talked about the validity of the Postal
20 Service's efforts. Now, in the Postal Service
21 attempting to solve its problem -- and this goes
22 beyond just LogicNet. This is also with the
23 management input. This is also with the scoring tool.
24 With the Postal Service's efforts to solve its
25 problem, which I'll characterize as achieving cost

1 savings through changes in mail processing and
2 transportation, would you as an external evaluator
3 characterize the efforts as robust and complete?
4 A No. I guess I would say -- I guess my
5 feeling, and I thought that was what I was expressing
6 in my testimony, was no, I feel that it has several
7 significant shortcomings, that there were costs that
8 weren't modeled.
9 In terms of the results that they had, for
10 example, as I mention in my testimony, there was no
11 simulation at the end. I would have liked -- I mean,
12 it would have been ideal to -- so I view the fact that
13 they used quantitative modeling as a good step, but on
14 the flip side, I think what they did was -- did you
15 say robust and complete? No, I don't think it was
16 complete. I think additional things would need to be
17 done to make sure that the results that they're
18 getting are indeed valid and something that they can
19 be comfortable with.
20 And let me give you an example. There's a
21 complete change in the way that the mail will be
22 processed I think in Phase 2. I didn't see anywhere
23 in the testimony where they might have tried that out
24 in a plant to see what it entailed, you know, what it
25 does to the mail flows, what it would do in terms of

1 how the trucks came in.

2 And I think I raised an issue of the fact

3 that mail is just going to sit in the mail processing

4 center. So I would have liked -- beyond the

5 optimization, I think there's a lot more in terms of

6 trying to make sure that the proposed changes are

7 something that, you know, from an operational

8 perspective, perhaps actually implementing it or using

9 simulation software or packages, something to see that

10 it could actually have been done or what the issues

11 might have been. So I guess it's a long answer, but

12 maybe the short one is no, I don't think it's

13 complete.

14 Q And I have one final question, and we spoke

15 a little bit earlier, and you spoke at length with the

16 Commissioners about including this subjective

17 management expertise at the tail end of the model.

18 Now would you say that that would be routine or

19 industry practice to include a subjective management

20 expertise that changed the results of the model at the

21 end?

22 A Okay. Now --

23 Q Perhaps I can rephrase the question.

24 A Okay.

25 Q If one of your students were to suggest a

1 modeling effort in a project where at the conclusion
2 of it they said, well, I'm changing all these results
3 subjectively based on my own knowledge, would you have
4 found that to be a sound methodology?
5 A I guess to answer your question, you know,
6 if at the outset -- and I tried to respond to this
7 when I think the Postal Service asked a question. If
8 everything is subject to change at the end, then it
9 raises the question what are we doing the modeling
10 for. So good modeling is informed by what management
11 expertise -- you know, so you want to incorporate as
12 much of this expertise in doing the modeling. You
13 want to go and find out what are the constraints.
14 And then if you do that, I think then any
15 changes that there are at the end would be minimal as
16 opposed to a much more drastic one, in this case maybe
17 half of the facilities were removed and, you know,
18 half the facilities were added.
19 So I would like -- I mean, the modeling
20 effort has to include that, and in that case then,
21 yes, it is probably, you know, few changes here and
22 there are probably routine. But if it's completely
23 changing the results, then I think it raises a
24 question about, well, then what was all the modeling
25 effort for.

1 MR. LAVER: Thank you, Madam Chairman. I
2 have nothing further. Unfortunately I could not make
3 the minute back up.
4 CHAIRMAN GOLDWAY: Well, Mr. Laver, we'll
5 take it out in blue cigar-shaped cookies. Those of us
6 here at the Commission will know what that means.
7 Mr. Raghavan, that completes your testimony
8 here today. We thank you for you appearance and your
9 contributions to the record. I think we're all
10 impressed with your knowledge and the high level of
11 professionalism that you provided to us in reviewing
12 the information presented by the Postal Service. And
13 we hope that this is not the only time that you'll be
14 involved in postal issues and that we can encourage
15 you to participate again at some other time.
16 THE WITNESS: It would be my pleasure.
17 Thank you very much.
18 (Witness excused.)
19 CHAIRMAN GOLDWAY: Thank you.
20 We will now break for lunch, and we'll only
21 take a short lunch, 45 minutes. Be back here at a
22 quarter of 2 or as close to that as possible. We'll
23 have one witness, and then we will have some business
24 with regard to putting into the record the testimony
25 of the witnesses who aren't appearing here today.

1 Thank you. See you in 45 minutes.

2 (Whereupon, at 1:03 p.m., the hearing in the

3 above-entitled matter was recessed, to reconvene at

4 1:45 p.m. this same day, Wednesday, June 13, 2012.)

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1 A F T E R N O O N S E S S I O N

2 (1:48 p.m.)

3 CHAIRMAN GOLDWAY: Okay. We're resuming the

4 public hearing for this case, N-2012-1, and we have a

5 witness lined up.

6 Postal Service, are you okay with just Mr.

7 Hollies here to begin?

8 MR. HOLLIES: Yes, we're ready to move

9 forward. Thanks.

10 CHAIRMAN GOLDWAY: All right. We have a

11 quorum here on the Commission, so we'll begin.

12 MR. LAVER: Madam Chairman, Chris Laver on

13 behalf of the Public Representative. We would like to

14 call Dr. Kevin Neels to the stand.

15 CHAIRMAN GOLDWAY: Okay. But before I did

16 that, I just wanted to have one procedural motion,

17 which is that earlier today the counsel for APWU asked

18 to designate written cross-examination into the record

19 for the National Newspaper Association, witnesses that

20 had already testified and been excused from the

21 hearing room.

22 It's a little irregular to allow the cross-

23 examination into record at this time. I suggest that

24 the counsel for the APWU put this request in writing

25 and perhaps we can then get in writing something from

1 the NNA witnesses so that we can correctly add this to
2 the record.
3 MR. ANDERSON: Thank you, Madam Chairman.
4 CHAIRMAN GOLDWAY: Okay. All right. Now
5 that we've done that, Mr. Laver, would you begin?
6 MR. LAVER: My apologies, Madam Chairman.
7 The Public Representative would like to call
8 Dr. Kevin Neels to the stand.
9 CHAIRMAN GOLDWAY: Mr. Neels, would you
10 stand, please?
11 Whereupon,
12 KEVIN NEELS
13 having been duly sworn, was called as a
14 witness and was examined and testified as follows:
15 CHAIRMAN GOLDWAY: Thank you. You may sit
16 down.
17 Mr. Laver.
18 DIRECT EXAMINATION
19 BY MR. LAVER:
20 Q Dr. Neels, if I could ask if you could push
21 the button on your microphone so that green light
22 comes on, and keep it about six to eight inches away
23 so the court reporter can hear everything.
24 Now earlier this afternoon I provided you
25 with two copies of a document entitled the Direct

1 Testimony of Kevin Neels on Behalf of the Public
2 Representative, PR-T-1. Did you have a chance to
3 examine those copies?
4 A I did.
5 Q Was this testimony prepared by you or under
6 your supervision?
7 A It was.
8 Q Do you have any changes or corrections to
9 make to this testimony?
10 A I don't.
11 Q Did we make an addition to the testimony?
12 A Well, since it was filed, we've added
13 Appendix A, which was inadvertently omitted, which is
14 my résumé. So that's been added to it here.
15 Q Okay. And if you were to testify orally
16 today, would the content of your testimony be the
17 same?
18 A It would.
19 Q Now do you sponsor any library references
20 associated with your testimony?
21 A I don't.
22 Q Excellent.
23 MR. LAVER: Madam Chairman, I would like to
24 move that the direct testimony, corrected direct
25 testimony, of Kevin Neels be entered into the record.

1 CHAIRMAN GOLDWAY: Any objections?

2 (No response.)

3 CHAIRMAN GOLDWAY: Hearing none, I'll direct

4 counsel to provide the reporter with two copies of the

5 corrected testimony of Kevin Neels. That testimony is

6 to be received into evidence, and it is to be

7 transcribed into the record.

8 (The document referred to was

9 marked for identification as

10 Exhibit No. PR-T-1 and was

11 received in evidence.)

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PR-T-1

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

Mail Processing Network
Rationalization Service Changes, 2012

Docket No. N2012-1

DIRECT TESTIMONY OF KEVIN NEELS

ON BEHALF OF THE

PUBLIC REPRESENTATIVE [ERRATA]

June 13, 2012

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1

2 # I. INTRODUCTION

3 ## A. Autobiographical Sketch

4 My name is Kevin Neels. I am a Principal at The Brattle Group, an economics
5 consulting firm headquartered in Cambridge, Massachusetts. I lead that company's
6 transportation consulting practice. I have more than 30 years of experience providing
7 economic analysis, research, and consulting services to a wide range of clients. These
8 clients have included government transportation agencies, as well as firms in the postal,
9 railroad, airline, and auto manufacturing industries. My work has frequently addressed
10 issues relating to regulatory policy and the proper relationship between the public and
11 private sectors. I have previously submitted testimony before a number of different
12 regulatory bodies. I have also testified in international arbitrations, and in state and
13 federal courts.

14 Prior to joining The Brattle Group, I served with a number of other organizations,
15 including Charles River Associates (now known as CRA International); the Rand
16 Corporation; the Urban Institute; Peat, Marwick & Mitchell (now known as KPMG); and
17 the consulting firm of Putnam, Hayes & Bartlett. I am a member of the American
18 Economic Association and Chairman of the Committee on Freight Transportation
19 Economics and Regulation of the Transportation Research Board, an arm of the
20 National Academy of Sciences. I hold a Ph.D. from Cornell University. A copy of my
21 resume is attached as Appendix A.

On a number of prior occasions, I have been asked to offer expert testimony in legal and regulatory proceedings, including testimony relating to the regulation of postal rates. In particular, I have testified for UPS before this Commission. In Docket No. R97-1, I submitted testimony on a statistical analysis of mail processing cost variability presented by Dr. Michael Bradley on behalf of the United States Postal Service. In Docket No. R2000-1, I submitted testimony criticizing an updated version of that same study. In that same proceeding I also submitted testimony on transportation costs. In R2006-1, I again submitted testimony on mail processing costs.

B. Summary of Testimony

I have been asked to comment upon the relationship between service quality standards and rates in a rate cap regime, and to discuss how regulated firms and regulatory bodies make trade-offs between these variables. I have been asked in particular to comment upon the regulatory implications of the U.S. Postal Service's request for authorization to relax delivery standards for First-Class Mail and Periodicals mail, which is the subject of this proceeding.

The following section provides a brief overview of the Postal Service's proposal and the rationale supporting it. I then provide a brief description of the regulatory scheme under which the Postal Service currently operates. This description is followed by a discussion of the economic rationale for price cap regulation. I then discuss the relationship between price and quantity, and the particular concerns about quantity that arise under price cap regulation. I conclude with a discussion of the regulatory implications of the service standard changes that have been requested by the Postal Service

II. OVERVIEW OF THE POSTAL SERVICE'S PROPOSAL

As all parties to this proceeding know, the Postal Service is currently operating at a loss that is expected, unless something is done, to increase in the future. These losses have been attributed to declines in mail volume and revenue, and in particular in the volume of and revenue from First-Class Mail. These volume losses are thought be the result of systematic changes in the economy, including the growing reliance by businesses and households on electronic communication. The Postal Service has responded to these financial challenges with a variety of cost reduction programs. These efforts have included reductions in capacity at Airport Mail Centers, removal of mail processing from Processing and Distribution Centers/Facilities and other network configuration changes.[1]

As mail volume has continued to fall, and the Postal Service has continued to search for ways to reduce its costs. As part of "a fundamental realignment of the mail processing network" the Postal Service has proposed to reduce costs through a substantial reduction in the number of Processing and Distribution Centers/Facilities.[2] Under this proposal the number of such centers would fall from 251 to roughly 200.[3] At the same time, the Postal Service proposes to make adjustments to the inter-plant transportation network, resulting in additional cost savings through better capacity utilization.

In proposing these changes the Postal Service has argued that the size of the network and the number of processing facilities it operates is driven by the requirements for handling of First-Class Mail at its current standards of service. "Historically, to a

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[1] *See* USPS-T-1, section II.A.

[2] USPS-T-1 page 9, line 20.

[3] USPS-T-1 page 10, line 6.

great extent, postal mail processing and transportation network infrastructure and mail processing technology have been configured and designed to accommodate pursuit of the service standards applicable to First-Class Mail, with considerable emphasis on meeting overnight service standards."[4] The Postal Service has argued that a relaxation of services standards for First-Class Mail will allow it to consolidate mail processing into a smaller set of facilities, and in the process, permit it to shed significant costs, expanding utilization of the machinery used for Delivery Point Sequencing (by expanding the time window in which such operations are conducted) reducing transportation costs through a reduction in inter-plant truck movements. Proposed service standard changes include eliminating overnight delivery of First-Class Mail for any origin-destination combination currently served at that standard and increasing delivery times for many of the other origin-destination combinations that currently receive First-Class Mail service at a two day standard. All told, well over half of First-Class Mail volume will have its delivery standard relaxed by one day.[5]

III. THE CURRENT POSTAL REGULATORY SYSTEM

The regulatory regime under which the U.S. Postal Service currently operates was established by Postal Accountability and Enhancement Act (Act),[6] which was enacted in December of 2006. That Act divided the products offered by the Postal

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[4] USPS-T-1 page 4, line 4. In the original, the text quoted here has a footnote explaining that facilities for processing packages, Express Mail, Priority Mail, and International mail are not configured for serving First-Class mail.

[5] GAO-12-470, "Mail Processing Network Exceeds What Is Needed for Declining Mail Volume," April 2012, Table2, indicates that approximately 59% of mail will have the standard changed (42% goes from 1-day to 2-day, and 49-32=17% goes from 2-day to 3-day; values are rounded in the source).

[6] Pub. L. no. 109-435.

1 Service into two categories -- Market Dominant, and Competitive – and established for
2 each regulatory provisions appropriate to its specific circumstances. In passing this Act
3 Congress sought to streamline the regulatory process and provide the Postal Service
4 with greater pricing flexibility while at the same time assuring that long-standing policy
5 objectives relating to the pricing of postal products continued to be met.

6 **A. Competitive Services**

7 In the case of competitive services (priority mail; expedited mail; bulk parcel post;
8 bulk international mail; and mailgrams);[7] the primary policy concern has traditionally
9 been to assure that these services are not being subsidized by revenues generated
10 from users of market dominant services, and that they do not distort the competitive
11 market in which they are sold. This concern is reflected in the provisions of the 2006 Act
12 setting forth the regulatory goals for competitive services. The Act states that
13 regulations for these services should:

14 (1) prohibit the subsidization of competitive products by market-dominant
15 products;

16 (2) ensure that each competitive product covers its costs attributable; and

17 (3) ensure that all competitive products collectively cover what the Commission
18 determines to be an appropriate share of the institutional costs of the Postal Service.[8]

19 In effect, the regulatory treatment of competitive service prices establishes a
20 floor, below which those prices are not supposed to fall. However, as long as each
21 service generates enough revenue to cover its attributable costs, and the entire set of
22 services collectively generates enough revenue over and above attributable costs to

[7] Pub L. no. 109-435, §§. 202, 3631.

[8] Pub L. no. 109-435, §§. 202, 3633.

meet its institutional cost coverage target, the Postal Service enjoys great price setting freedom for these services.

B. Market Dominant Services

Although the policy concerns surrounding market dominant services (First-Class Mail letters and sealed parcels, First-Class Mail cards, periodicals, standard mail, single-piece parcel post, media mail, bound printed matter, library mail, special services, and single-piece international mail)[9] are more complex, a major concern has always been to protect the interests of users of these services. This concern is reflected in the first regulatory goal for competitive services set forth above. That these services are referred to as "market dominant" reflects the fact that the Postal Service enjoys a statutory monopoly over the provision of these services. The traditional regulatory treatment of these services reflects the monopoly status of the Postal Service with respect to these services, the market power that status confers, and the importance of protecting users of these services from the exercise of market power.

The provisions of the 2006 Act reflect continuing concern over these issues. While a primary purpose of the Act was to streamline regulation and provide the Postal Service with increased pricing flexibility, the Act nonetheless directed the Postal Regulatory Commission to establish a regulatory system for market dominant services that would:

"include an annual limitation on the percentage changes in rates to be set by the Postal Regulatory Commission that will be equal to the change in the Consumer Price Index for All Urban Consumers unadjusted for seasonal variation over the most recent

[9] Pub. L. no. 109-435, §§ 201, 3621.

available 12-month period preceding the date the Postal Service files notice of its intention to increase rates."[10]

In other words, the 2006 Act established a price cap regime for market dominant services. In implementing this provision of the 2006 Act the Postal Regulatory Commission has established regulations that constrain the amount by which a volume-weighted average of individual service rates is permitted to increase over time.[11]

This regulatory mechanism is designed to help in a balanced way to achieve the somewhat disparate objectives of the 2006 Act. It limits the rate increases to which users of market dominant services are subject, and in that way achieves the goal of limiting the exercise of market power by the Postal Service. At the same time, this mechanism provides the Postal Service with a degree of flexibility in setting rates for market dominant services. Prices for individual products can be raised by more than the amount of the overall price cap if there are offsetting reductions in the rates of increase for other products. Finally, in focusing on readily verifiable rates and volumes, this regulatory mechanism is simpler and easier to implement than the former cost based regulatory system.

The 2006 Act also included provisions calling for the establishment of modern service standards for market dominant products.[12] In establishing this requirement, the Act stated that its objectives were:

- To enhance the value of postal services to both senders and recipients.

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[10] Pub. L. no. 109-435, §§ 201, 3622.

[11] Docket No. MC2007-1, Order No. 43—Order Establishing Ratemaking Regulations For Market Dominant And Competitive Products Part 3010 —Regulation Of Rates For Market Dominant Products, Subpart B—Rules for Rate Adjustments for Rates of General Applicability, § 3010.24

[12] Pub. L. no. 109-435, §§ 301, 3691.

- To preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining.
- To reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices.
- To provide a system of objective external performance measurements for each market-dominant product as a basis for measurement of Postal Service performance.[13]

As I explain below, in establishing this regulatory framework the 2006 Act and associated regulations established by the Postal Regulatory Commission has followed well-established regulatory procedures that have been implemented and over time refined in a number of other network industries.

IV. THE ECONOMIC RATIONALE FOR PRICE CAP REGULATION

Regulators have long wrestled with the problem of how to protect the customers of monopoly service providers. Assuring this protection generally required the regulator to place constraints of the prices the monopoly provider was allowed to charge. Early approaches to this problem (including the approach applied by the predecessor regulatory agency, the Postal Rate Commission, prior to the passage of the 2006 Act) set prices based on the cost of providing the service. Prices were at levels that covered the cost of providing the service, and that allowed the regulated firm to earn an appropriate rate of return on invested capital. This form of regulation, which has been widely used in the public utility area, is called cost of service or rate of return

[13] *Id.*

1 regulation.[14] This method also tends to be retrospective, as it looks at what has
2 transpired and makes adjustments to compensate for excessive or insufficient profits.
3 Over time regulators and economists have come to recognize two important
4 incentive problems underlying such a regulatory structure. First, under this form of
5 regulation the regulated firm has limited incentives to lower its costs. As long as the
6 firm possesses an adequate degree of market power any increases in cost will, under
7 this form of regulation, simply be passed along to its customers. Any increase in
8 productivity it might achieve would result in a downward adjustment to prices, such that
9 its rate of return would remain unchanged. Second, the regulated firm also has an
10 incentive not just to fail to make the most productive use of capital, but furthermore to
11 structure itself to invest capital inefficiently. This "Averch-Johnson effect" recognizes
12 that, if a firm is being compensated in proportion to its capital, it has an incentive to
13 increase its use of capital (relative to other inputs to production, such as labor) beyond
14 an efficient level, in order to increase the magnitude of the profit it is allowed to earn.[15]
15 The initial regulatory response to these perverse incentives involved efforts by
16 regulators to monitor and evaluate the spending and investment decisions of the
17 regulated entity. The general idea was for the regulator to separate "prudent" from
18 "imprudent" expenditures, and to base regulated prices on the former only. In practice,
19 however, such distinctions can be difficult to draw. The process of attempting to draw
20 them can be burdensome and intrusive.

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[14] For an overview of the history of rate of return regulation see David M. Newbery, "Rate-Of-Return Regulation Versus Price Regulation For Public Utilities," Department of Economics, Cambridge, United Kingdom, April, 1997.

[15] Averch, H. and Johnson, L.L. 1962. Behavior of the firm under regulatory constraint. American Economic Review, 52: 1053-1069.

1 Price cap regulation evolved as an alternative method of constraining the prices
2 charged by monopoly service providers. Price cap regulation establishes a ceiling on
3 the prices that the regulated firm can charge (which in practice is often based on the
4 price currently charged) and a formula for how that ceiling will change over some
5 specified period of time. This formula will often be in the form of "RPI minus x," where
6 "RPI" stands for the rate of price inflation, as measured by some general price index
7 (such as the Consumer Price Index), and "x" is some small positive constant that is
8 intended to capture (or encourage) productivity improvements. In cases where the
9 regulated firm sells multiple products, the ceiling will often constrain the rate at which a
10 specified weighted average of prices can increase, as is the case with the price cap
11 currently applied to market dominant services provided by the Postal Service. At the
12 end of the specified period the regulator will, after an appropriate review, reset the price
13 cap and the formula for adjusting it over time.
14 The regulated firm's incentives under price cap regulation differ from those under
15 rate of return regulation. Most importantly, under a price cap regime the firm retains the
16 financial benefit from any reductions in costs, or improvements in efficiency or capital
17 utilization, at least until the cap is reset. This feature is thought to provide powerful
18 incentives for efficiency improvement. During the periods between rate cap reset
19 reviews, price cap regulation reduces or even eliminates the need for intrusive
20 examinations of the regulated firm's cost structure. Finally, within the constraints set by
21 the price cap the regulated firm is allowed flexibility in adjusting prices to changing
22 circumstances.

V. THE RELATIONSHIP BETWEEN PRICE AND QUALITY

In a pure commodity market the nominal price associated with a commodity provides all of the information a potential buyer needs to know in order to make an informed purchasing decision or for a regulator to assess the welfare impacts of a proposed change in price. For example, throughout the United State electric utilities offer essentially the same electric service. There are raw materials markets in which exactly the same good – aluminum, copper or tungsten, for example – are being sold. When we think about differences in price we tend to think in these terms. We will say that vendor A changes a higher price than vendor B if the per unit price for vendor A is higher than the per unit price changed by vendor B. Implicit in this assessment is an assumption that the units being sold by vendor A and vendor B are identical.

Of course, the assumption that the offerings of all vendors are precisely identical is frequently violated. Even within markets labeled as "commodity markets" there are frequently significant differences between the different categories of products that are offered. For example, within the crude oil market there are a wide variety of different crudes that vary in terms of their "sweetness" (*i.e.* sulfur content), "lightness" (*i.e.* relative concentration of hydrocarbons suitable for gasoline production) and other factors. "light sweet" crudes command higher prices than "heavy sour" crudes.

To take a more extreme example, consider the auto market. According to US News current prices for the Honda Fit currently range from $16,114 to $20,473. Prices for the Porsche 911 Carrera currently range from $77,800 to $245,000. The average car buyer would readily concede that both are cars, and that both will take you where you want to go. The average car buyer would also concede that the Carrera is more expensive that the Fit. But no one thinks they are precisely the same product. In buying

1 the Carrera, a purchaser is the buyer of a whole set of features and functionality that are
2 not present on the Fit.

3 Furthermore, features can change over time. The lowest-cost laptop computer
4 available at a national online retailer, like Dell, for example, has sold at a price of around
5 $400-500 for many years. However the performance of that computer has improved
6 substantially over time, as CPUs have become faster, hard disks have grown in
7 capacity, and so forth. The nominal price has not changed, but what one gets for that
8 price has. In such cases, it is misleading to say that the price has stayed constant. For
9 other products the level of quality has fallen over time. For example, some or many
10 people believe that a non-premium tomato bought in a grocery store has lost its flavor
11 compared to tomatoes of decades ago. Even if the nominal price is roughly the same
12 as years ago, people who value the flavor in a tomato now feel they get less for their
13 money.

14 These examples drive home a point that is readily understood by consumers. In
15 many if not most markets a range of goods or services are sold that differ both in price
16 and quality. We are accustomed to trading off price and quality when we make
17 purchasing decisions. When we compare prices we readily account for quality
18 differences between alternative offerings.

19 The Bureau of Labor Statistics, which is charged with measuring changes in
20 price levels over time, has long recognized the importance of taking quality differences

1 into account.[16] How to account for quality changes remains an important topic for price
2 index research.[17]

3 To make meaningful comparisons of price levels over time one must account for
4 differences over time in the quality of what is being sold. For this purpose it is
5 convenient to think in terms of a quality-adjusted price. A quality-adjusted price can rise
6 or fall depending on two factors. One is simply the price itself, while the other is the
7 change in quality. Thus, if a product's actual, or "nominal," price remains unchanged,
8 but the quality of the product improves, then the purchaser is getting more for the
9 money, and the quality-adjusted price falls. Similarly, when the quality of a product gets
10 worse, such as a longer delivery time standard, the quality-adjusted price rises. The
11 price is the same, but the buyer gets less for the money. A reduction in quality is an
12 increase in the quality-adjusted price.

13 **VI. PRICE CAPS AND QUALITY CONCERNS**

14 Although the economics can be complex, it has long been recognized that the
15 strong incentives for cost reduction associated with price cap regulation can also
16 incentivize the regulated firm to reduce the quality of the service it offers. Quality is
17 costly to provide. Indeed, the whole premise of the Postal Service's proposal is that it
18 must incur a significant amount of additional cost in order to meet current First–Class
19 Mail delivery standards. Under a price cap regime the regulated entity appropriates the
20 benefits of any cost reductions it is able to achieve. Hence, there has been long
21 standing regulatory concern over the potential adverse consequences of price cap

[16] See, for example Mary F. Kokoski, "Quality Adjustment of Price Indexes," Monthly Labor Review, December 1993.

[17] See Katharine G. Abraham, "Toward a Cost of Living Index: Progress and Prospects," Journal of Economic Perspectives, Vol. 17, No. 1, Winter 2003, pages 52-53.

1 regulation for quality of service. This incentive has been recognized in the literature for
2 some time.[18]

3 User welfare is reduced when quality declines, just as when prices rise. At any
4 given level of consumption customer welfare is enhanced if prices are reduced, or if
5 quality of service is enhanced. While the tradeoffs between price and quality can be
6 complex and difficult to measure with precision, the directional effects are clear. If
7 quality is reduced the effect on consumer welfare is the same as if price is increased.
8 There has thus been concern that reductions in service quality could provide a
9 regulated firm with a way to circumvent the intended effects of the price cap.

10 Regulators have addressed these concerns in two ways. One approach (which is
11 reflected in the 2006 Act) is to implement a set of minimum quality standards. This
12 approach represents the flip side of price cap regulation. Price cap regulation sets a
13 ceiling on prices; service standards set a floor on service quality. A second and more
14 sophisticated approach allows the regulated entity to vary service quality within a
15 framework in which there are financial penalties and rewards for (respectively)
16 decreases and increases in the actual quality achieved. In principle, if the financial
17 rewards and penalties imposed by the regulator mirror accurately the incremental value
18 placed on service quality by customers, an appropriately designed incentive scheme
19 can induce the regulated firm to make appropriate trade-offs between the incremental

[18] See, for example, Lawrence J. White, "Quality Variation When Prices are Regulated," Bell Journal of Economics and Management Science 3:2 425-436, Autumn 1972, A. Michael Spence "Monopoly, Quality, and Regulation," Bell Journal of Economics 6:2 417-429, Autumn 1975, Elyan Sheshinski, "Price, Quality and Quantity Regulation in Monopoly Situations," Economica 43:170 127-137, May 1976, Claudia Kreihn, "Quality Regulation without Regulating Quality," discussion paper, Ifo Institute fur Wirtschaftsforschung an der Universitat Munchen (Institute for Economic Research, University of Munich), June 2004, or David E. M. Sappington, "Regulating Service Quality, A Survey," Journal of Regulatory Economics 27:2 127-154, 2005.

costs (which it presumably knows) and revenues (which presumably reflect accurately customer demands) to arrive at an optimal quality level. Successful implementation of this second approach requires, of course a great deal of information about customer preferences that could be difficult to obtain.[19]

VII. SUMMARY AND CONCLUSIONS

The current price cap regime established by the 2006 Act was put in place to protect users of market dominant services. It was intended to limit the prices charged for market dominant products and assure that the users of these products would not bear a disproportionate share of the Postal Service's costs. The 2006 Act also called for the establishment of service standards defining the minimum quality of service that the Postal Service would be expected to provide.

The establishment of minimum service standards is a well-recognized tool reducing the incentives that a regulated firm might otherwise have under a price cap regime to reduce service quality. Quality is costly to provide. Under a price cap regime the regulated entity appropriates the benefits of any cost reductions it is able to achieve. Hence, there has been long standing regulatory concern over the potential adverse consequences of price cap regulation for quality of service.

As I have noted above, customer welfare is reduced when quality declines, just as when prices rise. The directional effects are clear. If quality is reduced the effect on consumer welfare is the same as if price is increased.

[19] David E. M. Sappington and Dennis L. Weisman, "Price Cap Regulation: What Have We Learned from Twenty-Five Years of Experience in the Telecommunications Industry?" working paper, September 2010, pages 10-11.

The inevitable conclusion that must be drawn from these observations is that the reduction in service standards that the Postal Service has requested is, in effect, a relaxation of the price cap that has been established for market dominant services.

I appreciate the predicament in which the Postal Service now finds itself. It faces significant financial difficulties. Reducing service standards for First-Class Mail and shedding the related costs may well be the best option now open to the Postal Service. The Postal Service has argued that the effects of the proposed changes on mailers and mail recipients will be modest. However, we should recognize this option for what it really is. The Postal Service is asking for relief from regulations intended to protect users of market dominant services. And while service standard reductions may be far more palatable to First-Class Mailers and mail recipients than rate increases, the fact remains that in making this request for relief the Postal Service is essentially balancing it budget on the backs of customers of market dominant services, specifically users of First-Class Mail and Periodicals.

APPENDIX A: Kevin Neels Resume

KEVIN NEELS **Principal**

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Dr. Kevin Neels directs the Transportation Practice at *The Brattle Group*. Dr. Neels has more than 30 years experience as a consultant and expert witness in the rail, trucking, courier, postal, aviation, and automotive industries. He has led many significant engagements relating to competition, market structure, pricing, revenue management, distribution strategy, regulation, and public policy. His work has addressed issues related to system planning, competition policy, privatization, and congestion management.

Prior to joining *The Brattle Group*, Dr. Neels served as Vice President and leader of the transportation practice at Charles River Associates. He has also served as a researcher in the Urban Policy Program at the Rand Corporation and the Transportation Studies Program at the Urban Institute, as a Director in the Transportation Practice at the consulting firm of Putnam, Hayes & Bartlett, as a Management Consultant in the Transportation Practice of the firm now known as KPMG. Dr. Neels is currently Chairman of the Committee on Freight Transportation Economics and Regulation of the Transportation Research Board, an arm of the National Academy of Sciences. He is also a member of the Transportation Research Board's Committee on Airline Economics and Forecasting.

Dr. Neels has authored numerous research reports, monographs and articles for peer-reviewed journals. He has often been asked to offer expert testimony in legal and regulatory proceedings. He regularly serves as an invited speaker at conferences and industry forums, and his opinions and observations on industry developments are frequently quoted in the popular and trade press. Dr. Neels earned his Ph.D. from Cornell University.

A sample of the project experience of Dr. Neels is shown below.

EXPERIENCE

Freight Transportation

- For an Ex Parte proceeding before the Surface Transportation Board Dr. Neels provided written testimony regarding procedures for settling disputes over the reasonableness of rail transportation rates. His testimony related to aspects of the Standalone Cost methodology employed by the Board in resolving these disputes, focusing in particular on the role that third party traffic plays in such analyses, and the manner in the revenues associated with such traffic are assigned to different portions of the routes followed by such traffic. His testimony discussed the typical structure of North American freight rail networks, and the roles that gathering, branch and main lines play in assuring the overall economic viability of the network as a whole.

- For a major U.S. based freight railroad, Dr. Neels developed a system of models to predict traffic levels and revenues by carrier for the North American freight rail market under alternative scenarios regarding market structure and regulatory policy. This modeling system incorporated detailed representations of the North American rail and highway networks, algorithms for determining shipment routing under alternative operating policies, and a series of statistical models capturing the underlying structure of freight traffic flows.

- For a non-U.S. government client, Dr. Neels led the team serving as fairness advisors in connection with the privatization of a government owned railroad. This engagement involved review of and commentary upon the bidding procedures employed in the transaction, analysis of the extent to which different bidders addressed and resolved policy concerns expressed by government officials, and advising government officials regarding the extent to which the various bids received reflected the full market value of the operation.

- On behalf of a provider of services to long-distance trucking firms, Dr. Neels offered expert testimony on the status of the trucking market, and on the extent to which a downturn in that market affected the value and economic viability of trucking firm service providers during a period in which his client concluded a series of acquisitions.

- In testimony before the U.S. Postal Rate Commission, Dr. Neels offered expert testimony analyzing the procedures used by the U.S. Postal Service to measure the transportation costs associated with its various products. His analysis addressed a wide range of issues, including the Service's use of its dedicated air network for transportation of expedited products, fieldwork procedures used to collect data on composition of the mail stream at different points in the rail network, potential biases in the assignment of transportation costs to products, and flaws in econometric analyses of transportation cost variability introduced by other witnesses in the proceeding.

- In support of a key economic witness in a hearing regarding refined petroleum product pipeline rates before the Federal Energy Regulatory Commission, Dr. Neels conducted an analysis of the relationship between product prices in the different geographic areas linked by the pipeline system. He also examined alternative transportation modes and concentration in the pipeline's origin markets.

- For a major U.S. railroad involved in a commercial dispute over trackage rights and trackage fees, Dr. Neels conducted a detailed analysis of over-the-track incremental operating costs. This analysis

involved, among other things, extensive use of the Uniform Rail Costing System maintained by the Surface Transportation Board.

- For a major North American rail car manufacturer involved in a patent infringement lawsuit Dr. Neels offered expert testimony on the economic value of an innovative car design relative to existing designs, and on the damages imposed on the manufacturer as a result of infringement of its patents on this new design.

- For an express package delivery carrier intervening in a rate case before the U.S. Postal Rate Commission, Dr. Neels conducted a critical review of econometric studies of cost variability introduced into evidence by a witness testifying on behalf of the U.S. Postal Service. He identified a number of serious conceptual and methodological flaws in this analysis, and demonstrated that the substantive conclusions of the analysis were sensitive to relatively minor change in its design. On the basis of his testimony the Commission rejected the arguments of the Postal Service in the Commission's final ruling.

Airline Industry

- For a major U.S. network air carrier Dr. Neels was a key member of a team of consultants charged with the development of an operations research strategy aimed at improving the carrier's performance and competitive standing across a broad range of areas of operation, including financial planning, scheduling, crew management, maintenance, flight operations, air cargo sales, marketing, reservations and distribution. This engagement involved extensive onsite interviews with numerous operating personnel at the carrier's headquarters. It identified a lengthy list of investment opportunities involving the application of a variety of advanced decision support tools.

- For a major international air carrier accused of monopoly leveraging and attempted monopolization of a key market, Dr. Neels prepared a report analyzing the carrier's use of corporate discounts and travel agent override commissions, and rebutting arguments that these agreements could be construed as exclusive dealing.

- For a major U.S. air carrier, Dr. Neels conducted an extensive empirical investigation of the responses of travel agents to carriers' incentive and override programs. Using the results of this investigation, he evaluated his client's sales force management and travel agent incentive strategies to identify specific ways in which redesign and or retargeting could increase their net revenue yields.

- Working on behalf of a major air carrier in an antitrust case involving allegations of predatory pricing, Dr. Neels worked directly with the lead litigator for the case to develop a strategy to guide discovery. Subsequently, he conducted a variety of econometric analyses measuring the extent to which plaintiffs were harmed by the alleged predation.

- For a consortium of major U.S. air carriers accused of engaging in collusion and price fixing, Dr. Neels directed a major economic analysis of industry pricing strategy and pricing dynamics. Drawing upon detailed data on daily fare changes, Dr. Neels prepared testimony and exhibits demonstrating the difficulty of engaging in coordinated pricing behavior.

- In an antitrust dispute in the airline industry, Dr. Neels was retained by the defendant to critique and rebut damage calculations prepared by experts for plaintiffs. Dr. Neels conducted a detailed analysis

of the assumptions underlying plaintiff estimates of lost profits, documenting numerous instances in which specific assumptions were contradicted by industry experience or by business plans prepared by the plaintiff prior to litigation. He showed that correcting these errors resulted in dramatic reductions in estimates of plaintiff damages. The case was eventually dismissed without an award of damages.

- Dr. Neels assisted in the preparation of statistical exhibits and an expert affidavit for submission by a major U.S. carrier in a rulemaking proceeding regarding airline computerized reservation systems conducted by the U.S. Department of Transportation.

- To support expert testimony in an antitrust case between two major U.S. air carriers, Dr. Neels developed and estimated a set of statistical models for estimating the effects of GDS display bias on the booking patterns and revenues of the affected airlines. As part of this effort Dr. Neels conducted an extensive analysis of the histories of the carriers in questions and of the development of these computerized systems as the primary channel of distribution for airline tickets. He also prepared damage estimates, assisted in the deposition of opposing expert witness, prepared trial exhibits and advised counsel on cross-examination strategy during the course of the trial.

Airport and Airway System

- For the International Air Transport Association, Dr. Neels conducted an analysis and critique of a proposed change in the structure of air traffic control user charges levied on foreign carriers entering the U.S. and overflying its territory. He pointed out a number of serious flaws in the empirical analysis that formed the basis for the new system of charges. Implementation of the new charges was halted by a federal judge.

- Dr. Neels played a critical role in a project for the Air Transport Association (ATA) of the United States to evaluate proposals for reforming the nation's air traffic control (ATC) system and to develop an effective financial and organizational structure for a reformed ATC. The plan, developed under extremely tight deadlines, required an assessment of ATC technological capabilities, estimation of the cost effects of ATC on the airline industry, an economic analysis of current and proposed ATC organizational forms and detailed financial assessment of proposed ATC entities. Dr. Neels presented his analysis and proposal to airline chief executive officers at a meeting of the ATA board.

- For the public authority responsible for the operation of one of the largest international gateway airports in the country, Dr. Neels conducted a comprehensive review of sources of information on air cargo movements. Based upon the results of this review, he worked with authority staff to devise a strategy for monitoring trends in shipments by ultimate origin and destination, commodity, carrier and type of service, and for factoring this information into an improved process for planning and executing air cargo facility improvements.

- For the operator of a major U.S. hub airport, Dr. Neels developed a series of forecasting models for use in evaluating likely passenger responses to the introduction of new types of ground access services.

- For the government of a Mexican province, Dr. Neels developed a framework for use in evaluating proposals for new airport development.

- For a conference sponsored by the National Academy of Sciences, Dr. Neels analyzed the policy issues raised by proposals for using pricing to manage demand and reduce delays at major airports. His analysis used standard antitrust tools to assess the extent of concentration in the market for airport services, and evaluated the potential for anticompetitive behavior in that market.

- To support the development of an airport system plan for a major metropolitan area, Dr. Neels prepared long-range activity forecasts for air carriers, regional airlines and general aviation.

- For an international gateway airport, he evaluated the impacts and effectiveness of a wide range of strategies for reducing delays. The policies considered included regulatory constraints on aircraft size, diversion of service to adjacent airports, a variety of pricing and slot allocation mechanisms, and expansion of facility capacity.

Aerospace Manufacturing

- For a foreign manufacturer of high end business jet aircraft Dr. Neels offered testimony on the structure of the market within which these aircraft are sold and the relationship between this market and the market aftermarket retrofits and modifications. His testimony examined the turnover of the existing fleet of high end business jet aircraft, trends over time in resale values, the relationship between new aircraft sales and trade-ins of previously owned aircraft, and the factors influencing the commercial success of aftermarket modifications under FAA supplemental types certificates.

- For a consortium of aerospace manufacturers, Dr. Neels examined and evaluated the economic, financial and policy arguments for including manufacturers as members of government sponsored insurance against war and terrorism risks. His analysis examined the nature of the risks in question, the state of the commercial market for insurance against them, the realities of multi-party tort litigation in settings where the parties enjoy dramatically different levels of insurance coverage, and the likely long-term economic impacts if aerospace manufacturers were because of the shut down of the commercial insurance market, forced involuntarily to self-insure against these risks.

- For a major manufacturer of business jet aircraft accused of monopoly leveraging and attempted monopolization Dr. Neels conducted an analysis of the structure of the business jet aircraft market, evaluating the extent to which availability of comparable models from other manufacturers constrained the ability of the defendant in the dispute to exercise market power.

- For a U.S. based manufacturer of business aircraft, Dr. Neels quantified the damages resulting from significant defects in a major subcontractor-supplied aircraft component. These defects had resulted in a number of plane crashes and the eventual grounding of a significant portion of the manufacturer's fleet. Dr. Neels developed a sophisticated econometric model that controlled for the effects of a number of market-related background factors, and isolated the effects of the component defects on sales, revenues and profits.

- For a manufacturer of high end business jet aircraft involved in a dispute over the closure of a manufacturing plant, Dr. Neels offered expert testimony on the status of the business jet aircraft market at the time of the closure and its effects on new orders, backlog and revenue for the manufacturer. His analysis focused in particular on the effects on the business jet aircraft market of the economic downturn that began in 2001 and the events on September 11, 2001. In response to testimony offered by opposing experts, he also analyzed the decision making process that led to

closure of the plant, the options open to management, and the economic justifications for closing the plant.

Automotive Industry

- For a group of automobile dealers, he conducted an econometric analysis to quantify the extent to which these dealers had suffered economic injury as a result of a scheme in which executives of the auto manufacturer accepted bribes from a subset of dealers in exchange for providing them with extra allotments of highly profitable car models. The settlement of this litigation awarded a payment of several hundred million dollars to the non-bribe paying dealers.

- For a major auto manufacturer contemplating litigation over an alleged theft of trade secrets, he developed a system of economic forecasting models to calculate the effects of the theft of sales of the company's products in a number of major international markets. Results of this confidential investigation played a key role in the company's subsequent decision to seek redress through the courts.

- For a group of automobile dealers engaged in a dispute with a distributor, Dr. Neels offered expert testimony analyzing the new auto allocation procedures used by the distributor, the distributor's policies regarding accessorization of new vehicles, and their economic effects of individual dealers. This work involved extensive econometric modeling of the dynamics of dealer inventories and the determinants of time to sale for individual vehicles.

- For a consortium of U.S., European and Japanese auto manufacturers and related firms, Dr. Neels played a key role in a major investigation of long-term trends in mobility. This study was worldwide in scope, addressing urban, rural and intercity passenger and freight transportation in both the developed and the developing world. Its particular focus was on the sustainability of the current transportation system, and the extent to which exhaustion of fossil fuels, environmental constraints, infrastructure shortages or institutional barriers were likely to constrain mobility over the next several decades.

Other Project Experience

- For an operator of vehicle and passenger ferry services to offshore islands, Dr. Neels conducted a detailed analysis of fares, costs, market structure, the extent to which particular services are subsidized, the structure of the market for ferry services, and the likely effects of changes in conditions of entry.

- For a major U.S. manufacturer that had been the target of industrial espionage and the organized theft of technology and other trade secrets, Dr. Neels offered testimony involving the stolen technology and, using a reasonable royalties approach, the damages suffered by the U.S. manufacturer as a result of the theft. At the conclusion of a jury trial in the United States, the manufacturer received a substantial damage award.

