

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

FIRST-CLASS MAIL AND PERIODICALS
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-1

**UNITED STATES POSTAL SERVICE REQUEST FOR AN ADVISORY
OPINION ON CHANGES IN THE NATURE OF POSTAL SERVICES**
(April 21, 2021)

In accordance with 39 U.S.C. § 3661, the United States Postal Service hereby requests that the Postal Regulatory Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of title 39, United States Code. Specifically, for the reasons discussed below and in the accompanying testimonies, the Postal Service proposes to revise the service standards for First-Class Mail and end-to-end Periodicals. Concurrent with this proceeding, the Postal Service is also conducting a notice-and-comment rulemaking to revise 39 C.F.R. Part 121. A companion notice of proposed rulemaking proposing revisions to 39 CFR Part 121 will be published in the near future in the Federal Register.

I. EFFECTIVE DATE, PRE-FILING CONFERENCE, AND WITNESSES

Section 3661(b) of title 39 requires the Postal Service to file its advisory opinion request “a reasonable time prior to the effective date” of the planned service changes. In its regulations, the Commission has established a 90-day standard for the timing of such request filings. 39 C.F.R. § 3020.112. The Postal Service plans to implement the service changes within the scope of this Request

no earlier than September 1, 2021, which is more than 90 days after the date of this filing.

In accordance with 39 C.F.R. § 3020.111, the Postal Service has conducted a pre-filing conference. This conference occurred on April 6, 2021 from 1:00pm to 3:00pm EDT. Due to the current COVID-19 situation, the conference occurred virtually, rather than at a physical location. The Postal Service certifies that it has made a good faith effort to address concerns of interested parties about this proposal raised at the pre-filing conference, discussed in more detail in the accompanying testimonies. While certain customers at the pre-filing conference expressed general concerns about this proposal to adjust service standards, the Postal Service has determined that it is necessary and appropriate to propose this change, for the reasons discussed below and in the testimonies.

To support this request, the Postal Service is filing, as direct evidence, testimony by various witnesses, as discussed further below. In addition, the Postal Service identifies Sharon Owens, Vice President, Pricing and Costing, as an institutional witness who is capable of providing information relevant to the Postal Service's proposal that is not provided by other Postal Service witnesses. All of these witnesses will be available for the mandatory technical conference provided for in 39 C.F.R. § 3020.115.

