

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

FIRST-CLASS MAIL AND PERIODICALS
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-1

**NOTICE OF THE UNITED STATES POSTAL SERVICE
OF FILING ERRATA TO THE DIRECT TESTIMONY OF POSTAL SERVICE
WITNESS STEVEN MONTEITH (USPS-T-4)
(June 2, 2021)**

The United States Postal Service hereby provides notice of filing errata to the Direct Testimony of United States Postal Service Witness Steven Monteith (USPS-T-4), originally filed in this docket on April 21, 2021. The revised testimony updates the estimated financial impact of the proposed service-standard changes and a typographical error in Table 3.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1 proposed service standard changes on FCM and Periodicals contribution. Those
 2 conclusions are discussed in further detail below and summarized in the table below:

3 **Table 1: Estimated Financial Impact of Proposed Service-Standard**
 4 **Changes**
 5

	Contribution
FCM	-\$110.9 million
Periodicals	\$0.8 million
Net Impact	-\$110.1 million

6

7 Further, the proposed changes are unlikely to have a meaningful impact on
 8 customer satisfaction. Rather, we anticipate that the proposed changes may improve
 9 our customer satisfaction scores and mitigate financial impacts by better aligning our
 10 operational capabilities with service standards, leading to increased service reliability.
 11 This will in turn help us manage customers' expectations as to delivery times and
 12 improve our ability to consistently meeting those expectations.

13 **Communications Plan:** The communications plan is a critical component of the
 14 proposed service standard changes. It enables the Postal Service to develop and
 15 implement the initiative in consultation with the general public and postal stakeholders.
 16 These partnerships are necessary to ensure the success of the initiative. To effectuate
 17 the strategies underlying the communications plan, we disseminated information
 18 tailored for the general public and postal stakeholders through established
 19 communication channels. We also provided forums for those target audiences to ask
 20 questions and give feedback. Through these strategies, we were able to partner with
 21 the general public and postal stakeholders on this initiative and will continue this
 22 partnership through implementation.

1 completed a nationally representative survey in 2019 that demonstrated 71 percent of
2 respondents expected their sent to mail to arrive in seven days.”⁵²

3 Additionally, the proposed changes may mitigate any estimated financial impact
4 by improving customer satisfaction. These changes were designed to improve our
5 service capability which should result in meeting our service standards and service
6 performance goals on a much more consistent basis.⁵³ Indeed, we intend to set our
7 service performance target to 95 percent once the new service standards are in place,
8 and we expect to meet or exceed that target on a consistent basis. Consistent service
9 performance may better align customers’ expectations with actual delivery performance,
10 which will likely drive customer satisfaction.⁵⁴

11 The chart below provides additional detail on the relationship between FCM
12 volume and Delivery Time. It shows the primary drivers of volume declines for the two
13 categories of FCM products over the time period FY 2011 to FY 2020:

14 **Table 3: Drivers of FCM Volume Loss By Product Type**
15 **from FY 2011 to FY 2020**
16 (Billions of pieces)
17

Driver	Single-Piece Volume Loss	Presort Volume Loss
Electronic Diversion	-15.127	-15.938
Postal Price Changes	-0.732	-1.521
Delivery Time Changes	-0.473	0.017

18
19 The econometric analysis reveals that the primary driver of volume loss for
20 Single-Piece and Presort mail is electronic diversion. It also reveals that Presort mail

⁵² USPS OIG Audit Report: Peak Season Air Transportation (NO-20-215-R21), Feb. 25, 2021, p. 12 (<https://www.uspsig.gov/sites/default/files/document-library-files/2021/20-215-R21.pdf>) (hereinafter “Peak Air Transportation OIG Audit Report”).

⁵³ Cintron Direct Testimony at pp. 32-33.

⁵⁴ Q1’21 BHT at p. 33.

1 volumes do not appear to be as sensitive to changes in Delivery Time. A possible
2 explanation for the different sensitivities between Presort and Single-Piece First-Class
3 mail is their differing customer profiles: uniformly businesses (Presort) versus a more
4 diverse mix that includes consumers (Single-Piece). There is an industry of printers and
5 mail service providers which cater to Presort mailers by providing value-added features.
6 These features include enhancements in mail preparation and options to enter mail
7 further into the postal network to achieve faster and more affordable delivery service,
8 thereby mitigating or avoiding the effects of changes in Delivery Time. We would
9 anticipate that the mailing industry will be able to adopt similar measures to mitigate or
10 avoid the impacts of this proposed change, and we will work closely with the industry on
11 such matters.

12 The lower sensitivity of Presort mail to changes in Delivery Time is an important
13 finding. It suggests that the estimated impact to FCM is unlikely to be significant given
14 that Presort Letters account for 65 percent of overall FCM volume and Single-Piece
15 Letters is 28 percent.⁵⁵

16 Witness Thress used his historical analysis as a basis for projecting how FCM
17 volume would respond to the proposed service standard changes. To develop the
18 projections, Thress evaluated the impact to FCM volume if Delivery Time increased by
19 19 percent as a result of the proposed service standard changes and kept price and
20 cost constant. The projected loss to FCM contribution as a result of the proposed
21 service standard changes is **\$110.9 million**.⁵⁶ The resulting loss to volume is **523.1**

⁵⁵ USPS Revenue, Pieces and Weight (RPW) Report for Quarter 4, FY 2020
(<https://www.prc.gov/docs/115/115091/FY2020Q4-RPWsummaryreport-PUBLIC.xls>).