- For the U.S. Department of Energy, Dr. Neels conducted an extensive investigation of the technological, institutional and economic factors influencing the demand for residential heating fuels.

- For a Gas Research Institute study of natural gas usage in the steel industry, Dr. Neels provided consultation on statistical issues and worked closely with a team of analysts examining the economics of fuel substitution.

- Dr. Neels directed the team of economists responsible for conduct of the damages study for plaintiff in a major patent infringement lawsuit in the consumer products industry. His work included development of econometric models to forecast product sales in eight major world markets, analysis of the effects of incremental changes in sales volumes on company profits, review of historical pricing strategies and calculation of economic damages for a wide range of "but-for" pricing and product introduction strategies. He and his team also played a key role in the analysis of the case put forth by the opposing side and in the development of cross-examination strategies for opposing expert witnesses. He was designated as an expert witness in this matter, but was not called upon to testify.

- As leader of a project funded jointly by the Ford Foundation, the U.S. Department of Housing and Urban Development and a consortium of local corporations, Dr. Neels directed a year-long study by the Rand Corporation of strategies for privatizing municipal services in Saint Paul, Minnesota. A major component of this project was a detailed analysis of the incentives created by different financing mechanisms, organizational structures and personnel management systems. Findings of the study were published in a major report entitled *The Entrepreneurial City*.

- Dr. Neels played a major role in the preparation of expert testimony on behalf of a group of major domestic oil companies accused of conspiring to depress the prices paid to producers of a major input to tertiary oil recovery projects. This testimony focused on an examination of purchase contracts involving the defendants to establish market prices for the input in question over the alleged damage period.

- For the New York State Science and Technology Foundation, Dr. Neels participated in a project to facilitate the transfer to civilian firms and the commercial exploitation of photonics technology developed for military applications at a research center established at a major New York State military installation. This project included an assessment of the commercial value of the technology, the identification of firms in the vicinity of the research center with the research focus and capabilities to absorb the technology, and the design of institutional mechanisms for facilitating and supporting technology transfer.

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PROFESSIONAL AFFILIATIONS

- American Bar Association
- American Economics Association
- Licensing Executive Society
- Transportation Research Board

TESTIMONY

Before the U.S. District Court, District Court of Delaware, Expert Report in the matter of Finjan, Inc. v. McAfee, Inc., Symantec Corp., Webroot Software, Inc., Websense Inc., and Sophos, Inc., April 2012.

Before the U.S. District Court, Northern District of Ohio Eastern Division, Expert Testimony in the matter of Skurka Aerospace, Inc. v. Eaton Aerospace L.L.C., April 2012.

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May 15, 2012

1 CHAIRMAN GOLDWAY: We'll next receive
2 written cross-examination.
3 Dr. Neels, have you had an opportunity to
4 examine the packet of designated written cross-
5 examination that was made available to you in the
6 hearing room today?
7 THE WITNESS: I have.
8 CHAIRMAN GOLDWAY: Are there any corrections
9 or additions that need to be made to that?
10 THE WITNESS: No.
11 CHAIRMAN GOLDWAY: If the questions
12 contained in that packet were posed to you orally
13 today, would your answers be the same as those you
14 previously provided in writing?
15 THE WITNESS: They would.
16 CHAIRMAN GOLDWAY: Then if everything is in
17 order, counsel, would you please provide two copies of
18 the Designated Written Cross-examination of Witness
19 Neels to the reporter. That material is received into
20 evidence and it is to be transcribed into the record.
21 (The document referred to was
22 marked for identification as
23 the Designated Written Cross
24 of Witness Neels and was
25 received in evidence.)

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PUBLIC REPRESENTATIVE
WITNESS KEVIN NEELS
(PR-T-1)

Party	Interrogatories
United States Postal Service	USPS/PR-T1-2-8

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
PUBLIC REPRESENTATIVE
WITNESS KEVIN NEELS (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/PR-T1-2	USPS
USPS/PR-T1-3	USPS
USPS/PR-T1-4	USPS
USPS/PR-T1-5	USPS
USPS/PR-T1-6	USPS
USPS/PR-T1-7	USPS
USPS/PR-T1-8	USPS

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T1-2. On page 3, lines 20-22, you characterize the Postal Service position as entailing an argument "that the size of the network and the number of processing facilities it operates is [*sic*] driven by the requirements for handling of First-Class Mail at its current standards of service," thereby implying that you do not agree with the Postal Service. Please explain the extent of your agreement or disagreement and provide the complete foundation for your position.

RESPONSE:

I did not intend to imply agreement or disagreement with the Postal Service. Rather, I was merely stating what I understood the position of the Postal Service to be.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
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USPS/PR-T1-3. On page 4 (beginning on line 4) you further characterize your understanding of the Postal Service position:

> The Postal Service has argued that a relaxation of services standards for First-Class Mail will allow it to consolidate mail processing into a smaller set of facilities, and in the process, permit it to shed significant costs, expanding utilization of the machinery ... .

Please explain the extent of your agreement or disagreement with this characterization of the Postal Service position and provide the complete foundation for your position.

RESPONSE

I do not disagree with this statement. My understanding of the proposed changes, their relationship to the requested relaxation in service standards, and the cost savings the Postal Service expects to realize as a result are based upon the description of the proposed changes presented in the testimony of David E. Williams (USPS-T-1). While I have not conducted a thorough analysis of them, I find Mr. Williams' arguments to be plausible, given my understanding of Postal Service operations and transportation networks.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
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USPS/PR-T1-4. Please refer to the section of your testimony identified as "B. Market Dominant Services" commencing on page 6 of your testimony. In the last paragraph of that section you state "the Postal Regulatory Commission has followed well-established regulatory procedures that have been implemented and over time refined in a number of other network industries."

a. Please identify each of the network industries you have in mind.

b. For each of the industries identified in response to part (a), please identify and describe each such industry's initial regulatory implementation.

c. For each of the industries identified in response to part (a) or whose regulatory implementation you characterize in response to part (b), please also identify and describe the refinements over time to which you refer.

RESPONSE

a) Other industries I am aware of in which price cap regulations have been employed include telecommunications, water distribution, pipelines and toll roads.

b) All of the industries listed in my response to part (a) are global in scope. Regulatory practice can vary substantially from country to country. While I have previously encountered price caps like those implemented by the Postal Regulatory Commission, I do not know when such caps were first implemented in the industries listed in part (a), or in which country the implementation occurred. Some of the earliest price cap regulatory regimes I am aware of were implemented in the United Kingdom in the energy and telecommunications industries.

c) Once again, the global nature of the industries in question and the diversity of regulatory regimes in operation around the world make it impossible to provide a comprehensive response. With that caveat, the refinements to which I was referring include the switch from limitations of rates of change of individual rates to revenue caps or constraints on weighted average prices that provide the regulated entity with more freedom to alter individual prices within the constraint of a global cap; addition of bonus of penalty provisions for improvements in or

(Response to USPS/PR-T1-4 continued) reductions in service quality; and implementation of provisions for sharing gains or losses if the returns earned by the regulated entity fall above or below specified threshold values.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
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USPS/PR-T1-5. In section IV of your testimony, "The Economic Rationale for Price Cap Regulation" commencing on page 8, please confirm that you identify two "incentive problems" arising under price cap regulation, including "limited incentives to reduce cost" and to "invest capital inefficiently." If you do not confirm, please explain why and clarify what you mean by incentive problems.

a. Please provide your complete understanding of how the Postal Service has (i) attempted to and (ii) succeeded (or not) in reducing its cost structure since the PAEA took effect in late 2006.

b. Please provide your complete understanding of what capital investments the Postal Service has made since early 2007 and any return on investment each created.

c. Focusing just on the last two years, please provide your complete understanding of what capital investments the Postal Service has made and their current status.

d. Please confirm that your testimony characterizes the two "incentive problems" as the "Averch-Johnson effect" which recognizes that (i) "if a firm is being compensated in proportion to its capital" then (ii) "it has an incentive to increase its use of capital ... beyond an efficient level" (iii) thereby "increas[ing] the magnitude of the profit it is allowed to earn." Please explain completely any failure to confirm and correct the attempted characterization in section (d).

    i. What is your understanding of whether the Postal Service is, or is not, being compensated in proportion to its capital? Please explain how you arrive at your understanding.

    ii. What is your understanding of the extent to which the Postal Service has, or has not, increased its use of capital both since passage of Public Law 109-435 and in the past few years? Please explain how you arrive at your understanding. If you understand that the Postal Service has increased its use of capital, is your further understanding that it has done so beyond an efficient level? Please provide a full explanation for any affirmative response to this last compound question.

    iii. Please provide your complete understanding of 1) the profits the Postal Service has earned in each year since Public Law 109435 took effect, 2) whether such profits have gone "beyond an efficient level," and if so, 3) when that occurred and how you can tell.

RESPONSE

I do not confirm. This interrogatory appears to be premised upon a misunderstanding of my testimony. I believe that the incentive effects cited in the interrogatory arise not

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
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(Response to USPS/PR-T1-5 continued) under price cap regulation, but rather under traditional cost based regulation. They arise, I believe, because of the tendency under cost-based regulation for increases in cost to translate directly into increases in revenue. If the regulated entity possesses sufficient market power, increases in allowed operating costs will simply be passed along to consumers. Increases in allowed capital expenditures will increase the total return that the regulated entity is permitted to earn.

a) I do not have detailed information regarding the Postal Service's efforts to reduce its cost structure. My understanding of its cost structure is derived from general press accounts in which the Postal Service appears to have explored the possibility of closing low volume post offices, eliminating Saturday delivery and reducing staff through buyouts and early retirements.

b) I do not have information on the capital investments that the Postal Service has made since 2007, or of the return associated with any such investments.

c) N/A. Please see my response to subpart b.

d) I do not dispute that characterization of the Averch-Johnson effect.

   i.) I do not believe the Postal is being compensated in proportion to its capital. I understand that the Postal service sets prices subject to a price floor for competitive services (specifically, a requirement that the revenues generated by these services should cover their attributable costs, plus a specified fraction of institutional costs), a price cap for market dominant services, and what customers are willing to pay for both sets of services. Taken as a whole, in recent years, the revenues generated by the Postal Service's market dominant services have failed to cover their attributable costs.

   ii.) See my responses to subparts b. and c. above.

   iii.) I have not monitored the profitability since the passage of Public Law 109-435, and do not have a detailed understanding of what profits it may have earned over that period. I do understand that in recent years the Postal Service has incurred significant operating losses. As a general matter, I do not believe it is efficient for an organization to incur significant operating losses on an ongoing basis.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/PR-T1-6. What is your understanding of the extent to which the Postal Regulatory Commission "monitor[s] and evaluate(s) the spending and investment decisions" of the Postal Service? (Page 9, last paragraph.)

RESPONSE:

It is my understanding that the Postal Regulatory Commission issues reports, such as the Annual Compliance Determination, that review the Postal Service's finances, including incurred costs and revenues. In the process of such review the Commission reviews changes in costing methodology that stem from investment decisions. The scope of oversight, however, is not limited to that provided the Postal Regulatory Commission. The Postal Service, to my understanding, is also regulated by its Board of Governors, who have a more direct role in evaluating spending and investment decisions.

USPS/PR-T1-7. Please confirm that in section V of your testimony ("The Relationship Between Price and Quality") you make the point that changes over time for price and quality should be considered together, rather than in isolation from one another. Please explain completely any failure to confirm and state, in a single sentence, your point.

a. Please confirm that service quality for First-Class Mail single-piece volume has improved as measured by modern service standards since Public Law 109-435 became law (reference Postal Service Annual Reports and/or PRC Annual Compliance Reports if necessary). Please explain completely any failure to confirm.

b. Please confirm that single-piece First-Class Mail is a major component of First-Class Mail. Please explain completely any failure to confirm.

c. Please assume that performance against current service standards for delivery of single-piece First-Class Mail has improved over the past five years. How, if at all, do you understand that such service quality improvement is 1) reflected in, 2) accommodated by, or 3) accounted for in the current price cap regimen applicable to market dominant products? Please explain the complete foundation for your understanding.

d. Please confirm that modern service standards for First-Class Mail measure success or failure to effect delivery within the time (number of days) specified by the applicable service standard. Please explain completely any failure to confirm.

e. Please confirm that, as a hypothetical matter, service standards could be defined in terms of absolute, or piece-specific, speed of delivery from entry to delivery. If you confirm, please provide at least one example of how this could be undertaken.

f. Please confirm that under current service standards for First-Class Mail, what is reported is the percentage of mail pieces subject to a particular standard (i.e., two days, or three days) actually delivered within the specified timer [*sic*] period. If helpful, please explain your response. Please explain completely any failure to confirm.

RESPONSE:

I confirm that in order to measure price changes over time one needs to compare the prices charged at different points in time for the same good, and that if price and quality are both changing simple comparisons of price changes over time can be misleading because the products whose prices are being compared are not comparable, and that in order to perform a meaningful comparison changes in price and in quality must be considered together.

(Response to USPS/PR-T1-7 continued)

a) Confirmed.
b) Confirmed
c) To the extent that performance against current service standards for delivery of single-piece First-Class mail has met standards, this would imply that the Postal Service has complied with the requirements of the price cap regimen established by the PRC for this product. To the extent that performance against current service standards for delivery of single-piece First-Class mail has not met standards, this would imply that the Postal Service has not complied with the requirements of the price cap regimen established by the PRC for this product.
d) Confirmed
e) It is not clear how the service standard articulated in this subpart differs from that articulated in subpart d. I am thus unsure how to respond.
f) Confirmed.

RESPONSES OF PUBLIC REPRESENTATIVE WITNESS NEELS TO
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USPS/PR-T1-8. In section VI of your testimony (Price Caps and Quality Concerns), please confirm that you describe two possible regulatory approaches that can address tradeoffs associating price with quality, the latter of which "requires ... a great deal of information about customer preferences."

a. Please confirm that the Postal Service conducted market research in which it sought via both qualitative and quantitative means to assess customer reaction to network rationalization (*see* testimonies of witnesses Elmore-Yalch (USPS-T-11) and Whiteman (USPS-T-12)).

b. Please confirm that witness Whiteman (USPS-T-12 at 15) reports, based in part upon qualitative market research, that "Mailers expect First-Class Mail™ to be delivered within a reasonable period of time and be reliable; absolute speed is less important." Please explain completely any failure to confirm.

RESPONSE:

a) Confirmed. It is my understanding the Postal Service also conducted quantitative market research with the same aim earlier in the process and did not complete the research. *See* USPS-LR-N2012-1/70.

b) Witness Whiteman's testimony speaks for itself.

1 CHAIRMAN GOLDWAY: Is there any additional
2 written cross-examination for Witness Neels?
3 (No response.)
4 CHAIRMAN GOLDWAY: Hearing none, then this
5 brings us to oral cross-examination. Only the Postal
6 Service has requested oral cross-examination. Is
7 there any other participant who wishes to cross-
8 examine Witness Neels?
9 MR. ANDERSON: Madam Chairman, Darryl
10 Anderson for the APWU. Thank you for asking. We will
11 have just one line of questions. It shouldn't take
12 long.
13 CHAIRMAN GOLDWAY: Great. Thank you.
14 Mr. Hollies, this is your witness, and would
15 you please begin?
16 MR. HOLLIES: Thank you, Madam Chairman.
17 CROSS-EXAMINATION
18 BY MR. HOLLIES:
19 Q I'm Kenneth Hollies for the Postal Service.
20 Good afternoon, Dr. Neels.
21 A Good afternoon.
22 Q I have a few questions today. It won't take
23 that long and they should be fairly straightforward,
24 and they focus first on your testimony and then to
25 some extent on your interrogatory responses.

1 Starting off, is it your understanding that
2 in this proceeding the Postal Service seeks regulatory
3 approval from the Commission for service standard
4 changes?
5 A My understanding is that the Postal Service
6 is requesting authorization to relax some service
7 standards.
8 Q Thank you. One of my roles sometimes around
9 here is working with the webmaster. If you could be a
10 little closer to the microphone, it's going to be
11 webcast a little bit better.
12 A Okay. Thank you.
13 Q Thank you. Looking at page 2 of your
14 testimony, there you refer to the rate cap regime,
15 noting that it has been implemented as it applies to
16 the Postal Service, is that correct?
17 A Yes.
18 Q And looking to line 13, you refer to the
19 regulatory implications of this proceeding, is that
20 right?
21 A Yes.
22 Q So I take it that you are familiar with the
23 regulatory implementation of the PAEA or the Postal
24 Accountability and Enhancement Act, is that right?
25 A I have a general understanding of it, yes.

1 Q And do you have a general understanding of
2 the price cap that's applicable to certain Postal
3 Service prices?
4 A Again, I have a general understanding of
5 that, yes.
6 Q Do you understand that it applies to all
7 Postal Service products?
8 A No. My understanding --
9 Q Yes, could you explain?
10 A -- is it applies to what have been called
11 market dominant products.
12 Q Thank you. Yes, there are no tricks here.
13 A Okay.
14 Q So I think you would agree that it's safe to
15 say that the statutory price cap has been implemented
16 via regulations by the Commission?
17 A Yes, that's my understanding.
18 Q Okay. To the best of your understanding,
19 does the implementation include any mechanism for
20 changing the price cap when service quality changes?
21 A I'm not aware of such a specific linkage.
22 My understanding was that there was a cap on the
23 nominal prices for Postal Service products, and then
24 there was a set of service standards that the Postal
25 Service has been asked to adhere to.

1 Q Thank you. That dovetails with my own.
2 Would you look at the bottom of page 2, the very last
3 word. Just for the record, should there be a period
4 after the word "service"?
5 A There should be. You have a good eye. My
6 apologies for that omission.
7 Q Okay. Well, it's now on the record, so
8 we're good.
9 Looking to Section 2 of your testimony,
10 which begins at the top of page 3 and goes on to page
11 4, there you refer to cost reduction programs
12 undertaken by the Postal Service and you cite to
13 Section II-A of Witness Williams' testimony, is that
14 correct?
15 A I do, yes.
16 Q Do you have any more general understanding
17 of cost reduction efforts, whether successful or not,
18 that the Postal Service has attempted in recent years?
19 A Well, in addition to these, I'm also aware
20 of discussions about other possible service changes
21 that would include closing of some local post offices
22 and possible dropping of Saturday delivery, and those
23 have been discussed in the general press.
24 Q Okay. And as those were the subject of
25 requests by the Postal Service for advisory opinions

1 from the Commission, I take it then that at some level
2 you've been following the N-docket cases, the N-series
3 cases?
4 A Not very closely.
5 Q Are you familiar with the success the Postal
6 Service has had in taking billions of annual dollars
7 out of its mail processing operations with concomitant
8 increases in productivity?
9 A I am aware that in some of the materials
10 I've reviewed there have been discussions of
11 substantial cost reductions that the Postal Service
12 has been able to achieve and associated increases in
13 productivity. I didn't have a very specific
14 understanding of which operations those cost
15 reductions took place in, but I am aware that there
16 have been significant cost reductions.
17 Q Looking to line 16 on page 3, you refer to a
18 proposed decrease in processing and distribution
19 centers or facilities, again citing to Witness
20 Williams' testimony, and the numbers you have there
21 show a decrease from 251 to roughly 200 facilities, is
22 that right?
23 A That's correct.
24 Q What is your understanding of how many
25 plants the Postal Service has indicated publicly it is

1 considering closing or consolidating as part of
2 network rationalization?
3 A My understanding is that that hasn't been
4 finalized, that there are a number of possibilities
5 out there but that the final determination had not
6 been made.
7 Q Is it your understanding that it's
8 approximately 51 facilities?
9 A Well, I think that was the figure that was
10 cited in the testimony, you know, that's cited there.
11 I also had an understanding that there was ongoing
12 discussions about other possibilities for reductions
13 subsequently.
14 Q Do you know what an area mail processing
15 study is, also known as AMPs?
16 A Area mail processing study, no, I'm not
17 familiar with that.
18 Q Are you familiar at all with the Postal
19 Service process for closing particular plants?
20 A No, not in detail.
21 Q Okay. Well, then I would ask that you
22 assume just for purposes of this discussion that the
23 Postal Service undertakes a study which happens to
24 have a name of Area Mail Processing or AMP studies.
25 And with the understanding that you're not prepared to

1 go into detail as to what those actually entail, but I
2 think from your discussion, our discussion just a
3 moment ago, you don't have any idea how many AMPs have
4 been discussed in the course of this proceeding, do
5 you?
6 A Not off the top of my head, no.
7 Q Do you have any general feel?
8 A I hadn't gotten delved into the details of
9 the cost reduction proposals, so I don't have a very
10 specific idea.
11 Q Do you have any understanding of how many
12 plants the Postal Service has that process first-class
13 mail?
14 A How are you defining plants here? Like not
15 the entry post -- not the retail post offices but the
16 mail processing plants?
17 Q Mail processing facilities, yes.
18 A My understanding is it would be hundreds
19 rather than dozens or thousands.
20 Q At the conclusion of Section II on page 4 of
21 your testimony, you reference "eliminating overnight
22 delivery of first-class mail". Is it your
23 understanding that the Postal Service request in this
24 proceeding completely eliminates overnight delivery of
25 first-class mail?

1 A I think I have heard some references to
2 maintaining that for first-class mail that originates
3 and terminates at the same post office, but, you know,
4 aside from that, I don't have a -- so I guess my
5 understanding is it won't be completely eliminated,
6 but it will be substantially cut back.
7 Q There's been recent discussion on the public
8 stage whereby the Postal Service has a plan of
9 undertaking, of implementing its network
10 rationalization in two phases. Are you aware of that?
11 A I have heard reference to that, yes.
12 Q And is it your understanding that at the end
13 of the second phase the Postal Service would have
14 eliminated overnight delivery of first-class mail
15 altogether?
16 A I don't have a clear understanding of that.
17 Q Okay. Well, let me ask a similar question
18 with a different foundation. Are you aware whether
19 the Postal Service when it filed its request, the
20 initiating document in this case, that in that request
21 the Postal Service proposed eliminating overnight
22 delivery of first-class mail completely?
23 A I didn't examine that request. My
24 understanding is that there has been a substantial
25 reduction in service standards in the sense that, you

1 know, for many origin destination pairs, delivery
2 would take longer than before, but I don't know the
3 specific distribution of that.
4 Q Let me go back to a point I meant to cover
5 up front. Your testimony was revised most recently I
6 believe on June 13, is that right?
7 A Is it the errata -- I forget if that was the
8 date when the errata version was filed.
9 Q That's my understanding.
10 A Yes. Okay.
11 Q The copy that your counsel handed me this
12 morning has June 13 on the front cover.
13 A So it does, yes.
14 Q Can you tell me what led to that round of
15 errata, what was changing?
16 A I think there were a number of typographic
17 errors in the original draft that was filed.
18 Q Okay. And that's all that changed?
19 A That's my understanding, yes, some
20 clarification of language here and there.
21 Q Section III of your testimony entitled The
22 Current Postal Regulatory System, in that section, you
23 summarize the regulatory system established by the
24 PAEA, and as I think you agreed before, it's one that
25 distinguishes market dominant from competitive

1 products. Is that generally accurate?
2 A Yes, that's my understanding.
3 Q Looking to the second bullet in Section III,
4 which I believe appears at the top of page 8 of your
5 testimony, you note several assurances -- I'm sorry.
6 Strike that, please. Try the second bullet on page 8.
7 A Yes.
8 Q There you note several assurances that the
9 PAEA provides customers, including, as you put it,
10 "delivery reliability, speed and frequency consistent
11 with reasonable rates and best business practices".
12 Have I got that right?
13 A That's what it says, yes.
14 Q Okay. Was there any particular reason why
15 you listed those service attributes in that order?
16 A I believe I was simply trying to paraphrase
17 the relevant sections of the Act. I had no deeper
18 agenda there.
19 Q Okay. So you had a copy of the Act or of
20 Title 39 in front of you as you did this?
21 A Yes, I did.
22 Q Do you have any feel for how customers
23 prioritize those attributes, the same ones I just
24 quoted to you from your testimony?
25 A From the second bullet?

1 Q Yes.

2 A I have no, you know, deeply informed

3 understanding of that. I mean, I have my own

4 understanding as a user of the Postal Service. I

5 would expect that customers would value these

6 different attributes quite differently depending upon

7 who they are, whether they were residential or

8 business customers, you know, what sort of activities

9 they were using the Postal Service for.

10 Q In Section IV of your testimony, which

11 begins in the middle of page 8, you summarize the pre-

12 PAEA price regulation applicable to postal prices, is

13 that correct?

14 A I think what I try and do in this section is

15 to describe cost-based regulation, and I do fold the

16 pre-PAEA postal regulatory regime into that general

17 category, but I don't focus specifically on laying out

18 the details of that regulatory regime.

19 Q Okay. And just for purposes of our

20 discussion, can we agree that we can refer to the pre-

21 PAEA period as Postal Reorganization Act regulation?

22 Is that a useful shorthand that you understand?

23 A That sounds good, yes.

24 Q Okay. So, in that section, you go into the

25 drawbacks or as you put it I think incentive problems

1 of that style of regulation, is that right?
2 A Again referring generally to cost-based
3 regulation.
4 Q And among those is the general tendency of
5 the regulated firm that it just passes cost increases
6 on to its customer base, is that right?
7 A Yes. That is one of the criticisms that has
8 been leveled in general against cost-based regulation.
9 Q And the second incentive problem you note is
10 that the regulated firm will fail to make the most
11 productive use of capital, perhaps even investing
12 capital inefficiently, is that right?
13 A Again, referring in general to cost-based
14 regulation, yes.
15 Q Oh. We've got an understanding that you're
16 referring generally here. That's okay. That can be a
17 continuing understanding.
18 A Uh-huh.
19 Q At least until this next question. Under
20 price regulation set by law in the Postal
21 Reorganization Act, do you have any idea how the
22 prices charged by the Postal Service compare to prices
23 charged by other posts throughout the world?
24 A What was the preamble to the question again?
25 Q We're talking about the period prior to the

1 PAEA but subsequent to the Postal Reorganization Act,
2 so we're talking about 1971 through approximately
3 2006. And I'm asking if you have any idea how Postal
4 Service, United States Postal Service prices compare
5 to prices for similar products or services charged by
6 other posts in other countries?
7 A I've looked at that some years ago, so I'm
8 trying to remember as best I can. What I recall
9 having seen was that the U.S. volumes tended to be
10 dramatically higher and then the prices tended to be
11 somewhat lower than in other postal systems, and so
12 that's the best I can do. And again, that's just a
13 general tendency.
14 Q Thank you. That's what I was looking for.
15 So I'll just sharpen the point a bit. You would agree
16 that the Postal Service prices were generally
17 acknowledged as being somewhat lower than other
18 countries rather than somewhat higher?
19 A Well, again, I don't want to overstate what
20 I know. I mean, my impression was that that was the
21 case. It's not something I had looked into in a lot
22 of detail.
23 Q Fair enough. Thank you. I'd like to
24 connect that general observation up with your
25 observation about the general drawbacks of cost-based

1 regulation and ask what conclusion you would draw as
2 an economist as to the extent of the drawbacks of
3 cost-of-service regulation manifested in the prices in
4 the United States for postal products.
5 A What conclusions I would draw as an
6 economist about the drawbacks of cost-based regulation
7 or --
8 MR. LAVER: No. The witness had it correct.
9 THE WITNESS: Well, I think even if it were
10 the case that the U.S. tended to have lower rates
11 under the old regime than other postal systems, I
12 don't think that would really alter my opinion as an
13 economist about the drawbacks of cost-based regulation
14 because the relevant comparison wouldn't be between
15 the U.S. and Spain but between the U.S. under cost-
16 based regulation and the U.S. under some other form of
17 regulation.
18 I think as I said, my impression was not
19 just that the rates were lower in the U.S. but that
20 that mail volumes were substantially higher, and
21 again, my impression was there was a view that that
22 was one of the big factors that explained the
23 difference. It doesn't mean that, you know, the
24 difference might have been greater still under a
25 different form of regulation.

1 BY MR. HOLLIES:

2 Q You also summarized the drawbacks of cost of
3 service price regulation using the term Averch-Johnson
4 effect if I pronounced that correctly?

5 A Yes.

6 Q And it's also correct that you summarized
7 using that term?

8 A I did.

9 Q Could you please describe that in a short,
10 succinct statement?

11 A I will, and I'm actually not sure how
12 applicable that particular problem is to the Postal
13 Service. It's something I think I've heard talked
14 about more in the context of utility regulation where
15 there's a regulated rate of return on investment, and
16 in that kind of a situation, if you can expand the
17 investment base, you can expand your return, and as I
18 recall, under the pre-Postal Reform Act system, the
19 Postal Service wasn't regulated on a rate of return
20 basis.

21 I mean, that's my recollection, so that may
22 not be as relevant to the Postal Service's situation,
23 but it has been commented on in utility regulation
24 where there's a rate of return on an investment base.

25 Q Okay. With that understanding, I may not

1 know how you're going to answer this next one, but
2 I'll give you a shot. Is it your understanding that a
3 price cap regulatory scheme that replaces a cost of
4 service regulatory scheme should change patterns of
5 capital investment by the regulated firm?
6 A I would think in general that it would.
7 Under a price cap regime, the incentives for achieving
8 cost reductions are generally thought to have
9 sharpened considerably, and that should affect the
10 behavior of the regulated firm both in terms of
11 operating expense and capital expense.
12 Q What would those changes be for capital
13 investment?
14 A Here it would depend upon the form of the
15 regulation, and, you know, if you were a regulated
16 utility, you know, earning a regulated rate of return
17 on an investment base, I think it would change the
18 investment calculus quite a bit. You would be more at
19 risk if you made an investment. You'd only be able to
20 recover the return on the investment to the extent
21 that you were able to expand sales or reduce your
22 costs per unit of service.
23 Under the Postal System regulation, I'll
24 confess it's an area that I didn't get into very much.
25 My impression was that the Postal Service's total

1 expenditures were regulated, and I guess I will plead
2 ignorance about the difference between how operating
3 expenses and capital investments were treated under
4 that system. That makes me a little bit unsure what
5 the effect would be.
6 Q Okay. So would you expect there to be more
7 capital investment or less, or can you explain why you
8 can't answer in those terms?
9 A Here, again, I would think the answer to
10 that question would probably depend on the nature of
11 the investment opportunities open to the Postal
12 Service. I said in general if you move to a price cap
13 regime, it sharpens incentives for cost reduction, and
14 if the operations of the Postal Service are such that
15 there are many investment opportunities that would
16 permit reductions in cost, I think the incentives for
17 making those kinds of investments would be sharpened.
18 One can also think about investments whose
19 main purpose might be to expand output, and there I'm
20 not sure whether there would be a strong change in the
21 incentives. I mean, I think generally the Postal
22 Service was in the position for a long time of
23 benefitting from growth and investment that promoted
24 growth, so it would depend upon the nature of the
25 investment opportunities.

1 Q What, if anything, can you tell us about
2 whether the types of changes you just described have
3 occurred under PAEA price regulation?
4 A I don't think I followed the investment
5 patterns of the Postal Service closely enough to have
6 a very well-informed opinion about that.
7 Q So it would seem then that you did not
8 attempt to verify whether the conditions of different
9 price regulatory schemes you described in your
10 testimony actually manifested themselves for the
11 Postal Service, is that right?
12 A Well, I would say that the purpose of my
13 testimony more was to summarize the consensus of the
14 regulatory economic literature. I think I also said I
15 am aware that here have been some significant cost
16 reductions that the Postal Service has achieved in the
17 period since the Postal Reform Act was implemented.
18 That would be consistent with what I would expect
19 based upon what regulatory economists would predict
20 from the change in regulation. So I haven't done a
21 detailed examination, but what I do know is consistent
22 with what I would have expected.
23 Q Do any of the examples you cited or perhaps
24 that you have not actually reflect a hinge or change
25 in curvature from enactment of the PAEA? Or if you

1 don't know, that's a fair answer too.

2 A No, I don't think I am aware of a change in

3 curvature.

4 Q Okay. Did you understand my question?

5 A I'm not sure. I tried to interpret it as

6 best I could, and maybe to clarify my --

7 CHAIRMAN GOLDWAY: I'd appreciate a

8 definition of the term.

9 MR. HOLLIES: Madam Chairman, I was

10 essentially asking the extent to which the witness

11 could tie his general observations about the different

12 price regimes to changed behavior on the part of the

13 Postal Service, and we've not really made a great deal

14 of progress on that specific front for the reasons the

15 witness has explained, and you still look mystified.

16 CHAIRMAN GOLDWAY: Well, he did say given

17 his general theory about price cap he expected that

18 there would be significant cost saving incentives.

19 MR. HOLLIES: He did.

20 CHAIRMAN GOLDWAY: That those two are

21 related, so what does curvature mean?

22 MR. HOLLIES: I'm using it as a slang term

23 almost for a curve that would describe a change in

24 investment patterns.

25 MR. LAVER: Madam Chairman, I hate to

1 interject to object, but we've been over this. The
2 witness has said that he doesn't have knowledge of the
3 Postal Service investment since 2006. I'm willing to
4 stipulate that the witness does not have expertise on
5 the Postal Service investment if that helps us move
6 off the investment end of the bargain.
7 CHAIRMAN GOLDWAY: Thank you, Mr. Laver.
8 MR. HOLLIES: So I'll move on.
9 CHAIRMAN GOLDWAY: Yes, please do.
10 MR. HOLLIES: Okay.
11 BY MR. HOLLIES:
12 Q Let's move on to Section 5. In Section 5,
13 which is titled The Relationship Between Price and
14 Quality, beginning on page 11 of your testimony, you
15 begin this section with examples that simplify markets
16 by setting up hypotheticals where respective firms are
17 marketing goods that constitute ready substitutes for
18 one another using metals as an example of exact
19 cognates and automobiles as less exact duplicates. Is
20 that a fair statement?
21 A I think I would put it a little bit
22 differently. I would say I was looking at situations
23 where you would look at a class of products and
24 everybody would use the same word to describe them,
25 like one example I use is cars. People will look at a

1 car and say yes, that's a car, but they're not
2 identical. There are many differences in features,
3 cost and so forth, so I wasn't really trying to argue
4 that they were close substitutes but that they would
5 be described as being the same product even though
6 they had different attributes.
7 I think the extent to which they're close
8 substitutes would vary from one example to another. I
9 use the sweet light versus heavy sour crude. There
10 are some refineries that could use either. There are
11 some that can only do light sweet crudes. When it
12 comes to automobiles, I think I used the Honda Fit and
13 the Porsche Carrera, and I don't think that they would
14 be close substitutes in any particular buying
15 situation even though both would be described by most
16 people as being cars.
17 Q Would you prefer to drive one rather than
18 the other?
19 A Well, I've always been attracted by a
20 Porsche Carrera but have never had a chance to drive
21 one.
22 Q Thank you. Likewise. Looking across
23 providers of postal services, are there products or
24 services exactly the same or approximately so?
25 A Across providers of postal services? Are we

1 looking across countries or are we looking across --
2 can you clarify what you mean by postal services and
3 what you mean by alternative providers because I can
4 answer it in a number of different ways depending upon
5 your clarification.
6 Q Well, my question was not limited, but if
7 you choose to answer by limiting it to domestic or
8 limiting it to international, that would still be a
9 response, so if you could choose one?
10 A Well, I think if we're talking market
11 dominant services, my understanding was that the
12 Postal Service still has a statutory monopoly on
13 certain classes of mail, which would imply that there
14 aren't alternative providers. If we adopt a looser
15 point of view, I think if you look and compare either
16 the U.S. Postal Service to foreign postal services,
17 obviously the geography of delivery is very different.
18 My understanding is that other attributes of
19 service might be different too in terms of days of the
20 week or reliability or a variety of other factors too.
21 So I'm not sure that I can think of a situation.
22 Certainly I'd be hard pressed to think of a situation
23 where there would be alternative providers providing
24 exactly the same service in any postal market I'm
25 aware of.

1 Q I'm sorry. Could you say that last phrase
2 again?
3 A In any postal market I'm aware of.
4 Q Okay. Thank you. You conclude Section 5 by
5 addressing the concept of a quality-adjusted price, is
6 that right?
7 A I do.
8 Q In that context, I want to present you with
9 a hypothetical question.
10 A Okay.
11 Q Let's assume we have a product that consists
12 of delivery of a physical object, whether it's a
13 document or a more tangible product. In postal terms,
14 our hypothetical consists of delivery of a letter flat
15 or a parcel. Assume that customers are not willing to
16 pay a premium to get overnight delivery. Let's
17 further assume that experience and research show that
18 customers who are the recipients of delivery for
19 purposes of this hypothetical attach value to that
20 product based first upon whether it is delivered in a
21 timely fashion. That is, if they're told to expect it
22 in two days, they value getting it in two days. If
23 they are told to expect it in three days, they value
24 getting it in three days. In other words, value is
25 highest when it is delivered when promised rather than

1 late. Value is highest in other words when delivered
2 in accordance with recipient expectations. Are you
3 with me so far?
4 A I think so.
5 Q So, with this hypothetical in mind and in
6 light of the discussion in Section 5 of your testimony
7 regarding quality-adjusted price, would customers
8 likely pay the highest price for delivery that is
9 provided precisely when they expect an item to arrive?
10 A Okay. So just to clarify, you're talking
11 about a situation where the recipient is the customer
12 and the recipient is paying for the transmission of
13 the package?
14 Q Yes.
15 A And again your hypothetical is that there's
16 no willingness to pay for overnight service, but there
17 is value being placed on delivery precisely at the
18 expected time?
19 Q Yes.
20 A And I assume the fact that they place value
21 on it would imply that they'd be willing to pay more
22 for a package that arrived precisely on time than they
23 would for one that arrived either earlier or later, so
24 I would expect they would pay more for precisely on-
25 time delivery in the context of this hypothetical.

1 Q Okay. Thank you. Would you agree if only
2 because my hypothetical rules it out that our
3 customers would not pay still more to get faster
4 delivery?
5 A I think in the context of your hypothetical,
6 I mean, that would follow. I mean, more generally I
7 would think the quality has to be measured in terms of
8 attributes that customers value, so if there's some
9 attribute that they place no value on, it would not
10 contribute to quality.
11 Q Okay. So, if we go back to your discussion
12 on page 13 of quality-adjusted price, were delivery
13 company A able to establish in the minds of customers
14 an expectation based on experience that company A
15 would deliver items more consistently in accordance
16 with the customer's expectations than company B,
17 customers would choose company A over company B at
18 least if price were equal. Would you agree with that?
19 A So this is still in the context of your
20 hypothetical?
21 Q Still in the hypothetical, yes.
22 A I would think under the conditions of this
23 hypothetical if customers believe that company A would
24 deliver more consistently or more frequently at the
25 precise time projected that they would either prefer

1 company A or perhaps be willing to pay some
2 incremental amount more for company A.
3 Q Thank you. I'm now turning to Section 6 of
4 your testimony, Price Caps and Quality Concerns, which
5 commences in the middle of page 13 and continues
6 through page 15. Dr. Neels, in this section of your
7 testimony, you observe that concerns with product
8 quality have long been recognized when a firm operates
9 under a price cap, is that right?
10 A That's right. That's essentially what I
11 say.
12 Q How long would you say this principle has
13 been recognized generally speaking?
14 A It's been a part of the landscape and part
15 of the thinking relating to price caps for quite a
16 period of time. I'm having difficulty thinking of the
17 first time I've seen it because like I said, it's been
18 part of the landscape I would say for at least 10
19 years and probably for longer than that.
20 Q I need to confirm this. Just a second.
21 Yes. Okay. You have two footnotes on page 13, six
22 footnotes, 16 and 17, and while they appear on page
23 13, they're rooted actually in Section 5 rather than
24 Section 6, up on lines 1 and 2.
25 A Yes.

1 Q Do the matters referenced in footnotes 16
2 and 17 reflect understanding in published papers of
3 this relationship or tension between price and
4 quality?
5 A When you say this tension between price and
6 quality, they certainly reflect the recognition that
7 both price and quality are important to consumers, and
8 they're directed towards the measurement of inflation,
9 interpreting price changes and trying to figure out by
10 how much that affects the cost of maintaining a
11 certain standard of living, and it's long been
12 recognized that in interpreting the price changes for
13 particular goods, like personal computers, you need to
14 look not just at how many dollars more or less you pay
15 for a computer but how much more performance or less
16 performance you're getting along with it.
17 So I think they reflect that interaction
18 between price and quality in terms of determining
19 consumer welfare.
20 Q The dates on those references in footnote 16
21 and 17, which speak for themselves, certainly go back
22 before 2006 I think you would agree?
23 A Yes.
24 Q Is the same point conveyed in your opinion
25 by means of footnote 18?

1 A Well, I think that footnote 18 is directed
2 towards a somewhat different point. I think footnote
3 18 is directed more towards the incentives that a
4 regulated entity might have to alter the quality of
5 the services that are being provided, so footnote 18
6 addresses the issue of price and quality in a
7 regulatory context as opposed to a price-inflation
8 measurement or consumer welfare context.
9 Q Okay. So I think you would agree they do
10 address the relationship between price and quality?
11 A Both do, yes, with different emphases.
12 Q So I think then that you would agree that
13 the PAEA was passed at a time when recognition of this
14 tie between price and quality was widespread, is that
15 right?
16 A I think it was passed at a time when people
17 understood the relationship between price and quality.
18 Q Okay. Looking at page 16, we're now moving
19 on to the summary and conclusions, which actually
20 starts on page 15. Excuse me one moment. Okay. I
21 have a discrepancy between what I intended to ask and
22 the actual line and page cite, and I see that it's
23 simply my error, not in fact that your testimony
24 changed from one version to the next, so I'll correct
25 for that and continue. On page 16, starting on line

1 4, the statement appears, "I appreciate the
2 predicament in which the Postal Service now finds
3 itself. It faces significant financial difficulties."
4 Have I got that right?
5 A That's what it says.
6 Q Is it safe then to conclude that "Reducing
7 service standards for first-class mail and shedding
8 the relating costs may well be the best option now
9 open to the Postal Service."?
10 A That's what it says. It's possibly true
11 that that may be the best option open to the Postal
12 Service. I haven't conducted a detailed examination
13 on that, but I admit the possibility.
14 Q Could you turn to your response to
15 Interrogatory No. 5 from the Postal Service? This
16 question inquired into your understanding of what you
17 describe as the Averch-Johnson effect and its
18 application to the Postal Service. Is this a fair
19 characterization?
20 A Well, as I said, I mean, the interrogatory
21 claims that I identified two incentive problems under
22 price cap regulation, and I think I clarified that I
23 actually did not associate those problems with price
24 cap regulation but rather cost-based regulation.
25 Q With that understanding, yes, can you answer

1 my question?

2 A Well, you asked me does it fairly

3 characterize my -- could you repeat your question?

4 Q I see what you're saying. Okay.

5 A I think it reflects a misunderstanding of my

6 position, so I don't want to say that you fairly

7 characterized my position on things.

8 Q Okay. If the words in the question

9 correctly substituted the cost of service regulation

10 for price cap regulation, would you then agree that my

11 statement is accurate, is fair?

12 A Yes, I'm a little confused.

13 Q All right. Let me just try and do this a

14 little differently. You do cover the Averch-Johnson

15 effect in your testimony and its application to the

16 Postal Service, is that true?

17 A I think I said earlier that when discussing

18 the Averch-Johnson effect, that was included in the

19 discussion of cost-based regulation in general, not

20 specifically a discussion of the cost-based regulation

21 to which the Postal Service was subject, and I think I

22 also said that it was associated with regulatory

23 regimes in which the regulated entity earns a

24 regulated rate of return on investment.