II. DESCRIPTION OF THE PROPOSED CHANGES AND THEIR RATIONALE

A. Description of Changes

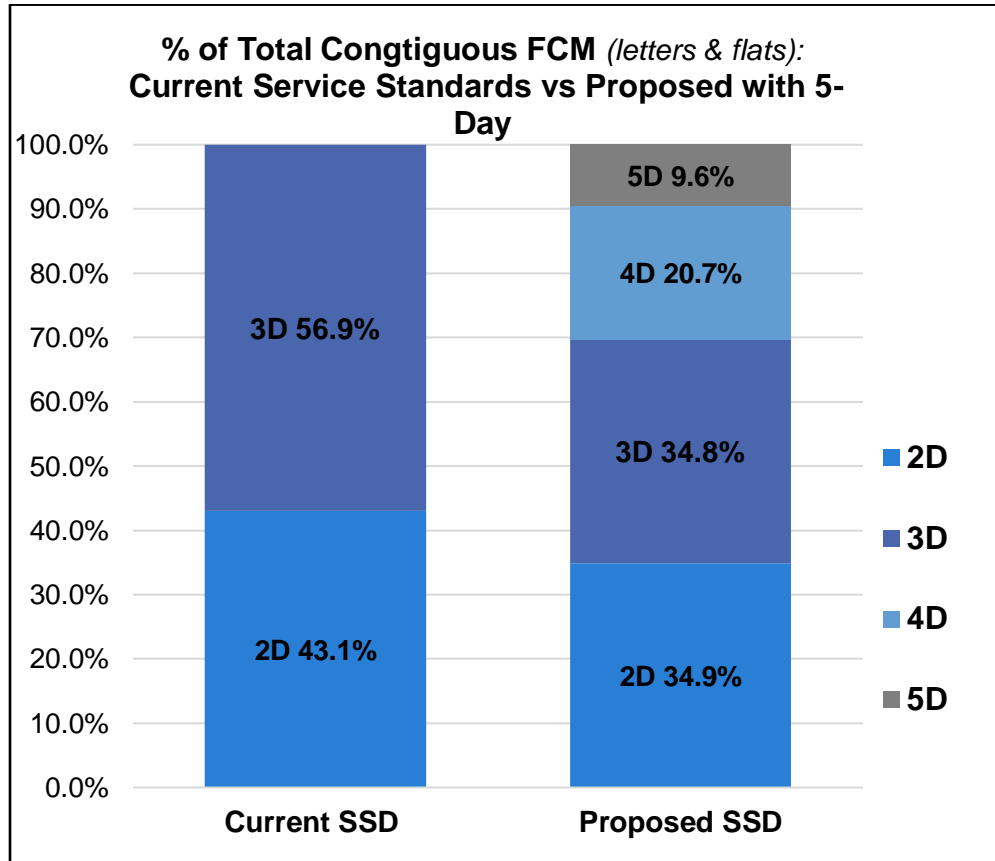
The Postal Service plans to amend 39 C.F.R. Part 121 to revise the current service standards for First-Class Mail and end-to-end Periodicals in a manner that would “generally affect service on a nationwide or substantially nationwide basis.” 39 U.S.C. § 3661(b). The most significant revisions would change the First-Class Mail service standards for inter-Sectional Center Facility (SCF) domestic pieces transported between certain origin Processing & Distribution Center or Facility (P&DCF) and destination SCF pairs (OD Pairs) within the contiguous United States. The current overnight standard, which applies to certain intra-SCF presort First-Class Mail, will not change. The Postal Service is adjusting the service standards for First-Class Mail within the contiguous United States, by narrowing the scope of the two-day and three-day standards and applying four-day and five-day standards to certain mail traveling longer distances between origin and destination.

Specifically, the Postal Service proposes to apply a two-day service standard to intra-SCF single piece domestic First-Class Mail where the SCF is also the origin P&DCF or the combined drive time between the origin P&DCF, destination Area Distribution Center (ADC), and destination SCF is three hours or less. A two-day service standard would also apply to inter-SCF domestic First-Class Mail if the combined drive time between the origin P&DCF, destination ADC, and destination SCF is three hours or less. For intra-SCF and inter-SCF

First-Class Mail within the 48 contiguous states where the combined drive time between origin P&DCF, destination ADC, and destination SCF is more than three hours, but does not exceed 20 hours, the Postal Service proposes a three-day service standard. The Postal Service proposes a four-day service standard for inter-SCF First-Class Mail within the 48 contiguous states where the combined drive time between origin P&DCF, destination ADC, and destination SCF is more than 20 hours but does not exceed 41 hours. A five-day service standard would apply in the contiguous 48 states if the drive time between origin P&DCF, destination ADC, and destination SCF exceeds 41 hours.

The testimony of witness Stephen Hagenstein (USPS-T-3) discusses how current mail volume will be affected by the proposed changes to the service standards in the contiguous United States. Most First-Class Mail volume will not be affected: overnight mail will not change; approximately 81 percent of one-to-two day mail will remain as such; and approximately 47 percent of three-day mail will stay at three days. Other mail, in which the origin and destination are farther apart, will experience longer delivery times. Overall, approximately 70 percent of First-Class Mail will receive a one-day, two-day, or three-day service under the proposed standards, while approximately 21 percent will receive four-day service, and 10 percent will receive five-day service. This is shown in the graph below, which is reproduced from witness Hagenstein's testimony.