⁵⁶ Thress Direct Testimony at p. 37.

1 million pieces, which represents 0.99 percent of total FCM volumes in FY 2020.⁵⁷ The
2 projected impact to gross revenue is \$253.6 million.⁵⁸

3 **III. ESTIMATE OF IMPACT ON PERIODICALS**

4 **A. Methodology**

5 The proposed service standard changes are also expected to impact a portion of
6 end-to-end Periodicals volume that travels through the FCM network. The impacted
7 end-to-end Periodical mail pieces comprise only a small fraction of total end-to-end
8 Periodicals volume (19 percent) and an even smaller fraction of total Periodicals volume
9 (7 percent).⁵⁹ Given the relatively small proportion of volume impacted, Thress
10 evaluated the relationship between average days to delivery (“Delivery Time”) and
11 volume for both end-to-end Periodicals and all Periodicals. Thress ultimately selected
12 the all Periodicals analysis because those results were more statistically meaningful
13 than end-to-end Periodicals.

14 To evaluate the relationship between Periodicals volume and changes in Delivery
15 Time, Thress used the three Periodicals demand equations filed annually with the PRC
16 pursuant to Commission Rule 3050.26 as a starting point. Those demand equations
17 are for the following subclasses of Periodicals: Regular Rate, Nonprofit (including
18 Classroom), and Within County. Here, however, Delivery Time was added as variable
19 in each of the three relevant Periodicals equations. For Delivery Times, Thress used
20 data compiled by quarter from FY 2014-Q1 through FY 2020-Q4. The demand
21 equations and other details of the econometric analysis are provided in Direct

⁵⁷ *Id.*; FY 2020 Annual Report at p. 24.

⁵⁸ Thress Direct Testimony at p. 37.

⁵⁹ Hagenstein Direct Testimony at Library Reference (LR-N2021-1-3: Model Results).

1 Testimony of Thomas E. Thress on Behalf of the United States Postal Service
2 (USPS-T-5), PRC Docket No. N2021-1 (Apr. 21, 2021).

3 **B. Periodicals Findings**

4 Witness Thress's findings for Periodicals were identical to his FCM findings: the
5 primary driver in Periodicals volume loss is electronic diversion. Since 2014,
6 Periodicals volume has declined by 2.9 billion pieces, which is entirely due to electronic
7 diversion.⁶⁰ Thress's findings are also consistent with our understanding of demand
8 trends for Periodicals. Regular surveys conducted by the Postal Service showed that
9 "readership and circulation for all types of [P]eriodicals fell rapidly as the Internet
10 provided an inexpensive, and often free, source of news and information."⁶¹

11 Thress used his historical analysis as a basis for projecting how Periodicals
12 contribution will respond to the proposed changes to the service standard. To develop
13 the projections, Thress evaluated the impact to Periodicals if Delivery Time increased
14 by 19 percent as a result of the proposed service standard changes and holding price
15 and costs constant. Thress also adjusted the projected impact estimate because only
16 7 percent of all Periodicals volume will be affected by the proposed service standard
17 changes. Further, all Periodicals are likely to be more sensitive to changes in Delivery
18 Time as compared to end-to-end Periodicals due to the inclusion of more time-sensitive
19 mail pieces, thus the forecasted impact is likely to be overestimated.

20 The projected impact to Periodicals contribution is **\$0.8 million**.⁶² The positive
21 contribution for Periodicals is due to attributable costs per piece being higher than

⁶⁰ Thress Direct Testimony at pp. 34-35.

⁶¹ FY 2019 HDS at p. 2.

⁶² Thress Direct Testimony at p. 38.

1 revenue per piece for this mail class.⁶³ The resulting loss to volume is 4.3 million
2 pieces, which represents 0.11 percent of total Periodicals, and the loss to revenue is
3 \$1.2 million.⁶⁴

4 **IV. ESTIMATE OF IMPACT TO CUSTOMER SATISFICATION**

5 The proposed changes are unlikely to have a meaningful impact on customer
6 satisfaction. The top five drivers of customer satisfaction are: (1) reliability; (2)
7 consistently delivers the mail when expected; (3) provides fast mail delivery; (4) “keeps
8 my mail safe;” and (5) delivers to the correct address.⁶⁵ The proposed changes are
9 unlikely to materially impact these drivers of customer satisfaction. Rather, the Postal
10 Service designed the changes in order to improve the top two drivers: reliability and
11 consistently delivers the mail when expected.

12 Our proposed changes to FCM and Periodicals service standards will enable the
13 Postal Service to implement cost-saving and efficiency-improving transportation network
14 changes.⁶⁶ The resulting cost-savings are expected to outweigh the estimated
15 contribution loss, thereby improving the Postal Service’s financial sustainability and
16 extending the availability of universal service.⁶⁷ The continued availability of universal
17 service—including six-day delivery for mail—is one of the reasons that our customers
18 and general public find the Postal Service valuable. This initiative and other key
19 initiatives will help the Postal Service ensure continued universal service for all our

⁶³ See USPS Annual Compliance Review FY 2020, USPS-FY20-1-FY 2020 Public Cost and Revenue Analysis Report, Dec. 29, 2020 (<https://www.prc.gov/docs/115/115617/USPS-FY20-1%20Preface.CRA.Report.pdf>).

⁶⁴ Thress Direct Testimony at p. 38.

⁶⁵ Q4'20 BHT at p. 33.

⁶⁶ Cintron Direct Testimony at p. 34.

⁶⁷ *Id.* at p. 32.