25 And it was not my understanding that that

1 was the way the old, pre-Postal Reform Act system
2 worked in connection with the Postal Service, so I
3 wouldn't agree that the Averch-Johnson effect is
4 something that I was arguing applied to the former
5 postal regulatory regime, the regime to which the U.S.
6 Postal Service used to be subject.
7 Q The former pricing regime?
8 A Yes, yes.
9 Q Okay. I'm trying to think about this in
10 terms of how it's going to read in the transcript too.
11 A Yes.
12 Q So it's both of our obligations.
13 A Yes.
14 Q So is the Averch-Johnson effect applicable
15 to the Postal Service?
16 A Here, again, I'm not sure I am familiar
17 enough with the way capital expenditures were treated
18 under the old regime except to say that I do know in
19 my past appearances here before the Commission that I
20 don't recall having heard anything about investment
21 base or rates of return. That makes me think that the
22 Averch-Johnson effect is not applicable or was not
23 applicable under the old regime.
24 But my other comments about the tendency
25 under cost-based regulation for the regulated entity

1 to let costs rise might still be applicable, so it
2 would affect costs generally, operating and capital
3 costs. I'm not sure that there's the same distortion
4 of investment incentives that the Averch-Johnson
5 effect talks about in connection with the pre-Reform
6 Act regime.
7 Q Okay. Thank you. And just to help my own
8 pronunciation, do you emphasize the second syllable,
9 Averch, rather than the first?
10 A To be honest, I've read it. I haven't heard
11 it pronounced, so I can't help you on that.
12 Q All right. I withdraw the question. Thank
13 you. In your response to interrogatory 5 from the
14 Postal Service, Part D, subpart iii, you make
15 reference in the third to last line of the response to
16 "significant operating losses" of the Postal Service,
17 is that correct?
18 A I do.
19 Q Is your use here of the term "operating
20 losses" specific to some subset of postal finances, or
21 is it the general recognition that the Postal Service
22 flow of money out is much greater than its revenues?
23 A I think it probably reflects the more
24 general understanding that more money is going out
25 than is coming in, and I wasn't trying to narrow it

1 down to particular subsets of revenues or expenses.
2 MR. HOLLIES: Thank you. Thank you, Dr.
3 Neels. That concludes my questioning.
4 CHAIRMAN GOLDWAY: Very good. Thank you.
5 Is there any other participant wishing to
6 ask a question? Mr. Anderson?
7 MR. ANDERSON: Thank you, Madam Chairman.
8 Darryl Anderson for the American Postal Workers Union.
9 CROSS-EXAMINATION
10 BY MR. ANDERSON:
11 Q Good afternoon, Doctor.
12 A Good afternoon.
13 Q I think just to try to make this as brief as
14 possible I'll start with a general concept of work-
15 share discounts. Is that a concept you're familiar
16 with?
17 A Yes, I have some familiarity with that.
18 Q Do you know how it applies in the Postal
19 Service?
20 A I think in general I do, yes.
21 Q Okay. And are you aware of the concept of
22 first-class mail being mail for which there is
23 universal service at a uniform rate, so you can mail a
24 letter one place in the country to any other place in
25 the country, same price?

1 A Yes.

2 Q Okay. I just want to make sure we're using
3 the same terms, that's why I'm trying to define our
4 terms first, so in a work-share discount setting,
5 large mailers consolidate their mail, order in a
6 certain way, pre-bar coded and presorted. That's all
7 work that the Postal Service would have otherwise had
8 to do, and the discount is measured by the costs
9 avoided by the Postal Service?

10 A Yes.

11 Q Okay. Just so we're on the same page, so
12 when I say work-share discounts for first-class
13 mailers, that's what I'm talking about. Now are you
14 aware that in the network consolidation plan that the
15 Postal Service has published, eventually there will be
16 a distinction between work-shared mailers and single-
17 piece mailers and that there will be a faster service
18 available for work-shared mailers, and just accept my
19 summary of it if you're not familiar with it.

20 That work-shared mailers are permitted to
21 bring their mail to the post office, mail processing
22 facility, by 8 a.m. on a given day and get it
23 delivered on the next day farther away than single-
24 piece mailers can. Even if single-piece mailers bring
25 their mail before 8 a.m., they still can't get it

1 delivered as far away on the next day as work-shared
2 mailers do. I see that as a more valuable service
3 being provided to the work-shared mailers than to the
4 single-piece mailers. Is that a fair statement?
5 A Well, I think in determining whether it's a
6 more valued service, you'd have to think about the
7 whole set of services that are being offered. If you
8 have a work-share mailer, then the mailer has to do a
9 lot of other things that the single-piece mailer
10 doesn't have to do, so the work-share mailer has a
11 benefit in terms of faster delivery but a disbenefit
12 in terms of having to do himself what the Postal
13 Service would otherwise.
14 Q Absolutely, so that if the work-share mailer
15 is getting that faster service by virtue of saving the
16 Postal Service costs, that is, if the Postal Service's
17 costs of providing that faster service is offset by
18 the work-shared mailer's work, then that's an
19 appropriate pricing mechanism under a work-share
20 discount arrangement, correct?
21 A Well, I guess first as a general matter I
22 would think that if the work-share mailer is getting a
23 benefit which accurately reflects the additional
24 effort that the work-share mailer has to put into
25 preparing the product and the cost savings that the

1 Postal Service realizes as a result of that effort,
2 then it would seem to be an appropriate application of
3 work sharing, which I'm hesitating here only because
4 I'm setting aside any concerns about equal treatment
5 that is owed to first-class mailers because I'm not
6 sure how that would play in it.
7 And I think you had asked earlier about
8 whether this was a more valuable product, and I think
9 I said again it would have to be considered in terms
10 of the whole set of services being offered and cost --
11 Q Let me take value out of the equation if I
12 may?
13 A Okay.
14 Q Let's just say the question is whether it's
15 an equal product so that the value could be
16 subjective, but then let's make it objective. We'll
17 talk about costs.
18 A Okay. Talk about costs, and so your
19 question is?
20 Q Well, my hypothetical is the work-share
21 mailer is already work-sharing his mail
22 hypothetically, but now what's changing is whether you
23 can get overnight service or not, and if you can only
24 get overnight service, and the reason that's changing
25 is because it's more expensive to provide overnight

1 service. You have to provide faster transportation
2 and maybe dedicated transportation, so then the whole
3 point here is the whole point of cutting services is
4 to save costs.
5 So, if the work-shared mailer can still get
6 that overnight service but only if they bring the mail
7 by 8:00 in the morning, so presumably there's a cost
8 relationship to the dropoff time, but my point is that
9 if that early dropoff and next-day delivery service is
10 not available to the single-piece mailer, then it
11 would be appropriate to examine the cost saved by the
12 dropoff and to see whether the work-shared mailer is
13 getting an additional advantage not measured by
14 additional costs avoided. Do you follow me?
15 A I think so, and I think in trying to answer
16 maybe I'll try to simplify it a little bit and take it
17 in pieces. I mean, suppose it's the case that you
18 have two categories of mailer and it's possible for
19 one category to provide higher-quality service at a
20 higher price that covers all of the additional costs
21 associated with providing the higher level of service.
22 Now I would generally think that it would be a good
23 idea to make that available.
24 If you give somebody a chance to buy better
25 service when he wants better service and can pay for

1 better service and when that better service doesn't
2 impose any costs or penalties on other customers,
3 everybody's better off, why not do it? It just seems
4 to be welfare enhancing.
5 Now, if we can broaden that then to say if
6 instead it's a comparable price, but there's more
7 effort that has to go into mail prep, it's another way
8 of saying that if somebody has an opportunity to
9 expend more of their own resources to get better
10 service and it doesn't harm anybody else, I would
11 think it would be appropriate to go ahead and do that
12 because I think everybody would be better off and
13 there's no reason not to.
14 Q Well, I think we're on the same wavelength
15 here, but to bring it to a finer point though, as long
16 as the effort saved by the Postal Service with the
17 costs avoided is commensurate with the discount, it
18 has to remain commensurate with the discount.
19 Otherwise, you depart from efficient component pricing
20 and you don't have an efficient work-share discount
21 regime.
22 A I would think that would be correct,
23 although, as I said, I would want to consider possible
24 impacts on other mailers.
25 Q We'll bring you back for that case later on

1 then. I think that's probably far enough on that. I
2 have to recant what I said because Mr. Hollies asked a
3 couple of things I need to follow up on, but I'll try
4 to be brief.
5 CHAIRMAN GOLDWAY: Please be brief.
6 BY MR. ANDERSON:
7 Q One is this cost-based regulation issue, and
8 I'm wondering, just broadly, are you aware that there
9 are certain people in Congress who are fond of saying
10 that 80 percent of Postal Service costs are labor?
11 Have you heard that tossed around?
12 A I've heard that tossed around.
13 Q Yes. That's pretty labor-intensive I think
14 you would agree?
15 A Yes.
16 Q Are you aware of any literature that
17 distinguishes between labor-intensive industries and
18 capital-intensive industries in terms of the relevance
19 of the cost-based regulation problem? Is there any
20 academic literature on that subject?
21 A That distinguishes between? I am aware of
22 some that touches on it tangentially. I mentioned
23 that there have been discussions about the behavior of
24 I'll call it regulated utilities that are subject to
25 rate of return regulation, and that's oriented more

1 towards capital expenditures, but another subject
2 that's been very extensively studied is the pre-
3 deregulation behavior of the airline industry, which
4 has a high fraction of costs made up of labor and was
5 not subject to rate of return regulation. It was just
6 subject to more general regulation of prices and
7 entry, and I think the literature on airline
8 deregulation generally recognizes that costs went up
9 under regulation relative to what they've been since
10 the deregulation of the airline industry.
11 Q Do you happen to know what the ratio of
12 labor costs to capital costs is in the airline
13 industry roughly?
14 A It would depend upon how you measure capital
15 costs. I mean, the things I've seen will indicate
16 that usually the biggest cost is the cost of fuel.
17 The second biggest cost is cost of labor, and then you
18 get to cost of the aircraft, which would be like the
19 rental cost of --
20 Q I would think, yes.
21 A Yes.
22 Q But you don't recall what the ratios are?
23 I'm not asking you to guess. That's okay. If you
24 don't remember, it's fine.
25 A The first two cost categories would be in

1 the range of 25 to 40 percent, something like that.
2 Q So labor and fuel, 25 to 40?
3 A It varies depending about what time period
4 you look at and what oil prices are, but I think each
5 of those categories I think of as being in the range
6 of 25 to 40 percent over time.
7 Q Well, I would think then that literature
8 that deals with the airline industry wouldn't
9 necessarily be very applicable to an industry where 80
10 percent of the costs are labor. I mean, that's very
11 different, isn't it? Don't you agree with me?
12 A Well, one would be hard pressed to draw
13 analogies between the literature on airline
14 deregulation and the literature we're talking about.
15 Q I'm satisfied with that answer if you are.
16 A Yes.
17 Q I don't want to cut you off, but I want to
18 save people time as well.
19 A Sure.
20 Q So, with your permission, let me just press
21 the issue, the same point, but a little differently.
22 Are you aware that from 1971 until 2006 postal rates
23 went up roughly at the rate of inflation? Are you
24 aware of that fact?
25 A I'm not aware specifically of that. I'm not

1 surprised by it.

2 Q And while one might attribute that to work

3 sharing, you're probably also not aware that a large

4 work-share mailer actually had their rates go up at a

5 rate lower than inflation for a significant period of

6 time, so you're probably not aware of that either?

7 A I'm not aware of that either.

8 Q In an industry with 80 percent of its costs

9 as labor, I think you would agree with me that the

10 tendency of organized labor to increase labor costs at

11 a rate faster than inflation might be significant in a

12 cost-based regulation system. Is that a fair

13 statement?

14 A Can you repeat that one again?

15 Q Yes. As an economist, if you look at unions

16 as an effort to monopolize labor and thereby increase

17 the compensation of workers, I would think that

18 unionization in an industry where 80 percent of the

19 cost is labor, you would be as an economist concerned

20 about that, that it might in fact in a cost-based

21 regulation system produce monopoly profits for labor?

22 A I guess I would be concerned about that, but

23 that concern would have to be grounded in the

24 specifics of the regulatory regime to which the entity

25 was subject and a whole series of other --

1 Q You're a good witness. You're anticipating
2 where I'm going because are you aware that wage
3 compensation for postal workers roughly tracked
4 inflation over the same 35-year period as those rates?
5 A I'm not specifically aware of that.
6 Q Okay. I think it's probably elsewhere in
7 the record. You testified I think in response to Mr.
8 Hollies' question that the sharp cost reductions
9 observed in the Postal Service following the 2006
10 adoption of a price cap regime were consistent with
11 economic theory about how that would operate?
12 A Yes, I did.
13 Q Now I think if you have a price cap and then
14 in addition to the price cap you impose, as was done
15 with the 2006 legislation, a very large, a $5.5
16 billion a year payment on the Postal Service, what I'm
17 driving at is I think that the imposition of that
18 cost, that $5.5 billion cost, had the same effect as
19 the price cap or at least in economic theory that if
20 you take the price cap here and then you set another
21 ceiling below it at $5.5 billion lower than that, that
22 also would have a tendency to drive the reduction in
23 costs for the same economic reasons, isn't that
24 correct?
25 A No, I wouldn't agree with that. I think

1 that the point of a price cap is to affect marginal
2 incentives, and price cap creates incentives where if
3 you can lower the unit cost of providing service you
4 benefit financially, and whether there is a fixed $5
5 billion payment or not, those incentives are still
6 there. I don't have a detailed understanding of how
7 this payment works, but if it's a fixed amount that
8 the Postal Service has to pay every year that's not
9 related to their volume, it wouldn't affect marginal
10 incentives, so the economics would be different.
11 Q Doesn't affect marginal incentives, but in
12 the real world, managers have to try to cut costs to
13 meet revenues, isn't that a fact?
14 A In the real world, people have to try and
15 cut costs to fit under the revenues, yes.
16 Q So, if they have to pay that $5.5 billion,
17 they have to cut costs to pay it, isn't that correct,
18 in the real world?
19 A If their revenues are not increasing, if
20 their volumes are not increasing, then the only way to
21 pay it would be to cut costs.
22 MR. ANDERSON: If they happen to get really
23 unlucky and right after the price cap is passed
24 there's no inflation, it might be that they have to
25 take that whole $5.5 billion out of costs. Nevermind.

1 I'm sorry. I'm arguing with you and I don't mean to.
2 I just wanted to touch on one other. No, that's all I
3 have. Thank you.
4 CHAIRMAN GOLDWAY: Thank you. Now there are
5 questions from the bench. I think I'm the only one
6 who's going to proceed. These are questions from the
7 staff, but I'm interested as well. Can you provide
8 any examples of price cap systems in regulated
9 industries that don't account for quality when
10 considering rates?
11 THE WITNESS: I'm not sure I can name one
12 right now. I think that my understanding of the way
13 this field has evolved is that initially price caps
14 tend to be imposed, and quality regulations or service
15 regulations were imposed when people began to be
16 concerned about possible behaviors, and I think now
17 it's at the point where the recognition of the
18 possible linkages between incentives under price cap
19 regulation and effects on quality is widespread enough
20 that often if a price cap is imposed, there will be
21 quality standards that are imposed along with it.
22 CHAIRMAN GOLDWAY: And can you give some
23 examples of when a regulated agency has determined
24 that quality doesn't meet standards what does it do?
25 Does it allow the regulated agency to raise prices

1 more than the price cap? Does it impose penalties?
2 How does it handle a situation like this?
3 THE WITNESS: Well, I think broadly
4 speaking, the systems I've seen fall into three
5 categories. One is like the one that I understand was
6 implemented by the 2006 Act, which said that there's a
7 price cap and then the Commission should also
8 establish service standards that have to be met, so
9 that's a common response to articulate some service
10 standards or possibly I think it might even be a trend
11 in service standards so that for an electric utility
12 it might be a reduction over time in the number or
13 frequency of outages.
14 Then there are financial incentives that may
15 also come into play. There can be penalties if
16 service quality falls below stated standards,
17 financial penalties, and then I think I've also seen
18 cases where penalties are also combined with bonuses,
19 that if there are improvements in service quality
20 above standards, then there's some additional gain in
21 revenue that the regulated entity receives, so I've
22 seen that in electric power in connection with outages
23 as a measure of service quality.
24 In some of the toll road systems I've seen,
25 there may also be standards in terms of either

1 maintenance of free flow or maintaining a certain
2 standard of repair on the road over time, things like
3 that, but it's either mandates to meet a standard or
4 some combination of financial penalties and bonuses to
5 provide incentives for compliance.
6 I have also seen too in actually some work
7 that some of my colleagues at Brattle that they
8 emphasize the importance of setting standards that are
9 reachable, you know, that if you set a service
10 standard which the regulated entity can't reach
11 easily, then the incentive effects evaporate. So, in
12 a way, the standards have to be calibrated relative to
13 where the regulated entity is and what the regulated
14 entity can reasonably be expected to do.
15 CHAIRMAN GOLDWAY: So let's assume that a
16 reduction in quality can be equated to an increase in
17 the quality-adjusted price. What information would be
18 necessary for the Commission and the Postal Service to
19 consider to calculate that relationship?
20 THE WITNESS: Well, it really would require
21 an understanding of the monetary value that mailers
22 place on the quality of service, so in the context of
23 a lengthening of delivery times, one would need to
24 quantify in a monetary sense by how much that degrades
25 the value of the service.

1 CHAIRMAN GOLDWAY: And how do we find that
2 out?
3 THE WITNESS: To do that, in general, I
4 mean, in terms of approaches I've seen to implement
5 this, there's what's called revealed preference and
6 stated preference, sort of two terms used in market
7 research. Revealed preference would be to look and
8 see what people do when they're confronted with
9 different levels of service to see, for example, at
10 what point do people cease to mail and use some other
11 alternative means of communication or means of
12 transmission of a product.
13 Sometimes by looking at tradeoffs between
14 different vendors that have different mixes of price
15 and quantity you can infer what people are willing to
16 pay for different kinds of service attributes. The
17 other approach, it's called stated preference, and
18 this involves market research techniques where people
19 are confronted with different products and asked which
20 they would choose under which circumstances, and that
21 can be a basis for doing it as well. But in effect,
22 the first involves looking at mailer behavior, the
23 second, looking at what mailers say they would do.
24 CHAIRMAN GOLDWAY: So, in evaluating service
25 reduction, how important is it for the Postal Service

1 to understand how much more a customer would be
2 willing to pay to retain the existing level of
3 service?
4 THE WITNESS: Well, I think willingness to
5 pay is also related to demand for the service, and I
6 would think it would be very important for the Postal
7 Service to have a good understanding of that because
8 it seems to me that part of the premise for this
9 request is that this is a service change which mailers
10 will not care about very much, which is essentially a
11 statement that it has a small monetary value and it
12 won't have a big effect on mailer behavior.
13 If they're right about that, then it may be
14 a small reduction in quality-adjusted price. If
15 they're wrong, there could be a big volume response to
16 the change in service and that I think would be of
17 great concern to the Postal Service and to the
18 Commission.
19 CHAIRMAN GOLDWAY: In this proceeding, the
20 Commission is providing an advisory opinion, but in
21 other proceedings, when the Postal Service comes to us
22 for a price cap adjustment, which we expect them to do
23 at the end of 2012 to implement in 2013, what would a
24 Commission do to measure the impact of the service
25 change and to determine whether we should penalize

1 them or impose some sort of bonus system for raising
2 the service standards or simply factor in more
3 accurately than the Postal Service that volume is
4 going to decline and give them the bad news about
5 that? What can we do in what I think is an important
6 balancing equation here that would ameliorate the
7 problem?
8 THE WITNESS: Well, I sympathize with your
9 dilemma. This is a difficult situation. I think it's
10 in everybody's interest to get the best information
11 possible on what value customers really place on
12 changes in service standards or for that matter
13 increases in rates, and I suppose I would recommend
14 really trying to monitor customer responses to see
15 what does happen, I mean, particularly if there are
16 market research approaches that can be implemented. I
17 understand the Postal Service has done some work of
18 that nature.
19 If there is an adjustment to service
20 standards in the present case, I would think it would
21 be important to look at the natural experiment that
22 would create to look and see what people do in
23 response and to fold that information into future
24 decisions. I think I would be interested, I mean,
25 particularly if there's a request for an increase in

1 rates. I mean, ultimately it is important to
2 understand what the volume response would be. That
3 would be something that would be worth some study to
4 try and structure this in a way that you get the best
5 information as decisions are made and things proceed
6 so that down the road you're working on a better base
7 of information. That would be I guess my
8 recommendation here.
9 CHAIRMAN GOLDWAY: Thank you. Does anyone
10 else have any questions they'd like --
11 COMMISSIONER TAUB: Madam Chairman, I do.
12 CHAIRMAN GOLDWAY: Commissioner Taub.
13 COMMISSIONER TAUB: Good afternoon. Thank
14 you for your time this afternoon. This is an
15 important area of research and study for many years
16 and forms a key part of the law. Just following up on
17 this last line of discussion, you know, I think in
18 some ways your suggestion there somewhat follows on
19 the public representative's previous witness that was
20 here which talked about the idea that this Phase 1
21 approach in some ways gives everyone an opportunity to
22 get some real world assessment.
23 He was speaking in the terms of the cost
24 savings, but I think it allows really looking at what
25 is the real world implications of doing some of these

1 things and then making adjustments based on that. I
2 know the hour has been long. We've been talking about
3 this for a while. I just want to make sure maybe in
4 the interest of time that a lot of the discussion we
5 heard I'm hearing correctly and summarizing some key
6 points of the discussion.
7 There was a little bit of discussion on the
8 research or economic literature as it relates to price
9 caps and being recognized, and there's a quality issue
10 that needs to be involved, and if I heard correctly,
11 you acknowledge that that literature has been out
12 there for a while and certainly was on the table shall
13 we say when the current law was formulated and then
14 passed over the 1995 to 2006 period, is that correct?
15 THE WITNESS: Yes, I think that's fair.
16 COMMISSIONER TAUB: And so it's fair to say
17 that this issue of degradation of quality within the
18 price cap was something that at least the policymakers
19 would have been familiar with when putting together
20 the statute itself?
21 THE WITNESS: Yes.
22 COMMISSIONER TAUB: And if I understood the
23 discussion you had earlier with the Postal Service,
24 you had outlined that indeed the way the law is set up
25 as you understand it, there's not a direct linkage in

1 the service issue. There's the price cap as designed
2 under the law and as the Commission regulated it as
3 CPI, and then there's the service standards that are
4 promulgated, but unlike the example you gave where in
5 some price cap regimes that measure is part of either
6 the indices or the adjustment factor, these are not
7 linked in that way.
8 THE WITNESS: Yes, I think that's fair.
9 Under some regimes you can trade off one against the
10 other to some extent, and my understanding of the
11 system here is that these are two separate things that
12 don't talk to each other.
13 COMMISSIONER TAUB: Right. You had
14 mentioned in answer to the Chairman that your
15 understanding was the regulator sets the service
16 standard. I had just wanted to clarify that. I think
17 the statute is pretty clear. In this regime, the
18 Postal Service, the operator, sets that service
19 standard.
20 THE WITNESS: Okay. Well, I appreciate
21 that. I know the Act called for establishment of
22 service standards.
23 COMMISSIONER TAUB: Okay.
24 CHAIRMAN GOLDWAY: The Commission is
25 consulted, done in conjunction with it.

1 COMMISSIONER TAUB: And as you cited Section
2 3691, the law so then allows the Postal Service by
3 regulation from time to time to revise those
4 standards, which they have just promulgated
5 regulations to revise those standards, but it isn't
6 the operator that sets those standards. It's the
7 regulator. The role we do have is in an annual
8 compliance determination where we check on quality and
9 say look, the service standards that are in effect
10 during such year, did you meet those, and if not, this
11 Commission can take action.
12 My sense of that is that that in some way
13 was the attempt in the statute to deal with the issue
14 of degraded service in a given year. If we as a
15 Commission, which we do have the authority to look
16 back and say these are the standards that were in
17 effect for Fiscal Year 2012, and you, Postal Service,
18 as the operator failed to meet them, we can then take
19 action. With that understanding, would you feel
20 that's in some way getting to this issue of quality in
21 a price-cap environment?
22 THE WITNESS: Yes, I think it is. I mean,
23 as I said, one of the mechanisms that one sees around
24 the world is a price cap combined with a promulgation
25 of service standards that have to be maintained.

1 COMMISSIONER TAUB: Yes, and certainly, just
2 for one's own edification, I note that during the
3 whole process, I think the APWU's discussion though is
4 on point. A lot of the literature I know when the law
5 was put together was acknowledging in some measure if
6 you will the handicraft nature of the Postal Service
7 unlike other regulated regimes, and there is a lot of
8 discussion over what is the appropriate indice to use,
9 and obviously the law came up with CPI.
10 I think the Chairman's point is well taken.
11 The law as exists right now, we don't know if and when
12 it may change or if it would affect this provision,
13 but in 2016 the Commission is going to have the
14 opportunity to revisit the whole price cap system
15 that's set up, and certainly I think the thoughts and
16 ideas you've laid out here today would serve us well
17 to think about and noodle around when we get to that
18 stage in a few years, so thank you for your testimony
19 here today.
20 THE WITNESS: Thank you.
21 CHAIRMAN GOLDWAY: And I'd simply like to
22 reiterate that our role here in providing an advisory
23 opinion on the service standard changes is very much
24 like the role we played in the initial establishment
25 of the service standards where we conferred with the

1 Postal Service and agreed upon what was doable and
2 what was fair under the law and what was acceptable
3 for universal service, so we have to do that again in
4 this case, and certainly the relationship between
5 what's fair under the law and its relationship to
6 price and value is worth examining. So I appreciate
7 the expertise that you've brought to us here today.
8 Does the public representative need time
9 with his witness?
10 MR. LAVER: Yes, Madam Chairman. I've
11 learned from past mistakes. Six minutes would
12 probably be doable.
13 CHAIRMAN GOLDWAY: Okay. You've got six
14 minutes.
15 (Whereupon, a short recess was taken.)
16 VICE CHAIRMAN LANGLEY: We'll continue. We
17 have the Postal Service and the Mail Handlers'
18 attorney continue doing what they're doing. Mr.
19 Laver?
20 MR. LAVER: Thank you, Vice Chairman
21 Langley. I just have a few very brief questions, and
22 we should be able to move on.
23 REDIRECT EXAMINATION
24 BY MR. LAVER:
25 Q The first question is in regard to your

1 testimony. Is it your understanding that we have
2 promulgated two errata to your testimony since it was
3 filed in February?
4 A That's correct.
5 Q And the first was in May and to correct
6 typographical errors?
7 A That's correct.
8 Q And the second was on June 13, and that was
9 to add your résumé?
10 A That's all that happened on June 13.
11 Q Thank you. And now more substantively, the
12 second line of questions I have here is about the
13 price and service quality that you've been discussing
14 at length here both with counsel and with the
15 Commissioners. Now is it your opinion that there is a
16 relationship between service quality and price in the
17 current postal framework?
18 A I mean, I think yes, there is. I mean, just
19 directionally if the price of the Postal Service goes
20 us, mailers are worse off. If quality goes down,
21 mailers are worse off. Conversely, if the price goes
22 down, mailers are better off. If the quality goes up,
23 mailers are better off, so there is a tradeoff there
24 as we've been discussing.
25 Q So even if there's no direct link in the

1 statute, these two concepts are still linked in an
2 economic sense?
3 A They're linked in an economic sense. I
4 think we talked about some quality regimes that are
5 implemented in connection with price caps. I think
6 probably most writers I've seen would say that
7 conceptually a system of penalties and bonuses for
8 service shortfalls and service improvements is
9 conceptually superior, but it's harder to do because
10 you need precise information about the value of
11 service, which we were just talking about and which
12 can be hard to nail down, and so the separate regime
13 we have is a compromise that people often adopt.
14 Q So conceptually then if you have, as you've
15 talked here, a separate regime of price cap and
16 service standard, can you envision problems when a
17 regulated entity is setting its own service standard?
18 A Well, if the regulated entity is setting its
19 own service standard, it's somewhat akin to having a
20 regulated entity set its own price cap. You know,
21 it's deciding in some sense what level of customer
22 welfare it's going to support.
23 MR. LAVER: I have nothing further, Vice
24 Chairman. Thank you very much.
25 VICE CHAIRMAN LANGLEY: Thank you. Dr.

1 Neels, that completes your testimony here today. We
2 appreciate your appearance and your contributions to
3 our record. Thank you. You are now excused.
4 THE WITNESS: Thank you.
5 (Witness excused.)
6 VICE CHAIRMAN LANGLEY: The final order of
7 the business scheduled for today is to enter into the
8 record testimony and written cross-examination from
9 seven National Postal Mail Handlers Union witnesses.
10 The witnesses are Witnesses Hora, Hogrogian, I hope I
11 pronounced that right, Bentley, Haggerty, Wilkin,
12 Hayes and Broxton. There have been no requests for
13 oral cross-examination of these witnesses. The
14 witnesses have been excused from appearing today, and
15 their testimony and written cross-examination will be
16 entered by National Postal Mail Handlers Union
17 counsel.
18 Special procedures have been adopted to
19 allow the material from all seven witnesses to be
20 entered into the record at one time. Counsel has been
21 directed to prepare two sets of material for each
22 National Postal Mail Handlers union witness. Each set
23 of materials shall include a copy of the witness's
24 testimony followed by that witness's designated
25 written cross-examination, followed by an appropriate

1 attestation or affidavit for that witness.

2 Counsel has been directed to collate this

3 material into two larger sets of material. Each

4 larger set shall include one copy of all material for

5 each National Postal Mail Handlers Union witnesses in

6 order NPMHU-T1 through NPMHU-T7. Ms. Keller, have you

7 prepared the packets of material as instructed?

8 MS. KELLER: Yes.

9 VICE CHAIRMAN LANGLEY: Were there any

10 corrections or additions that needed to be made?

11 MS. KELLER: No, there were not.

12 VICE CHAIRMAN LANGLEY: Thank you. Counsel,

13 you may proceed with offering the material into the

14 record.

15 MS. KELLER: I have, as the Vice Chair has

16 very helpfully articulated, a copy for each of the

17 seven witnesses of the direct testimony, the written

18 designations and a declaration attesting to the

19 accuracy of the written testimony as well as the

20 written cross-examination that has been designated and

21 attesting that if the witness were to provide this

22 testimony orally and under oath at the hearing the

23 responses to the written cross-examination and the

24 testimony would be the same. I will present it to the

25 court reporter. Thank you.

1 VICE CHAIRMAN LANGLEY: Is there any
2 objection?
3 (No response.)
4 VICE CHAIRMAN LANGLEY: Hearing none, I will
5 direct counsel to provide the reporter with two copies
6 of the corrected testimony, written cross-examination
7 and affidavits from the seven National Postal Mail
8 Handlers Union witnesses. It is received into
9 evidence, and it is to be transcribed into the record.
10 (The documents referred to
11 were marked for
12 identification as Exhibit
13 Nos. NPMHU-T1 through NPMHU-
14 T7 and were received in
15 evidence.)
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Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	))))	Docket No. N2012-1

DIRECT TESTIMONY OF MICHAEL HORA

ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-1)

My name is Michael Hora. I am currently employed by the National Postal Mail Handlers Union (NPMHU) in its Contract Administration Department, a position I have held since August 6, 2011. The NPMHU represents approximately 44,000 Mail Handlers employed by the Postal Service throughout the nation. From November, 1985 until July of 2011, I was employed by the Postal Service as a Mail Handler in the Denver, Colorado P&DC. From May, 2002 until July of 2011, I was President of NPMHU Local 321, which represents approximately 1000 Mail Handlers in the state of Colorado. Prior to being employed by the Postal Service, I was employed in an administrative support position for the United States Federal Bureau of Investigations.

The purpose of my testimony is to provide additional information to the Commission regarding the Postal Service's proposed consolidations and network redesign. As part of my duties in the NPMHU Contract Administration Department, I have been tasked with reviewing the proposed network redesign and consolidations, and acting as the point person for NPMHU members and officers for questions and concerns regarding these plans. Based on my review

of these documents, my conversations with NPMHU members and officers from around the country, and my years as a Postal employee working in mail processing facilities, I am concerned that the Postal Service has over-estimated the savings associated with the proposed consolidations, under-estimated the effects it will have on the efficient delivery of the mail, and has generally failed to consider adequately the concerns of employees and mailing customers.

On March 8, 2012, the Postal Service filed with the Commission 185 Area Mail Processing (AMP) studies. NPMHU representatives have been attempting to review all of these studies, however, given the number of studies, the amount of information contained in them, and the press of other business, it is not possible for the NPMHU to submit testimony critiquing each and every study. Instead, I provide this overview testimony regarding general concerns that reach across the various consolidation plans and AMP studies. In addition, the other witness testimony offered by the NPMHU will focus in on the particulars of certain selected studies, to provide the Commission with some specific examples of how the Postal Service's process has failed to account for the costs and logistical problems in the consolidation process.

My testimony addresses my concerns in three areas: (1) estimated savings associated with the Postal Service's proposals; (2) the effects of the planned consolidations on the processing and delivery of mail; and (3) the opportunity for public input into this process.

1. Estimated Savings Associated with Proposals

In the Postal Service's initial case filed with this Commission, the Postal Service estimated that it would save approximately $ 2.6 billion (gross, before considering any revenue losses) by implementing the proposed consolidations and associated service standard changes. As summarized by witness David Williams, however, in his Response to Question from Commissioner Taub during March 20, 2012 Oral Cross Examination (filed on 3/30/12), the completed AMP studies show savings of only about $.9 billion.

Mr. Williams indicated in his response to Commissioner Taub that the AMP studies did not capture all savings, because, among other reasons, "the Postal Service expects savings associated with the realignment of mail processing operations in every facility in the network due to the operational changes resulting from the service changes proposed, as detailed in the expected productivity changes estimated by witness Neri." *Id.* at 3. Referring to the original testimony filed by witness Michael Bradley, and relying on the productivity changes estimated by Mr. Neri, these productivity gains are estimated to result in $964.2 million in savings, plus another $274 million from reductions in Supervision and Management, In Plant Support, and Indirect Costs that flow from the "Productivity Gain" savings. See USPS T-10, at Table 16. The Postal Service has not yet filed the revised testimony of Mr. Bradley and therefore it is not yet known how much (if at all) these estimates will change. However, based on my experience working in Postal facilities and my discussions with Mail Handlers working across the country, the Postal Service is drastically over-estimating the amount of productivity increases it will be able to achieve.

Neri's testimony seems to be based on the notion that there is significant down-time or idle time in the mail processing equipment. However, the "productivity" savings calculations are based upon decreases in labor hours, not decreases in equipment costs. Increasing the time that the equipment runs will not result in labor savings, unless it also significantly decreases the staffing at these facilities.[1] Whether or not there is idle time among the machines, there is not much idle time among the labor force. There simply are not paid employees standing around manning machines that are not processing mail. At those facilities unaffected by consolidation, the same amount of mail will need to be moved, and run through the machines. Mr. Neri

[1] The Postal Service has accounted separately for planned reductions in night differential premium pay (estimated at $71.8 million). Moving work from the night to the day would, of course, logically result in premium pay savings for the Postal Service. The Postal Service has also separately accounted for the planned savings from other specific operational changes, such as the elimination of the need for a secondary sort of outgoing mail (estimated at $22.8 million).

provides his estimates of productivity increases by category in Figure 12 of his testimony, but does not provide any calculations to support these estimates. He testifies that they are based on his experience and best estimates. Based on my experience and conversations with other Mail Handlers, they seem to me to be unrealistic. For instance, Mr. Neri opines that the change in operations will result in a 15% productivity increase in "Mechanical Sort-Sack Outside" and a 25% productivity increase in "Manual Sort-Sack Outside." The changes to operations described by Mr. Neri are unlikely to result in these increases. Mr. Neri's estimates of productivity increases are incredibly vague and appear to be based on nothing more than conjecture. As such, they should not be accepted by this Commission.

In addition, based on my review of the AMP studies, the AMP savings are themselves over-stated in various regards.

First, the AMPs seem to assume that there will not be increases in utilities or custodial services at the gaining facilities, which is unrealistic given that the staff, operating times, and mail volume will all increase at these facilities.

Second, the AMPs do not budget for increased maintenance or replacement costs for processing equipment, despite the fact that the Postal Service plans to run these machines significantly more hours per day. In my experience and based on what I have heard from Mail Handlers across the country, the machines break down and need repair frequently when their usage is increased.

Third, there is no systematic way of budgeting the costs for operating hubs at the closed facilities. In some areas, they have budgeted for Mail Handlers, while in other AMPs, they have not budgeted for any Mail Handlers to perform this work. In other facilities where mail processing has stopped and the facility is now used as a hub, we typically see a need for anywhere from three to two dozen Mail Handlers to staff the cross-dock operations.

Fourth, the savings estimates assume no costs for upkeep of closed facilities. At a minimum, these facilities will continue to need trash removal and HVAC to prevent freezing or, in warm climates, mold growth.

Fifth, the AMPs do not seem to adequately budget for the relocation costs. The Postal Service has stated that relocation costs average over $5000 per craft employee. Yet, just as some examples, the Tupelo, MS AMP does not budget a single dollar for employee relocations, although twenty-three craft employees will be added to Memphis (see pages 34, 43); the Scranton AMP budgets only $198,000 for relocation, although 129 employees will be added to LeHigh Valley (see pages 36, 45); Eastern Maine budgets zero dollars for employee relocation, although 7 managers and 103 craft employees will need to be moved to Southern Maine (see pages 31, 32, 41); and the Tucson AMP budgets zero dollars for employee relocation, although 160 craft employees and 3 management employees will need to be added to Phoenix (see pages 35, 36, 45).

These easily-identifiable failures in estimating costs cast doubt on all the cost savings figures provided by the Postal Service in the AMP process.

2. Effects of Consolidations on Mail Processing and Delivery

In my experience, the Postal Service's ability to process and deliver mail in a timely and efficient manner is highly affected by logistical factors such as dock space to load and unload trucks, and traffic patterns into and out of mail processing facilities. As the Postal Service consolidates more mail volume into fewer processing facilities, these logistical challenges grow in importance. Yet I have not seen any indication that the Postal Service engaged in serious consideration of the problems caused by substantially increasing mail volume into its remaining facilities, such as traffic problems and how mail will be moved into and around each facility.

Second, as someone who has worked in mail processing, I find it incredible that the Postal Service believes that it can triple the time that mail processing equipment can be run, without incurring substantially higher maintenance costs, utility costs, equipment down-time, and decreased equipment life. In my experience, the machines break down more often the more they are run. The fact that the Postal Service appears not to have planned for this fact leads me to conclude that the Postal Service will be unprepared for the inevitable increase in equipment failures, which will necessarily affect the Postal Service's ability to process and deliver the mail in accordance with even the reduced service standards.

Third, as the Postal Service has fewer facilities available to process mail, it becomes more difficult for the Postal Service to deliver mail in the event of bad weather, power outages, facility failures, or other unplanned contingencies. By removing all redundancy from the network, the Postal Service is leaving the national mail network exposed. When natural disasters or similar events occur, the Postal Service will not be able to re-direct mail to nearby facilities – instead, the mail will be significantly delayed.

3. Failure to Consider Public Input

As part of the Postal Service's AMP process, it held public hearings regarding the proposed consolidations of P&DC facilities. The public hearing dates and the presentations used at each of these hearings is posted on the Postal Service website at http://about.usps.com/streamlining-operations/area-mail-processing.htm. The purpose of these hearings should have been to allow members of the public nput into the decisions and so that the Postal Service could consider public viewpoints in making its final decisions on closings and consolidations. However, I heard many complaints from members and officers across the country that the public hearings were not conducted in such a way as to enable the public to provide meaningful input. The Postal Service came to the hearings with set presentations regarding anticipated savings from closure of the facility at issue, but could not answer basic

questions regarding how the figures were calculated. I repeatedly heard complaints that the Postal Service limited the time in which members of the public could present their concerns, sometimes limiting speakers to as little as two minutes. In the AMP studies that I have reviewed, I have not observed any indication that the Postal Service considered any of these public comments when deciding whether to move forward with the closing or consolidation. Based on these factors, it appears that the Postal Service considered these public hearings to be a mere formality which it was required to go through, not an opportunity to incorporate public sentiment into the decision making process.

The Postal Service did not conduct public hearings for all consolidations. Where a proposed consolidation affects an Annex, Delivery Distribution Centers, Customer Service Mail Processing Centers, Logistic Distribution Centers, or a Surface Transfer Center, the Postal Service's position is that it is not required to follow the Handbook 408 process, including the public hearing requirement. There were approximately fifty facilities that fell into this category associated with the current network redesign initiative.[2] For those facilities, there was essentially no process by which the Postal Service solicited and received public input.

[2] Mobile, Al Annex; Little Rock Lindsey Rd. Annex; East Valley DDC (AZ); North Valley DDC (AZ); Herb Peck, CA Annex; Midway, CA P&DF; Modesto, CA P&DF; North Bay, Ca DDC; North Peninsula DDC (CA): Van Nuys FSS Annex (CA); Acworth, Ga. SMPC; Cartersville, GA CSMPS; Douglasville, GA CSMPC; Marietta, GA DDC; Savannah, GA PO CSMPC; Columbus, IN CSMPC; Louisville, KY Annex; Lowell, MA DDC; Suburban MD Annex; Waldorf, MD CSMPC; Wheeler St. MI. Annex; Fayetteville, NC Annex; Kinston, NC Annex; Omaha, NE Mail Consolidation Annex; Nashua, NH L&DC; Jersey Shore DDC; New Jersey L&DC; Albuquerque ASF Annex; Amsterdam, NY CSMPC ; Binghamton, NY STC; Glens Falls, NY CSMPC; Mid-Island Annex (NY); Monsey, NY DDC; New York L&DC; Ironton, OH CSMPC; Poteau, OK CSMPC; Woodward, OK CSMPCS; Mount Hood DDC (OR); Sunset DDC (OR); Horsham, PA DDC; Pittsburgh Building II Annex; Catano, PR DMDU Annex; Clinton, TN STC; Jet Cove Annex (TN); Austin, TX Annex; Waco, TX Annex; Norfolk, VA Annex; Seattle East DDC; South Sound DDC (WA); South WA DDC; Kenosha, WI CSMPC; and Portage, WI CSMPC.

Respectfully submitted,

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Counsel for National Postal Mail Handlers Union

April 23, 2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS MICHAEL HORA
(NPMHU-T-1)

Party	Interrogatories
American Postal Workers Union, AFL-CIO	USPS/NPMHU-T1-4, 6
United States Postal Service	USPS/NPMHU-T1-1-2, 5-6

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS MICHAEL HORA (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T1-1	USPS
USPS/NPMHU-T1-2	USPS
USPS/NPMHU-T1-4	APWU
USPS/NPMHU-T1-5	USPS
USPS/NPMHU-T1-6	APWU, USPS

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T1-1: On page 1; line14 through page 2, line 5 of your testimony, you state:

> [b]ased on my review of these documents, my conversations with NPMHU members and officers from around the country, and my years as a Postal employee working in mail processing facilities, I am concerned that the Postal Service has over-estimated the savings associated with the proposed consolidations, under-estimated the effects it will have on the efficient delivery of the mail, and has generally failed to consider adequately the concerns of employees and mailing customers.

a. Please identify "these documents" (including all page citations) that you reviewed and the individuals with whom you conversed to form the basis of your opinion.

b. Please provide copies of all non-publicly available documents identified in your response to subpart (a) or relating to the referenced conversations with the individuals identified in subpart (a).

RESPONSE:

a. I have reviewed the testimony of the Postal witnesses in this docket and attended or listened via webcast to most of the testimony that has been offered in this case. I also reviewed certain of the AMP studies, or portions of those AMP studies, and the Postal Service announcements and press releases regarding this docket. I have spoken with a variety of NPMHU officers and employees, including Tim Dwyer in the NPMHU Contract Administration Department, the NPMHU officers who have offered testimony in this case, the NPMHU officers listed in response to USPS/NPMHU-T1-6, NPMHU Local 321 President Don Gonzales, NPMHU Local 322 President Michael McIntyre and NPMHU Local 302 President Ernie Grijalva.

b. None.