Figure 1: FCM Volume* by Service Standard



*2D represents volume with a one- or two-day service standard

In addition, unless a one- or two-day service standard applies, the proposed changes would increase service standards within the non-contiguous states and certain territories by one day for certain First-Class Mail. A four-day service standard would apply for First-Class Mail originating in the contiguous 48 states destined to the city of Anchorage, Alaska, the 968 3-digit ZIP Code area in Hawaii, or the 006, 007, or 009 3-digit ZIP Code areas in Puerto Rico. A four-day service standard would also apply to First-Class Mail where the origin is in the 006, 007, or 009 3-digit ZIP Code areas in Puerto Rico and the destination is in the contiguous 48 states. Likewise, a four-day service standard would apply to

First Class Mail where the origin is in Hawaii and the destination is in Guam, or vice versa; where the origin is in Hawaii and the destination is in American Samoa, or vice versa; and where both origin and destination are within Alaska. All other First-Class Mail to non-contiguous United States destinations will be subject to a five-day service standard.

Certain end-to-end Periodicals would also be affected by the changes to First-Class Mail service standards. Under the new standard, a three-to-six-day service standard would be applied to Periodicals merged with First-Class Mail pieces for surface transportation, with the standard specifically equaling the sum of one day plus the applicable First-Class Mail service standard.

B. Rationale for Changes

The accompanying testimony of witness Robert Cintron (USPS-T-1) describes the proposed service changes and their benefits. As he explains, the current service standards do not reflect the declines in mail volume, and make it very difficult for the Postal Service to provide reliable and consistent service; this is evidenced by the fact that the Postal Service has consistently failed to achieve its service performance targets. In addition, attempting to meet the current standards results in high costs and inefficiencies in the transportation network, which is characterized by an over-reliance on air transportation and low utilization of truck capacity in long-haul surface transportation.

By allowing for additional transport time for the affected mail classes, these changes will improve the Postal Service's consistency and reliability from a service performance perspective, as well as increase the efficiencies of the

transportation network, for a number of related reasons. These changes would enable an increase in the amount of volume transported by surface and a decrease in the amount of volume transported by air for many OD Pairs; surface transportation is both more reliable and cost-effective than air transportation.

These changes would also:

- enhance the Postal Service's ability to run to the operating plan and to adopt strategies to increase the efficiency of the surface transportation network;
- enable the implementation of additional initiatives in the future to further streamline and improve the processing and logistics network; and
- enable an increase in the use of more cost-effective air carriers for volume, such as those going to non-contiguous areas, that must remain in the air.

Overall, these changes will enable the Postal Service to provide the American people with more reliable and consistent service, through a more efficient network. As witness Cintron notes, the Postal Service intends to consistently meet or exceed service performance targets of 95 percent through implementation of this change, as well as other initiatives.

The financial circumstances that underlie this advisory opinion request are explained in the accompanying testimony of witness Curtis Whiteman (USPS-T-2). In the twelve years since the onset of the Great Recession, the Postal Service has experienced an acceleration in mail volume declines. At the same

time, delivery addresses continue to increase every year. The Postal Service is delivering considerably less mail to more addresses at a time when the evolving mail mix has been generating less revenue and contribution. While legislative and regulatory reform are necessary to place the Postal Service on a path to financial stability, they are not sufficient. The Postal Service must also implement operational changes to enhance efficiency and reduce the cost of operations, while enhancing the reliability of service, in order to ensure the long-term sustainability of the universal service network. This initiative is just such an operational change.

Witness Hagenstein explains the modeling performed to study the potential service standard changes (USPS-T-3). He explains how the Postal Service will be able to design a more efficient, reliable, and resilient transportation network if it adopts the proposed service standards. As noted above, his testimony also discusses the actual impact of the proposed changes, in terms of changes to the OD Pairs, as well as current mail volume.

Witness Thomas Thress uses econometric analysis to estimate the potential contribution impact that could result from implementing these service changes (USPS-T-5), and witness Steven Monteith provides context to those estimates (USPS-T-4). Witness Monteith also discusses how these changes may impact customer satisfaction, given that the changes will significantly enhance service reliability, and summarizes the tools and techniques that the Postal Service has employed and will continue to employ for effectively communicating vital information related to the proposal to customers in a timely

fashion. This will maximize their ability to adjust mailing practices and delivery expectations before and after the service standard changes are implemented.

Witness Whiteman's testimony (USPS-T-2) discusses the overall impact of the proposed changes on the Postal Service's financial situation. He relies on the modeling testimony of witness Hagenstein to develop estimates of cost savings, which he then compares with the estimated potential contribution loss to yield an estimate of the net financial impact from the initiative. Specifically, based on an analysis of the other materials, witness Whiteman determines that the proposed service standard changes could generate a net improvement to postal finances of approximately \$174.8 million on an annual basis, when considering these transportation cost savings.

Overall, these testimonies demonstrate a number of significant benefits from implementing these service standard changes. The proposed changes would enable much more reliable and consistent service for mailers. They would also result in significant cost savings as quantified by witness Whiteman due to the creation of a more efficient transportation network. Finally, they would enable further operational benefits in the future (which are not encompassed within witness Whiteman's cost-savings figure). Overall, the service standard changes are a key component of the Postal Service's 10-Year Strategic Plan, entitled *Delivering For America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*. As explained in that plan, the Postal Service proposes to amend the service standards as one part of its efforts to

promote the Postal Service's long-term sustainability and achieve service excellence.

III. THE INITIATIVE IS IN ACCORDANCE WITH AND CONFORMITY TO STATUTORY POLICIES

Any changes to market dominant service standards must be consistent with the objectives of subsection 39 U.S.C. § 3691(b)(1) and take into account the factors set forth in subsection 3691(c). As required by 39 U.S.C. § 3691(c)(8), the Postal Service must also account for policies enshrined in other provisions of Title 39, including the broad universal service parameters in sections 101, 403, and 3661(a).

The proposed service standard changes enable the Postal Service to better align its service standards with operational capabilities. The current standards require operational practices that make it very difficult for the Postal Service to provide consistent and reliable service, and which lead to high costs. By enacting these adjustments, the Postal Service will be able to address these problems with the current standards, and provide much more consistent and reliable service for First-Class Mail, including for mail currently subject to the 3-day standard within the contiguous United States (for which the Postal Service has fallen particularly short of its performance targets). The Postal Service will also be able to create a more efficient transportation network. In addition, even with these changes, most First-Class Mail would continue to have the same service standard, and most First-Class Mail would continue to have a service standard of 3 days or less. The majority of Periodicals would also be unaffected.

Therefore, these adjusted standards better achieve the objectives of section 3691(b)(1) than the existing standards. The adjustments will improve service reliability, while still continuing to reasonably assure customers of delivery speed. By increasing service capability, reducing transportation costs and enabling other enhancements to operations to account for changing market, fiscal, and operational realities, the adjusted service standards are more consistent with best business practices and with the maintenance of affordable rates. In this regard, adjustment of service standards to improve the reliability and efficiency of the network, particularly in the context of a severe need to reduce operating costs for important product lines that are nevertheless in long-term decline, is consistent with best business practices and will help to preserve reasonable rates in the long run, consistent with section 3691(b)(1)(C). It also supports the Postal Service's long-term sustainability, and hence its ability to continue to provide delivery frequency at the current 6 days a week for mail, and to preserve regular and effective access in all communities. Overall, all of these considerations demonstrate that the adjusted standards would enhance the value of postal services for both senders and recipients.¹

With these adjustments, the Postal Service will continue to achieve the broader policies of title 39. With the benefits provided by these adjusted standards, the Postal Service will continue to be effective in binding the nation

¹ The measurement systems required by section 3691(b)(1)(D) and (b)(2) are already in place and would only need adjustment to account for changes in service standards applicable to specific OD Pairs.