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T1-2: On page 3, lines 11 through 14 of your testimony, you state:

> based on my experience working in Postal facilities and my discussions with Mail Handlers working across the country, the Postal Service is drastically over-estimating the amount of productivity increases it will be able to achieve.
>
> Please describe, in detail, all evidence you rely upon in support of your statement.

RESPONSE:

I am relying on the testimony of Mr. Neri, and the productivity improvement estimates contained in Mr. Neri's testimony for my assessment that the Postal Service is over-estimating the amount of productivity increases it will be able to achieve. I am also relying on my common sense and my observations of mail processing.

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T1-4: On page 5, line 4 of your testimony, you state "the AMPs do not seem to adequately budget for the relocation costs." Please describe, in detail, all evidence (including page citations) you rely upon in support of your statement.

RESPONSE:

I relied upon the "Employee Relocation Costs" line item under "One-Time Costs" in the Space Evaluation and Other Costs section of each AMP, which is typically the last page of each AMP for my assessment of what the AMPs budgeted in terms of relocation costs. For my assessment of what actual relocation costs would be, I multiplied the Postal Service witness Kevin Rachel's interrogatory response, stating that the average relocation cost for each craft employee in 2011 was $5,831 [APWU/USPS-T8-2], by the Total Difference number for the Gaining Facility from the Staffing-Craft section of the AMP (typically between pages 32 and 37 of the AMP), which would appear to represent the number of employees excessed from other facilities that will be offered "landing spots" in the gaining facility.

In order to respond to this question, a spreadsheet was compiled comparing the AMP-budgeted relocation costs with the number of craft employees that the AMP states will need to be added in the gaining facility. The spreadsheet based upon the spreadsheet submitted by Postal witness Williams as an attachment to his March 30, 2012 Response to the Question Posed by Commissioner Taub, but with the following modifications: a) a "CRAFT GAINS" column was added to show the craft employee additions at the gaining facility (as reported in the relevant AMP study); b) an "EST. RELOC COST" column was added showing the relocation costs budgeted in the relevant AMP; c) the spreadsheet was limited to only those consolidations where the gaining facility was 50 or more miles from the losing facility, in order to ensure that the

reassignment of craft employees would require employees to relocate their residences and incur relocation expenses; and d) those facilities removed from consideration for consolidation (according to the Response filed by Postal Service Witness Rosenberg on June 4, 2012 to PRC/USPS-4(a)) were deleted from the spreadsheet. This resulting spreadsheet, which is attached as Attachment 1, shows that, according to the AMPs, 8,275 employees will need to be moved to these gaining facilities. Based upon the Postal Service's average relocation costs, the relocation cost for these employees would be $48.25 million. Yet, the Postal Service has only budgeted $6.182 million for relocation of employees in these facilities – meaning that the Postal Service has under-budgeted by more than $42 million for employee relocation costs.

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T1-5: On page 6, lines 4 through 5 of your testimony, you state "[i]n my experience, the machines break down more often the more they are run."

a. Please describe, in detail, your experience, education, or training related to the maintenance procedures, routines or operating parameters of mail processing equipment used by the Postal Service.

b. Please produce any documents or data that you relied upon in support of your statement.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler and my years of experience representing Mail Handlers. During my Postal career, I have personally held numerous bid jobs in 010/020 operations and have had the occasion to operate several generations of cancellation equipment, including the AFCS machines (pre and post BDS technology) and received the training required to operate those machines. I do not have any formal education or training in the technical fields referenced.

b. None.

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T1-6: On page 6, lines 22 through 24 of your testimony, you state:

> I heard many complaints from members and officers across the country that the public hearings were not conducted in such a way as to enable the public to provide meaningful input.

a. Please identify the names of members and officers from whom you heard complaints that the public meetings did not provide a means for the public to provide meaningful input.

b. For each individual identified in subpart (a) above, please identify the specific public meeting(s) that the individual attended.

c. Please identify what, if any, public meetings you attended.

d. Please provide any documents that you prepared relating to any meetings you attended or any complaints you received from members and officers regarding the public meetings.

RESPONSE:

a. See below answer to (b).

b. These complaints were made to me by and to other employees of the NPMHU Contract Administration Department by various members and officers over the course of months in the fall, winter and spring of 2011-2012. I did not compile a list of these complaints at the time they were made. However, following is a compilation of some of those complaints that I have made in order to respond to this Interrogatory.

i. Tim Dwyer, the former President of NPMHU Local 301, attended the Springfield, Massachusetts and Meriden, Connecticut public hearings, among other public hearings. He reported that, in Springfield, public speakers were limited to two minutes of comments and that the hearing was held on election day,

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

at a polling place, and therefore not in a time or place conducive to wide participation. There was much confusion between those in arriving to vote and those arriving for the public meeting. He reported that in Meriden, speakers were limited to two minutes, and the meeting was held at a facility that was too small, and therefore interested people were turned away at the door. In addition, the meeting was held at an inconvenient time (5:30 p.m. on a Wednesday), about which many people complained to Mr. Dwyer. In addition, Postal management was unable to answer questions about the numbers in the presentation.

ii. Tom Ruther (the New England Regional Representative for the NPMHU) attended the Stamford public hearing. He reported to me that speakers were limited to two minutes, the meeting was held at a time not conductive to wide participation (at 5:30 p.m. during the week before Christmas); the Mayor of Stamford was not notified on the meeting; and the Notice of the Meeting was sent to the wrong NPMHU Local (Local 300, instead of Local 301).

iii. Rudy Santos, NPMHU Western Region Vice President and Local 320 President, attended the meeting in Tucson, AZ. He reported that speakers were limited to two minutes, that the building was too small to accommodate interested persons (with approximately 100 people forced to wait outside), that the meeting was held on an inconvenient date (December 28), and that the meeting was abruptly ended at 7 p.m. Attached to this response is the December 2011 newsletter from Richard Fimbres, Councilmemeber Ward 5, City of Tucson, also criticizing the public hearing process in Tucson. His newsletter reported that, despite requests by Congresswoman Giffords and Congressman Grijalva, the

RESPONSES OF NPMHU WITNESS HORA TO POSTAL SERVICE INTERROGATORIES

Postal Service refused to move the meeting to a different date; rented a smaller facility even though larger ones were available; failed to ask for a waiver of the parking fee; split the meeting into two, one for businesses and one for the general public; and limited time for public comments at both meetings.

v. Robert Broxton, current President of NPMHU Local 301, attended the public hearings for White River, Southern Connecticut, Wareham Annex, and Northwest Boston, Central Massachusetts, and Springfield MA. He reported that all presentations began with a lengthy introduction, video and Powerpoint presentation that consumed much of the hearing time, leaving little time for public questions and comments. Many of the rooms were not big enough to accommodate interest—in White River, people were standing; in Southern Connecticut, there was not enough space and some people had to leave; was standing room, in Southern Connecticut. When questioned regarding the numbers contained in the Powerpoint presentation, the Postal representatives were not able to answer how the Postal Service arrived at the numbers.

c. None.

d. None.

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF MICHAEL HORA (NPMHU-1)

I, Michael Hora, under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T1-1 to 2, USPS/NPMHU-T1-4 through 6, along with an attachment to response 4 and an attachment to response 6. These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

Michael Hora

Michael Hora

6/12/2012

Date

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Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	))))	Docket No. N2012-1

DIRECT TESTIMONY OF PAUL HOGROGIAN ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-2)

My name is Paul Hogrogian. I am currently a Mail Handler employed by the United States Postal Service at the NJI Network Distribution Center (formerly the Bulk Mail Center) in northern New Jersey. For the past ten years, I also have served as the elected President of Local 300 of the National Postal Mail Handlers Union (NPMHU), which represents approximately 5,500 Mail Handlers working in the metropolitan New York region, including the five boroughs of New York, Long Island, north New Jersey, southwestern Connecticut, and southern New York. Prior to serving as Local 300 President, I served as the full-time Vice President of the Local for twelve years. Since 2005, I also have been serving as the Northeast Regional Vice President for the NPMHU, a region which covers not only all Mail Handlers in Local 300, but also all Mail Handlers in the six states of New England, the entirety of upstate New York, and all of Puerto Rico. In all, I have been employed by the Postal Service since 1976 and have been actively representing Mail Handlers since 1984.

The purpose of my testimony is to provide additional information to the Commission regarding the Postal Service's proposed consolidations in the New York metropolitan region. Based on my knowledge of these facilities, my many years as a USPS employee, and my review of the Area Mail Processing (AMP) studies of these consolidations, I believe that the Postal Service has under-estimated the negative effects that its plans will have on the efficient delivery of the mail. In none of these AMPs has the Postal Service considered the loss of volume and revenue that will result from the change in service standards. I believe that the loss of revenue will more than offset any savings that the AMPs may contain or ever produce.

Specifically, my testimony will address: 1) the consolidation of the Staten Island P&DC into Morgan Station in Brooklyn, as an example of an ill-advised consolidation; 2) the Postal Service's failure to allow meaningful public input prior to making consolidation decisions; and 3) the Postal Service's claim that changing operating windows for mail processing will result in increased labor efficiencies.

1. The Consolidation of the Staten Island P&DC

The consolidation of the Staten Island P&DC is a good example of the short-comings in the Postal Service's network consolidation plan. The processing of Staten Island's originating mail was moved to Brooklyn in 2009. Now the Postal Service plans to take all of the originating mail processing out of Brooklyn and move it to the Morgan Station facility in Manhattan. The destinating mail from Staten Island, along with the destinating mail from Queens, will be moved to Brooklyn under the plans announced on Feburary 23. According to the numbers in the Postal Service's AMPs, this will result in a tremendous increase in volume in Brooklyn. Brooklyn would lose daily volume of 1,055,311 in originating mail, but would pick up 2,698,910 in destinating mail from Queens, and 703,878 in destinating mail from Staten Island. Given this massive increase, I am not confident that Brooklyn has the space to handle the increased volume, especially given that USPS will also have to move additional machines into Brooklyn. Moreover, this plan will require that the mail be trucked all over the New York metropolitan area:

a letter sent from Staten Island will be cancelled in Manhattan, then trucked to and processed in Brooklyn, then trucked back to Staten Island for delivery. Although the miles involved in this trip are not great, there is a massive amount of traffic at nearly all hours of the day.

The Staten Island processing facility is one of the most productive in the country. According to the Postal Service's AMP (page 15), the current productivity in Staten Island is 4,449 pieces per hour. In contrast, Brooklyn, where the destinating mail will now be processed, averages only 2,719 pieces per hour. Because the Staten Island AMP does not appear to have been filed with the Commission, I am filing the AMP as an attachment to my testimony (see Attachment 1). I see no evidence that the Postal Service considered this relative productivity when deciding to end mail processing at the Staten Island facility.

In addition, even the Postal Service concedes that it cannot close the Staten Island facility, as it will need this facility to conduct its collection consolidation prior to transfer to Brooklyn, dock transfer the mail processed in Brooklyn to the corresponding 14 stations, and maintain the Registry and Express operations in Staten Island (see pages 4-5 of AMP). Given the volume of mail in Staten Island, I do not believe that the Postal Service's plans adequately staff the three (3) hub operations that will remain in Staten Island, including the Manor Road facility which currently houses Staten Island's mail processing operations.

2. No Opportunity for Meaningful Public Input

I am extremely concerned that the Postal Service's process for considering these consolidations did not allow for sufficient public input into the process. I personally attended the public hearings for Staten Island and Queens, New York; Kilmer, Monmouth, and Teterboro, New Jersey, and Stamford, Connecticut, and also received reports from other NPMHU officers regarding the public hearings for Mid Hudson, New York. When conducting these hearings, the Postal Service appeared to be merely complying with a requirement. The USPS representatives presenting the planned consolidations did not have sufficient information to answer questions about how the projected savings were calculated or the logistics underlying

the plan. These USPS representatives merely read off a script, adding little or no additional information. The Postal Service did not want to hear criticism or commentary, and often strictly limited public comments. In Monmouth, for example, union representatives were limited to two minutes of commentary.

3. Effect of Changing the Operating Window on Labor Costs

It is my understanding that the Postal Service has asserted that, in addition to any savings arising out of the consolidations studied in the AMPs, "the Postal Service expects savings associated with the realignment of mail processing operations in every facility in the network due to the operational changes resulting from the service changed proposed." *See* Response of Witness Williams to Question from Commission Taub, at page 3. I do not believe these operational changes will result in significant labor savings.

The second attachment associated with my testimony (see Attachment 2) is a presentation that the Postal Service presented to union representatives on March 30, 2012, entitled "Long Island District Day +1 Environment." This presentation outlines the Postal Service's plans for two facilities in Long Island (Mid-Island and Western Nassau) that are minimally affected by the consolidations, as they are only gaining the processing of the 110 zip codes and not losing processing. The presentation sets forth the revised operational windows and anticipated staffing under the revised service standards. Under the projected revised operating window, the Postal Service plans to start the incoming primary sort earlier in the day, start the secondary sort earlier (at noon instead of midnight), and run the secondary sort for a longer period (fourteen hours instead of eight hours) (see slide 13). The Postal Service expects this revised operating window to be in place by August 12, 2012 (see slide 10). As demonstrated in this presentation, the Postal Service is not going to achieve significant labor efficiency by changing the operating windows. Total maintenance staffing will increase from 212 to 220 at Mid-Island and from 63 to 84 at Western Nassau; clerks will decrease from 549 to 537 at Mid-Island and increase from 173 to 179 at Western Nassau; and Mail Handler staffing

will have "little" change. (See slides 22-23. 26-28). The main effect appears to be reallocating staff between different tours to account for the different operating windows.

Respectfully submitted,

Patrick T. Johnson
As agent for and authorized by
Andrew D. Roth
Kathleen M. Keller
Bredhoff & Kaiser, P.L.L.C.
805 Fifteenth Street, N.W.
Suite 1000
Washington, DC 20005
(202) 842-2600

Counsel for National Postal Mail Handlers Union

April 23, 2012

Attachment 1

----- AMP Data Entry Page -----

1. Losing Facility Information

Type of Distribution to Consolidate:	Destinating	MODS/BPI Office
Facility Name & Type:	Staten Island P&DF	
Street Address:	550 Manor Road	
City:	Staten Island	
State:	NY	
5D Facility ZIP Code:	10314	
District:	Triboro	
Area:	Northeast	
Finance Number:	358172	
Current 3D ZIP Code(s):	103	
Miles to Gaining Facility:	16	
EXFC office:	Yes	
Plant Manager:	William Ryan	
Senior Plant Manager:	William Ryan	
District Manager:	Frank Calabrese	
Facility Type after AMP:	Post Office	

2. Gaining Facility Information

Facility Name & Type:	Brooklyn P&DC
Street Address:	1050 Forbell St
City:	Brooklyn
State:	NY
5D Facility ZIP Code:	11256
District:	Triboro
Area:	Northeast
Finance Number:	350996
Current 3D ZIP Code(s):	112, 116
EXFC office:	Yes
Plant Manager:	William Ryan
Senior Plant Manager:	William Ryan
District Manager:	Frank Calabrese

3. Background Information

Start of Study:	04/07/11
Date Range of Data:	Apr-01-2010 : Mar-31-2011
Processing Days per Year:	310
Bargaining Unit Hours per Year:	1,742
EAS Hours per Year:	1,819
Date of HQ memo, *DAR Factors/Cost of Borrowing/ New Facility Start-up Costs Update*	May 7, 2010
Date & Time this workbook was last saved:	**12/2/2011 7:41**

4. Other Information

Area Vice President:	Richard P. Uluski
Vice President, Network Operations:	David E. Williams
Area AMP Coordinator:	Stu Teger
HQ AMP Coordinator:	Barbara Brewington

rev 09/13/2010

Approval Signatures

Last Saved: November 10, 2011

Losing Facility Name and Type: Staten Island P&DF
Street Address: 550 Manor Road
City: Staten Island
State: NY
Facility ZIP Code: 10314
Finance Number: 358172
Current 3D ZIP Code(s): 103

Type of Distribution to Consolidate: Destinating

Gaining Facility Name and Type: Brooklyn P&DC
Street Address: 1050 Forbell St
City: Brooklyn
State: NY
Facility ZIP Code: 11256
Finance Number: 350996
Current 3D ZIP Code(s): 112, 116

ACKNOWLEDGEMENT OF ACCOUNTABILITY - I acknowledge that I am accountable for respecting and supporting the integrity of all official postal reporting systems, including financial reports and those relating to compliance with contracting, complement, or similar efforts involving the investment and expenditure of funds, as well as all systems to service to our customers.

LOSING FACILITY:

Postmaster or Plant Manager:
William Ryan — Printed Name | Signature | 11/10/11 Date

Senior Plant Manager:
William Ryan — Printed Name | Signature | 11/10/11 Date

District Manager:
Frank Calabrese — Printed Name | Signature | 11/10/11 Date

GAINING FACILITY:

Plant Manager:
William Ryan — Printed Name | Signature | 11/10/11 Date

Senior Plant Manager:
William Ryan — Printed Name | Signature | 11/10/11 Date

District Manager:
Frank Calabrese — Printed Name | Signature | 11/10/11 Date

AREA OFFICE:

Area Vice President:
Richard P. Uluski — Printed Name | Signature | 12/30/11 Date

Implementation Date: _____

HEADQUARTERS:

Approved: ☑ **Disapproved:** ☐

Vice President, Network Operations:
David E. Williams — Printed Name | Signature | 1/13/12 Date

Comments: _____

rev 12/31/2008

Executive Summary

Last Saved: December 2, 2011

Losing Facility Name and Type: Staten Island P&DF
Street Address: 550 Manor Road
City, State: Staten Island, NY
Current 3D ZIP Code(s): 103
Type of Distribution to Consolidate: Destinating
Miles to Gaining Facility: 16

Gaining Facility Name and Type: Brooklyn P&DC
Current 3D ZIP Code(s): 112, 116

Summary of AMP Worksheets

Savings/Costs

Mail Processing Craft Workhour Savings =	$896,249	from *Workhour Costs - Proposed*
Non-MP Craft/EAS + Shared LDCs Workhour Savings (less Maint/Trans) =	$18,148	from *Other Curr vs Prop*
PCES/EAS Supervisory Workhour Savings =	$271,114	from *Other Curr vs Prop*
Transportation Savings =	($511,518)	from *Transportation (HCR and PVS)*
Maintenance Savings =	$220,896	from *Maintenance*
Space Savings =	$0	from *Space Evaluation and Other Costs*
Total Annual Savings =	$894,889	
Total One-Time Costs =	$150,000	from *Space Evaluation and Other Costs*
Total First Year Savings =	$744,889	

Staffing Positions

Craft Position Loss =	33	from *Staffing - Craft*
PCES/EAS Position Loss =	3	from *Staffing - PCES/EAS*

Volume

Total FHP to be Transferred (Average Daily Volume) =	703,878	from *Workhour Costs - Current*
Current FHP at Gaining Facility (Average Daily Volume) =	3,752,633	from *Workhour Costs - Current*
Losing Facility Cancellation Volume (Average Daily Volume) =		(= Total TPH / Operating Days)

Service

Service Standard Impacts by ADV	UPGRADED	DOWNGRADED	Unchanged + Upgrades	Unchanged + Upgrades
	ADV	ADV	ADV	%
First-Class Mail®	[redacted]			100.0%
Priority Mail®				100.0%
Package Services				100.0%
Periodicals				N/A*
Standard Mail				N/A*

* - Periodical and Standard mail origin 3-digit ZIP Code to destination 3-digit ZIP Code volume is not available

rev 10/15/2009

Summary Narrative

Last Saved: December 2, 2011

Losing Facility Name and Type: Staten Island P&DF

Current 3D ZIP Code(s): 103

Type of Distribution to Consolidate: Destinating

Gaining Facility Name and Type: Brooklyn P&DC

Current 3D ZIP Code(s): 112, 116

The Triboro District with assistance from the Northeast Area office has completed an Area Mail Processing (AMP) study to determine the feasibility of relocating the Staten Island P&DF destinating mail volumes/operations for processing at the Brooklyn P&DC. The proposal encompasses mail processed for ZIP code 103.

BACKGROUND

Staten Island P&DF is a postal owned facility that processes a sizable portion of the destinating volumes for ZIP code 103. Along with processing operations, the Staten Island P&DF houses a Post Office (Retail), administrative offices and a Business Mail Entry Unit (BMEU). Currently, the Brooklyn P&DC processes all of Staten Island's originating volumes and a portion of the destinating volume as their AADC. Queens P&DC processes a portion of their destinating volume as their ADC.

With the approval of the AMP, most of Staten Island P&DF destinating mail processing will be transferred to the Brooklyn P&DC. The plants are located approximately 16 miles apart from each other within the boundaries of New York City. To accomplish the AMP, Brooklyn will need an AFSM100 equipped with ATHS and AI.

Due to logistics and to protect service, a reduced mail processing operation will remain in Staten Island P&DF. Staten Island current collection consolidation will remain in the building and be sent to Brooklyn P&DC for processing. Staten Island P&DF will serve as a hub to receive in the morning all mail processed in Brooklyn P&DC and dock transfer to the corresponding 14 stations. In addition, Registry and Incoming/Outgoing Express operations will remain. Staten Island destinating Priority and Parcel Posts processed in the New York L&DC and New Jersey Network Distribution Center respectively will be send to Staten Island P&DF for dock transfer to the stations. Manual secondary's previously processed at the Staten Island P&DF in operations 160 for letters and 175 for flats will be processed by Customer Service delivery units with 6,796 annual workhours (22.5 daily) from the Staten Island P&DF workhour allotment. Staten Island P&DF current transportation schedules will remain, as all 14 stations will be served out of this building. A total of six (6) clerks, seventeen (17) mail handlers and one (1) Supervisor Distribution Operations will remain under Finance Number 35-8172 to support the Function 1 operations.

FINANCIAL JUSTIFICATION SUMMARY

Annual baseline data is from April 1, 2010 – March 31, 2011. Financial savings proposed for the consolidation of destinating operations are:

Total Annual Savings:	$ 894,889
Total First Year Savings:	$ 744,889

The total FHP (average daily volume) to be transferred to Brooklyn is 703,878 pieces. In addition to this volume, there is an estimate ADV of 75,000 pieces that is currently being processed in the Queens P&DC and Brooklyn P&DC.

CUSTOMER & SERVICE IMPACTS

First-Class Mail (FCM) overnight service standards will be eliminated by March 2012 in this day plus one environment.

rev 06/10/2009

Summary Narrative *(continued)*

RETAIL AND BUSINESS MAIL ENTRY UNIT (BMEU) IMPACTS

Staten Island General Post Office (10314) retail operation will not be affected. Staten Island BMEU operations will not be affected.

EMPLOYEE IMPACTS

The impacts include a reduction of 33 craft and 3 EAS positions.

Due to current initiatives, attrition and future events which may include voluntary reassignments/retirements, an exact number of employees that may be impacted as a result of this AMP may be influenced. The Postal Service ensures that its standard practices comply with the Worker Adjustment and Retraining Notification (WARN) Act.

TRANSPORTATION CHANGES

A hub and spoke concept at the Staten Island P&DF is being proposed. Therefore, Staten Island P&DF current schedules will not change. There is an estimated annual increase of $498,659 in PVS costs and $12,860 in HCR costs due to additional transportation needed to transport the destinating mail from the Brooklyn P&DC to Staten Island P&DF and maintain service and efficiency.

Scenario - Hub and Spoke at Staten Island GPO, New Dorp Station, and South Shore Annex.

- Brooklyn MVS to operate two 0600 departing tractor-trailer trips into Staten Island GPO with DPS mail and working mail, six days per week, and connect with the existing station transportation network. The arrival at Staten Island GPO would be 0700.
- The connecting morning trips from Staten Island GPO to its stations leave beginning at 0545; beginning at 0710; and beginning at 0810
- Approximately 40% of Staten Island's destinating volume is for New Dorp Station and the South Shore Annex. As a result, Brooklyn will operate direct, tractor-trailer service to both locations leaving Brooklyn at 0600 and operating six days per week. It would reduce cross-docking and double-handling at Staten Island GPO.
- The above would result in a 45-min earlier arrival to both locations, benefitting both Functions 2 and 4.
- There is also existing service to Staten Island leaving at 0410 which is currently carrying approximately 30% volume and can be used for advancing mail before the planned 0600 trips.
- The average daily volume for destinating Staten Island mail is 82 postcons of DBSC automation letter mail; 12 postcons of manual Flats; 15 hampers of manual Letters; 19 hampers of IPPS; and 36 postcons of automation Flats. The total count is 163 container units.
- If the above AMP plan is approved and implemented there would be a follow-up plan to zero-base the existing Staten Island MVS schedules within 90 days and remove any resulting redundant and unnecessary transportation.

Summary Narrative *(continued)*

Additional items and issues:

- There would be no changes to the current L&DC and NDC transportation networks. Both Networks currently provide 5-digit container separations for Priority Mail and Parcel Post. It would continue to dock-transfer at Staten Island GPO. There is no service or cost benefit to be gained by changing the current arrangement.
- We would reduce one NJ STC round-trip from the current HCR route and the volume would be re-routed to the HCR route operating between the NJ STC and Brooklyn.
- The planned route of travel between Brooklyn and Staten Island is via the Verrazano Bridge.
- Should there be a bridge closure for any reason (high winds, icy road conditions, or any other unplanned-for reasons), the alternative route of travel will be via the Mid-Town Tunnel in Manhattan; across 34th Street; to the Lincoln Tunnel; to the NJ Turnpike South; and then over the Goethals Bridge to Staten Island. Note: this would add an additional one hour travel time to the route of travel via the Verrazano Bridge.

DAR / EXPANSION OR RENOVATION

To accomplish the AMP, The Brooklyn P&DC will require an additional AFSM100 with ATHS/AI.

EQUIPMENT RELOCATION AND MAINTENANCE IMPACTS

One (1) AFSM100 with ATHS/AI will be required into the Brooklyn P&DC.
As all mail processing equipment would be removed in an AMP environment, the nine (9) ET and two (2) MPE positions at Staten Island P&DF will be impacted. Fourteen (14) custodial, three (3) BME, two (2) MM, two (2) support and two (2) EAS positions will remain in Staten Island P&DF to support the building maintenance and the 14 Staten Island stations. Five (7) MPE positions will be added in the Brooklyn P&DC to support the additional mail processing equipment.

OTHER CONCURRENT ACTIVITIES

There are concurrent AMP studies that will remove originating processing from the Brooklyn P&DC to the Morgan P&DC and will add the Queens P&DC destinating volumes to the Brooklyn P&DC.

SUMMARY

Consolidation of the destinating operations from Staten Island P&DF into the Brooklyn P&DC will benefit the Postal Service with an estimated annual savings of $894,889 with a first year savings of $744,889.

1

24 Hour Clock

Last Saved: December 2, 2011

Losing Facility Name and Type: Staten Island P&DF

Current 3D ZIP Code(s): 103

Type of Distribution to Consolidate: Destinating

Gaining Facility Name and Type: Brooklyn P&DC

Current 3D ZIP Code(s): 112, 116

	24 Hour Indicator Report			80%	100%	100%	100%	Millions	100%	100%	86.9%
			Facility	Cancelled by 2000 Data Source = EDW MCRS	OGP Cleared by 2300 Data Source = EDW EOR	OGS Cleared by 2400 Data Source = EDW EOR	MMP Cleared by 2400 Data Source = EDW EOR	MMP Volume On Hand at 2400 Data Source = EDW MCRS	Mail Assigned Commercial / FedEx By 0230 Data Source = EDW SASS	DPS 2nd Pass Cleared by 0700 Data Source = EDW EOR	Trips On-Time 0400 - 0900 Data Source = EDW TIMES
		%									
13-Nov	SAT	11/13	STATEN ISLAND P&DF					#VALUE!		98.9%	100.0%
20-Nov	SAT	11/20	STATEN ISLAND P&DF					#VALUE!		95.7%	100.0%
27-Nov	SAT	11/27	STATEN ISLAND P&DF					#VALUE!		98.5%	100.0%
4-Dec	SAT	12/4	STATEN ISLAND P&DF					#VALUE!		92.0%	97.7%
11-Dec	SAT	12/11	STATEN ISLAND P&DF					#VALUE!		93.3%	93.0%
18-Dec	SAT	12/18	STATEN ISLAND P&DF					#VALUE!		97.0%	99.2%
25-Dec	SAT	12/25	STATEN ISLAND P&DF					#VALUE!		92.1%	99.0%
1-Jan	SAT	1/1	STATEN ISLAND P&DF					#VALUE!		100.0%	100.0%
8-Jan	SAT	1/8	STATEN ISLAND P&DF					#VALUE!		98.9%	100.0%
15-Jan	SAT	1/15	STATEN ISLAND P&DF					#VALUE!		98.8%	89.1%
22-Jan	SAT	1/22	STATEN ISLAND P&DF					#VALUE!		100.0%	100.0%
29-Jan	SAT	1/29	STATEN ISLAND P&DF					#VALUE!		99.3%	100.0%
5-Feb	SAT	2/5	STATEN ISLAND P&DF					#VALUE!		99.8%	97.5%
12-Feb	SAT	2/12	STATEN ISLAND P&DF					#VALUE!		99.5%	100.0%
19-Feb	SAT	2/19	STATEN ISLAND P&DF					#VALUE!		99.7%	100.0%
26-Feb	SAT	2/26	STATEN ISLAND P&DF					#VALUE!		100.0%	100.0%
5-Mar	SAT	3/5	STATEN ISLAND P&DF					#VALUE!		100.0%	99.2%
12-Mar	SAT	3/12	STATEN ISLAND P&DF					#VALUE!		99.9%	100.0%
19-Mar	SAT	3/19	STATEN ISLAND P&DF					#VALUE!		100.0%	100.0%
26-Mar	SAT	3/26	STATEN ISLAND P&DF					#VALUE!		98.9%	100.0%
2-Apr	SAT	4/2	STATEN ISLAND P&DF					#VALUE!		99.9%	100.0%
		%									
13-Nov	SAT	11/13	BROOKLYN P&DC	78.2%	96.8%	85.4%		#VALUE!	100.0%	97.1%	76.2%
20-Nov	SAT	11/20	BROOKLYN P&DC	77.7%	95.5%	91.8%		#VALUE!	99.9%	98.5%	92.0%
27-Nov	SAT	11/27	BROOKLYN P&DC		85.2%			#VALUE!	99.8%	98.7%	91.7%
4-Dec	SAT	12/4	BROOKLYN P&DC		87.5%			#VALUE!	100.0%	95.2%	92.9%
11-Dec	SAT	12/11	BROOKLYN P&DC					#VALUE!	99.8%	97.5%	94.6%
18-Dec	SAT	12/18	BROOKLYN P&DC					#VALUE!	98.3%	99.1%	93.8%
25-Dec	SAT	12/25	BROOKLYN P&DC					#VALUE!	98.2%		
1-Jan	SAT	1/1	BROOKLYN P&DC		85.7%			#VALUE!	98.7%	99.2%	90.0%
8-Jan	SAT	1/8	BROOKLYN P&DC		89.1%			#VALUE!	99.4%	98.6%	92.0%
15-Jan	SAT	1/15	BROOKLYN P&DC		92.1%	94.7%		#VALUE!	100.0%	98.8%	87.9%
22-Jan	SAT	1/22	BROOKLYN P&DC		86.6%			#VALUE!	100.0%	97.0%	85.4%
29-Jan	SAT	1/29	BROOKLYN P&DC		89.0%			#VALUE!	99.9%	99.7%	87.8%
5-Feb	SAT	2/5	BROOKLYN P&DC		97.2%	94.8%		#VALUE!	100.0%	99.7%	96.6%
12-Feb	SAT	2/12	BROOKLYN P&DC		99.4%	100.0%		#VALUE!	100.0%	99.9%	98.0%
19-Feb	SAT	2/19	BROOKLYN P&DC		95.4%	91.0%		#VALUE!	100.0%	99.7%	94.7%
26-Feb	SAT	2/26	BROOKLYN P&DC		98.9%	99.6%		#VALUE!	100.0%	99.8%	96.7%
5-Mar	SAT	3/5	BROOKLYN P&DC		98.5%	100.0%		#VALUE!	99.9%	99.3%	97.9%
12-Mar	SAT	3/12	BROOKLYN P&DC		99.4%	100.0%		#VALUE!	100.0%	99.9%	96.7%
19-Mar	SAT	3/19	BROOKLYN P&DC	76.8%	100.0%	100.0%		#VALUE!	100.0%	100.0%	95.7%
26-Mar	SAT	3/26	BROOKLYN P&DC		100.0%	100.0%		#VALUE!	100.0%	99.9%	98.0%
2-Apr	SAT	4/2	BROOKLYN P&DC		98.4%	96.8%		#VALUE!	100.0%	99.3%	97.4%

rev 04/2/2008

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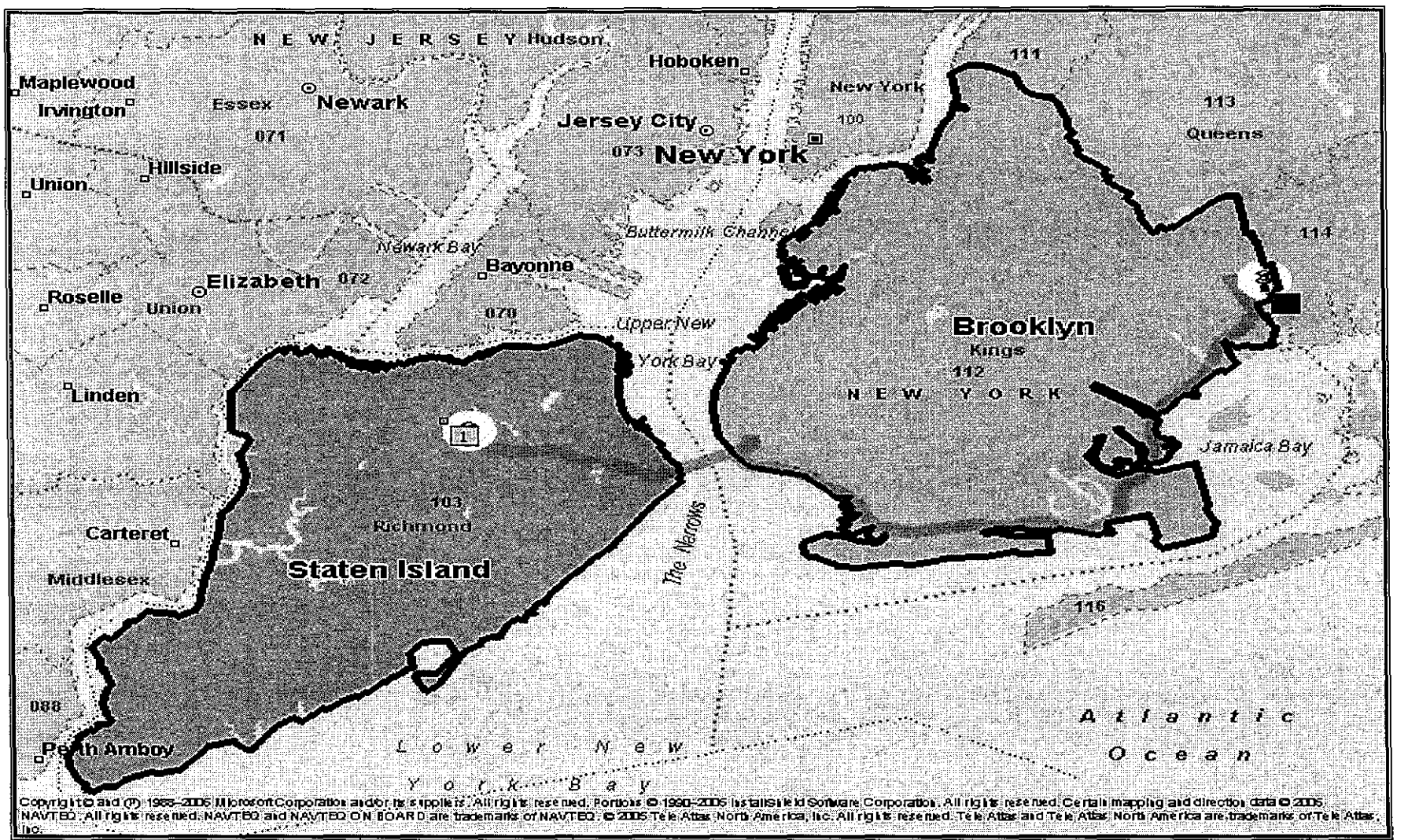
MAP

Last Saved: December 2, 2011

Losing Facility Name and Type: Staten Island P&DF
Current 3D ZIP Code(s): 103
Miles to Gaining Facility: 16

Gaining Facility Name and Type: Brooklyn P&DC
Current 3D ZIP Code(s): 112, 116



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rev 03/20/2008

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Service Standard Impacts

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Losing Facility 3D ZIP Code(s): 103
Gaining Facility 3D ZIP Code(s): 112, 116

Based on report prepared by Network Integration Support dated: 4/11/2011

Service Standard Changes - Average Daily Volume *(data obtained from ODIS is derived from sampling and may vary from actual volume)*

	FCM						PRI		PER *		STD *		PSVC		ALL CLASSES	
	Overnight	% Change	All Others	% Change	Total	% Change	All	% Change	All	% Change	All	% Change	All	% Change	All	% Change
UPGRADE		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		1.6%		0.0%
DOWNGRADE		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
TOTAL		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		1.6%		0.0%
NET UP+NO CHNG		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		1.6%		0.0%
VOLUME TOTAL																

* - Periodical and Standard mail origin 3-digit ZIP Code to destination 3-digit ZIP Code volume is not available

Selected summary fields are transferred to the *Executive Summary*

Service Standard Changes - Pairs

	FCM						PRI		PER		STD		PSVC		ALL CLASSES	
	Overnight	% Change	All Others	% Change	Total	% Change	All	% Change	All	% Change	All	% Change	All	% Change	All	% Change
UPGRADE		0.0%		0.0%		0.0%		0.0%		0.3%		0.3%		0.3%		0.2%
DOWNGRADE		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
TOTAL		0.0%		0.0%		0.0%		0.0%		0.3%		0.3%		0.3%		0.2%
NET		0.0%		0.0%		0.0%		0.0%		0.3%		0.3%		0.3%		0.2%

rev 10/16/2009

Stakeholders Notification

(WorkBook Tab Notification - 1) Last Saved: December 2, 2011 Stakeholder Notification Page 1

Losing Facility: Staten Island P&DF **AMP Event:** Start of Study

rev 07/16/2008

3367

Workhour Costs - Current

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Gaining Facility: Brooklyn P&DC

Date Range of Data: 04/01/10 <<=== : ===>> 03/31/11

Losing Current Workhour Rate by LDC

LDC	Function 1	LDC	Function 4
11	$42.55	41	$0.00
12	$43.62	42	$0.00
13	$0.00	43	$0.00
14	$45.34	44	$0.00
15	$0.00	45	$0.00
16	$0.00	46	$0.00
17	$39.96	47	$0.00
18	$36.81	48	$0.00

Gaining Current Workhour Rate by LDC

LDC	Function 1	LDC	Function 4
11	$49.04	41	$0.00
12	$48.27	42	$13.89
13	$41.16	43	$0.00
14	$37.80	44	$0.00
15	$38.08	45	$0.00
16	$0.00	46	$0.00
17	$41.82	47	$0.00
18	$39.14	48	$0.00

(1) Current Operation Numbers	(2) % Moved to Gaining	(3) Current Annual FHP	(4) Current Annual TPH or	(5) Current Annual	(6) Current Productivity	(7) Current Annual Workhour Costs
030	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$23,402
035	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$442,675
040	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$3,886
060	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$0
070	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$0
100	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$517
109	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$810
110	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$0
120	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$21,768
150	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$147,013
170	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$152,690
180	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$657,312
185	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$121,432
210	50.0%	[redacted]	[redacted]	[redacted]	[redacted]	$562,811
212	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$102,721
214	8.4%	[redacted]	[redacted]	[redacted]	[redacted]	$296,318
271	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$10,200
336	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$661,550
340	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$6,589
895	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$316,010
896	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$22,898
918	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$1,198,533
919	100.0%	[redacted]	[redacted]	[redacted]	[redacted]	$82,985
002		[redacted]	[redacted]	[redacted]	[redacted]	$94,896
017		[redacted]	[redacted]	[redacted]	[redacted]	$61,607
018		[redacted]	[redacted]	[redacted]	[redacted]	$105,071
055		[redacted]	[redacted]	[redacted]	[redacted]	$3,523
160		[redacted]	[redacted]	[redacted]	[redacted]	$194,796
175		[redacted]	[redacted]	[redacted]	[redacted]	$81,110
200		[redacted]	[redacted]	[redacted]	[redacted]	$458,391
232		[redacted]	[redacted]	[redacted]	[redacted]	$464
233		[redacted]	[redacted]	[redacted]	[redacted]	$68,633
235		[redacted]	[redacted]	[redacted]	[redacted]	$57,427
328		[redacted]	[redacted]	[redacted]	[redacted]	$18,926
549		[redacted]	[redacted]	[redacted]	[redacted]	$17,657
564		[redacted]	[redacted]	[redacted]	[redacted]	$1,071
565		[redacted]	[redacted]	[redacted]	[redacted]	$75,240
585		[redacted]	[redacted]	[redacted]	[redacted]	$146,331
607		[redacted]	[redacted]	[redacted]	[redacted]	$2,426
612		[redacted]	[redacted]	[redacted]	[redacted]	$1,851
		[redacted]	[redacted]	[redacted]	[redacted]	

(8) Current Operation Numbers	(9) % Moved to Losing	(10) Current Annual FHP Volume	(11) Current Annual TPH or NATPH Volume	(12) Current Annual Workhours	(13) Current Productivity (TPH or NATPH)	(14) Current Annual Workhour Costs
030		[redacted]	[redacted]	[redacted]	[redacted]	$2,179,923
140		[redacted]	[redacted]	[redacted]	[redacted]	$1,779,767
040		[redacted]	[redacted]	[redacted]	[redacted]	$230,845
060		[redacted]	[redacted]	[redacted]	[redacted]	$182,089
070		[redacted]	[redacted]	[redacted]	[redacted]	$45
100		[redacted]	[redacted]	[redacted]	[redacted]	$50,162
109		[redacted]	[redacted]	[redacted]	[redacted]	$6,286
110		[redacted]	[redacted]	[redacted]	[redacted]	$0
120		[redacted]	[redacted]	[redacted]	[redacted]	$26,372
150		[redacted]	[redacted]	[redacted]	[redacted]	$1,007,749
170		[redacted]	[redacted]	[redacted]	[redacted]	$845,423
180		[redacted]	[redacted]	[redacted]	[redacted]	$809,338
185		[redacted]	[redacted]	[redacted]	[redacted]	$1,468,565
210		[redacted]	[redacted]	[redacted]	[redacted]	$3,579,649
212		[redacted]	[redacted]	[redacted]	[redacted]	$0
214		[redacted]	[redacted]	[redacted]	[redacted]	$0
271		[redacted]	[redacted]	[redacted]	[redacted]	$1,126,279
146		[redacted]	[redacted]	[redacted]	[redacted]	$495,563
340		[redacted]	[redacted]	[redacted]	[redacted]	$72,059
895		[redacted]	[redacted]	[redacted]	[redacted]	$2,563,655
896		[redacted]	[redacted]	[redacted]	[redacted]	$293,937
918		[redacted]	[redacted]	[redacted]	[redacted]	$5,994,560
919		[redacted]	[redacted]	[redacted]	[redacted]	$2,990,213
002		[redacted]	[redacted]	[redacted]	[redacted]	$231,650
017		[redacted]	[redacted]	[redacted]	[redacted]	$262,543
018		[redacted]	[redacted]	[redacted]	[redacted]	$2,179,917
055		[redacted]	[redacted]	[redacted]	[redacted]	$0
160		[redacted]	[redacted]	[redacted]	[redacted]	$0
175		[redacted]	[redacted]	[redacted]	[redacted]	$0
200		[redacted]	[redacted]	[redacted]	[redacted]	$667,975
232		[redacted]	[redacted]	[redacted]	[redacted]	$388,447
233		[redacted]	[redacted]	[redacted]	[redacted]	$205,841
235		[redacted]	[redacted]	[redacted]	[redacted]	$0
328		[redacted]	[redacted]	[redacted]	[redacted]	$99,893
549		[redacted]	[redacted]	[redacted]	[redacted]	$844,124
564		[redacted]	[redacted]	[redacted]	[redacted]	$0
565		[redacted]	[redacted]	[redacted]	[redacted]	$2,094
585		[redacted]	[redacted]	[redacted]	[redacted]	$522,182
607		[redacted]	[redacted]	[redacted]	[redacted]	$377,672
612		[redacted]	[redacted]	[redacted]	[redacted]	$304,681
003		[redacted]	[redacted]	[redacted]	[redacted]	$995