together through correspondence, as prescribed by section 101(a). The Postal Service would also continue to meet its obligation to provide expeditious delivery of important letter mail under section 101(e). As noted above, most First-Class Mail would continue to be delivered within 3 days, and while certain customers would receive a standard that is 1 or 2 days longer, they would be assured of consistent and predictable delivery within those standards. For those customers who need faster delivery than would be provided under these standards for their letters, Priority Mail Express and Priority Mail would continue to be available. Similarly, Priority Mail Express and Priority Mail will continue to rely on modern methods of containerization and systems designed to achieve expeditious, overnight transportation and delivery of important letter mail to all parts of the nation where it is economical to do so (39 U.S.C. §§ 101(e), 101(f), and 403(b)).²

Access will continue to be effective and regular, within the meanings of sections 101(b) and 3691(b)(1)(B). Consistent with sections 403(a) and 3661(a), the resulting service will be provided adequately and more efficiently: The proposed changes provide flexibility that will enable the Postal Service to utilize the more cost-effective and reliable mode of surface transportation and more cost-effective commercial air carriers; and enable a more efficient surface transportation network through various measures, including the increased use of transfers via aggregation sites and Surface Transportation Centers (STCs);

² The Commission has opined that these competitive products are within the ambit of the universal service obligation, including, in particular, section 101(f). Postal Regulatory Comm'n, Report on Universal Postal Service & the Postal Monopoly (2008), at 25.

combining trailer loads for one destination with loads for other destinations; and routing “multi-stop” lanes where the Postal Service could pick up volume from multiple origins along the line of travel for final destination. Furthermore, the changes will help to ensure that mail volumes are properly loaded onto designated transportation within the time constraints of the operating plan. Current early dispatches, which are frequently necessary to achieve current service standards, risk departing from origin points without all committed volumes, leading to operational plan failures and missed service standard targets.

Moreover, in selecting the modes of transportation, the service standard changes allow the Postal Service to continue satisfying the requirements of section 101(f) by giving the highest consideration to the prompt and economical delivery of mail. It would also enable modern methods of transporting mail by containerization, as the changes would allow the Postal Service to directly containerize trays into working STC-containers or direct containers where volume warrants.

IV. CONCLUSION

Responsible management of the national postal system requires the pursuit of various service objectives in an efficient and economical manner. Postal Service costs continue to significantly exceed revenues, and the Postal Service must pursue additional efforts to improve its efficiency in order to ensure long-term financial sustainability. In addition, the Postal Service has struggled to meet the established service performance targets under the current standards

and must adopt measures to improve the predictability and reliability of service, in a manner that also reflects the efficient and economical use of resources.

The statutory scheme governing the operation of the Postal Service permits rational adaptations of service standards to market, fiscal, and operational realities, while still fulfilling its public service obligations. The needs of postal customers are changing, as evidenced by changing demand in their use of the mail. In order to remain viable and relevant, the Postal Service must be permitted to implement operational and service changes consonant with those changing needs.

Therefore, in accordance with 39 U.S.C. § 3661 and 39 C.F.R. §§ 3020.101 *et seq.*, based upon the testimony and materials otherwise reflected in the record of this proceeding, the Postal Service requests that the Commission issue an advisory opinion to the effect that the change in service standards for First-Class Mail between certain OD Pairs, for First-Class Mail to and from certain off-shore destinations, and for certain end-to-end Periodicals conforms to the policies in title 39, United States Code.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno
Chief Counsel
Global Business & Service Development

Rory E. Adams
Ian Brown
Amanda Hamilton
Jacob D. Howley
Bryan R. King
Ann M. Mace
Peter J. McNulty
B.J. Meadows III
Valerie J. Pelton
Andrew L. Pigott
Jeffrey A. Rackow
Sean C. Robinson
Michael D. Weaver
Micah T. Zomer
Attorneys

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260
(202) 268-6706
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