3368

(1) Current Operation Numbers	(2) % Moved to Gaining	(3) Current Annual FHP Volume	(4) Current Annual TPH or NATPH Volume	(5) Current Annual Workhours	(6) Current Productivity (TPH or NATPH)	(7) Current Annual Workhour Costs

(8) Current Operation Numbers	(9) % Moved to Losing	(10) Current Annual FHP	(11) Current Annual TPH or	(12) Current Annual	(13) Current Productivity	(14) Current Annual Workhour Costs
009		[redacted]				$15,005
010						$89,250
012						$84,349
015						$489,635
016						$820
019						$382,548
020						$5,801
021						$96,280
022						$1,878
035						$3,362
066						$21,412
067						$16,816
083						$10,333
089						$11,049
090						$446
091						$98
092						$23,516
093						$7,376
094						$490
095						$59
096						$0
097						$9,142
098						$7,239
099						$245
112						$627,242
114						$858,771
115						$228,488
117						$47,048
121						$52,013
122						$83,035
124						$1,027,706
126						$672,408
140dup						
141						$143,644
142						$18,095
145						$155,185
146dup						
181						$21
186						$455,818
209						$306,003
225						$1,282,069
229						$3,537,356
230						$318,976
231						$1,688,191
244						$608,114
245						$5,787
246						$488,217
247						$365,485
248						$140
249						$350
256						$2,362
261						$4,468
265						$29,587
275						$49
281						$207,068
285						$9,235
291						$74
295						$270
381						$45,409
441						$545
445						$304

3369

(1) Current Operation Numbers	(2) % Moved to Gaining	(3) Current Annual FHP Volume	(4) Current Annual TPH or NATPH Volume	(5) Current Annual Workhours	(6) Current Productivity (TPH or NATPH)	(7) Current Annual Workhour Costs

(8) Current Operation Numbers	(9) % Moved to Losing	(10) Current Annual FHP Volume	(11) Current Annual TPH or NATPH Volume	(12) Current Annual Workhours	(13) Current Productivity (TPH or NATPH)	(14) Current Annual Workhour Costs
448		[redacted]				$811
468						$0
481						$618,609
485						$40,460
488						$41,063
489						$16,272
491						$15,198
495						$93
554						$323,069
560						$139,696
561						$243
618						$417,229
619						$886,604
620						$62,642
629						$450,566
630						$163,932
677						$744
776						$48,840
798						$10,318
891						$623,322
892						$164,484

3370

(1) Current Operation Numbers	(2) % Moved to Gaining	(3) Current Annual FHP Volume	(4) Current Annual TPH or NATPH Volume	(5) Current Annual Workhours	(6) Current Productivity (TPH or NATPH)	(7) Current Annual Workhour Costs

(8) Current Operation Numbers	(9) % Moved to Losing	(10) Current Annual FHP Volume	(11) Current Annual TPH or NATPH Volume	(12) Current Annual Workhours	(13) Current Productivity (TPH or NATPH)	(14) Current Annual Workhour Costs

3371

(1) Current Operation Numbers	(2) % Moved to Gaining	(3) Current Annual FHP Volume	(4) Current Annual TPH or NATPH Volume	(5) Current Annual Workhours	(6) Current Productivity (TPH or NATPH)	(7) Current Annual Workhour Costs

(8) Current Operation Numbers	(9) % Moved to Losing	(10) Current Annual FHP Volume	(11) Current Annual TPH or NATPH Volume	(12) Current Annual Workhours	(13) Current Productivity (TPH or NATPH)	(14) Current Annual Workhour Costs

3372

(1) Current Operation Numbers	(2) % Moved to Gaining	(3) Current Annual FHP Volume	(4) Current Annual TPH or NATPH Volume	(5) Current Annual Workhours	(6) Current Productivity (TPH or NATPH)	(7) Current Annual Workhour Costs
Totals	Moved to Gain	218,202,236	651,451,769	116,086	5,612	$4,832,119
	Impact to Lose	0	0	0	No Calc	$0
	Total Impact	218,202,236	651,451,769	116,086	5,612	$4,832,119
	Non-Impacted	6,516,317	12,890,789	33,250	388	$1,389,420
	All	224,718,553	664,342,558	149,336	4,449	$6,221,539

(8) Current Operation Numbers	(9) % Moved to Losing	(10) Current Annual FHP Volume	(11) Current Annual TPH or NATPH Volume	(12) Current Annual Workhours	(13) Current Productivity (TPH or NATPH)	(14) Current Annual Workhour Costs
Totals	Impact to Gain	917,016,869	2,367,445,397	578,919	4,089	$25,702,481
	Moved to Lose	0	0	0	No Calc	$0
	Total Impact	917,016,869	2,367,445,397	578,919	4,089	$25,702,481
	Non-Impacted	3,616,879	4,707,499	151,581	31	$6,087,019
	Gain Only	242,682,616	807,442,291	439,023	1,839	$18,571,853
	All	1,163,316,364	3,179,595,187	1,169,523	2,719	$50,361,353

Comb Totals	Impact to Gain	1,135,219,105	3,018,897,166	695,005	4,344	$30,534,600
	Impact to Lose	0	0	0	No Calc	$0
	Total Impact	1,135,219,105	3,018,897,166	695,005	4,344	$30,534,600
	Non-Impacted	10,133,196	17,598,288	184,830	95	$7,476,439
	Gain Only	242,682,616	807,442,291	439,023	1,839	$18,571,853
	All	1,388,034,917	3,843,937,745	1,318,859	2,915	$56,582,892

Total FHP to be Transferred (Average Daily Volume) : 703,878
(This number is carried forward to AMP Worksheet *Executive Summary*)

Current FHP at Gaining Facility (Average Daily Volume) : 3,752,633
(This number is carried forward to AMP Worksheet *Executive Summary*)

Combined Current Workhour Annual Workhour Costs : $56,582,892
(This number is carried forward to the bottom of AMP Worksheet *Workhour Costs-Proposed*)

rev 06/11/2008

Workhour Costs - Proposed

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs
030	[redacted]				$0
035					$0
040					$0
060					$0
070					$0
100					$0
109					$0
110					$0
120					$0
150					$0
170					$0
180					$0
185					$0
210					$281,406
212					$0
214					$271,427
271					$0
336					$0
340					$0
895					$0
896					$0
918					$0
919					$0
002					$94,896
017					$61,607
018					$105,071
055					$3,523
160					$194,796
175					$81,110
200					$458,391
232					$464
233					$68,633
235					$57,427
328					$18,926
549					$17,657
564					$1,071
565					$75,240
585					$146,331
607					$2,426
612					$1,851
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	
			0	No Calc	

Gaining Facility: Brooklyn P&DC

(7) Proposed Operation Numbers	(8) Proposed Annual FHP Volume	(9) Proposed Annual TPH or NATPH Volume	(10) Proposed Annual Workhours	(11) Proposed Productivity (TPH or NATPH)	(12) Proposed Annual Workhour Costs
030	[redacted]				$2,199,429
140					$2,135,704
040					$234,084
060					$182,089
070					$45
100					$50,162
109					$6,866
110					$0
120					$49,152
150					$1,130,289
170					$881,746
180					$1,153,666
185					$1,595,642
210					$3,872,692
212					$106,969
214					$26,048
271					$1,126,279
146					$1,005,856
340					$72,059
895					$2,873,546
896					$320,327
918					$6,982,529
919					$3,085,851
002					$231,650
017					$262,543
018					$2,179,917
055					$0
160					$0
175					$0
200					$667,975
232					$388,447
233					$205,841
235					$0
328					$99,893
549					$844,124
564					$0
565					$2,094
585					$522,182
607					$377,672
612					$304,681
003					$995
009					$15,005
010					$89,250
012					$84,349
015					$489,635
016					$820
019					$382,548
020					$5,801
021					$96,280
022					$1,878

3374

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs
			0	No Calc	
			0	No Calc	
			0	No Calc	

3375

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs
			0	No Calc	
			0	No Calc	
			0	No Calc	

3376

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs
			0	No Calc	
			0	No Calc	
			0	No Calc	

3377

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs
			0	No Calc	
			0	No Calc	
			0	No Calc	

3378

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs
			0	No Calc	
			0	No Calc	
			0	No Calc	

3379

(1) Proposed Operation Numbers	(2) Proposed Annual FHP Volume	(3) Proposed Annual TPH or NATPH Volume	(4) Proposed Annual Workhours	(5) Proposed Productivity (TPH or NATPH)	(6) Proposed Annual Workhour Costs

(13) New Flow Adjustments at Losing Facility

Op#	FHP	TPH/NATPH	Workhours	Productivity	Workhour Cost
Totals	0	0	0	No Calc	$0

(7) Proposed Operation Numbers	(8) Proposed Annual FHP Volume	(9) Proposed Annual TPH or NATPH Volume	(10) Proposed Annual Workhours	(11) Proposed Productivity (TPH or NATPH)	(12) Proposed Annual Workhour Costs

(14) New Flow Adjustments at Gaining Facility

Op#	FHP	TPH/NATPH	Workhours	Productivity	Workhour Cost
Totals	0	0	0	No Calc	$0

Combined Current Annual Workhour Cost : $56,582,892
(This number brought forward from *Workhour Costs - Current*)

Proposed Annual Workhour Cost : $55,686,642
(Total of Columns 6 and 12 on this page)

Minimum Function 1 Workhour Savings : ($341,876)
(This number represents proposed workhour savings with no productivity improvements applied to operations at the gaining facility)

Function 1 Workhour Savings : $896,249
(This number equals the difference in the current and proposed workhour costs above and is carried forward to the *Executive Summary*)

Comb Totals						
	Impact to Gain	1,135,219,105	3,018,897,166	667,613	4,522	$29,643,864
	Impact to Lose	0	0	0	No Calc	$0
	Total Impact	1,135,219,105	3,018,897,166	667,613	4,522	$29,643,864
	Non-Impacted	10,133,196	17,598,288	184,830	95	$7,476,439
	Gain Only	242,682,616	807,442,291	438,897	1,840	$18,566,340
	Tot Before Adj	1,388,034,917	3,843,937,745	1,291,339	2,977	$55,686,642
	Lose Adj	0	0	0	No Calc	$0
	Gain Adj	0	0	0	No Calc	$0
	All	1,388,034,917	3,843,937,745	1,291,339	2,977	$55,686,642

Cost Impact						
	Comb Current	1,388,034,917	3,843,937,745	1,318,859	2,915	$56,582,892
	Proposed	1,388,034,917	3,843,937,745	1,291,339	2,977	$55,686,642
	Change	0	0	(27,520)		($896,249)
	Change %	0.0%	0.0%	-2.1%		-1.6%

rev 04/02/2009

3380

Other Workhour Move Analysis

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Gaining Facility: Brooklyn P&DC

Date Range of Data: 04/01/10 to 03/31/11

Current Other Craft Workhours

Losing Facility

Current MODS Operation Number	Percent Moved to Gaining (%)	Reduction Due to EoS (%)	Current Annual Workhours	Current Annual Workhour Cost ($)
570	100.0%	0.0%	[redacted]	$54,527
571	100.0%			$499
750	53.0%	9.0%		$1,070,417
581				$10,284
624				$10,473
745				$151,597
747				$498,868
749				$67,985
752				$169,746
753				$225,994
765				$1,441,039
766				$177,417

Gaining Facility

Current MODS Operation Number	Percent Moved to Losing (%)	Reduction Due to EoS (%)	Current Annual Workhours	Current Annual Workhour Cost ($)
570			[redacted]	$0
571				$0
750				$7,607,365
581				$755,250
624				$247,387
745				$801,152
747				$67,250
749				$0
752				$0
753				$1,471,004
765				$8,515,811
766				$2,615,670
514				$286
515				$1,659
582				$379,179
610				$718
614				$13,532
616				$64,036
617				$30,368
634				$439
653				$2,012
665				$72,222
666				$268
679				$505,849
748				$3,292,297
751				$215
754				$681,456
901				$4,017

Proposed Other Craft Workhours

Losing Facility

Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
570	[redacted]	$0
571		$0
750		$406,759
581		$10,284
624		$10,473
745		$151,597
747		$498,868
749		$67,985
752		$169,746
753		$225,994
765		$1,441,039
766		$177,417

Gaining Facility

Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
570	[redacted]	$34,778
571		$318
750		$8,196,596
581		$755,250
624		$247,387
745		$801,152
747		$67,250
749		$0
752		$0
753		$1,471,004
765		$8,515,811
766		$2,615,670
514		$286
515		$1,659
582		$379,179
610		$718
614		$13,532
616		$64,036
617		$30,368
634		$439
653		$2,012
665		$72,222
666		$268
679		$505,849
748		$3,292,297
751		$215
754		$681,456
901		$4,017

3381

3382

Totals	Ops-Reducing	24,190	$1,125,443
	Ops-Increasing	0	$0
	Ops-Staying	65,469	$2,753,403
	All Operations	89,659	$3,878,846

Totals	Ops-Reducing	0	$0
	Ops-Increasing	159,490	$7,607,365
	Ops-Staying	459,525	$19,522,076
	All Operations	619,015	$27,129,441

Ops-Red	8,857	$406,759
Ops-Inc	0	$0
Ops-Stay	65,469	$2,753,403
AllOps	74,326	$3,160,162

Ops-Red	0	$0
Ops-Inc	172,725	$8,231,693
Ops-Stay	459,525	$19,522,076
AllOps	632,250	$27,753,768

Current All Supervisory Workhours

Losing Facility

Current MODS Operation Number	Percent (%) Moved to Gaining	(%) Reduction Due to EoS	Current Annual Workhours	Current Annual Workhour Cost ($)
570	100.0%		[redacted]	$2,227
571	100.0%			$10,439
698	100.0%	40.0%		$326,603
700	100.0%	100.0%		$121,484
671				$127,002
679				$186,473
928				$130,023
952				$236,045

Gaining Facility

Current MODS Operation Number	Percent (%) Moved to Losing	(%) Reduction Due to EoS	Current Annual Workhours	Current Annual Workhour Cost ($)
570			[redacted]	$0
571				$0
698				$0
700				$0
671				$192,880
679				$0
928				$3,399,625
952				$422,073
477				$65
624				$1,793
630				$6,381
701				$67
758				$89,154
759				$1,203,660
901				$814
927				$685,843
933				$104,884
951				$1,438,735
953			1,263	$70,746

Proposed All Supervisory Workhours

Losing Facility

Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
570	[redacted]	$0
571		$0
698		($130,641)
700		($121,484)
671		$127,002
679		$186,473
928		$130,023
952		$236,045

Gaining Facility

Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
570	[redacted]	$2,227
571		$10,439
698		$312,762
700		$116,336
671		$192,880
679		$0
928		$3,399,625
952		$422,073
477		$65
624		$1,793
630		$6,381
701		$67
758		$89,154
759		$1,203,660
901		$814
927		$685,843
933		$104,884
951		$1,438,735
953		$70,746

Totals	Ops-Reducing	8,611	$460,752
	Ops-Increasing	0	$0
	Ops-Staying	12,732	$679,544
	All Operations	21,343	$1,140,297

Totals	Ops-Reducing	0	$0
	Ops-Increasing	0	$0
	Ops-Staying	145,120	$7,616,721
	All Operations	145,120	$7,616,721

Ops-Red	(4,692)	($252,125)
Ops-Inc	0	$0
Ops-Stay	12,732	$679,544
AllOps	8,040	$427,419

Ops-Red	0	$0
Ops-Inc	8,611	$441,763
Ops-Stay	145,120	$7,616,721
AllOps	153,731	$8,058,485

Current Workhours for LDCs Common to & Shared between Supv & Craft

Losing Facility

Current MODS Operation Number	Percent (%) Moved to Gaining	(%) Reduction Due to EoS	Current Annual Workhours	Current Annual Workhour Cost ($)
781	50.0%		[redacted]	$70,740
783	100.0%			$43,215

Totals	Ops-Reducing	3,245	$113,955
	Ops-Increasing	0	$0
	Ops-Staying	0	$0
	All Operations	3,245	$113,955

Gaining Facility

Current MODS Operation Number	Percent (%) Moved to Losing	(%) Reduction Due to EoS	Current Annual Workhours	Current Annual Workhour Cost ($)
781			[redacted]	$154,853
783				$306,267
784				$20,548
789				$8,168

Totals	Ops-Reducing	0	$0
	Ops-Increasing	12,025	$461,121
	Ops-Staying	732	$28,716
	All Operations	12,757	$489,837

Proposed Workhours for LDCs Common to & Shared between Supv & Craft

Losing Facility

Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
781	[redacted]	$35,370
783		$0

Ops-Red	1,015	$35,370
Ops-Inc	0	$0
Ops-Stay	0	$0
AllOps	1,015	$35,370

Gaining Facility

Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
781	[redacted]	$192,005
783		$354,015
784		$20,548
789		$8,168

Ops-Red	0	$0
Ops-Inc	14,256	$546,019
Ops-Stay	732	$28,716
AllOps	14,987	$574,735

Grouped Subtotals for Transportation, Maintenance, Supervision & Flow Adjustments, along with Facility and Combined Summaries

Losing Facility — Transportation - PVS

LDC	Current Annual Workhours	Current Annual Workhour Cost ($)
31	[redacted]	$0
32		$0
33		$0
34		$1,618,457
93		$0
Totals	37,248	$1,618,457

Subset for Trans-PVS Tab			
	Ops 617, 679, 764 (31)	[redacted]	$0
	Ops 765, 766 (34)		$1,618,457

Gaining Facility — Transportation - PVS

LDC	Current Annual Workhours	Current Annual Workhour Cost ($)
31	[redacted]	$536,218
32		$0
33		$0
34		$11,145,013
93		$8,168
Totals	278,643	$11,689,398

Subset for Trans-PVS Tab			
	Ops 617, 679, 764 (31)	[redacted]	$536,218
	Ops 765, 766 (34)		$11,131,480

Losing Facility — Transportation - PVS

LDC	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
31	[redacted]	$0
32		$0
33		$0
34		$1,618,457
93		$0
Totals	37,248	$1,618,457

Ops 617, 679, 764 (31)	[redacted]	$0
Ops 765, 766 (34)		$1,618,457

Gaining Facility — Transportation - PVS

LDC	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
31	[redacted]	$536,218
32		$0
33		$0
34		$11,145,013
93		$8,168
Totals	278,643	$11,689,398

Ops 617, 679, 764 (31)	[redacted]	$536,218
Ops 765, 766 (34)		$11,131,480

3385

Maintenance

LDC	Current Annual Workhours	Current Annual Workhour Cost ($)
36	[redacted]	$1,240,164
37	[redacted]	$225,994
38	[redacted]	$566,853
39	[redacted]	$162,069
93	[redacted]	$43,215
Totals	52,472	$2,238,296

Maintenance

LDC	Current Annual Workhours	Current Annual Workhour Cost ($)
36	[redacted]	$7,607,580
37	[redacted]	$2,152,460
38	[redacted]	$3,359,546
39	[redacted]	$1,113,014
93	[redacted]	$306,267
Totals	324,049	$14,538,867

Maintenance

LDC	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
36	[redacted]	$576,505
37	[redacted]	$225,994
38	[redacted]	$566,853
39	[redacted]	$162,069
93	[redacted]	$0
Totals	36,805	$1,531,421

Maintenance

LDC	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
36	[redacted]	$8,196,811
37	[redacted]	$2,152,460
38	[redacted]	$3,359,546
39	[redacted]	$1,113,014
93	[redacted]	$354,015
Totals	337,617	$15,175,846

Supervisor Summary

LDC	Current Annual Workhours	Current Annual Workhour Cost ($)
01	[redacted]	$0
10	[redacted]	$578,110
20	[redacted]	$0
30	[redacted]	$186,473
35	[redacted]	$236,045
40	[redacted]	$0
50	[redacted]	$0
60	[redacted]	$0
70	[redacted]	$0
80	[redacted]	$127,002
81	[redacted]	$12,666
88	[redacted]	$0
Totals	21,343	$1,140,297

Supervisor Summary

LDC	Current Annual Workhours	Current Annual Workhour Cost ($)
01	[redacted]	$0
10	[redacted]	$4,091,917
20	[redacted]	$0
30	[redacted]	$1,293,628
35	[redacted]	$2,038,232
40	[redacted]	$0
50	[redacted]	$0
60	[redacted]	$0
70	[redacted]	$0
80	[redacted]	$192,880
81	[redacted]	$0
88	[redacted]	$65
Totals	145,120	$7,616,721

Supervisory

LDC	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
01	[redacted]	$0
10	[redacted]	($122,102)
20	[redacted]	$0
30	[redacted]	$186,473
35	[redacted]	$236,045
40	[redacted]	$0
50	[redacted]	$0
60	[redacted]	$0
70	[redacted]	$0
80	[redacted]	$127,002
81	[redacted]	$0
88	[redacted]	$0
Totals	8,040	$427,419

Supervisory

LDC	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
01	[redacted]	$0
10	[redacted]	$4,521,015
20	[redacted]	$0
30	[redacted]	$1,293,628
35	[redacted]	$2,038,232
40	[redacted]	$0
50	[redacted]	$0
60	[redacted]	$0
70	[redacted]	$0
80	[redacted]	$192,880
81	[redacted]	$12,666
88	[redacted]	$65
Totals	153,731	$8,058,485

Summary by Sub-Group

	Current - Combined		Special Adjustments - Combined -		Proposed + Special Adjustments - Combined -		Change			
	Annual Workhours	Annual Dollars	Annual Workhours	Annual Dollars	Annual Workhours	Annual Dollars	Workhour Change	% Change	Dollars Change	Percent Change
'Other Craft' Ops (note 1)	25,802	$1,294,452	0	$0	25,802	$1,274,523	0	0.0%	($19,929)	-1.5%
Transportation Ops (note 2)	315,362	$13,286,154	8,710	$366,842	324,072	$13,652,996	8,710	2.8%	$366,842	2.8%
Maintenance Ops (note 3)	376,520	$16,777,163	0	$0	374,422	$16,707,267	(2,098)	-0.6%	($69,896)	-0.4%
Supervisory Ops	166,463	$8,757,018	0	$0	161,771	$8,485,904	(4,692)	-2.8%	($271,114)	-3.1%
Supv/Craft Joint Ops (note 4)	6,992	$254,309	0	$0	6,992	$256,091	0	0.0%	$1,781	0.7%
Total	891,139	$40,369,097	8,710	$366,842	893,060	$40,376,780	1,921	0.2%	$7,684	0.0%

Special Adjustments at Losing Site

LDC	Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
Total Adj		0	$0

Special Adjustments at Gaining Site

LDC	Proposed MODS Operation Number	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
34	766	8,710	$366,842
Total Adj		8,710	$366,842

Summary by Facility

Losing Facility Summary

	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
Before	114,247	$5,133,098
After	83,381	$3,622,950
Adj	0	$0
AfterTot	83,381	$3,622,950
Change	(30,866)	($1,510,147)
% Diff	-27.0%	-29.4%

Gaining Facility Summary

	Proposed Annual Workhours	Proposed Annual Workhour Cost ($)
Before	776,892	$35,235,999
After	800,968	$36,386,988
Adj	8,710	$366,842
AfterTot	809,678	$36,753,830
Change	32,787	$1,517,831
% Diff	4.2%	4.3%

Combined Summary

Before	891,139	$40,369,097
After	884,350	$40,009,939
Adj	8,710	$366,842
AfterTot	893,060	$40,376,780
Change	1,921	$7,684
% Diff	0.2%	0.0%

Notes:

1) less Ops going to 'Trans-PVS' & 'Maintenance' Tabs
2) going to Trans-PVS tab
3) going to Maintenance tab
4) less Ops going to 'Maintenance' Tabs

rev 06/17/2008

Staffing - Management

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Data Extraction Date: 04/10/11 **Finance Number:** 358172

Management Positions

Line	(1) Position Title	(2) Level	(3) Current Auth Staffing	(4) Current On-Rolls	(5) Proposed Staffing	(6) Difference
1	MGR PROCESSING/DISTRIBUTION FCLTY	EAS-24	1	1	0	-1
2	MGR DISTRIBUTION OPERATIONS	EAS-19	1	1	0	-1
3	MGR MAINTENANCE	EAS-19	1	1	1	0
4	SUPV DISTRIBUTION OPERATIONS	EAS-17	5	4	1	-3
5	SUPV MAINTENANCE OPERATIONS	EAS-17	2	2	1	-1
6	SUPV TRANSPORTATION OPERATIONS	EAS-17	2	2	2	0
7	SECRETARY (FLD)	EAS-12	1	1	0	-1
8						
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	Totals		13	12	5	(7)

Retirement Eligibles: 8

Position Loss: 7

Gaining Facility: Brooklyn P&DC

Data Extraction Date: 04/10/11 **Finance Number:** 350996

Management Positions

Line	(12) Position Title	(13) Level	(14) Current Auth Staffing	(15) Current On-Rolls	(16) Proposed Staffing	(17) Difference
1	PLANT MANAGER (METRO)	PCES-01	1	1	1	0
2	MGR IN-PLANT SUPPORT	EAS-25	1	0	1	1
3	MGR MAINTENANCE (LEAD)	EAS-25	1	1	1	0
4	SR MGR DISTRIBUTION OPERATIONS	EAS-25	1	0	1	1
5	MGR DISTRIBUTION OPERATIONS	EAS-24	4	3	4	1
6	MGR MAINTENANCE OPERATIONS	EAS-23	3	3	3	0
7	MGR TRANSPORTATION/NETWORKS	EAS-23	1	1	1	0
8	OPERATIONS INDUSTRIAL ENGINEER (FI	EAS-22	2	2	2	0
9	MGR MAINT ENGINEERING SUPPORT	EAS-20	1	1	1	0
10	MGR MAINTENANCE OPERATIONS SUPPT	EAS-20	1	1	1	0
11	OPERATIONS SUPPORT SPECIALIST	EAS-20	1	1	1	0
12	MAINTENANCE ENGINEERING SPECIALIST	EAS-19	1	0	1	1
13	MGR FIELD MAINT OPRNS (LEAD)	EAS-19	1	1	1	0
14	MGR PVS OPERATIONS	EAS-19	1	1	1	0
15	OPERATIONS SUPPORT SPECIALIST	EAS-18	2	2	2	0
16	OPERATIONS SUPPORT SPECIALIST	EAS-17	4	4	4	0
17	SUPV DISTRIBUTION OPERATIONS	EAS-17	29	30	30	0
18	SUPV MAINTENANCE OPERATIONS	EAS-17	12	12	12	0
19	SUPV TRANSPORTATION OPERATIONS	EAS-17	8	6	6	0
20	NETWORKS SPECIALIST	EAS-16	2	2	2	0
21	SECRETARY (FLD)	EAS-12	1	1	1	0
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	Total		**78**	**73**	**77**	**4**

Retirement Eligibles: **31** Position Loss: **(4)**

Total PCES/EAS Position Loss: 3 (This number carried forward to the *Executive Summary*)

rev 11/05/2008

Staffing - Craft

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF **Finance Number:** 358172

Data Extraction Date: 04/10/11

Craft Positions	(1) Casuals On-Rolls	(2) Part Time On-Rolls	(3) Full Time On-Rolls	(4) Total On-Rolls	(5) Total Proposed	(6) Difference
Function 1 - Clerk	9	0	61	70	6	(64)
Function 4 - Clerk	0	0	0			
Function 1 - Mail Handler	0	0	24	24	17	(7)
Function 4 - Mail Handler	0	0	0			
Function 1 & 4 Sub-Total	**9**	**0**	**85**	**94**	**23**	(71)
Function 3A - Vehicle Service	0	2	17	19	19	0
Function 3B - Maintenance	0	0	32	32	21	(11)
Functions 67-69 - Lmtd/Rehab/WC		0	2	2	1	(1)
Other Functions	0	0	0			
Total	**9**	**2**	**136**	**147**	**64**	(83)

Retirement Eligibles: 39

Gaining Facility: Brooklyn P&DC **Finance Number:** 350996

Data Extraction Date: 04/10/11

Craft Positions	(7) Casuals On-Rolls	(8) Part Time On-Rolls	(9) Full Time On-Rolls	(10) Total On-Rolls	(11) Total Proposed	(12) Difference
Function 1 - Clerk	6	0	357	363	394	31
Function 1 - Mail Handler	3	14	301	318	330	12
Function 1 Sub-Total	**9**	**14**	**658**	**681**	724	43
Function 3A - Vehicle Service	4	8	129	141	141	0
Function 3B - Maintenance	0	0	209	209	216	7
Functions 67-69 - Lmtd/Rehab/WC		0	18	18	18	0
Other Functions	0	0	5	5	5	0
Total	**13**	**22**	**1,019**	**1,054**	1,104	50

Retirement Eligibles: 333

Total Craft Position Loss: 33 (This number carried forward to the *Executive Summary*)

(13) Notes:

rev 11/05/2008

Transportation - PVS

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF
Finance Number: 358172
Date Range of Data: 04/01/10 -- to -- 03/31/11

Gaining Facility: Brooklyn P&DC
Finance Number: 350996

	(1) Current	(2) Proposed	(3) Difference	(4) Current	(5) Proposed	(6) Difference
PVS Owned Equipment						
Seven Ton Trucks	8	8	0	43	43	0
Eleven Ton Trucks	2	2	0	8	10	(2)
Single Axle Tractors	2	2	0	16	18	(2)
Tandem Axle Tractors			0	9	9	0
Spotters			0	3	3	0
PVS Transportation						
Total Number of Schedules	18	18	0	198	206	(8)
Total Annual Mileage	269,889	269,889	0	1,807,077	1,857,783	(50,706)
Total Mileage Costs	$396,737	$396,737	$0	$2,656,403	$2,788,220	($131,817)
PVS Leases						
Total Vehicles Leased			0			0
Total Lease Costs			$0			$0
PVS Workhour Costs						
LDC 31 (617, 679, 764)	$0	$0	$0	$536,218	$536,218	$0
LDC 34 (765, 766)	$1,618,457	$1,618,457	$0	$11,131,480	$11,131,480	$0
Adjustments (from "Other Curr vs Prop" tab)		$0			$366,842	
Total Workhour Costs	$1,618,457	$1,618,457	$0	$11,667,698	$12,034,540	($366,842)

PVS Transportation Savings (Losing Facility): $0

PVS Transportation Savings (Gaining Facility): ($498,659)

Total PVS Transportation Savings: ($498,659) <<== (This number is summed with Total from 'Trans-HCR' and carried forward to the *Executive Summary as Transportation Savings*)

(7) Notes: Total Mileage Costs = Total Annual Mileage * $1.47 + Toll Costs ($57,279.12)
5 additional Tractor Trailer Operators (Level 8) are needed to transport mail from Brooklyn to Staten Island.
Additional estimated work hours in LDC 34 are (5* 1742) = 8,710
Roundtrip Toll Estimate = (4 trips * 303.07 K7 frequency) * $47.26 = $57,292.35

rev 04/13/2009

3392

Transportation - HCR

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Gaining Facility: Brooklyn P&DC

Type of Distribution to Consolidate: Destinating

CET for cancellations:

CET for OGP:

Data Extraction Date:

CT for Outbound Dock:

1 Route Numbers	2 Current Annual Mileage	3 Current Annual Cost	4 Current Cost per Mile	5 Proposed Annual Mileage	6 Proposed Annual Cost	7 Proposed Cost per Mile
103Y0	34,872	$171,890	$4.93			

8 Route Numbers	9 Current Annual Mileage	10 Current Annual Cost	11 Current Cost per Mile	12 Proposed Annual Mileage	13 Proposed Annual Cost	14 Proposed Cost per Mile
112U0	538,085	$1,412,695	$2.63			

3393

1 Route Numbers	2 Current Annual Mileage	3 Current Annual Cost	4 Current Cost per Mile	5 Proposed Annual Mileage	6 Proposed Annual Cost	7 Proposed Cost per Mile

8 Route Numbers	9 Current Annual Mileage	10 Current Annual Cost	11 Current Cost per Mile	12 Proposed Annual Mileage	13 Proposed Annual Cost	14 Proposed Cost per Mile

3394

1 Route Numbers	2 Current Annual Mileage	3 Current Annual Cost	4 Current Cost per Mile	5 Proposed Annual Mileage	6 Proposed Annual Cost	7 Proposed Cost per Mile

8 Route Numbers	9 Current Annual Mileage	10 Current Annual Cost	11 Current Cost per Mile	12 Proposed Annual Mileage	13 Proposed Annual Cost	14 Proposed Cost per Mile

Proposed Trip Impacts	Current Losing	Moving to Gain (-)	Other Changes (+/-)	Trips from Gaining	Proposed Result
	49,717	0	0	0	49,717

Proposed Trip Impacts	Current Gaining	Moving to Lose (-)	Other Changes (+/-)	Trips from Losing	Proposed Result
	221,737	0	0	0	221,737

HCR Annual Savings (Losing Facility): $49,674

HCR Annual Savings (Gaining Facility): ($62,534)

Total HCR Transportation Savings: ($12,860) <<== (This number is summed with Total from 'Trans-PVS' and carried forward to the *Executive Summary as Transportation Savings*)

rev 11/05/2008

Distribution Changes

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Type of Distribution to Consolidate: Destinating

Indicate each DMM labeling list affected by placing an "X" to the left of the list.

(1)

	DMM L001		DMM L011
X	DMM L002		DMM L201
	DMM L003		DMM L601
	DMM L004		DMM L602
X	DMM L005		DMM L603
	DMM L006		DMM L604
	DMM L007		DMM L605
	DMM L008		DMM L606
	DMM L009		DMM L607
	DMM L010		DMM L801

If revisions to DMM L005 or DMM L201 are needed, indicate proposed DMM label change below.

(2) **DMM Labeling List L005 - 3-Digit ZIP Code Prefix Groups - SCF Sortation**

From:		
Action Code*	Column A - 3-Digit ZIP Code Prefix Group	Column B - Label to
D	103	STATEN ISLAND NY 103 S
CF	112, 116	SCF BROOKLYN NY 112
To:		
Action Code*	Column A - 3-Digit ZIP Code Prefix Group	Column B - Label to
CT	103, 112, 116	SCF BROOKLYN NY 112

*Action Codes: A=add D=delete CF-change from CT=change to

Important Note: Section 2 & 3 illustrate possible changes to DMM labeling lists. Section 2 relates to consolidation of Destination Operations. Section 3 pertains to Originating Operations. The Area Distribution Network group will submit appropriate requests for DMM changes after AMP approval.

(3) **DMM Labeling List L201 - Periodicals Origin Split**

Action Code*	Column A - Entry ZIP Codes	Column B - 3-Digit ZIP Code Destinations	Column C - Label to
			Column C - Label to
Action Code*	Column A - Entry ZIP Codes	Column B - 3-Digit ZIP Code Destinations	Column C - Label to
Action Code*	Column A - Entry ZIP Codes	Column B - 3-Digit ZIP Code Destinations	Column C - Label to
Action Code*	Column A - Entry ZIP Codes	Column B - 3-Digit ZIP Code Destinations	Column C - Label to

*Action Codes: A=add D=delete CF-change from CT=change to

(4) **Drop Shipments for Destination Entry Discounts - FAST Appointment Summary Report**

Month	Losing/Gaining	NASS Code	Facility Name	Total Schd Appts	No-Show		Late Arrival		Open		Closed		Unschd
					Count	%	Count	%	Count	%	Count	%	Count
Feb '11	Losing Facility	103	Staten Island	101	1	1%	8	8%	0	0%	100	99%	0
Mar '11	Losing Facility	103	Staten Island	113	1	1%	4	4%	0	0%	112	99%	0
Feb '11	Gaining Facility	112	Brooklyn	591	125	21%	223	38%	0	0%	466	79%	2
Mar '11	Gaining Facility	112	Brooklyn	734	167	23%	312	43%	0	0%	567	77%	2

(5) **Notes:** With the approval of the AMP, labeling list changes will be coordinated with the area and local FAST coordinators.
Upon approval of AMP, L002 will require changes.

rev 5/14/2009

3396

MPE Inventory

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF **Gaining Facility:** Brooklyn P&DC

Data Extraction Date: 04/14/11

Equipment Type	(1) Current Number	(2) Proposed Number	(3) Difference
AFCS	0	0	0
AFSM - ALL	1	0	(1)
APPS	0	0	0
CIOSS	0	0	0
CSBCS	0	0	0
DBCS	6	0	(6)
DBCS-OSS	0	0	0
DIOSS	0	0	0
FSS	0	0	0
SPBS	0	0	0
UFSM	0	0	0
FC / MICRO MARK	0	0	0
ROBOT GANTRY	0	0	0
HSTS / HSUS	0	0	0
LCTS / LCUS	0	0	0
LIPS	0	0	0
MLOCR-ISS	0	0	0
MPBCS-OSS	0	0	0
TABBER	0	0	0
POWERED INDUSTRIAL EQUIPMENT	0	0	0

Equipment Type	(4) Current Number	(5) Proposed Number	(6) Difference	(7) Excess Equipment	(8) Relocation Costs
AFCS	8	8	0	0	
AFSM 100	2	3	1	0	$150,000
APPS	1	1	0	0	
CIOSS	1	1	0	0	
CSBCS	0	0	0	0	
DBCS	30	30	0	(6)	
DBCS-OSS	0	0	0	0	
DIOSS	6	6	0	0	
FSS	0	0	0	0	
SPBS	0	0	0	0	
UFSM	0	0	0	0	
FC / MICRO MARK	0	0	0	0	
ROBOT GANTRY	2	2	0	0	
HSTS / HSUS	0	0	0	0	
LCTS / LCUS	2	2	0	0	
LIPS	0	0	0	0	
MLOCR-ISS	0	0	0	0	
MPBCS-OSS	0	0	0	0	
TABBER	0	0	0	0	
POWERED INDUSTRIAL EQUIPMENT	0	0	0	0	

Mail Processing Equipment Relocation Costs from Losing to Gaining Facility: $150,000 (This number is carried forward to *Space Evaluation and Other Costs*)

(9) Notes:

1 additional AFSM100 required with ATHS/AI.

rev 03/04/2008

Maintenance

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Date Range of Data: Apr-01-2010 : Mar-31-2011

	Workhour Activity	(1) Current Cost	(2) Proposed Cost	(3) Difference
LDC 36	Mail Processing Equipment	$ 1,240,164	$ 576,505	$ (663,659)
LDC 37	Building Equipment	$ 225,994	$ 225,994	$ 0
LDC 38	Building Services *(Custodial Cleaning)*	$ 566,853	$ 566,853	$ 0
LDC 39	Maintenance Operations Support	$ 162,069	$ 162,069	$ 0
LDC 93	Maintenance Training	$ 43,215	$ 0	$ (43,215)
	Workhour Cost Subtotal	$ 2,238,296	$ 1,531,421	$ (706,874)

	Other Related Maintenance & Facility Costs	Current Cost	Proposed Cost	Difference
Total	Maintenance Parts, Supplies & Facility Utilities	$ 610,121	$ 356,119	$ (254,002)
	Adjustments *(from "Other Curr vs Prop" tab)*		$ 0	
	Grand Total	$ 2,848,417	$ 1,887,540	$ (960,876)

Gaining Facility: Brooklyn P&DC

	Workhour Activity	(4) Current Cost	(5) Proposed Cost	(6) Difference
LDC 36	Mail Processing Equipment	$ 7,607,580	$ 8,196,811	$ 589,231
LDC 37	Building Equipment	$ 2,152,460	$ 2,152,460	$ 0
LDC 38	Building Services *(Custodial Cleaning)*	$ 3,359,546	$ 3,359,546	$ 0
LDC 39	Maintenance Operations Support	$ 1,113,014	$ 1,113,014	$ 0
LDC 93	Maintenance Training	$ 306,267	$ 354,015	$ 47,748
	Workhour Cost Subtotal	$ 14,538,867	$ 15,175,846	$ 636,979

	Other Related Maintenance & Facility Costs	Current Cost	Proposed Cost	Difference
Total	Maintenance Parts, Supplies & Facility Utilities	$ 4,316,209	$ 4,419,211	$ 103,002
	Adjustments *(from "Other Curr vs Prop" tab)*		$ 0	
	Grand Total	$ 18,855,076	$ 19,595,057	$ 739,981

Annual Maintenance Savings: $220,896 (This number carried forward to the *Executive Summary*)

(7) Notes: The total current work hours of LDC37, 38, 39 in SI does not support the staffing to leave 21 employee at SI. In order to support those operations, the hours have been taken from LDC36.
Staten Island proposed costs included a reduction of $151,000 in excess inventory

rev 04/13/2009

3398

Customer Service Issues

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

5-Digit ZIP Code: 10314

Data Extraction Date: 04/12/11

1. Collection Points

	3-Digit ZIP Code: 103		3-Digit ZIP Code:		3-Digit ZIP Code:		3-Digit ZIP Code:	
	Current		Current		Current		Current	
	Mon. - Fri.	Sat.	Mon. - Fri.	Sat.	Mon. - Fri.	Sat.	Mon. - Fri.	Sat.
Number picked up before 1 p.m.	266	316						
Number picked up between 1-5 p.m.	151	69						
Number picked up after 5 p.m.	3	0						
Total Number of Collection Points	420	385	0	0	0	0	0	0

2. How many collection boxes are designated for "local delivery"?

3. How many "local delivery" boxes will be removed as a result of AMP?

4. Delivery Performance Report

	Quarter/FY	Percent
% Carriers returning before 5 p.m.		

5. Retail Unit Inside Losing Facility (Window Service Times)

	Current		Proposed	
	Start	End	Start	End
Monday				
Tuesday				
Wednesday				
Thursday				
Friday				
Saturday				

6. Business (Bulk) Mail Acceptance Hours

	Current		Proposed	
	Start	End	Start	End
Monday				
Tuesday				
Wednesday				
Thursday				
Friday				
Saturday				

7. Can customers obtain a local postmark in accordance with applicable policies in the *Postal Operations Manual*?

8. Notes:

Gaining Facility: Brooklyn P&DC

9. What postmark will be printed on collection mail?

Line 1

Line 2

rev 6/18/2008

Space Evaluation and Other Costs

Last Saved: December 2, 2011

Losing Facility: Staten Island P&DF

Space Evaluation

1. Affected Facility

Facility Name: Staten Island P&DF
Street Address: 550 Manor Road
City, State ZIP: Staten island, NY 10314-9998

2. Lease Information. (If not leased skip to 3 below.)

Enter annual lease cost:
Enter lease expiration date:
Enter lease options/terms:

3. Current Square Footage

Enter the total interior square footage of the facility: 23,008 workroom (total facility 85,000)
Enter gained square footage expected with the AMP: TBD

4. Planned use for acquired space from approved AMP

Not determined yet

5. Facility Costs

Enter any projected one-time facility costs:
(This number shown below under One-Time Costs section.

6. Savings Information

Space Savings ($):
(This number carried forward to the *Executive Summary*)

7. Notes $50,000 site prep includes electrical supplies and labor.

One-Time Costs

Employee Relocation Costs:

Mail Processing Equipment Relocation Costs: $150,000
(from *MPE Inventory*)

Facility Costs: $0
(from above)

Total One-Time Costs: $150,000
(This number carried forward to *Executive Summary*)

Remote Encoding Center Cost per 1000

Losing Facility: Staten Island P&DF **Gaining Facility:** Brooklyn P&DC

YTD Range of Report: 04/01/10 : 03/31/11

(1) Product	(2) Associated REC	(3) Current Cost per 1,000 Images	(4) Product	(5) Associated REC	(6) Current Cost per 1,000 Images
Letters			Letters		
Flats			Flats		
PARS COA			PARS COA		
PARS Redirects			PARS Redirects		
APPS			APPS		

rev 9/24/2008

Attachment 2

3401

UNITED STATES POSTAL SERVICE®

Long Island District

Day +1
Environment

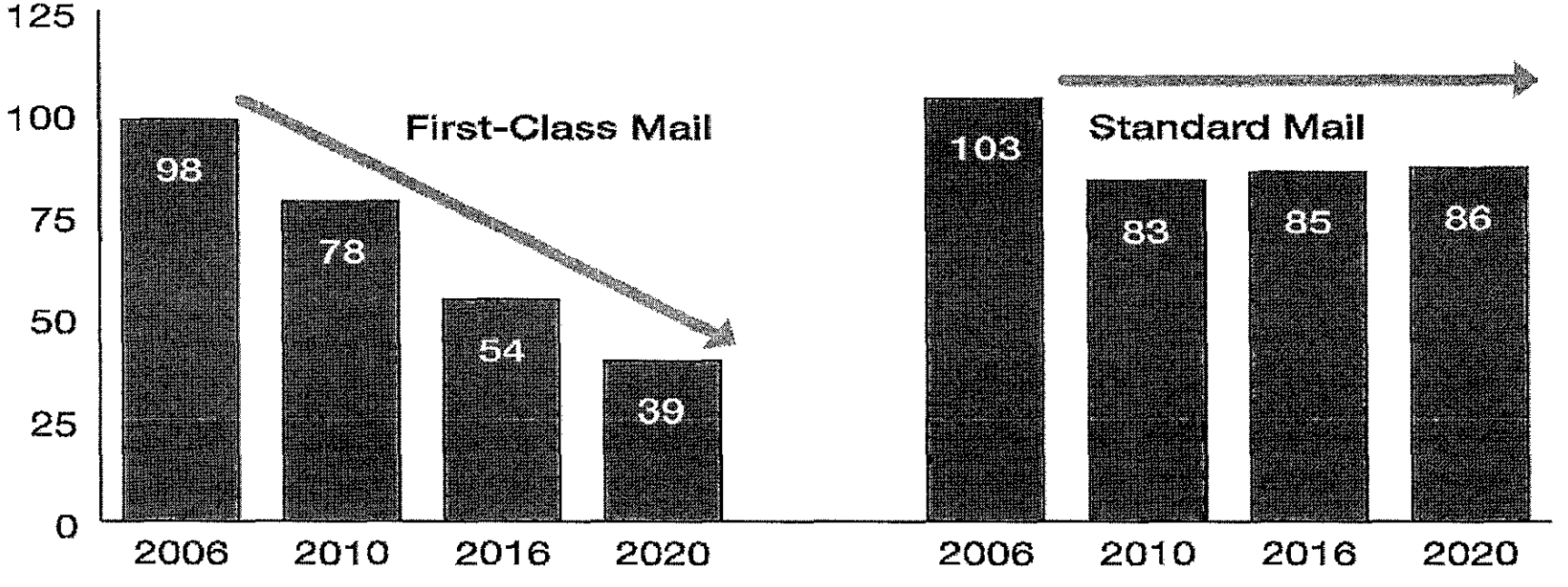
Service Standard Change

Potential Date for Service Standard Change is May19th.

UNITED STATES POSTAL SERVICE®

Volume Trend and Projection

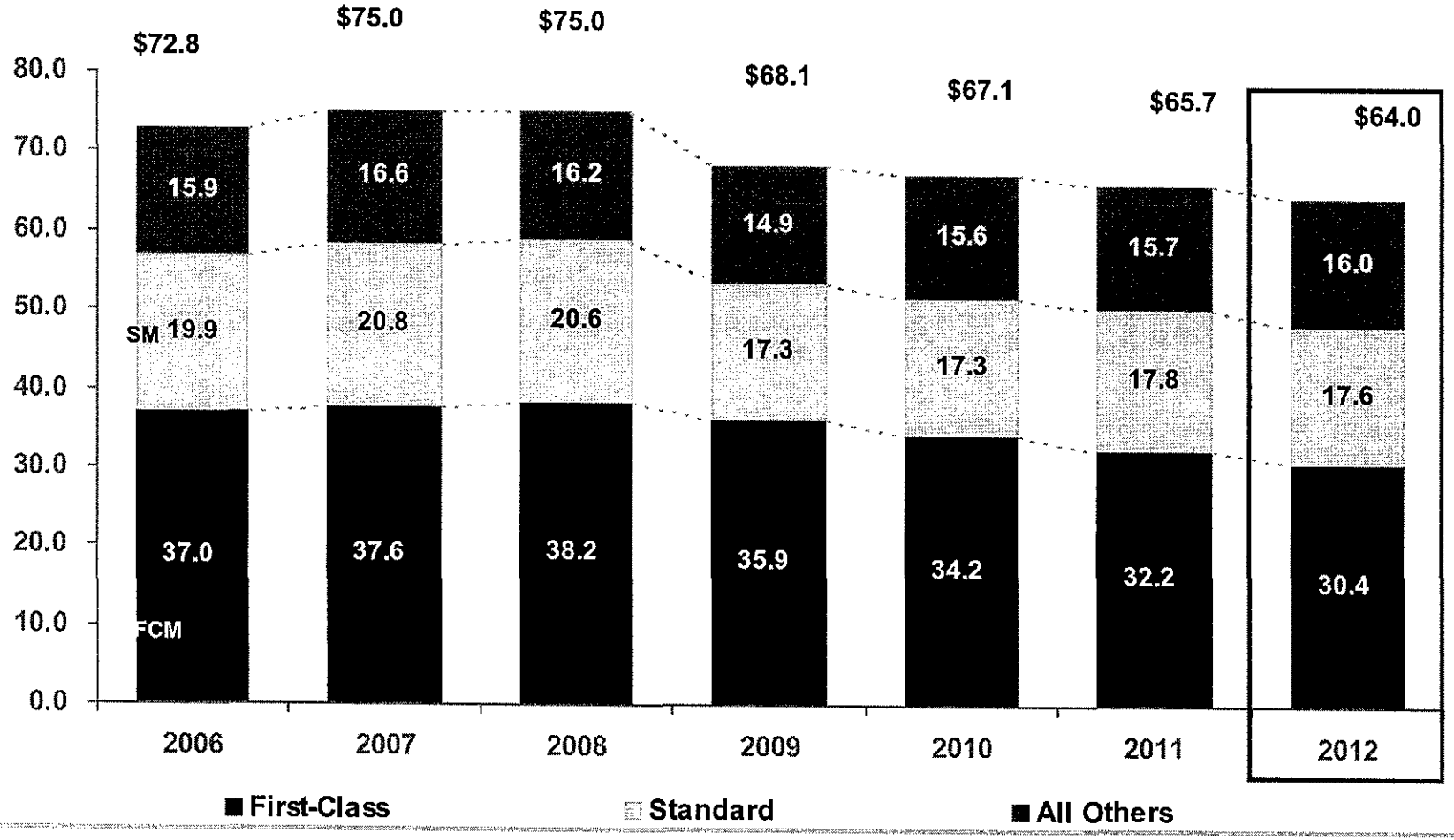
Burning Platform Volume



UNITED STATES POSTAL SERVICE®

Revenue Trend

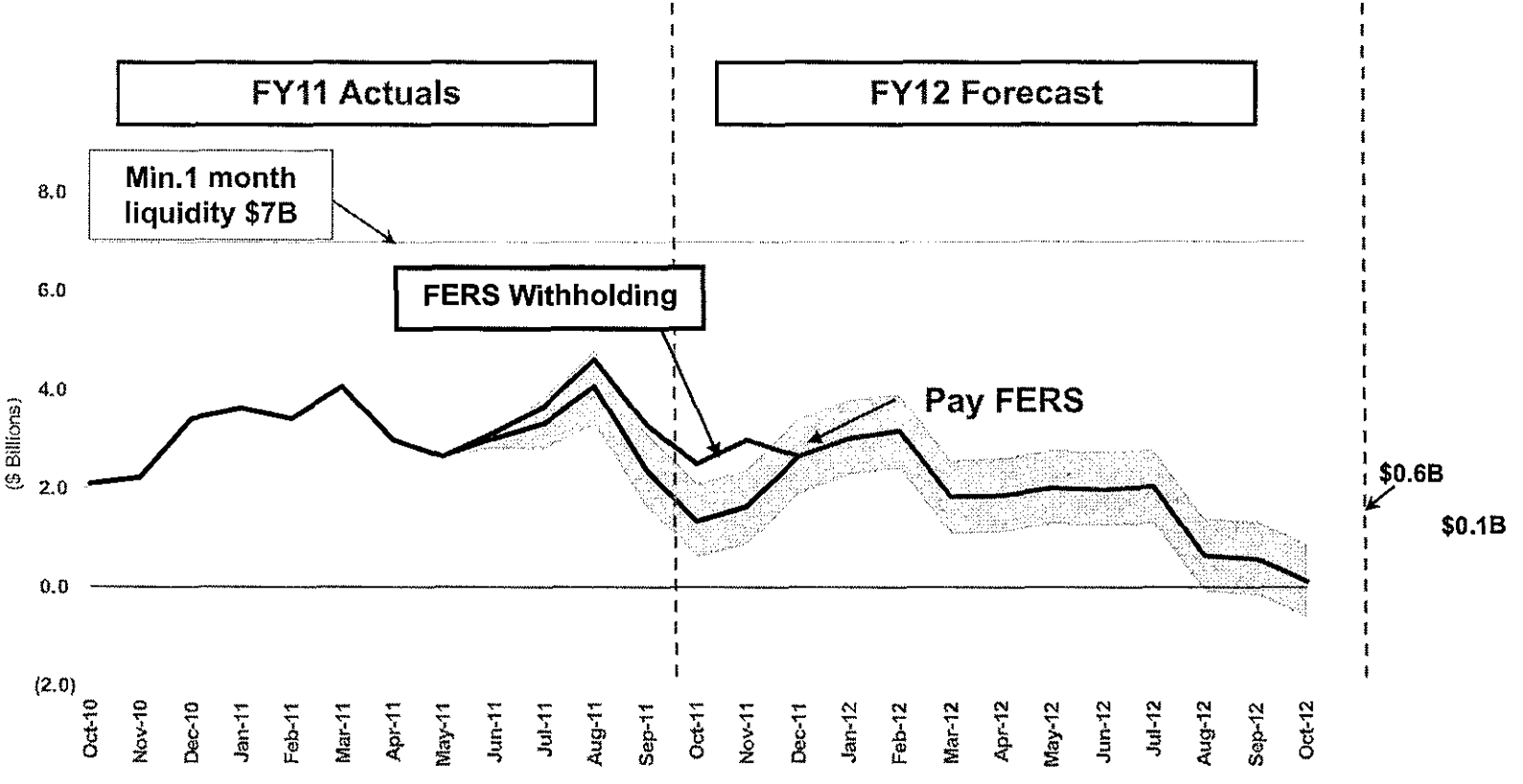
Burning Platform Revenue



UNITED STATES POSTAL SERVICE®

Available Cash Trend

Burning Platform Cash



Assumes: No RHB pre-funding in 2011 or 2012
Pay FERS amounts withheld and resume contributions in December

UNITED STATES POSTAL SERVICE®

Day +1 Benefits

FUTURE NETWORK

- Support 2-3 day Service Standards
- Revised Entry Times
- Reduced Equipment
- Reduced Footprint

BENEFITS

- Eliminate Excess Capacity
- More Efficient Transportation Network
- Fully Utilized Workforces
- Significant Annual Savings

3407

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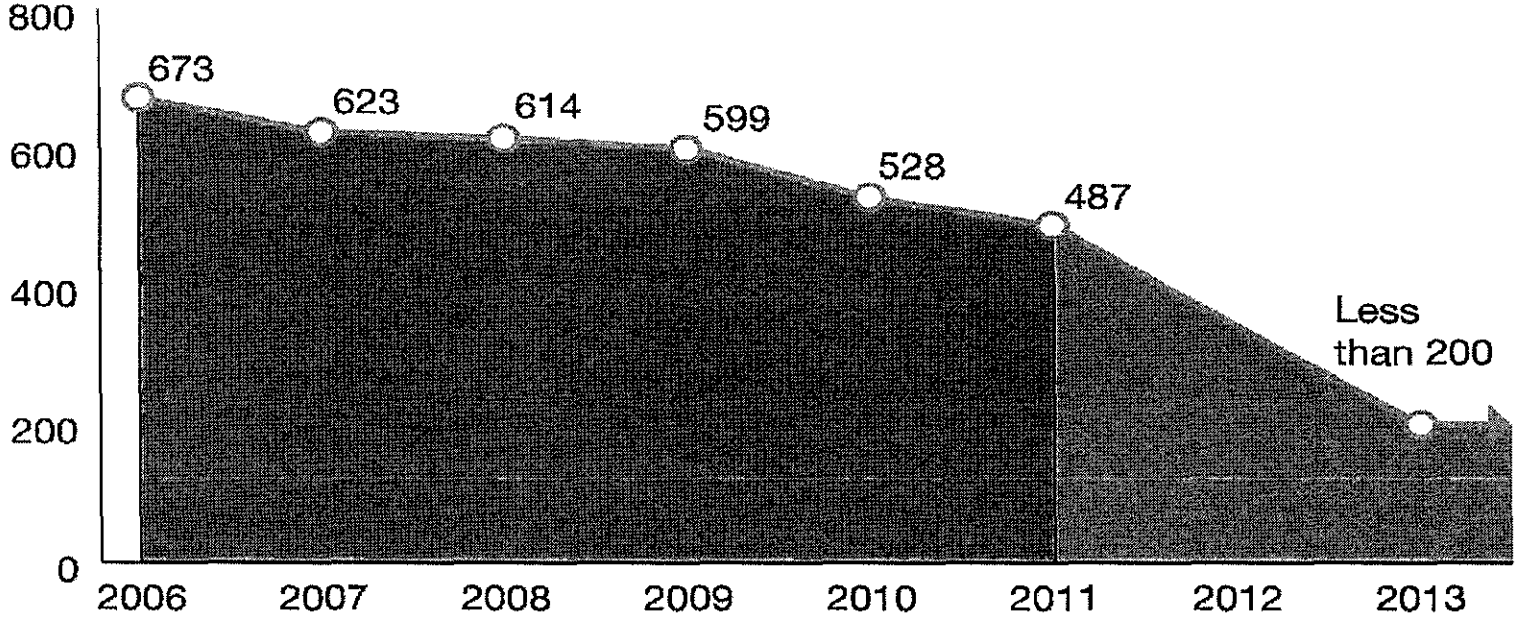
UNITED STATES POSTAL SERVICE

PDC Trend and Projection

PDCs



UNITED STATES POSTAL SERVICE®

Potential Decrease in Processing Facilities Through 2013

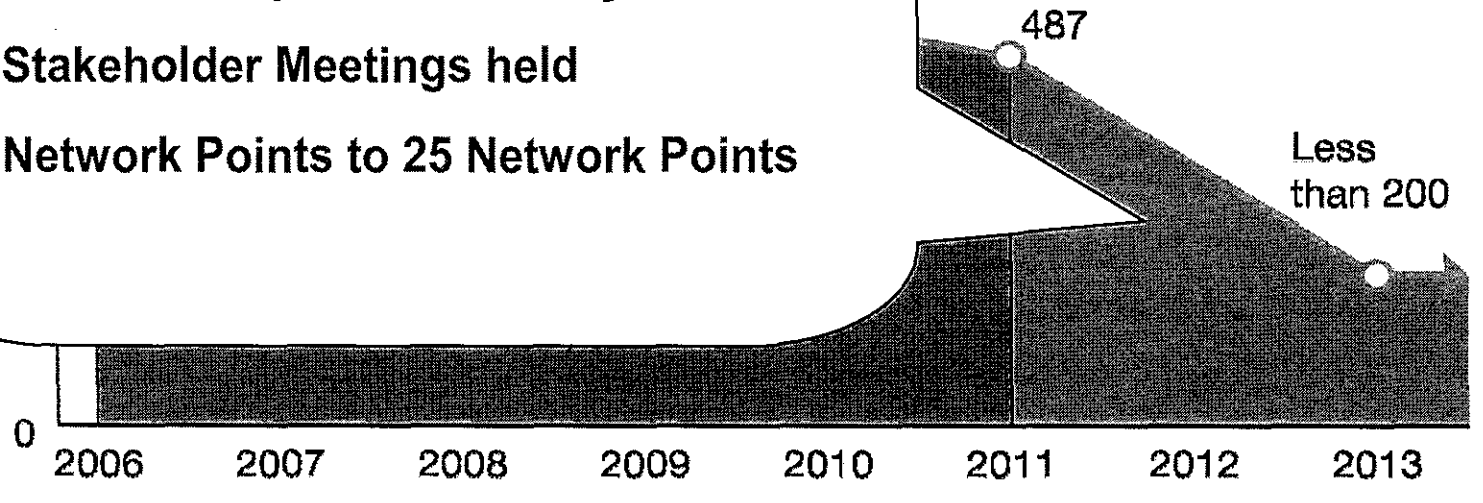
NEA

26 Studies Announced September 2011

20 Studies completed/ 6 in abeyance

20 Stakeholder Meetings held

47 Network Points to 25 Network Points



Long Island District- 2 remaining nodes

- Mid Island
- Western Nassau
- NDC - Serviced out of NJI
- LDC – Serviced out of NY LDC

Studied Nodes

- 110 from Queens originating to MI
- 110 from Queens destinating to WN
- Mid Island Annex closure

UNITED STATES POSTAL SERVICE®

LI TIMELINE

Operational Changes

Gaining Node	Study Site	O/D	Operations moved begin	Operations End begin
MID-ISLAND, NY	QUEENS, NY 110 zips	Orig 3 digit	May-19	Aug-12
Western Nassau	QUEENS, NY 110 zips	Dest 3 digit	May-19	Aug-12
Western Nassau	MID-ISLAND, NY	DPS for 9 117 zones	May-19	Aug-12

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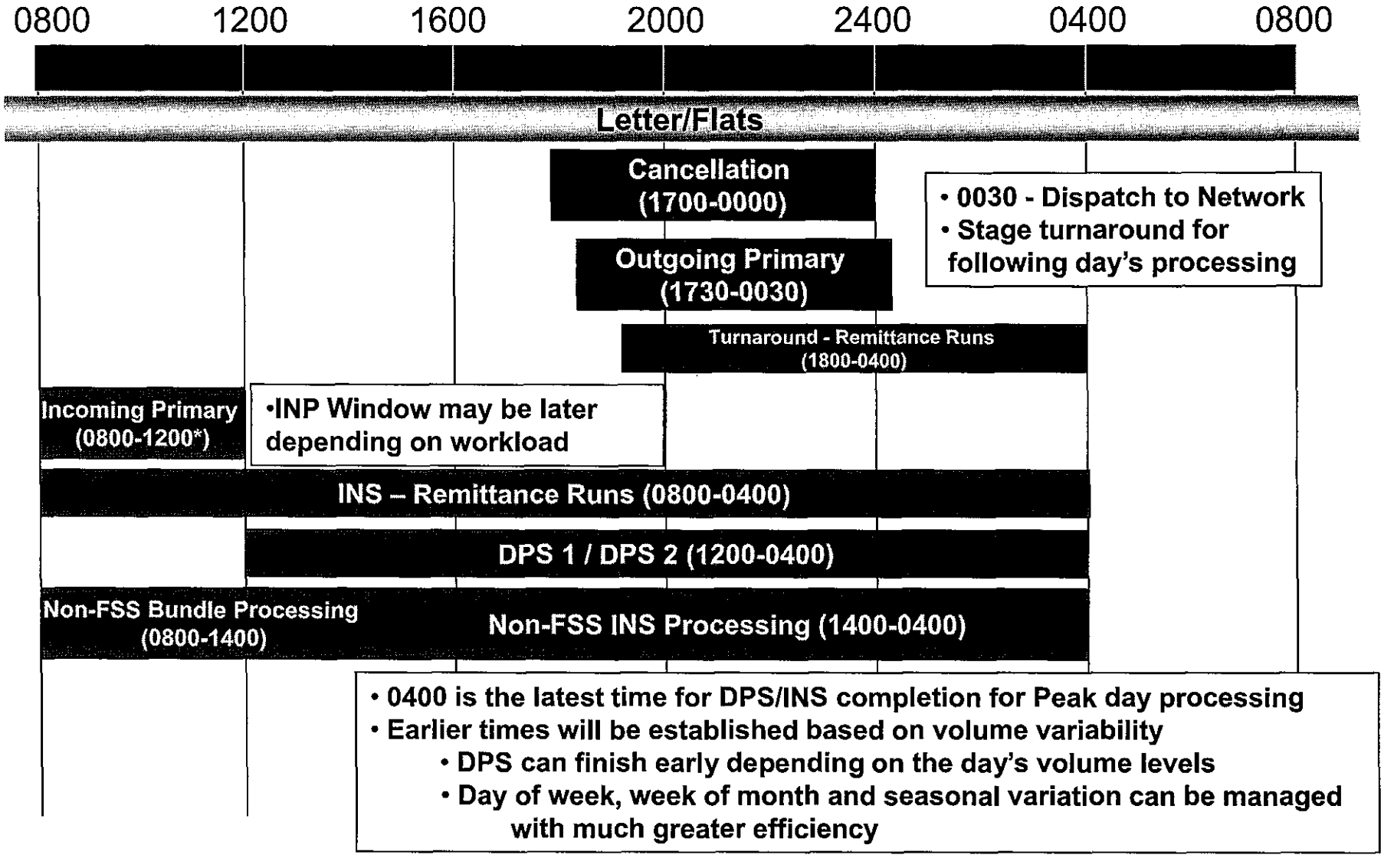
UNITED STATES POSTAL SERVICE

Day +1 operating windows



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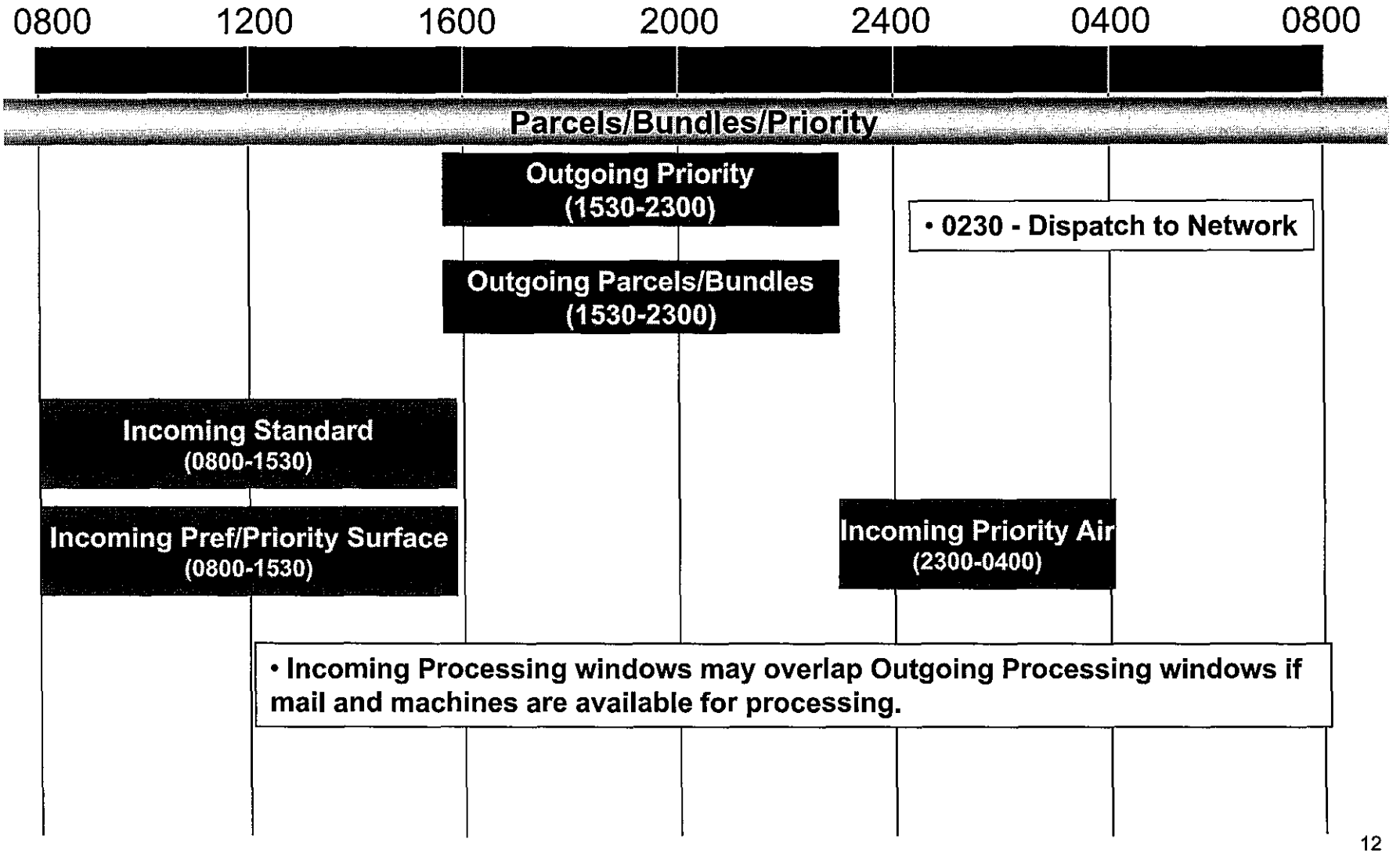
UNITED STATES POSTAL SERVICE

Day +1 operating windows



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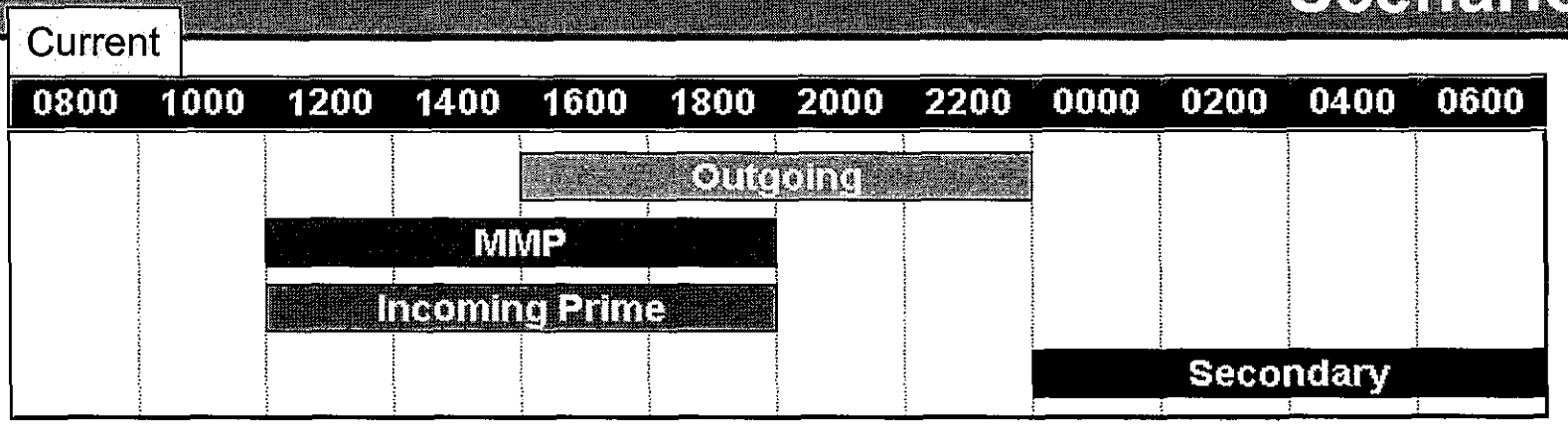
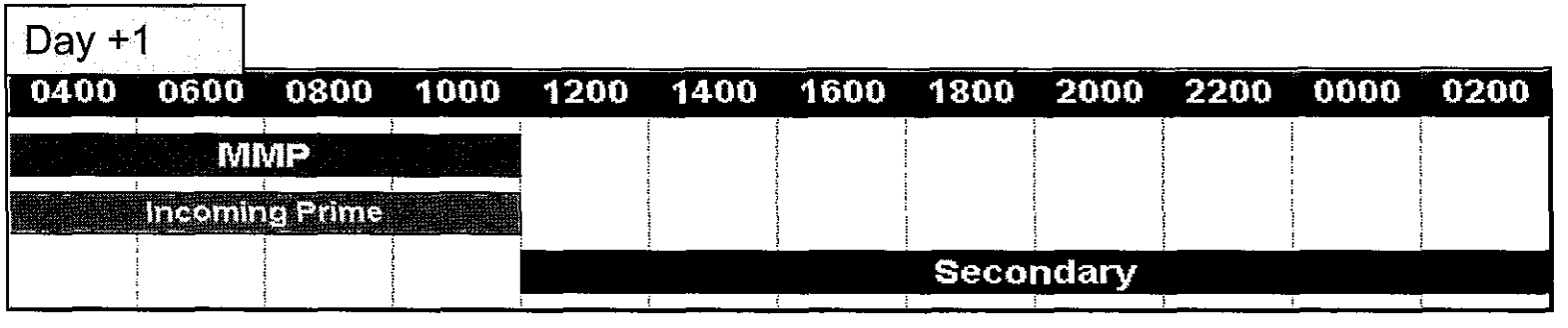
UNITED STATES POSTAL SERVICE

Service Standard Change Scenarios





Local Transportation

Implementation – Key considerations

- HUB concept recommended to maximize network efficiency and minimize trans costs

- Realignment of transportation to/from AOs and/or HUB to new operating times.

- Develop network supporting arrival profile of collection mail into the Plant.

- Maximize return of collection trips to extent possible.

Transportation Design

Implementation – Key considerations (cont)

- Work with In-Plant to maximize efficiency of RPG (as possible) relating to transportation costs
  - Consider re-aligning hours at AO to accept DPS on return of collection where it makes sense
  - Mail drop at AO from 12:00am to 4:00am

Network Transportation

Network Optimization Key Factors

- Redefines Concept of Operations
  - Outgoing 0030 CT to Network
  - Incoming 0800 CET at final Processing Facility
- Eliminates FC Overnight Service Standard
- Eliminates AADC Distribution
- Reduces Processing Facilities Nationally

Surface Impacts

- **Transportation supporting O/N FC eliminated**
- **Reassessment of STC transfer vs. direct trans**
  - Service Standard commitment
    - Hartford P&DC – Morgan P&DC
    - Albany P&DC – Boston P&DC
  - Trailer utilization
- **Schedules modified to support new Concept of Operations**
- **Reduction of transportation servicing deactivated facilities**
  - Hub / THS operation may require residual trans
  - Current HCRs moved into gaining facility
- **0800 CET pushes some 2-Day to 3-Day (4 hours pt - pt)**

Air Impacts

- 0800 CET pushes some current 3-Day surface to air

- HQ to define 3-Day surface to air realignment
  - Assess increased volumes and cube requirements
  - Forecasting lead time to FedEx

- ADC sort to reduced destinations
  - Improved tray utilization
  - Increased cube densities

- Weather / ATC issues at MEM Hub > potential service delays

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Transportation Design

UNITED STATES POSTAL SERVICE®

Mid Island Maintenance Staffing

	Current	*Day +1
Tour 1	56	86
Tour 2	112	91
Tour 3	44	43
Total	212	220

Current includes Maxess Rd.

*Day +1 is preliminary, subject to change.

UNITED STATES POSTAL SERVICE

Western Nassau Maintenance Staffing

	Current	*Day +1
Tour 1	15	30
Tour 2	33	34
Tour 3	15	20
Total	63	84

*Day +1 is preliminary, subject to change.

UNITED STATES POSTAL SERVICE®

Equipment Move Plan

Mid Island and Western Nassau will remove DBCS machines in the following order and replace with machines from Maxess.

- Phase 1 DBCS Machines
- Phase 2 DBCS Machines
- Poor Performing Machines

3425

Operations Staffing

4 Day work week for Manual/APBS

Increase in tour 2 positions in automation

UNITED STATES POSTAL SERVICE®

Mid Island Clerks Current Vs Proposed

	Current	*Day +1
Tour 1	260	102
Tour 2	85	170
Tour 3	204	265
Total	549	537

Current includes Maxess Rd

*Day +1 is preliminary, subject to change

UNITED STATES POSTAL SERVICE®

Western Nassau Clerks Current Vs Proposed

	Current	*Day +1
Tour 1	118	12
Tour 2	17	101
Tour 3	38	66
Total	173	179

*Day +1 is preliminary, subject to change

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UNITED STATES POSTAL SERVICE

Mid Island Mailhandler Staffing

- Mailhandler staffing to have little change. Future adjustments will be dependent on Day +1 destinating mail arrival profile.

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UNITED STATES POSTAL SERVICE®

Western Nassau Mailhandler Staffing

- **Mailhandler workload will shift from tour 1 to tours 2 and 3. Total complement will have little change.**

3430

UNITED STATES POSTAL SERVICE®

Possible Future changes

- PARS operation moved to Morgan
- Saturday collections moved to Morgan
- Staffing will be affected

Questions

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF PAUL HOGROGIAN (NPMHU-T2)

I, Paul Hogrogian, under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case, along with an attachment thereto. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T2-1 through 3, USPS/NPMHU-T2-5 through 8.These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

Paul Hogrogian

6-12-2012
Date

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS PAUL HOGROGIAN
(NPMHU-T-2)

Party	Interrogatories
United States Postal Service	USPS/NPMHU-T2-1-3, 5-8

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS PAUL HOGROGIAN (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T2-1	USPS
USPS/NPMHU-T2-2	USPS
USPS/NPMHU-T2-3	USPS
USPS/NPMHU-T2-5	USPS
USPS/NPMHU-T2-6	USPS
USPS/NPMHU-T2-7	USPS
USPS/NPMHU-T2-8	USPS

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-1: On page 2, lines 7 through 8 of your testimony, you state "I don't believe that the loss of revenue will more than offset any savings that the AMPs may contain or ever produce." Please describe, in detail, your experience, education, or training related to revenue assessment, plans or strategies and other economic tools used to develop and explore revenue assessment, including, but not limited to, your experience, education, or training to support your statement and produce any documents or data that you relied upon in support of your statement.

RESPONSE:

The quotation provided is inaccurate, and not what was said in my testimony. My experience and training are set forth in the first paragraph of my testimony. My testimony is based on my many years of experience as a Mail Handler, my many years of representing Mail Handlers in the facilities mentioned in my testimony and nationwide, my life-long residence in the tri-state area, and my experience as user of the United States Postal Service's services. I do not have any formal training in the technical areas referenced in the question. The documents and data I relied upon in support of my statement are the AMP studies that have previously been supplied by the Postal Service to the Commission, and information provided to me at the public hearing (at which I was told that potential revenue loss was not factored into the AMP savings).

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-2: On page 2, lines 23 through 25 of your testimony, you state that "[g]iven this massive increase, I am not confident that Brooklyn has the space to handle the increased volume, especially given that USPS will also have to move additional machines to Brooklyn." Please state your understanding of whether the Postal Service included in the Staten Island P&DF AMP study an assessment of the mail volume, arrival profile, and delivery points when determining the equipment set planning and produce any documents or data that you relied upon in support of your statement.

RESPONSE:
It is my understanding that the Postal Service did consider the mail volume and delivery points from Staten Island when determining the equipment set planning for Brooklyn. I did not see any evidence in the AMP study that the Postal Service considered the arrival profile. According to the AMP for the Staten Island P&DF (page 39), the USPS will need to add one AFSM 100 to Brooklyn. However, the AMP for the Queens P&DC indicates that two AFSMs, an SPBS, and a LCTS/LCUS will need to be added to handle the Queens volume. There is nothing in either AMP that indicates whether these two consolidations were considered together when considering the space requirements for this equipment. In addition, I do not see anywhere that the AMPs accounted for the additional storage space that will be needed to hold the mail until the next day's processing, given the Postal Service's plan to significantly expand the DPS processing window. Other than the AMPs, I relied upon my knowledge of the layout of the Brooklyn facility, and the knowledge of the NPMHU Local 300 representatives from the Brooklyn facility, when making the quoted statement.

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-3: On page 3, lines 9 through 10 of your testimony, you state that you "see no evidence that the Postal Service considered this relative productivity when deciding to end mail processing at the Staten Island facility."

a. Please refer to the Response of USPS Witness Williams to Question from Commissioner Taub During March 20, 2012 Cross-Examination, pages 5 through 9, which was filed on March 30, 2012, available at:

   http://www.prc.gov/Docs/81/81803/V2.p.422.HW.Dave.pdf
   http://www.prc.gov/Docs/81/81803/Homework.Vol.2.p.422.xls

   Prior to filing your testimony with the Commission, did you have the opportunity to review and consider this response, including the information under the heading "Specific description of AMP savings calculations: mail processing workhours moving from the losing site to the gaining site?"

b. If you did not consider the materials identified in part (a), please explain why. If you did consider those materials, please explain the statement in light of those materials.

RESPONSE:

(a) Yes.

(b) The referenced portion of Witness Williams' response deals with the Postal Service's method of calculating projected work hours at the gaining facility. The quoted portion of my testimony did not deal with the Postal Service's method of calculating projected work hours at the gaining facilities, or the Postal Service's method for calculating estimated productivity at gaining facilities after consolidation. The quoted portion of the testimony reflects my conclusion that the Postal Service did not value the high productivity of the Staten Island P&DF when deciding to consolidate that facility into Brooklyn. This is not discussed in Witness Williams' testimony.

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-5: On page 3, lines 14 through 16 of your testimony, you state that "[g]iven the volume of mail in Staten Island, I do not believe that the Postal Service's plans adequately staff the three (3) hub operations that will remain in Staten Island . . . ."

a. Please confirm whether this statement assumes that the tractor-trailer service to the New Dorp Station and the South Shore Annex would be cross-docked at Staten Island.

b. If your answer to subpart (a) is not affirmative, please explain.

c. Please describe, in detail, your experience, education, or training related to the assessment of staffing needs at postal facilities, including, but not limited to, your experience, education, or training to support your statement and produce any documents or data that you relied upon in support of your statement.

RESPONSE:
(a) No.

(b) It is my understanding that trucks will go directly from Brooklyn to New Dorp and South Shore stations.

(c) My experience is set forth in the first paragraph of my testimony. My testimony is based on my many years of experience as a Mail Handler, and my many years of experience representing Mail Handlers in Staten Island and across the country. As part of my union duties, I have had experience with staffing issues when dealing with the Postal Service on numerous occasions, including when dealing with excessing or potential excessing of Mail Handers. I do not have any formal education or training in the technical areas referenced in the question.

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-6: On page 3, lines 19 through 20, you state that you are "extremely concerned that the Postal Service's process for considering these consolidations did not allow for sufficient public input into the process."

a. Please provide your understanding of the Postal Service's obligation to solicit and consider public input in relation to a mail processing plant consolidation, including, but not limited to, identification of any internal instructions that form the basis for your belief that the current process is not sufficient.

b. In your view, is it possible for a public input process to comply with applicable internal instructions but still be deemed as not sufficient by a concerned postal employee or member of the public?

RESPONSE:

(a) The USPS internal instructions for this process are found at Handbook 408. As a public service entity, the Postal Service has an obligation to solicit and consider public input when considering closing a mail processing facility that will have an impact on service to the public. As an employer, the Postal Service also had an obligation to consider input from its employees and employee representatives when closing a facility.

(b) Yes, where applicable internal instructions do not provide for meaningful public input.

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-7: On page 4, lines 10 through 11 of your testimony, you state "I do not believe these operational changes will result in significant labor savings." Please describe, in detail, your experience, education, or training related to the assessment of labor savings, including, but not limited to, your experience, education, or training to support your statement and produce any documents or data that you relied upon in support of your statement.

RESPONSE:
My experience is set forth in the first paragraph of my testimony. My testimony is based on my many years of experience as a Mail Handler, and my many years of experience representing Mail Handlers in Staten Island and across the country. I do not have any formal education or training in the technical areas referenced in the question. My testimony is based on my years of practical experience, my knowledge of Postal operations, the attachment to my testimony, and the numbers provided in the Postal Service's AMP studies.

RESPONSES OF NPMHU WITNESS HOGROGIAN TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T2-8: On page 4, lines 22-24 of your testimony, you state that "[a]s demonstrated in this presentation, the Postal Service is not going to achieve significant labor efficiency by changing the operating windows."

a. Please confirm whether the presentation referenced is a draft document, intended for internal review and discussion only (as identified on pages 6, 7, and 14-20 of Attachment 2 of your testimony).

b. If your answer to subpart (a) is not affirmative, please explain.

c. Please identify the source of the attachment, including any information that confirms whether the information provided in the presentation was verified by Postal Service Headquarters.

RESPONSE:
(a) Not confirmed.

(b) I do not know what the Postal Service's intentions were. However, the referenced presentation was provided to me without any restrictions on its use, and without any statement that the information contained therein was a draft document or to be maintained in any sort of confidential manner.

(c) The document was provided to me by Postal Service Senior Plant Manager Keith Fisher, in response to an information request made by the Union. I have no way of knowing if Postal Service Headquarters verified this presentation prior to local Postal management sharing it with the Union.

Postal Regulatory Commission
Submitted 4/23/2012 3:43:51 PM
Filing ID: 82125
Accepted 4/23/2012

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	))))	Docket No. N2012-1

DIRECT TESTIMONY OF CHRISTOPHER BENTLEY

ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-3)

My name is Christopher Bentley. I am currently a Mail Handler employed by the United States Postal Service at the Springfield, Missouri P&DC. I am also currently Vice President of Local 297 of the National Postal Mail Handlers Union (NPMHU), which represents approximately 850 Mail Handlers in the states of Missouri and Kansas. I also serve as the Branch President of the NPMHU's Springfield branch. I have worked at the Springfield P&DC since 1998, my entire Postal career.

The purpose of my testimony is to provide additional information to the Commission regarding one of the Postal Service's proposed consolidations—the consolidation of the Springfield, Missouri P&DC into the Kansas City, Missouri P&DC. Based on my knowledge of these facilities, my many years as a Postal employee, and my review of the Area Mail Processing (AMP) study of this consolidation, I believe that the Postal Service has under-estimated the costs of this consolidation and the negative effects it will have on the efficient delivery of the mail.

1. Logistical Problems with Consolidating Springfield Into Kansas City.

Compared to Springfield, Kansas City is a less efficient facility and is already at capacity with mail volume. The Kansas City facility processes mail on three different floors. Its elevators are already at capacity at mail-dispatch time, as even management admitted in its AMP study report (page 45). This means that adding any more mail to the facility is counter-productive because it will clog the system, slowing down delivery times even for mail that Kansas City already processes, as well as the new mail that would be added to the facility. In addition to the Springfield consolidation, the Postal Service has also approved an AMP study to consolidate the originating and destinating mail from the Topeka, Kansas P&DF into the Kansas City P&DC, which will add about 884,454 in daily volume FHP to Kansas City (about a 14% increase). See http://about.usps.com/streamlining-operations/topeka-final-redacted.pdf. I am informed that this Topeka consolidation will likely occur over the summer of 2012. According to the AMP, the Springfield consolidation would add another 1,631,891 in daily volume FHP, which would constitute an additional 26% increase in volume. Kansas City is already struggling, as shown by the 24-hour clock included on page 9 of the Springfield AMP study – all of the "Trips on Time" for Kansas City are in the red alert zone, as are about half of the "OGS cleared by 2400," and all of the "Mail Assigned Commercial/Fed Ex by 2300" are in the yellow warning category.

In contrast, the Springfield facility is on a single floor and is a very efficient facility, with some of the highest productivity numbers in the country. In 2011, the Springfield facility qualified for the Tovar Award, a rare designation reserved for facilities that consistently cancel 80 percent of their collection mail before 8 p.m. No other Postal facility in the USPS Mid-America District – including Kansas City – has qualified for this award. Springfield consistently achieves nearly perfect EXFC scores, a measure of on-time, accurate delivery for first-class mail, scoring between 97% and 100% every day. Kansas City's EXFC scores are almost always much lower.

In addition, I do not believe that the Postal Service has adequately planned for the transportation challenges involved in moving the mail between Springfield and Kansas City, a distance of 167 miles. There are two roads between the two facilities, both state highways (not interstates). The main road is Missouri Highway 13, known as "Bloody 13." At the best of time and with minimal traffic, this trip takes over three hours. In the winter, these roads are often icy and the trip may take much longer or be impossible altogether. Indeed, in the past five years, we have had three storms (January 2007, January 2009, and January-February 2011) that reached the national disaster level, during which travel between Springfield and Kansas City was shut down for a significant period of time—sometimes as much as a week.

I also do not believe that the Postal Service has adequately accounted for the stress on the mail processing equipment in Kansas City that will result from substantially increasing the number of hours that they run, and the mail volume that they process. In my experience, when Postal machines run more than four to six hours a day, they break down very frequently. The Postal Service's plan to run processing machines 20 hours per day will likely lead to additional break-downs, which will decrease the efficiency of the Kansas City facility and may slow down mail delivery even beyond the anticipated service standard changes.

2. <u>The Demographics of Springfield Area Argue for a Local Mail Processing Facility.</u>

The area serviced by the Springfield P&DC, including Branson and Joplin, Missouri, is one of the top 10 fastest growing regions in the Country, according to recent U.S. Census data. This area is also one of the few in the country experiencing economic growth. While mail volume is declining across the country, letter cancellations in the Springfield P&DC have actually increased. In July 2011, Postal management began sending Springfield's Saturday mail to be cancelled and processed in Kansas City, meaning that Springfield now cancels letters only five days per week instead of six. Despite the loss of one day of mail each week, Springfield's monthly cancellation numbers stayed the same – between 5.5 million and 6 million

letters. In February 2012, Springfield's letter cancellations increased by 308,000 letters over the same month in 2011, jumping from 5.2 million letters to 5.5 million, even though there were three fewer cancellation days this year. I see no evidence that the Postal Service considered these important factors in its decision. Given this demographic and economic growth, it makes sense to keep the mail processing in Springfield, to service these new businesses.

Springfield's service area is about twice as big as Kansas City P&DC's service area by square mileage, and Springfield also services more unique zip codes than any other facility in the country. This includes many small, rural communities. Due to the number of zip codes serviced by Springfield, it is necessary to change the set-ups for the mail processing equipment more frequently. While the Postal Service may have looked at mail volume in considering the consolidation, it does not appear that it looked at the number of zip codes serviced, or the amount of mail-processing work required. I am very concerned that Kansas City will not be able to handle the additional set-ups efficiently.

Moreover, residents of rural communities often depend heavily upon the mail and often have lower internet usage and access. By moving the facility away from Springfield, those rural residents will suffer, as they wait for important mail to be moved from their community to Kansas City and back.

3. The AMP Underestimates Costs.

In reviewing the AMP study for Springfield, I noted several areas in which the Postal Service appears to have under-estimated the costs of this consolidation. First, although the AMP states that there will be a net gain of an additional seven management positions in the consolidation (with a loss of fifteen positions in Springfield and an additional twenty-two positions needed in Kansas City, see pages 32-35), the study also anticipates a savings in management costs of $1.12 million (see page 31)—a savings that simply cannot be true in any real sense, if seven additional positions will be needed.

Second, the Springfield AMP states that the facility will remain open as a hub, but the AMP states that only 29 Function 4 clerks will work the docks, with no Mail Handlers, despite the fact that this is Mail Handler work. The Postal Service's AMP study states all 93 of Springfield's current Mail Handlers will need to be transferred to Kansas City, so abiding by the labor agreements will mean that management must hire 29 new Mail Handlers to work on the Springfield docks – which will further increase the cost of the consolidation.

It appears that the Postal Service has drastically under-stated the labor expenses that will be associated with operating this hub. Since July 4, 2011, the Postal Service has been sending Springfield's Saturday mail to be processed in Kansas City. On Saturdays, Springfield therefore operates basically as a hub, sending the mail along to Kansas City. This has eliminated work such as cancellations, but it has created new work of mail sortations, consolidations, and transfers to load the mail onto trucks to go to Kansas City. Since moving Saturday mail to Kansas City, we have seen an increase in Mail Handlers' Saturday work-hours, resulting in increased overtime call-ins for the hours between 4:00 p.m. and 10:00 p.m., the period when the trucks are loaded and sent to Kansas City. The typical staffing for a Saturday is about 15 Mail Handlers, but since we began sending the Saturday mail to Kansas City, the Postal Service usually brings in three to six additional Mail Handlers on overtime each Saturday. Throughout 2012, the Postal Service also has employed three "casuals," or temporary non-career Mail Handlers, and has scheduled them to work every Saturday, too. This brings the total staffing on a Saturday to between 21 and 24 Mail Handlers, an increase of 40% to 60% above normal staffing. Keep in mind that Saturday is traditionally the lightest mail day of the week, with about 175,000 letters canceled. Mondays, for example, usually have about twice as much mail, with letter cancellations over 300,000. Given these figures, I expect that sending Springfield's mail to Kansas City every day would require additional labor in numbers far higher than the Postal Service has estimated.

Third, the study dramatically under-estimates the increased maintenance costs in Kansas City. The report states that almost a dozen large prices of machinery will need to be added in Kansas City (see page 8), and estimates that the Postal Service will save $2,495,191 by not having to maintain equipment in Springfield --- yet the AMP does not budget a single additional dollar for maintenance of mail processing equipment in Kansas City (see page 37). It is simply unbelievable that the Postal Service could add many more pieces of equipment, and increase the amount of mail processed by about 40%, yet not incur additional maintenance costs. It is also inexplicable how the Springfield facility can remain open for retail, BMEU and hub operations, yet not require a single dollar to be spent on any sort of equipment maintenance, maintenance operations support, or training.

Fourth, the study under-estimates the financial costs of relocating employees to Kansas City (to say nothing of the personal costs of such a move). On page 45 of the report, the report budgets $465,000 for relocation. However, the report states that 22 management and 212 craft employees will be added to Kansas City (pp. 35-36) – based upon USPS average relocation costs of about $5500 per employee, this number should be about $1.3 million.

The Postal Service has budgeted $6.65 million to renovate the Kansas City facility in order to enable it to do the work that Springfield is already doing—and doing very well—at a facility owned by the Postal Service and which requires no renovations. This appears to be only a rough estimate, and is already double what management first estimated at Labor-Management meetings in December 2011 and January 2012. Given that the savings involved have been radically over-estimated, it is likely that the costs involved in renovating Kansas City will quickly eat up any savings. The renovations also likely will hurt productivity and slow mail delivery to Kansas City-area customers, because the extensive construction required, including adding big freight elevators to the existing structure, will mean that Kansas City's mail will have to be processed for several months in a working construction site.

The Postal Service has claimed that the consolidations will create longer operating windows, which will allow them to accomplish the same amount of work using fewer employees. Based on my experience in the Postal Service, this is completely contrary to the facts. Trucks still have to be loaded and unloaded one piece of equipment at a time. Letters and packages still have to be sorted and run through processing machines one piece of mail at a time. The mail volume will stay the same, and the machines will require the same staffing, so the work will still require the same amount of time and the same number of employees. The main changes will be longer transportation times to and from the plants, and the processing machines will be expected to operate up to 20 hours per day, instead of six to eight hours. Logically, this will mean they will break down more often, just as a car would if you drove it 20 hours per day. Postal machines are complex devices, with hundreds of belts, gates, switches, conveyors, and other moving parts, any of which can and do break or wear out fairly often. Customers often put objects in envelopes that jam Postal machines, such as keys, pencils, knives, jewelry, and coins. This creates a small problem when a machine that was scheduled to run six hours shuts down unexpectedly, forcing Postal workers to find an alternative method of processing maybe 25,000 pieces of mail. Imagine the disaster when a machine that was supposed to run 20 hours breaks down, displacing hundreds of thousands of pieces of mail. Consolidating the mail also consolidates the problems and difficulties of processing it. I expect longer operating windows will decrease efficiency and provide worse service to the American people.

Respectfully submitted,

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As agent for and authorized by
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Kathleen M. Keller
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Counsel for National Postal
Mail Handlers Union

April 23, 2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS CHRISTOPHER BENTLEY
(NPMHU-T-3)

Party	Interrogatories
United States Postal Service	USPS/NPMHU-T3-1-3, 5-9

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS CHRISTOPHER BENTLEY (T-3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T3-1	USPS
USPS/NPMHU-T3-2	USPS
USPS/NPMHU-T3-3	USPS
USPS/NPMHU-T3-5	USPS
USPS/NPMHU-T3-6	USPS
USPS/NPMHU-T3-7	USPS
USPS/NPMHU-T3-8	USPS
USPS/NPMHU-T3-9	USPS

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-1: On page 2, lines 2 through 7 of your testimony you state:

> Compared to Springfield, Kansas City is a less efficient facility and is already at capacity with mail volume. The Kansas City facility processes mail on three different floors. Its elevators are already at capacity at mail-dispatch time, as even management admitted in its AMP study report (page 45). This means that adding any more mail to the facility is counter-productive because it will clog the system, slowing down delivery times even for mail that Kansas City already processes, as well as new mail that would be added to the facility.

a Please state your understanding of whether the Postal Service considered the ability of the Kansas City P&DC to handle the increased mail volumes from the Springfield, Missouri P&DF and the Topeka, Kansas P&DF in the AMP study referenced in your testimony. If your answer does not confirm that such ability was considered, please explain and describe, in detail, any evidence in support of your answer, and produce any documents or data that you relied upon.

b Please affirm that before filing your testimony, you reviewed page 8 of the Springfield, Missouri P&DF AMP study (file Springfield_KCMO_2-18-12_FINAL) in USPS Library Reference N2012-1/73.

c If your answer to subpart (b) is affirmative, please state whether, when crafting your statement on page 2 of your testimony, you considered all of the information on that page under the headings "Equipment Relocation and Maintenance Costs" and "Space Impacts," including but not limited to the information concerning the installation of two new freight elevators and the build out of unoccupied space.

RESPONSE:

a. My understanding is that the Postal Service did consider the ability of the Kansas City P&DC to handle the increased mail volumes. My testimony questions whether the Postal Service adequately considered the ability of the Kansas City P&DC to handle the increased mail volumes, and whether the Postal Service arrived at the right conclusion after such consideration. In addition, I do not know whether the Postal Service ever considered the combined effect of consolidating both the Springfield P&DC and the Topeka P&DF, as each AMP study was done separately.

b. Affirmed.

c. I did consider that information.

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-2: Please refer to page 3, lines 1 through 9 of your testimony:

> In addition, I do not believe that the Postal Service has adequately planned for the transportation challenges involved in moving the mail between Springfield and Kansas City, a distance of 167 miles. There are two roads between the two facilities, both state highways (not interstates). The main road is Missouri Highway 13, known as "Bloody 13." At the best of time and with minimal traffic, this trip takes over three hours. In the winter, these roads are often icy and the trip may take much longer or be impossible altogether. Indeed, in the past five years, we have had three storms (January 2007, January 2009, and January-February 2011) that reached the national disaster level, during which travel between Springfield and Kansas City was shut down for a significant period of time – sometimes as much as a week.

a. Please describe, in detail, your experience, education, or training related to logistics management and the transportation of mail between Postal Service facilities, including but not limited to the costs and savings analyses of transporting mail.

b Please produce any documents or data (including but not limited to any meteorological or traffic data) that you relied upon in support of your above-quoted statement on page 3 of your testimony.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in the Springfield facility, my years of experience representing Mail Handlers in the Springfield facility and across Missouri, my life-long residence in Missouri, and my common sense. In addition, as part of my duties for the union, I drive the Springfield to Kansas City route with regularity, and therefore I am quite familiar with the route and the challenges it poses. I do not have any formal education or training in the technical fields referenced.

b. I relied upon news articles and press releases, including those printed out and attached to this response.

Attachment 1

National Weather Service Weather Forecast Office

Springfield, MO

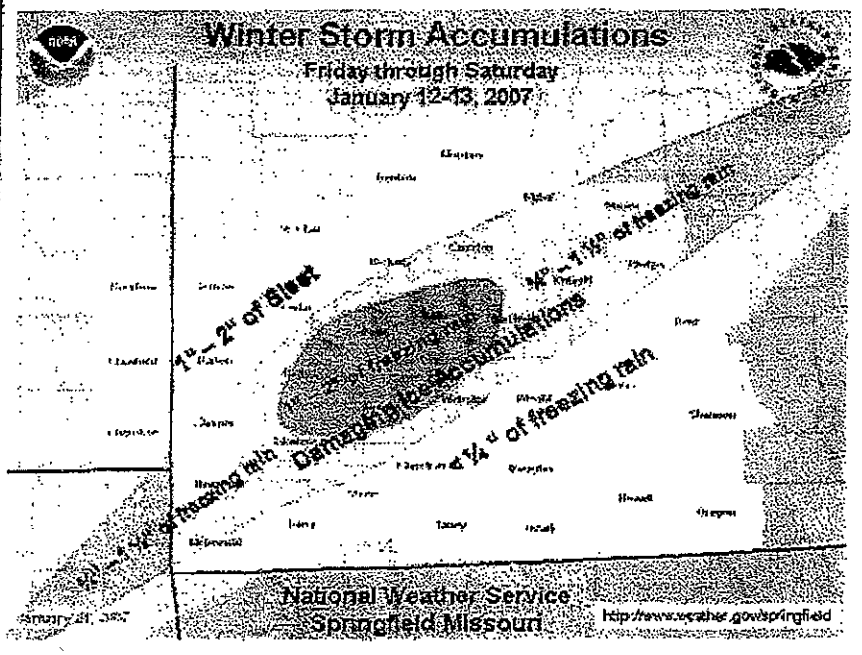
Historic Ice Storm of January 12-14, 2007

The Historic January 12-14 Ice Storm left over 200,000 southwest Missourians without power and a landscape resembling a war zone. While the region was still coping with the damage from the November 30-December 1, 2006 ice storm, the January 12-14 Ice Storm have not been experienced since the December 1987 Ice Storm, in terms of power outages.

Officially at the National Weather Service office in Springfield, one and a half inches of ice accumulation was received. Fourteen other counties along the I-44 corridor also reported at least an inch of ice. Communities across southeast Kansas into western Missouri also received 1 to 5 inches of a snow and sleet mixture.

The ice accumulations resulted in widespread downed trees and powerlines. Approximately 200,000 residences were without power and power will not be restored for days if not weeks for many. In addition, several structres collapsed due to the weight of ice and snow across southeast Kansas.

Much colder temperatures followed the ice storm with lows falling into the single digits Monday and Tuesday nights.



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Winter storm blamed for 51 deaths in nine states

POSTED: 3:51 a.m. EST, January 17, 2007

1/17/07

story.winter.ap.jpg

- Some 400,000 homes and businesses still without electricity
- Forecasters say more freezing temperatures on the way
- Parts of Oklahoma may be without power until next week
- California's citrus crop devastated

A utility worker fixes power lines Tuesday in Milton, New York.

BUFFALO, Missouri (AP) -- Shoppers were reduced to picking up supplies by flashlight Tuesday in the few places open in this town of 2,800, as the death toll from a winter storm grew to 51 in nine states.

Three shelters in Buffalo -- about 35 miles north of Springfield in hard-hit Missouri -- housed nearly a tenth of its population Monday night, and officials said power might not be restored until next week.

The town lost all its power by Saturday. Water towers ran dry Sunday, and water service was restored only late Monday, after the National Guard hooked a generator up to a pumping station.

"There are no services," Buffalo Mayor Jerry Hardesty said. "I've talked to residents who have lived here 50 years, and nobody can remember it ever being this bad."

About 400,000 homes and businesses in several states were still without electricity Tuesday after a storm that brought ice, snow, flooding and high winds to a swath of the country from Texas to Maine. (Watch the winter storm take a toll across the nation)

The storm had largely blown out of New England by Tuesday, but forecasters expected more freezing rain to hit parts of Texas, perhaps even Houston, on Wednesday night, said Dennis Cook of the National Weather Service. Gusty winds were forecast to make the Northeast bone-chilling cold through Wednesday night before warming Thursday.

At the First Baptist Church in McAlester, Oklahoma, where most of the city's 18,000 residents have lacked power for four days, 47 residents huddled under blankets and in front of space heaters.

"If it wasn't for the shelter, I don't know where we'd be," said Tara Guzman, 38, playing board games with her four children. "We're tough; we lasted when the power went out until [Monday]. We brought mattresses out in the living room and cuddled."

Subfreezing temperatures were expected to continue in the state, with little sunshine to aid in melting the ice until Thursday or Friday, said National Weather Service meteorologist Kevin Brown.

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- Trees fall on cars and homes, as the winter blast hits Michigan (1:04)
- From coast to coast, an ice storm has covered trees and roads (1:02)
- I-Report: Ice storm aftermath in Missouri (2:04)

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Some of the 92,000 Oklahoma homes and businesses without power might not have it restored until next week, utility company spokesman said.

"There are a lot of places where virtually everything is destroyed," Public Service Company of Oklahoma spokesman Stan Whiteford said. "In some cases, entire electric services will have to be rebuilt."

Texas Gov. Rick Perry moved his inauguration ceremony indoors for the first time in five decades.

In Missouri, the utility company Ameren said it would probably not have everyone's lights back on until Wednesday night. As of Tuesday, about 210,000 homes and businesses still had no electricity.

The White House said Tuesday that 34 Missouri counties and St. Louis had been declared a major disaster area, making federal funding available. A similar federal disaster declaration was approved Sunday for Oklahoma.

More than 200,000 customers in Michigan also lost power at some point, and tens of thousands were still blacked out Tuesday. Many customers were also without power in central and western New York, Massachusetts and New Hampshire.

Waves of freezing rain, sleet and snow since Friday had been blamed for at least 17 deaths in Oklahoma, nine in Missouri, eight in Iowa, four in New York, five in Texas, three in Michigan, three in Arkansas, and one each in

Maine and Indiana.

Elsewhere, Washington state's Puget Sound area, known for drizzle rather than its recent freezing weather, was hit by another round of snow Tuesday, snarling traffic and closing schools for more than 380,000 students. The Oregon Legislature delayed hearings and sessions until afternoon because of the weather.

In California, three nights of freezing weather had destroyed up to three-quarters of the state's $1 billion citrus crop, according to an estimate issued Monday. Other crops, including avocados and strawberries, also suffered damage. (Full story)

"This is one of those freezes that, unfortunately, we'll all remember," said A.G. Kawamura, secretary of the California Department of Food and Agriculture.

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Mo. ice storm leaves thousands powerless, 2 dead 2/13/2008

Updated 2/13/2008 11:35 AM | Comments , Recommend E-mail | Print | Share

Enlarge By Dean Curtis, News-Leader, via AP

Rick Mack surveys the damage in his yard Tuesday morning, Feb. 12, 2008, in Springfield, Mo. Utility crews are still working to restore power to thousands of people after an ice storm tore down electric lines in southwest Missouri.

By Marcus Kabel, Associated Press Writer

SPRINGFIELD, Mo. — Utility crews worked to clear fallen tree limbs from power lines Tuesday as thousands of people across southern Missouri waited without electricity after an ice storm blamed for at least two traffic deaths.

At least 54 injuries in crashes were also blamed on the storms that dumped freezing rain, sleet and snow, the Missouri State Highway Patrol said.

The patrol said Molly R. Schwartz, 20, of Jonesburg, died Monday night when the car she was driving slid on ice on Interstate 70 in Warren County, hit a concrete culvert and landed on its roof.

Joshua K. Holshouser, 32, of Scott City, was thrown from a car that slid on ice and flipped over Monday on Interstate 55 about four miles north of New Madrid, the patrol said.

The State Emergency Management Agency, activated by Gov. Matt Blunt to coordinate between responding agencies, said utilities in southeast Missouri reported up to 27,000 customers without power Tuesday morning.

In southwest Missouri, Springfield's City Utilities had about 4,700 customers without electricity and Joplin-based Empire District put its tally at about 2,400 customers, most of them around the town of Ozark just south of Springfield.

"All of southern Missouri from southwest to southeast got whacked by ice overnight," said State Emergency Management Agency spokeswoman Susie Stonner.

Up to an inch of ice and 2 more inches of sleet fell across southern Missouri on Monday as waves of freezing rain, snow, sleet and thunderstorms crossed the area.

Snow flurries continued into Tuesday and daytime temperatures in the 20s meant no quick end to ice that hung on trees and made sidewalks and some secondary roads treacherous.

Highways and main roads were mainly clear in southwest Missouri and still partly covered with slush in southeastern areas, according to the Missouri Department of Transportation.

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ANNETTE BENING
STEVE COOGAN
ELLIOTT GOULD

December 26, 2009

Huge Storm Hobbles Middle of Nation

By LIZ ROBBINS

Howling winds on Friday spread snow and freezing rain across the northern Plains, as the stubborn storm that stretched from Texas to North Dakota over the last several days wrapped the upper Midwest in a dangerous and debilitating wintry mix on Christmas Day.

Poor visibility due to blowing snow shut one major highway, Interstate 29, which stretches from Iowa through South and North Dakota up to the Canadian border, according to the North Dakota Department of Transportation Web site.

"We've had the word out here a few days, that if people had to travel for Christmas to stay put," said Kyle Carstens, a meteorologist in Rapid City, S.D. "From a travel standpoint, it's a pretty big impact up here."

The winds near Rapid City were forecast to reach as high as 55 miles an hour, with temperatures in single digits.

In the Minneapolis-St. Paul area, where nearly 10 inches of snow fell, officials of the Minnesota State Patrol said the state had two weather-related deaths from two head-on collisions in the last three days.

"The roads are not in great condition, and the farther west you go, the worse it gets," said Capt. Matt Langer of the patrol.

The Dallas-Fort Worth area had its first white Christmas since 1926. In Nebraska, where blizzard warnings have been posted, Interstate 80 in the central and eastern parts of the state was closed, according to the Nebraska Department of Roads.

Even as travel proved treacherous for motorists on the Plains, the storm did not cripple the nation's air travel like last weekend, when an enormous winter storm struck the Northeast. Delays at O'Hare International Airport in Chicago were averaging 20 minutes on Friday afternoon, with only minor cancellations, according to the Chicago Airport System. Will Rogers World Airport in Oklahoma City reopened Friday with limited service.

But the remnants of last week's storm that brought a foot or more of snow to the Middle Atlantic States could still prove problematic in places into the weekend.

As the lower pressure system was moving eastward, Washington and the Baltimore area were under a flood watch, with one to two inches of rain expected by Saturday morning.

2/3/11

2 p.m. EST UPDATE: 2,500 National Guardmembers respond to year's biggest storm

By Air Force Tech. Sgt. John Orrell
National Guard Bureau

Illinois National Guard members work with Illinois State Troopers to move a stranded semi-truck, Feb. 2, 2011, on Interstate 72, near Pittsfield. The Illinois National Guard worked with Troopers to assist stranded motorists after Gov. Pat Quinn called approximately 500 Guard members to state active duty for a winter weather emergency. (U.S. Army photo by Pfc. Daniel Lograsso) (Released)

download hi-res photo

WASHINGTON (2/3/11) – More than 72 hours into a winter storm that halted traffic, canceled airline flights and knocked out power to hundreds of thousands of people from Texas to Maine, the National Guard is continuing relief operations in seven states.

Some states have already completed their missions, but National Guardmembers from Illinois, Indiana, Iowa, Kansas, Missouri, Oklahoma and Texas still are battling the elements and long hours to ensure the safety of their citizens.

With 567 Guardmembers still on state active duty and 295 Guardmembers providing home station support, the Missouri National Guard has the largest contingency of Guardmembers still performing relief efforts.

Because Missouri's Citizen-Soldiers and Airmen were pre-positioned in the areas that were expected to be hit hardest before the storm, they were

ready to conduct missions as soon as help was requested, said Army Maj. Gen. Stephen L. Danner, the Show-Me state's adjutant general.

"Gov. Jay Nixon knew this storm [had] the potential to cause major damage, so he gave us guidance to lean forward and be prepared to combat the worst," Danner said.

"By getting our troops out to their task forces early, we sent a message to Missourians that this was going to be a serious storm and that help had already arrived. Although there's no way to measure it, we know that early action saved lives."

Until the Missouri National Guard is recalled back to their home stations by the governor, they will be performing health and wellness checks and assisting state officials with stranded motorists and clearing emergency routes statewide.

Indiana still has about 400 Guardmembers working on highway assistance teams and will continue to transport local law-enforcement officials to emergency calls, assist stranded motorists and provide transportation to armories or warming centers.

In Illinois, Guardmembers have moved onto phase two of their relief operations.

In this phase, Guardmembers who were stationed in southern and central Illinois during phase one have been transferred to the hard-hit Chicago area, where they will continue to support the Illinois State Police in rescuing stranded motorists and other citizens in need.

In Oklahoma, where President Barack Obama made a presidential emergency declaration Wednesday, the Oklahoma National Guard has more than 100 Guardmembers assisting stranded motorists and supporting generator movement operations.

More than 30 Kansas National Guardmembers are transporting local medical personnel to work sites and assisting stranded motorists.

The Iowa National Guard still has about 30 personnel assisting stranded motorists.

Texas has about 30 National Guardmembers assisting stranded motorists in Wichita Fallas and Lubbock.

The Arkansas, New Jersey, Pennsylvania and Wissconsin National Guards have completed their missions and returned back to their home stations.

At the peak of the National Guard storm response efforts, 11 states had activated or placed on standby their National Guard and more than 2,500 Guardmembers were on state active duty or providing support at home stations.

View my 'February 2011 Snow Response' set on Flickriver

The National Guard

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-3: On Page 3, lines 12 through16 you state:

> In my experience, when Postal machines run more than four to six hours a day, they break down very frequently. The Postal Service's plan..will likely lead to additional break-downs, which will decrease the efficiently of the Kansas City facility and may slow down mail delivery....

a Please describe, in detail, your experience, education, or training related to the maintenance procedures, routines, or operating parameters of mail processing equipment used by the Postal Service, including but not limited to the mail processing equipment located at the Springfield, Missouri P&DF.

b Please articulate any distinction you make between a machine jam and a machine breakdown.

c Quantify the average duration of the breakdowns and jams that you describe in response to part (b) and in the above-quoted passage in your testimony.

d Please identify the machine run-time and maintenance records that you maintain or otherwise have examined in your postal experience, and that you relied upon in support of your above-quoted statement.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in the Springfield facility, my years of experience representing Mail Handlers in the Springfield facility and across Missouri, and my common sense. For the past four years, my "bid" job has been as a machine operator. As such, I have received training from the Postal Service on certain operating parameters and routines of the mail processing equipment, including training regarding clearing jams and when to call for maintenance assistance. I do not have any formal education in the technical fields referenced.

b. My testimony did not make any reference to machine jams. In my view, a machine jam is something that a machine operator can clear. A breakdown is a problem requiring a maintenance employee, which might arise out of jammed

mail, or might arise for a different reason, such as a part wearing out.

c. The duration of a breakdown can vary widely, from as little as five minutes to as many hours. I would estimate an average duration of about ten minutes, but that includes the many frequent breakdowns, which often occur twice per an hour of operation.

d. I did not rely on any run-time or maintenance records (and would note that run-time records may not adequately reflect breakdowns and jams, as that time is often not recorded as down-time.) I relied upon my own experience, which is that mail generates paper dust, which accretes on the machine parts and causes increasingly frequent breakdowns as the operating window progresses. In other words, in my experience, you see a lot more jams and breakdowns in the sixth hour of operation than you do in the first hour of operation.

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-5: On page 4, lines 23 through 25 of your testimony you state:

> [t]he study anticipates a savings in management costs of $1.12 million (see page 31) – a savings that simply cannot be true in any real sense, if seven additional positions will be needed.

a Is it your understanding that, in its AMP study for the Springfield P&DF in USPS Library Reference N2012-1/73, the Postal Service calculated management savings based upon the change in total work hours. If that is not your understanding, please explain.

b Please describe, in detail, any evidence in support of the above-quoted statement, and produce any documents reflecting data and analysis that you relied upon.

c Please confirm that before filing your testimony, you reviewed page 31 of the Springfield, Missouri P&DF AMP study (file Springfield_KCMO_2-18-12_FINAL) in USPS Library Reference N2012-1/73. If you do not confirm, please explain your response.

d If your answer to subpart (c) is affirmative, please confirm whether you considered the information on this page concerning the proposed 9.7 percent reduction in management work hours when crafting the above-quoted statement on Page 4 of your testimony. If you do not confirm, please explain your response.

e Please affirm that before filing your testimony, you reviewed page 11 of the Response of USPS Witness Williams to Question Posed By Commissioner Taub During March 20, 2012 Cross-Examination, which was filed on March 30, 2012, available at:

http://www.prc.gov/Docs/81/81803/V2.p.422.HW.Dave.pdf
http://www.prc.gov/Docs/81/81803/Homework.Vol.2.p.422.xls

f If your answer to (e) is affirmative, please confirm whether you considered all of the information under the heading "Management (PCES and EAS) Saving Calculations," including but not limited to the information concerning why AMP workbooks may show both management savings and an increase in management positions. If you do not confirm, please explain your response.

RESPONSE:

a. Yes.

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

b. I relied upon the AMPs cited, and the numbers contained in those AMPs.

c. Confirmed.

d. I did consider that information.

e. I did not review Witness Williams' response to Commissioner Taub.

f. Not applicable.

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-6: On page 6, lines 4 through 8 of your testimony you state:

> [t]he AMP does not budget a single additional dollar for maintenance or mail processing equipment in Kansas City (see page 37). It is simply unbelievable that the Postal Service could add many more pieces of equipment, and increase the amount of mail processed by about 40%, yet not incur additional maintenance costs.

a Please affirm that before filing your testimony, you reviewed page 37 of the Springfield, Missouri P&DF AMP study (file Springfield_KCMO_2-18-12_FINAL) in USPS Library Reference N2012-1/73.

b If your answer to (a) is affirmative, please confirm whether you considered the information on this page, including but not limited to the addition of $1.714 million (under "adjustments") to the proposed maintenance costs for the Kansas City P&DC. If you do not confirm, please explain your response.

RESPONSE:

a. Affirmed.

b. I did not, because the AMP study does not indicate why this is listed as an "adjustment" rather than simply included in the budget for Mail Processing Equipment maintenance or Building Equipment maintenance. This 8% increase over current maintenance costs (which are $21.448 million according to the AMP) still seems a relatively small increase, given that Kansas City will (according to the AMP) see mail processing increase by 40%, square footage increase by more than 50%, two new freight elevators, and the addition of many large pieces of mail equipment.

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-7: On page 6, lines 16 through 26 of your testimony you state that the estimated cost of renovating the Kansas City P&DC appears:

> [t]o be a rough estimate, and is already double what management first estimated at Labor-Management meetings in December 2011 and January 2012.

a Please describe, in detail, your experience, education, or training related to the assessment and calculation of projected construction costs, and produce any documents or data relied upon in support of the above-quoted statement.

b Please describe, in detail, the Labor-Management meetings you attended regarding the estimation of renovation costs at the Kansas City P&DC, including but not limited to the identity of management officials who spoke at the meeting, the time when the meetings occurred, the location of the meetings, and the mode of communication at the meetings, be they in-person, telephonic, or by any other means, and produce any documents relating to those meetings.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in the Springfield facility, my years of experience representing Mail Handlers in the Springfield facility and across Missouri, and my common sense. I do not have any formal education or training in the technical fields referenced. For documents/data relied upon, please see my response to subsection (b) of this question.

b. The Labor-Management meetings occurred in Springfield and in Kansas City, Missouri. In December 2011, I met in Springfield with Springfield Postmaster Bill Brayman, acting Plant Manager Chris Adams, and Maintenance Manager Greg Lindsey, all of whom estimated that the cost of renovating the KCMO plant was budgeted to be less than $3 million, and the cost of transporting

Springfield's mail to Kansas City and back each day would be about $1.1 million per year. Also in December 2011, NPMHU Local 297 President Beverly Henderson met at the KCMO facility with District Lead MDO Russell Floyd and KCMO Lead MDO Mark Scarborough, who estimated to her that the renovation cost would be a maximum of $3 million, and the transportation cost would be $1.1 million. Management released a document on December 19, 2011, titled "Area Mail Processing (AMP) Feasibility Study," which included the transportation-cost estimate of $1.1 million, but did not mention any renovations to the KCMO plant and did not include any cost estimate for them. On January 4, 2012, Mid-America District Manager Gail Hendrix and District Lead MDO Russell Floyd traveled to Springfield, where they held a public meeting on consolidating Springfield's mail processing into Kansas City, and held private meetings with union officers. Their presentation included an estimate that the renovation cost of KCMO would be about $3.2 million, and the transportation cost would be just $681,776, or half management's original estimate, with no explanation of how it had been cut in half. Then, on February 22, 2012, management issued its official 45-page AMP "Executive Summary," which stated the cost of renovations to the KCMO plant would be $6.65 million, double the amount of management's original estimate for that project. The December 19, 2011 document and the relevant portion of the January 4, 2012 presentation are attached as Attachment 3.

Attachment 3

AREA MAIL PROCESSING (AMP) FEASIBILITY STUDY
Springfield, MO, P&DF to Kansas City, MO, P&DC

December 19, 2011

An Area Mail Processing (AMP) study was initiated to evaluate moving the mail processing operations from the Springfield, MO, Processing and Distribution Facility (P&DF) to the Kansas City, MO, Processing and Distribution Center (P&DC). The initial results of the study support the business case for consolidation. This study, currently in review at United States Postal Service Headquarters and its Area Office, is subject to change.

A public meeting will be held to share the initial results of the study and allow members of the community to ask questions and provide feedback. The public's input will be considered prior to a final decision. The meeting will be held on Wednesday, January 4, at 6:30 p.m., at the Executive Conference Center Ballroom, 910 West Battlefield Street, in Springfield. Below are preliminary highlights from the study:

Business Case:
Proposed annual savings in the draft AMP feasibility study are approximately $7,545,607. Below is a breakdown of this savings estimate:

Annual Mail Processing Savings	$5,261,460
Annual Management Savings	$1,123,901
Annual Maintenance Savings	$2,280,102
Annual Transportation Cost	$1,119,856

Postal Employees:
Due to the consolidation, a net decrease of approximately 57 positions is projected. All bargaining employee reassignments will be made in accordance with the respective collective bargaining agreements.

Local Customer Considerations:
- Retail and other services currently available at the Springfield facility will not change at this time.
- Business mail acceptance will remain the same.
- Local collection box pick-up times may change as a result of the AMP.
- A local postmark will be available for stamped First-Class Mail.
- Delivery times of mail to residences and businesses will not change as a result of the AMP.
- The proposed consolidation would support a 2- to 3-day service standard for First-Class Mail.

Commercial Mailers:
- Mailers who presort mail will continue to receive appropriate postage discounts.
- Mailers who drop ship to Destination Sectional Center Facility (DSCF) for ZIP(s) 648 and 654-658 can expect changes if the AMP is approved.

Written comments may be sent to:

Manager, Consumer and Industry Contact
Mid-America District
300 W. Pershing Road, Suite 207
Kansas City, MO 64108-9631

All comments must be postmarked by January 19, 2012.

Springfield MO
Area Mail Processing (AMP)
Public Meeting

January 4, 2012

BUSINESS CASE*

Mail Processing Workhour Savings:	$5,261,460
Mail Processing Management Savings:	$1,123,901
Maintenance Savings:	$2,280,102
Transportation Costs:	($681,776)
Proposed Annual Savings:	$7,983,687

*Preliminary results subject to change

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/MPMHU-T3-8: On page 7, lines 5 through 7 of your testimony you state:

> The Mail volume will remain the same, and the machines will require the same staffing, so the work will still require the same amount of time and the same number of employees.

a. Please describe, in detail, your experience, education, or training related to the computation of adequate staffing levels at mail processing facilities and produce any documents or data that you relied upon in support of the above-quoted statement.

b Please state your understanding of whether the Postal Service, in its AMP study for the Springfield P&DF in USPS Library Reference N2012-1/73, provided calculations for future staffing levels in the Springfield, Missouri P&DF and the Kansas City, Missouri P&DC. If you do not confirm that such calculations were performed, please explain.

c Please affirm that before filing your testimony, you reviewed pages 5 through 9 of the Response of USPS Witness Williams to Question Posed By Commissioner Taub During March 20, 2012 Cross-Examination, which was filed on 3/30/2012, available at:

http://www.prc.gov/Docs/81/81803/V2.p.422.HW.Dave.pdf
http://www.prc.gov/Docs/81/81803/Homework.Vol.2.p.422.xls

d If your answer to (c) is affirmative, please confirm whether you considered all of the information under the heading "Specific description of AMP savings calculations: mail processing workhours moving from the losing site to the gaining site," including but not limited to the information concerning the Breakthrough Productivity Initiative (BPI) calculations.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in the Springfield facility, my years of experience representing Mail Handlers in the Springfield facility and across Missouri, and common sense. As part of my union duties, I am aware of staffing issues, including such issues as well the Postal Service needs to use overtime,

and when the overtime volunteers are insufficient to meet the Postal Service's staffing needs. As someone who has worked on a bid as a machine operator and who has represented machine operators, I am familiar with the staffing required to operate these machines. I do not have any formal education or training in the technical fields referenced.

b. Confirmed.

c. Not affirmed.

d. Not applicable.

RESPONSES OF NPMHU WITNESS BENTLEY TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T3-9: On page 7, lines 17 through 19 of your testimony you state:

> Consolidating the mail also consolidates the problems and difficulties of processing it. I expect longer operating windows will decrease efficiency and provide worse service to the American people.

Please describe, in detail, your experience, education, or training related to the modeling, design, or implementation of mail processing procedures and timelines, and produce any documents or data relied upon in support of the above quoted statement.

RESPONSE:

My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in the Springfield facility, my years of experience representing Mail Handlers in the Springfield facility and across Missouri, my life-long residence in Missouri, and my common sense. I do not have any formal education or training in the technical fields referenced.

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF CHRISTOPHER BENTLEY (NPMHU-T3)

I, Christopher Bentley, under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T3-1 through 3 and USPS/NPMHU-T3-5 through 9, along with the attachments to Response 2 and Response 7. These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

Christopher Bentley

6-12-12
Date

Postal Regulatory Commission
Submitted 4/23/2012 3:45:27 PM
Filing ID: 82126
Accepted 4/23/2012

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	)	Docket No. N2012-1

DIRECT TESTIMONY OF JAMES HAGGARTY

ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-4)

My name is James Haggarty. I am currently a Mail Handler employed by the United States Postal Service at the Grand Rapids, Michigan P&DC. I am also currently President of Local 307 of the National Postal Mail Handlers Union (NPMHU), which represents approximately 1300 Mail Handlers in the state of Michigan. I started my career with the Postal Service in 1998. I was hired as a United States Marine Corps veteran with a disability rating. I mention that fact, because a sizeable portion of all Postal employees impacted by these closures and consolidations are veterans, both disabled and not, of the recent Gulf conflicts and of prior wars. Some are even currently deployed, in an active duty status to the war zones.

These American heroes, as well as all Postal employees, should not be subjected to the harsh impacts on their lives, due to the Postal Service's rush to move these massive closures and consolidations forward without thinking them through.

The purpose of my testimony is to provide additional information to the Commission regarding the Postal Service's proposed consolidations in Michigan. Based on my knowledge of

these facilities, my many years as a Postal employee, and my review of the Area Mail Processing (AMP) studies of the Michigan consolidations, I am concerned that the Postal Service has under-estimated the costs of these consolidations and the effects they will have on the efficient delivery of the mail.

The Postal Service is planning a substantial change to the current mail processing and distribution network in Michigan, which includes consolidating the Iron Mountain, Michigan facility into Greenbay, Wisconsin; Jackson into Detroit; Kalamazoo and Lansing into Grand Rapids; Gaylord into Traverse City; and Saginaw into the Michigan Metroplex. The Postal Service plans to continue to operate all of the consolidated facilities as transfer hubs, but has not budgeted for adequate staff to operate these hubs. For instance, in Gaylord, they have not budgeted for any Mail Handlers. In Iron Mountain, they have only budgeted for four Mail Handlers. In Jackson, they have only budgeted for seven Mail Handlers. In comparison, in Kalamazoo, Saginaw and Lansing, they have budgeted for between fourteen to twenty two Mail handlers.

There seems to be no rhyme or reason to the staffing numbers, only that they need to be reduced, regardless of the workload. As machines move out of some facilities, letter carriers will be moved in and the impact on Mail Handler staffing has not yet been calculated. Mail Handlers perform many allied duties in support of the letter carriers, so more carriers normally would mean more Mail Handler work.

The transfer hub is not a new concept for the Postal Service, and, in my experience, the Postal Service has a history of failing to adequately account for the staffing needs of hubs. For instance, the Postal Service closed down mail processing in Flint, Michigan (with originating mail being moved in 2009, and destinating mail in 2011) but retained the facility as a transfer hub. The Postal Service started with fifteen Mail Handlers to consolidate and transfer the mail in Flint, but is now up to nineteen Mail Handlers to perform this work. For the sake of comparison, prior to the consolidation and according to the 2011 AMP study, Flint had a FHP

daily volume of 979,439 pieces. According to its AMP, Gaylord has a FHP daily volume of 400,684—if nineteen full-time Mail Handlers are required to consolidate and transfer 979,439 pieces a day, how can the Postal Service consolidate and transfer 400,684 pieces with zero Mail Handlers?

In addition, it is my understanding that these consolidations depend upon the Postal Service's plan to move to a substantially longer processing window. During my time with the Postal Service, I have witnessed other plans in which the Postal Service tried to operate longer processing windows. Grand Rapids was on a seventeen hour plan several years ago, and this operating plan had to be abandoned because the machines were breaking down too frequently, increasing costs to the Postal Service and delaying the mail significantly. These multi-million dollar machines require precise maintenance routes that take a manufacturer recommended time frame. When they are not adhered to, the machines tend to break down more often and for longer periods of time, interrupting the normal processing runs. Based on my experience, my review of the AMP studies, and my conversations with Postal management, I do not believe that the Postal Service has adequately accounted for the substantial risk of increased equipment failure during these longer processing windows.

Local Postal management has no answers to these questions and concerns. The most baffling aspect of the AMP studies is that the Postal Service is claiming that it will save money on current transportation costs by trucking mail, an average of one hour and twenty minutes to another facility to be processed, and then trucking it back to be delivered.

As a final comment, these changes are being predicated upon the relaxation of current service standards. A viable business model does not decrease customer service as a means of sustaining a customer base.

Respectfully submitted,

Patrick T. Johnson
As agent for and authorized by
Andrew D. Roth
Kathleen M. Keller
Bredhoff & Kaiser, P.L.L.C.
805 Fifteenth Street, N.W.
Suite 1000
Washington, DC 20005
(202) 842-2600

Counsel for National Postal Mail Handlers Union

April 23, 2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS JAMES HAGGERTY
(NPMHU-T-4)

Party	Interrogatories
United States Postal Service	USPS/NPMHU-T4-3, 5-6

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS JAMES HAGGERTY (T-4)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T4-3	USPS
USPS/NPMHU-T4-5	USPS
USPS/NPMHU-T4-6	USPS

RESPONSES OF NPMHU WITNESS HAGGARTY TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T4-3: On page 3, lines 12 through 13 of your testimony, you state:

> [w]hen they are not adhered to, the machines tend to break down more often and for longer periods of time, interrupting the normal process.

a. Please describe, in detail, your experience, education, or training related to the maintenance procedures, routines or operating parameters of mail processing equipment used by the Postal Service, including but not limited to that mail processing equipment located at the Grand Rapids, Michigan P&DC.

b. Please produce any documents or data that you relied upon in support of the above quoted statement.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. I do not have any formal education or training in the technical fields referenced. My testimony is based upon my many years of experience as a Mail Handler working in Postal facilities using the equipment in question, and my many years of experience representing Mail Handlers in Postal facilities across Michigan. In particular, my home facility, Grand Rapids, did try a 20 hour operational window in 2002 and they also tried a 17 hour operational window in 2008. Neither of these plans worked, in large part because of the problems with equipment breakdowns. The 2002 plan was abandoned in 2003, and the 2008 plan was abandoned in 2009. As the Branch President and active Steward in Grand Rapids, I did witness these breakdowns and did have multiple conversations with the maintenance mechanics that were tasked to repair the machinery.

b. We do not represent the mechanics, so no documentation was gathered concerning the breakdowns at the time.

RESPONSES OF NPMHU WITNESS HAGGARTY TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T4-5: On page 3, lines 17 through 20 of your testimony, you state:

> [t]he most baffling aspect of the AMP studies is that the Postal Service is claiming that it will save money on current transportation costs by trucking mail, an average of one hour and twenty minutes to another facility to be processed, and then trucking it back to be delivered.

a. Please describe, in detail, your experience, education, or training related to the logistics management and transportation of mail between Postal Service facilities, including but not limited to the costs and savings analyses of transporting mail to or from the ten Postal Service facilities identified on page 2 of your testimony.

b. Please produce any documents or data that you relied upon in support of the above quoted statement.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in Postal facilities, my many years of experience representing Mail Handlers in Postal facilities across Michigan, and my twenty year residence in the state of Michigan. I do not have any formal education or training in the technical fields referenced.

b. I relied on the AMP studies for the referenced facilities.

RESPONSES OF NPMHU WITNESS HAGGARTY TO
POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T4-6: On page 3, lines 23 through 23 of your testimony, you state:

> [a] viable business model does not decrease customer service as a means of sustaining a customer base.

a. Please describe, in detail, your experience, education, or training related to business models, plans or strategies and other economic tools used to develop and explore business opportunities and values, including but not limited to your experience, education, or training to support your statement.

b. Please produce any documents or data that you relied upon in support of your statement.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in Postal facilities, my many years of experience representing Mail Handlers in Postal facilities across Michigan, my many years as a user of Postal services, and my common sense. I do not have any formal education or training in the technical fields referenced.

b. None.

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF JAMES HAGGARTY (NPMHU-T4)

I, James Haggarty, under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T4-3, USPS/NPMHU-T4-5 through USPS/NPMHU-T4-6. These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

James Haggarty

6-12-2012
Date

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Before the
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Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	))))	Docket No. N2012-1

DIRECT TESTIMONY OF DAVID WILKIN ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-5)

My name is David Wilkin. I am a retired Mail Handler who was employed by the United States Postal Service at the Rochester, New York P&DC. I am also currently President of Local 309 of the National Postal Mail Handlers Union (NPMHU), which is headquartered in Buffalo, New York and represents approximately 900 Mail Handlers working in upstate New York, and in Erie, Pennsylvania. I started working for the Postal Service as a part-time flexible Mail Handler in 1981, and have been a NPMHU official since 1987.

The purpose of my testimony is to provide additional information to the Commission regarding the Postal Service's proposed consolidations in upstate New York. Based on my knowledge of these facilities, my many years as a Postal employee, and my review of the Area Mail Processing (AMP) studies of these consolidations, I believe that the Postal Service has under-estimated the effects its plans will have on the efficient processing and delivery of the mail.

1. The Consolidations Will Result in Delayed Mail Processing and Delivery

The Postal Service's plan will leave large areas of upstate New York, including many very rural areas, with no mail processing nearby, which will substantially slow down mail delivery to the businesses and residents of these areas. Upstate New York is a very large geographic area – it takes about eight hours to drive from Buffalo, on the Western edge of the state, to Plattsburgh, in the Northeast corner. At present, there are five large processing facilities: Albany P&DC, Buffalo P&DC, Rochester P&DC, Rochester L&DC, and Syracuse P&DC. In addition, there are two smaller processing facilities, located in, Plattsburgh, and Erie, Pennsylvania. The Postal Service previously had processing facilities in Binghamton, Elmira, Ithaca, Jamestown, Troy, Utica and Watertown, but First Class Mail processing has already been removed from these facilities. On February 23, 2012, the Postal Service announced plans to move all mail processing out of Buffalo, Erie, and Plattsburgh, and move the destinating mail processing out of Binghamton. Under the Postal Service's plan, mail will have to travel great distances to be processed. For instance, Erie's mail processing will be moved to Pittsburgh, which is a two to three hour drive away.

I have already been hearing complaints about delays in getting the mail from Rochester to Buffalo – under the Postal Service's plan, all Buffalo mail would be moved to Rochester for processing, then back to Buffalo. The Buffalo consolidation would more than double the amount of mail in Rochester – according to the AMP (page 16), Buffalo currently processes over 3 million pieces a day, while Rochester processes only 2.7 million pieces. Additional mail would be added to Rochester from the Erie consolidation. This is an enormous increase in Rochester's daily volume, and will likely result in further delays in the mail. The Rochester P&DC may be able to take on this mail, but, if there is any large influx of mail, the facility would be hard-pressed to get the mail out in a timely period.

I am also concerned that the Postal Service's plan will leave the processing network with insufficient redundancy to handle unexpected increases in mail volume, or issues affecting one facility's ability to process the mail. In the past, the Postal Service would use the Buffalo facility to cover Rochester as needed, and vice versa. With the planned consolidations, there simply will not be remaining facilities to act as a stop gap when there is a problem at one facility.

2. **Savings Are Over-Stated**

The Postal Service AMPs do not provide enough detail to fully critique the Postal Service's asserted cost savings. However, on even a very basic review, some of the cost estimates contained in the Buffalo AMP are plainly unsupportable. For instance, the AMP budgets only $748,000 for employee relocation (page 43), yet the AMP also stated that 404 craft employees will need to be added in Rochester, as well as 24 management positions (pages 33, 34). Using the Postal Service's average relocation costs, the relocation costs for this consolidation should be well over $2 million.

In addition, the Buffalo AMP states that there will be craft position loss of 182 positions, including 113 Function 1 Mail Handlers (page 34). However, this will only translate into savings if the Postal Service can layoff these individuals, or if the individuals elect retirement. Of the Function 1 Mail Handlers in Buffalo, only nineteen do not have layoff protection under the collective bargaining agreement. Given the poor economic climate in the Buffalo area, I believe many are likely to resist voluntary retirement. As a result, these savings are not likely to materialize fully.

The Buffalo P&DC is owned by the Postal Service. Given my knowledge of the local area, there is basically no chance that the Postal Service will be able to sell this building, According to the AMP, the Postal Service has no plans to move the BMEU or retail offices into the P&DC building. Instead, it will need to pay maintenance and weatherize this largely vacant building.

It is my understanding that the Postal Service's plan is based on the notion that there is currently a large amount of idle time for equipment and employees, and that by extending the operating window, it hopes to gain efficiencies that will allow it to save money on labor costs. In my experience and based on my observations of the processing facilities in my Local, any idle time has already been eliminated through prior Postal efforts. While waiting for first class mail to arrive for processing, employees are handling the standard mail. Standard mail has to be run through at some point, and therefore can be handled during any wait times. Extending the processing window for first class mail would just require additional staffing on earlier shifts.

Respectfully submitted,

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April 23, 2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS DAVID WILKIN
(NPMHU-T-5)

Party	Interrogatories
United States Postal Service	USPS/NPMHU-T5-3-5, 7

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS DAVID WILKIN (T-5)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T5-3	USPS
USPS/NPMHU-T5-4	USPS
USPS/NPMHU-T5-5	USPS
USPS/NPMHU-T5-7	USPS

RESPONSES OF NPMHU WITNESS WILKIN
TO POSTAL SERVICE INTERROGATORIES

UNITED STATES POSTAL SERVICE INTERROGATORIES AND REQUESTS FOR PRODUCTION TO NPMHU WITNESS WILKIN

USPS/NPMHU-T5-3: On page 3, lines 1 through 3 of your testimony, you state that you are "concerned that the Postal Service's plan will leave the processing network with insufficient redundancy to handle unexpected increases in mail volume, or issues affecting one facility's ability to process the mail."

a. Please state whether it is your understanding that when evaluating the ability of facilities to handle anticipated mail volume, the Postal Service assumes the planned volumes from the 95 percent peak day in 2010.

b. If your answer to subpart (a) is anything other than an unqualified confirmation, please explain.

c. If mail volumes continue to decline over the next decade, as projected by witness Masse (USPS-T-2), do you agree, all else equal, that this decline would decrease the need for redundant mail processing capacity in the future?

d. If you do not agree with the statement in subpart (b), please explain.

RESPONSE:

(a) Confirmed.

(b) Not applicable.

(c) I agree that declining mail volumes will decrease, but not eliminate, the need for redundancy in the mail processing network.

(d) Not applicable.

RESPONSES OF NPMHU WITNESS WILKIN
TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T5-4: On page 3, lines 3 through 4 of your testimony, you state that "[i]n the past, the Postal Service would use the Buffalo facility to cover Rochester as needed, and vice versa."

a. Please confirm whether this statement assumes operation in the current network with current service standards.

b. If your statement does not assume the current network with current service standards, please identify the environment that you are describing in your statement?

c. Please describe the arrangements identified in the statement in greater detail, taking care to explain your understanding of their duration, the underlying (emergency or non-emergency) reasons for employing such arrangements, the mail operations involved in particular instances, the mail classes involved, the impacts on service performance, and years and seasons in which such arrangements have occurred since the year 2005.

RESPONSE:

(a) This statement does not assume anything – as stated, in reflects what has occurred in the past.

(b) Not applicable.

(c) I did not compile a contemporaneous record of this cross-coverage, and therefore I am not able to provide a listing of all the times that it occurred. Some of the reasons that this cross-coverage have occurred include problems with machines, large volumes of mail, and weather problems. I do not know the impact on service performance, but I would imagine that this cross-coverage was used to try to avoid negative impact on service performance.

RESPONSES OF NPMHU WITNESS WILKIN
TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T5-5: On page 3, lines 8 through 12, you state:

> However, on even a very basic review, some of the cost estimates contained in the Buffalo AMP are plainly unsupportable. For instance, the AMP budgets only $748,000 for employee relocation (page 43), yet the AMP also stated that 404 craft employees will need to be added in Rochester, as well as 24 management positions (pages 33, 34).

Please state your understanding of whether the AMP study assumes that all identified employees will be relocated, rather than hired locally.

RESPONSE:

I do not know what the AMP study assumes in this respect. However, my understanding and assumption is that the Postal Service will comply with the requirements of the applicable collective bargaining agreements, including Article 12 of the Agreement with the NPMHU and the Agreement with the APWU providing for relocation of employees excessed out of facilities. Further, my understanding, based on the AMP from Buffalo is that 586 craft employees, including 249 Function 1 Mail Handlers and 261 Function 1 Clerks, will be excessed out of Buffalo.

RESPONSES OF NPMHU WITNESS WILKIN
TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T5-7: On page 4, lines 3 through 5, you state that "[i]n my experience and based on my observations of the processing facilities in my Local, any idle time has already been eliminated through prior Postal efforts." Please describe, in detail, your experience, education, or training related to assessment of the consolidation of postal facilities, including, but not limited to, your experience, education, or training to support your statement and produce any documents or data that you relied upon in support of your statement regarding "prior Postal efforts" that have reduced idle time at processing facilities in your Local.

RESPONSE:

My experience and training are set forth in the first paragraph of my testimony. My testimony in this area is based on my many years of experience as a Mail Handler and my many years of representing Mail Handlers in the facilities mentioned in my testimony. I do not have any formal training in the technical areas referenced in the question, but I have lived through a number of consolidations and other Postal initiatives to increase efficiency and reduce the size of the Postal workforce. I did not rely on any particular documents or data in support of the quoted statement, other than my familiarity with the significant decrease in Mail Handler staffing that has occurred over my years with the Postal Service, and the Postal Service's current staffing levels.

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF DAVID WILKIN (NPMHU-T5)

I, David Wilkin, under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T5-3 through 5 and USPS/NPMHU-T5-7. These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

David Wilkin

6/12/2012
Date

Postal Regulatory Commission
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Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	))))	Docket No. N2012-1

DIRECT TESTIMONY OF KENNY HAYES

ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-6)

My name is Kenny Hayes. I am currently a Mail Handler employed by the United States Postal Service at the Charlestown, WV P&DC. Since February 2007, I have been President of Local 305 of the National Postal Mail Handlers Union (NPMHU), which represents approximately 5,000 Mail Handlers working in Maryland, the District of Columbia, Virginia, North Carolina and parts of West Virginia. I have been employed by the Postal Service since September 10, 1977 and have been active representing Mail Handlers since 1979.

The purpose of my testimony is to provide additional information to the Commission regarding the Postal Service's proposed consolidations in the Mid-Atlantic and Appalachian region. Based on my knowledge of these facilities, my many years as a Postal employee, and my review of the Area Mail Processing (AMP) studies of these consolidations, I believe that the Postal Service has under-estimated the effects its plans will have on the efficient processing and delivery of the mail.

On February 23, 2012, the Postal Service announced nine planned consolidations within my Local's jurisdiction, including Norfolk, Roanoke, Clarksburg, Cumberland MD, Lynchburg VA, Parkersburg, Petersburg, Asheville and Bluefield. Two of the largest planned consolidations involve the Norfolk P&DC into the Richmond P&DC, and the Roanoke, VA P&DC into Greensboro, NC P&DC.

These are not the first consolidations in my area. Within the past several years, there have been a number of consolidations, including consolidating all mail processing from Frederick, Maryland to either Baltimore or Suburban, MD; consolidating Charlottesville into Richmond;; Dulles P&DC originating mail into Merrifield, VA; Bristol P&DC into Johnson City, TN; Lynchburg P&DF into Roanoke; Hickory P&DF into Greensboro P&DC; and Kinston, NC into Fayetteville, NC. Several of these consolidations have caused problems in the efficient processing and delivery of the mail. For instance, after the Frederick consolidation into Baltimore, the Baltimore facility had major difficulties in handling the additional volume, particularly during the holiday rush. This resulted in news coverage, reporting that mail was sitting in the yard for eight to ten days due to backups. See http://www.wbaltv.com/r/29985356/detail.html. The Office of Inspector General has begun an audit to review operational data from the Baltimore P&DC to assess the consolidation and examine stakeholder concerns into delayed mail and service declines. See http://auditprojects.uspsoig.gov/2012/02/22/frederick-md-to-baltimore-md-amp-consolidation-12yg017no000/.

The Richmond P&DC, which has already absorbed the mail from Charlottesville and is scheduled to also receive the mail volume from Norfolk, has also been struggling to handle this increased mail volume. As one example, our Local, which is based in Richmond, sent a mailing to local members, and it took over a month for some members to receive the mailing. Although this is an extreme example, this is consistent with other complaints that we have been hearing regarding slow processing and delivery of mail.

In my experience and in my region, there is not currently excess staffing, given the current volumes of mail. There has been very little hiring in the Postal Service in recent years. Since I was first elected President of Local 305, our Local's membership has declined by about 900 members. In our area, the Postal Service is largely understaffed for Mail Handlers. Overtime among our members has increased in most of our facilities, and members are being required to work overtime even when they do not want to work overtime. By consolidating facilities or lengthening the operating windows, I do not believe that the Postal Service will be able to significantly decrease the number of hours worked. The main effect will be to move employees between facilities, which will cost the Postal Service more money.

In addition, I do not believe that the Postal Service has paid adequate attention to community concerns in this process. The Branch Presidents in my Local or other union officials attended the public hearings for the consolidations within my Local jurisdiction and reported back to me on the hearings. The Postal representatives at these hearings did not appear to be adequately informed to answer questions about the information and figures that they were presenting to the public. The Postal Service did not seem interested in public comments, and frequently cut off postal employees and union officials who tried to comment or ask questions.

Many of the planned consolidations affect small communities and rural areas. Many of these small communities do not have many jobs, and losing these postal jobs is a major blow to these communities. In addition, in many rural communities, the residents rely more heavily on Postal services, as they may not have ready access to the internet, pharmacies, competitor mailers, or retail options. Some of these rural areas also have a higher percentage of senior citizens, which depend more heavily upon the U.S. Mail. For instance, according to the 2010 U.S. Census, Alleghany County, Maryland (where the Cumberland facility is located) has 17.8% of its population over age 65, as compared with 13% nationwide. Similar populations are seen in Roanoke County, Virginia (with 17.2% of its population over age 65); and Grant County, WV, where the Petersburg, WV facility is located (with 18.3% of its population over age 65). Slowing

the mail for these individuals is particularly troubling for the Postal Service, which is charged with providing service to all areas of our country.

Respectfully submitted,

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April 23, 2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS KENNY HAYES
(NPMHU-T-6)

Party	Interrogatories
United States Postal Service	USPS/NPMHU-T6-4-7

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS KENNY HAYES (T-6)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T6-4	USPS
USPS/NPMHU-T6-5	USPS
USPS/NPMHU-T6-6	USPS
USPS/NPMHU-T6-7	USPS

RESPONSES OF NPMHU WITNESS HAYES TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T6-4: On page 3, lines 1 and 2 of your testimony you state: "In my experience and in my region, there is not currently excess staffing, given the current volumes of mail."

a Please describe, in detail, your professional training and experience related to the computation of adequate staffing levels at mail processing facilities and produce any documents or data that you relied upon in support of this statement.

b Please state whether your statement applies to all postal employee craft and management position categories. If it does not, please identify the employee craft and management position categories to which your statement does not apply.

c Please define the geographic scope of your postal work experience and the region to which your refer.

d At current staffing and mail processing infrastructure levels in your region, by what percentage would current mail volumes processed in the region have to decline before you concluded that excess capacity existed?

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler, my years of experience representing Mail Handlers in the mid-Atlantic states, and my common sense. In particular, I have been involved in the processing of a number of grievances arising out of the National Agreement involving staffing levels and excessing. As a union official, I am also very familiar with the patterns that arise when a facility is not adequately staffed, which include cross-craft assignments, use of PSEs, and Postal management going beyond the "overtime desired" list of employees to assign overtime to employees that do not wish to work overtime. I do not have any formal education or training in the technical fields referenced.

b. My statement applies to craft employees, not management employees.

c. I have worked for the Postal Service in West Virginia, and have represented Mail Handlers in West Virginia, Virginia, North Carolina, Maryland and the District of

Columbia. "My region" refers to those five states.

d. I cannot predict a percentage. My testimony is based on my observations of the current staffing levels at the facilities at which I represent Mail Handlers.

RESPONSES OF NPMHU WITNESS HAYES TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T6-5: On page 3, lines 6 through 9 of your testimony you state:

> By consolidating facilities or lengthening the operating windows, I do not believe that the Postal Service will be able to significantly decrease the number of hours worked.

a Please produce any documents or data that you relied upon in support of this statement.

b Please state whether, in the nine AMP studies referenced in your testimony, the Postal Service provided calculations for the projected number of workhours at each of the losing and gaining facilities. If your answer is anything other than an unqualified affirmative response, please explain.

c Please refer to the Response of USPS Witness Williams to Question Posed By Commissioner Taub During March 20, 2012 Cross-Examination, pages 5 through 9, which was filed on March 30, 2012, available at:
http://www.prc.gov/Docs/81/81803/V2.p.422.HW.Dave.pdf
http://www.prc.gov/Docs/81/81803/Homework.Vol.2.p.422.xls
Prior to filing your testimony with the Commission, did you have the opportunity to review and consider this response, including the information under the heading "Specific description of AMP savings calculations: mail processing workhours moving from the losing site to the gaining site?"

d If you did not consider the materials identified in part (c), please explain why. If you did consider those materials, but disagree with the analysis and conclusions stated therein, please state the basis for your disagreement.

RESPONSE:

a. None.

b. Yes.

c. No.

d. My testimony was based on my experience working as a Mail Handler and representing Mail Handlers and was intended to offer the Commission the real-world observations of an individual who has worked in Postal mail processing, and represented many Postal employees working in mail processing facilities in the Mid-Atlantic.

RESPONSES OF NPMHU WITNESS HAYES TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T6-6: On page 3, lines 15 through 19 of your testimony you state that at public hearings:

> The Postal representatives...did not appear to be adequately informed to answer questions about the information and figures that they were presenting to the public. The Postal Service did not seem interested in public comments, and frequently cut off postal employees and union officials who tried to comment or ask questions

a Please state the date and times of the public hearings, and furnish any notes or summaries that you prepared of those meetings.

b Please state whether you personally attended the public hearings referenced in your statement. If you did not, please identify the person(s) on whose accounts of the meeting you rely.

c Please describe, in detail, every instance where the Postal representatives referenced in your testimony were not informed or cut off postal employees, including but not limited to the identity of the Postal representatives, the identity of the postal employees cut off, the time and location of the public hearings where such incidents occurred, the specific information that the Postal representatives were not adequately informed to present, and the specific questions to which that Postal Representatives did not respond.

RESPONSE:

a. The dates and times of the public hearings for AMPs within my Local's jurisdiction are available publically on the Postal Service's website. I did not prepare any notes or summaries of those meetings.

b. As stated in my testimony, I did not personally attend the hearings. Union officers working under my supervision and reporting to me, typically the Branch President for the affected facility, attended the meetings.

c. I did not keep contemporaneous records of the comments regarding the hearings, and therefore am not able to respond to this question in the level of detail requested.

RESPONSES OF NPMHU WITNESS HAYES TO UNITED STATES POSTAL SERVICE INTERROGATORIES

UNITED STATES POSTAL SERVICE INTERROGATORIES AND REQUESTS FOR PRODUCTION TO NPMHU WITNESS HAYES

USPS/NPMHU-T6-7: On page 4, lines 1 and 2 of your testimony you stated that slowing mail to rural residents: "[i]s particularly troubling for the Postal Service, which is charged with providing service to all areas of our country."

a On what source of authority does your statement rely?

b Please state whether your statement assumes that the Postal Service plans to generally implement slower delivery standards for rural communities, while maintaining faster delivery standards for all other parts of the country. If not, please explain your response.

RESPONSE:

a. The first paragraph of the Postal Reorganization Act states: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities." This basic principle is inherent in the Postal Service's mission, subsequent legislation affecting the Postal Service retains this goal.

b. My statement does not assume that the Postal Service plans to generally implement slower delivery standards for rural communities. However, by closing facilities in rural areas, local mail ("turn-around mail") for these rural communities will necessary be slowed in its delivery. As the Postal Service has stated, even with a two day delivery standard, some mail may be delivered in advance of the service standard. This is more likely to happen for mail that does not need to be trucked many hundreds of miles to be processed. In addition, the further the mail must be transported for processing, the more

likely it is that it will not be delivered within the service standard.

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF KENNY HAYES (NPMHU-T6)

I, Kenny Hayes, under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T6-4 through USPS/NPMHU-T6-7. These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

Kenneth A. Hayes
Kenny Hayes

June 12, 2012
Date

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Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization Service Changes, 2012	))))	Docket No. N2012-1

DIRECT TESTIMONY OF ROBERT J. BROXTON, SR.

ON BEHALF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

(NPMHU-T-7)

My name is Robert J. Broxton, Sr. I am currently a Mail Handler employed by the United States Postal Service at the Central MA Processing & Distribution Center. I am also currently President of Local 301 of the National Postal Mail Handlers Union (NPMHU), which represents approximately 3,100 Mail Handlers in the states of Massachusetts, Vermont, Maine, New Hampshire, Rhode Island, and the greater part of Connecticut. I began my career with the Postal Service as a Mail Handler employed at the Boston General Mail Facility in March of 1984. I was voluntarily reassigned to the Central MA Processing & Distribution Center in Shrewsbury, MA in September of 1991.

The purpose of my testimony is to provide additional information to the Commission regarding the Postal Service's proposed consolidations in New England. Based on my knowledge of these facilities, my many years as a Postal employee, and my review of the Area Mail Processing (AMP) studies of the New England

consolidations, I am concerned that the Postal Service has under-estimated the costs of this consolidation and the effects it will have on the efficient delivery of the mail.

Based on my review of the consolidations, and my knowledge of the facilities involved, I have particular concerns with three proposed consolidations in the New England area: 1) the consolidation of the Eastern Maine facility into the Southern Maine facility; 2) the consolidation of the White River Junction, Vermont facility into Burlington; and 3) the consolidation of the Central Massachusetts P&DC letter processing into Boston.

The geography of Maine is the first and primary reason why the consolidation of Eastern Maine into Southern Maine is unsound. Page 6 of the AMP study shows a map of Maine, with the two facilities. It is 134 miles between the two facilities, but, as shown by the map, the Eastern Maine facility has an extremely large coverage area, and the distances between the far reaches of Northeastern Maine and the Southern facility is prohibitive. This area of Maine is largely rural, and many of these residents and businesses continue to depend heavily on the U.S. mail, as they may not have the same access to the internet, retail, and pharmaceuticals that urban residents enjoy. There is just one main road through Maine, I-95, which makes the distribution of mail throughout the state more difficult. And, given the weather conditions for much of the year, 134 miles in Maine is much more than 134 miles in another area of the country. Senator Olympia Snowe wrote a letter to the Postmaster General on January 26, 2012, expressing her strenuous opposition to this consolidation. I attach her letter to my testimony, and agree whole-heartedly with the concerns raised by Senator Snowe.

My concerns about the White River Junction consolidation echo my concerns regarding the Maine consolidation. In Vermont winters, moving the mail these additional miles is going to be very difficult, and the very rural and remote communities serviced by this facility will suffer.

The Central Massachusetts consolidation is also troubling. This is a newer facility in Shrewsbury, which was opened in 1991 because Boston was having trouble handling mail volume, and has been operating very efficiently. Boston, in contrast to Central Massachusetts, is a very old facility that is significantly outdated. The "new" building in Boston was built in the 1970s, and the older portion is much older. According to the Postal Service's own AMP study, the per hour volume processed at Central Massachusetts is much higher than the per hour volume processed in Boston (see page 15). In addition, while the distance between Central Massachusetts and Boston is not great, the traffic along the Massachusetts Pike coming into Boston is often terrible and it can take twenty minutes to go the last mile to get into the plant. Particularly given that the Middlesex letters—a large daily volume—will also be coming into Boston for processing, I am very concerned that the facility will not be able to efficiently handle the mail in a timely manner.

Based on my reviews of the studies, and my knowledge of the facilities involved, it appears that the Postal Service is making consolidation decisions based upon building size and capacity, rather than looking at the efficiency or productivity of the buildings. In my past experience with consolidations, the Postal Service often does not adequately account for these facility-specific issues. For instance, when Portsmouth processing was consolidated into Manchester, the Postal Service did not account for space

required to move the mail, and put the additional DBCS machine in the aisle where mail was historically moved, forcing Mail Handlers to drive the mail around the perimeter of the facility, rather than straight through it.

I also have concerns with some of the costing contained in these AMPs. For instance, the Eastern Maine P&DC does not include any funds budgeted for utilities post-consolidation (see page 33 of the study). The study states that the BMAU and carriers will remain at the Eastern Maine facility, along with a hub operation, and will retain 13 craft employees (see pages 4-5 of the study). Even if the building were empty, the Postal Service could not totally abandon the utilities in Maine winters—with these functions remaining, it makes no sense not to have a budget for utilities. In White River Junction, the Postal Service has budgeted not a single dollar for custodial services or building equipment—although there will continue to be fourteen craft employees stationed there (see page 35 of the AMP).

Finally, I do not believe that the Postal Service's public input process was adequate to fully explore the local impact of the proposed consolidations. I attended a number of public hearings and several were scheduled in locations that lacked sufficient parking or were booked in rooms that were too small to accommodate the number of people in attendance. Many of those who attended the public hearings for Central MA and Southern CT had to stand for the entire meeting, either in the back of the room or in the hallways outside. The Postal Service appeared to come to these hearings to deliver a pre-set message, rather than to learn from community concerns. In many cases, public comments were limited. Although the Postal Service presented figures regarding anticipated savings, the Postal Service representatives were not able to explain these

figures or explain how they were calculated, which severely impeded the public's ability to provide feedback or pose questions regarding the Postal Service's proposal. When the USPS representative was asked at the Southern CT public meeting to provide the data upon which the AMP studies would be decided, the USPS response was that the data would be provided, but only upon approval of the study. Providing the data to the public only after the decision has been made does not allow the public to provide meaningful input into the decision-making process.

Respectfully submitted,

Patrick T. Johnson
As agent for and authorized by
Andrew D. Roth
Kathleen M. Keller
Bredhoff & Kaiser, P.L.L.C.
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Suite 1000
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Counsel for National Postal Mail Handlers Union

April 24, 2012

Attachment

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United States Senate

WASHINGTON, DC 20510-1903

COMMITTEES:
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RANKING MEMBER, SMALL BUSINESS

January 26, 2012

Mr. Patrick R. Donahoe
Postmaster General and Chief Executive Officer
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-0010

Dear Postmaster General Donahoe:

I write to reiterate my strenuous opposition to the U.S. Postal Service's (USPS) proposal to consolidate mail processing at the Eastern Maine Processing and Distribution Facility (P&DF) in Hampden into the Southern Maine Processing and Distribution Center (P&DC) in Scarborough, with a net decrease of 42 positions. Given the grave concerns raised at the January 11, 2012 public meeting in Brewer, which was attended by well over 400 concerned Mainers, it is without question that this proposal has profoundly negative implications for timely and reliable mail service in northern, western, and eastern Maine. It should be rejected.

It is true the USPS is facing severe financial challenges, in part due to a steady decline in mail volume and continued economic instability. The USPS has now lost approximately $25 billion between 2007 and 2011. It is also undeniable that the USPS is a key component of our national economy, operating at the center of a mailing industry that employs roughly 8 million people nationwide – including almost 38,000 Mainers – and generates approximately $1 trillion annually in economic activity.

Given this reality, I believe that the USPS must take steps to cut costs, make better use of resources, reduce redundancies and improve its efficiency. I am encouraged by several measures that the USPS has undertaken – measures that have resulted in over $12 billion in savings in the last three years. However, the USPS has a fundamental and legal responsibility to continue providing universal mail services that the public has come to expect, especially in rural communities throughout the country.

For that reason, I remain vigorously opposed to your proposal to consolidate the Eastern Maine P&DF into the Southern Maine P&DC. The Eastern Maine P&DF currently employs 183 workers who process thousands of pieces of mail each day, and by all reports, do so at the highest levels of performance and efficiency. The work at this facility allows the people of Maine to receive their mail, including prescription drugs for seniors, financial documents, and other critical mail items, quickly and efficiently. This mail provides a critical communication link upon which Mainers in the northern woods, islands, and small rural towns rely.

If the Hampden facility is consolidated, its mail processing responsibilities would be relocated to the Scarborough facility, located more than 130 miles from Hampden. Currently, a First-Class letter mailed from Caribou to Port Kent is sent to Hampden, and then returned to Fort Kent for delivery. That's a round-trip of 371 miles that normally takes one business day. However, under the proposed consolidation, that same letter would travel 629 miles round trip to Scarborough.

Those extra miles mean mail that now takes one day for delivery could take up to three days – triple the

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current time, and perhaps even longer given the treacherous travel conditions often experienced during Maine's long winters. This will unquestionably harm mail delivery to an area encompassing hundreds of cities, towns, and communities, and nearly half of Maine's entire population. The large size of our state makes it impossible for the USPS to serve all of Maine efficiently with just one processing plant in Scarborough.

Furthermore, the potential delay in mail delivery, which would result from the proposed consolidation, would have a terribly harmful affect on businesses, families, seniors, and the local economy. Businesses who currently receive expeditious mail services from the Hampden plant will have their mailings delayed by travel to the Scarborough plant. Additionally, given that businesses have located themselves near the Hampden plant to afford themselves the most valuable mail services available, it is possible that the USPS proposal will serve to drive these businesses out of the state. The Hampden facility is a lifeline for businesses across Maine.

I was also greatly alarmed when USPS representatives noted during the January 11th public meeting that under the proposed consolidation, businesses located closely to the Scarborough plant will be at a competitive advantage to those located in northern, eastern, and western Maine! This only compounds upon the notion of two Maines. It is without question that businesses throughout the state, no matter their location, deserve equally high quality postal service.

The proposed consolidation would also greatly harm families and seniors residing in northern, eastern, and western Maine. Families who use the USPS for their daily newspaper deliveries will receive their local news days late. Seniors who may not be communicating by email, and whose health relies on expeditious delivery of medications through the mail, will be unable to count on its timely delivery.

Additionally, the consolidation of the Hampden facility will have a grave impact on the greater Hampden and Bangor economy. Hampden Town Manager Susan Lessard indicated in the September 15, 2011, *Bangor Daily News*, that the real impact for the Hampden area would be felt in terms of lost annual payroll, which she projected at roughly $7 million. A financial loss of this magnitude would significantly harm the local economy at a time when this community can ill afford it.

A further concern raised about the proposed consolidation during the January 11th public meeting was the apparent lack of a satisfactory contingency mail delivery plan in the event of a disaster or accident at the Scarborough plant. In addition to the Hampden facility, the USPS is also considering consolidating all processing facilities in Vermont and New Hampshire. Should these facilities be consolidated, and the Scarborough facility experience a major accident or a disaster preventing its operations, how would the Postal Service continue to provide timely mail delivery to the entire Northeastern, United States?

Finally, I also believe that many questions remain relating to the cost savings that the USPS claimed in its one-page summary as supporting a business case for consolidation of the Hampden facility. The annual cost savings, which have been reported at $7.6 million, were explained during the public meeting to be preliminary and subject to change. How can the USPS state that the cost savings support a business case for consolidation when the numbers are subject to change? Furthermore, why is the USPS unable to provide the methodology used in reaching the annual cost savings of $7.6 million?

Specifically, the reported annual employee, maintenance, management, and transportation savings remain unexplained, dubious, and quite misleading. If a net 40 craft employee reduction will result in the annual savings of $2.9 million, this would equate to an average craft employee salary of approximately $74,000 a year. In addition, while the USPS one-page summary reports that the employee reduction will be done in accordance with respective collective bargaining agreements, postal employees at the public meeting

raised the point that most postal employees with over 6 years of service have a no lay-off clause. Will they still be paid? Has that been taken into account in the employee savings projections?

Furthermore, what does the USPS plan on doing with all of its mail processing equipment in Hampden, which includes a brand new flat sorting machine installed in 2011, and has this been factored into the $3.9 million in annual maintenance savings asserted by USPS? Additionally, has the increased transportation expenses through fuel costs for been calculated into the annual transportation savings?

Raising further alarm, after I questioned how the USPS could claim an "annual management savings" of $797,000 from the elimination of just two management positions in its December 22, 2011 one-page summary, its January 9, 2012 summary revised that figure downward to $177,000. Which begs the question, what happened to the other $620,000 in estimated savings, and if this one-page document is the foundation for this consolidation plan, exactly how accurate are its other estimated savings? How can the USPS claim that consolidating Hampden's processing function saves $7.6 million, while promising to hire 120 new workers in Scarborough? And has the USPS taken into account the efficiency and annual performance ratings of the Hampden facility in its cost savings calculations?

Ultimately, many unanswered questions remain regarding the reported $7.6 million in annual cost savings achieved by the proposed consolidation. However, there is no question of the severely negative impact that this proposal will have on the businesses, communities, and people of Maine.

This proposal is one of no small consequence, and I remain strongly opposed to the consolidation of mail processing at the Eastern Maine P&DF into the Southern Maine P&DC, and, further, request that the Postal Service reconsider the damaging impact such action could have on mail delivery throughout Maine.

Thank you for your consideration and I look forward to your timely reply.

Sincerely,

OLYMPIA J. SNOWE
United States Senator

CC: Ms. Kathy Rokowski
Manager Consumer and Industry Contact
Northern New England District
151 Forest Avenue Suite 7022
Portland ME 04101-7022

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Mail Processing Network Rationalization
Service Changes, 2012

Docket No.N2012-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS ROBERT J. BROXTON, SR.
(NPMHU-T-7)

Party	Interrogatories
United States Postal Service	USPS/NPMHU-T7-1-4

Respectfully submitted,

Shoshana M. Grove
Secretary

INTERROGATORY RESPONSES OF
NATIONAL POSTAL MAIL HANDLERS UNION
WITNESS ROBERT J. BROXTON, SR. (T-7)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/NPMHU-T7-1	USPS
USPS/NPMHU-T7-2	USPS
USPS/NPMHU-T7-3	USPS
USPS/NPMHU-T7-4	USPS

RESPONSES OF NPMHU WITNESS BROXTON TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T7-1: On page 2, lines 3 through 8 of your testimony, you state:

> Based on my review of the consolidations, and my knowledge of the facilities involved, I have particular concerns with three proposed consolidations in the New England area: 1) the consolidation of the Eastern Maine facility into the Southern Maine facility; 2) the consolidation of the White River Junction, Vermont facility into Burlington; and 3) the consolidation of the Central Massachusetts P&DC letter processing into Boston.

Please state your understanding of whether the Eastern Maine P&DC and the White River Junction P&DC consolidation proposals referenced in your statement have been announced as disapproved by the Postal Service since the filing of your testimony.

RESPONSE:

Based on the response filed on June 4, 2012, by Postal Witness Emily Rosenberg to the Commission Information Request No. 1, Question 4(a), it is now my understanding that these two facilities have been removed from consideration for consolidation under either Phase 1 or Phase 2 of the Postal Service's modified plan.

RESPONSES OF NPMHU WITNESS BROXTON TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T7-2: On page 2, lines 9 through 10 of your testimony, you state that the "geography of Maine is the first and primary reason why the consolidation of Eastern Maine into Southern Maine is unsound."

a. Please describe, in detail, your experience, education, or training related to logistics management and the transportation of mail between Postal Service facilities (including, but not limited to, the costs and savings analyses of transporting mail).

b. Please produce any documents or data (including, but not limited to, any geographical data) that you relied upon in support of your statement.

RESPONSE:

a. My experience is detailed in the first paragraph of my testimony. My testimony is based upon my many years of experience as a Mail Handler working in New England, my years of experience representing Mail Handlers in New England, my life-long residence in New England, and my common sense. As President of NPMHU Local 301, I often drive to the Postal processing facilities in New England and am well familiar with the geography. I do not have any formal education or training in the technical fields referenced.

b. None.

RESPONSES OF NPMHU WITNESS BROXTON TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T7-3: On page 3, lines 15 through 17 of your testimony, you state that "[p]articularly given that the Middlesex letters—a large daily volume—will also be coming into Boston for processing, I am very concerned that the facility will not be able to efficiently handle the mail in a timely manner."

a. Please confirm whether this statement assumes operation in the current network with current service standards.

b. If your statement does not assume the current network and current service standards, please identify the environment that you are describing in your statement?

c. Please state in terms of a percentage of current Middlesex mail volume, a volume that you would characterize as "large."

d. Please define "timely manner."

e. Please produce any documents or data that you relied upon in support of your analysis of Boston P&DC's mail processing capacity and identify and explain the specific portions that support your concern about the timely processing of mail.

RESPONSE:

a. No.

b. My testimony assumes an environment in which the location of the Boston P&DC will not change, nor will the major traffic problems going into and coming out of Boston, particularly in the late afternoon and early evening, when much of the mail will be arriving for processing. Of course, the more relaxed the service standards, the lesser the chance that any facility will not be able to process the mail in such a way as to comply with those service standards. Given the logistics and location of the Boston facility, I do have some concerns about its ability to receive, process, and get out such a large quantity of mail under either the interim

service standards announced by the Postal Service effective July 1, 2012, or the more relaxed standards that the Postal Service intends to implement in 2014.

c. This question does not make sense in connection with my statement. According to the AMP, Middlesex letter volume that will be transferred to Boston is 2,095,131 in FHP daily volume. I would characterize that as a large volume.

d. I would define timely manner as in compliance with applicable service standards.

e. I relied upon the AMP studies relating to the Middlesex Essex P&DC.

RESPONSES OF NPMHU WITNESS BROXTON TO POSTAL SERVICE INTERROGATORIES

USPS/NPMHU-T7-4: On page 4, lines 14 through 15, you state that you "do not believe that the Postal Service's public input process was adequate to fully explore the local impact of the proposed consolidations."

a. Please provide your understanding of the Postal Service's obligation to solicit and consider public input in relation to a mail processing plant consolidation, including, but not limited to, identification of any internal instructions that form the basis for your belief that the current process is not sufficient.

b. In your view, is it possible for a public input process to comply with applicable internal instructions, but still be deemed as not sufficient by a concerned postal employee or member of the public?

RESPONSE:

a. The Postal Service's internal instructions are found at Postal Handbook 408. As an entity charged with providing an important service to the public, it is my belief and understanding that the Postal Service has an obligation to solicit and consider public input prior to closing a mail processing plant that will have an effect on the community, and will potentially affect mail delivery.

b. Yes.

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. 2012-1

DECLARATION OF ROBERT J. BROXTON, SR. (NPMHU-T7)

I, Robert J. Broxton, Sr., under penalty of perjury, declare the following:

1. Attached to this declaration is the testimony I have offered in this case, along with an attachment filed along with, and referenced in, my testimony. This testimony was prepared by me or under my supervision.
2. Also attached to this declaration are the following interrogatory responses that have been designated as written cross-examination in this proceeding: USPS/NPMHU-T7-1 through USPS/NPMHU-T7-4. These responses were prepared by me or under my direction.
3. If I were to provide this testimony orally and under oath at a hearing before the Commission, and were I to respond orally to the questions posed in these interrogatories, my testimony would be the same.

Robert J Broxton Sr

Robert J. Broxton, Sr.

6/11/2012

Date

1 VICE CHAIRMAN LANGLEY: Counsel, can you
2 identify the library references that have been filed
3 by the National Postal Mail Handlers Union witnesses
4 in this docket and indicate if they are relying on
5 that material or not?
6 MS. KELLER: There are no library references
7 associated with the testimony. One or two of the
8 testimonies have attachments that were attached to the
9 testimony and incorporated by reference therein or in
10 response to the interrogatories that have been
11 designated. Where that is the case, the attachment
12 was provided in the packets as well.
13 VICE CHAIRMAN LANGLEY: Thank you very much.
14 That now completes testimony from National Postal Mail
15 Handlers Union witnesses, and now we arrive toward the
16 end. Does any participant have any other issues to
17 raise at this time?
18 (No response.)
19 VICE CHAIRMAN LANGLEY: There being nothing
20 further, this hearing is adjourned until 9:30 a.m.
21 tomorrow morning.
22 (Whereupon, at 3:37 p.m., the hearing in the
23 above-entitled matter was adjourned, to reconvene on
24 Thursday, June 14, 2012, at 9:30 a.m.)
25 //

REPORTER'S CERTIFICATE

DOCKET NO.: N2012-1

CASE TITLE: Mail Processing Network Rationalization Service Changes, 2012

HEARING DATE: 6/13/12

LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before Postal Regulatory Commission.

Date: 6/13/12

Gabriel Gheorghiu

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