

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

FIRST-CLASS MAIL AND PERIODICALS
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-1

INITIAL BRIEF OF THE UNITED STATES POSTAL SERVICE

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ATTESTATION OF WORD COUNT

The Postal Service attests that this brief contains 18,293 words, excluding the table of contents and table of authorities.

I. STATEMENT OF THE CASE¹

On March 23, 2021, the Postal Service published a 10-year strategic plan, entitled *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Plan). The Plan sets forth a comprehensive and balanced set of initiatives to address the Postal Service's long-standing financial, service, and operational challenges. Ultimately, the Plan is designed to achieve two fundamental goals: service excellence, defined as meeting or exceeding 95 percent on-time delivery across all product categories, and financial sustainability, by enabling the Postal Service to achieve break-even performance over the next 10 years while making the necessary investments in people and infrastructure. By achieving these goals, the Plan will ensure that the American people receive prompt, reliable, and efficient universal postal services, through a postal system that is self-sustaining and capable of meeting their evolving needs.

The proposal being considered in this docket is a critical element of the Plan, and in achieving the twin goals of service excellence and financial sustainability. The current service standards for First-Class Mail and end-to-end Periodicals do not enable the Postal Service to reliably deliver those products on time. Service standards specify to customers how long they should expect that it will take for a particular piece of mail to be delivered, and a key component of the Plan is to ensure that those standards set forth meaningful expectations that the Postal Service can realistically achieve on a consistent basis. However, and as the Commission has repeatedly found, the Postal Service has not met the current service standard targets for First-Class Mail in many

¹ See Rule 3020.123(b)(2).

years, meaning that the Postal Service has not been providing customers with consistent and reliably prompt delivery. These failures to meet the service performance targets have been particularly pronounced when it comes to First-Class Mail that is currently subject to a 3-day service standard. While these problems were exacerbated by the COVID-19 pandemic, they long precede it, and the impact of the pandemic has been to highlight the critical need to address the capabilities and resilience of the Postal Service's network.

Additionally, the current standards result in inefficiencies and high costs in the Postal Service's transportation network. In order to attempt to meet the standards, the Postal Service must transport a significant amount of First-Class Mail volume through costly air transportation, and also run inefficient surface trips with low volumes. Because of the constrained transportation window resulting from the current standards, the Postal Service is inhibited from leveraging strategies to reduce these costs. As the Commission has found, the Postal Service has been in a financially unsustainable position for years due to declining mail volumes and other factors, and must undertake significant efforts to reduce costs and improve efficiency as one part of a comprehensive effort to address the Postal Service's financial condition. Consistent with that view, the Plan envisions a robust level of cost savings through the implementation of efficiency-enhancing initiatives to Postal Service operations; adopting these service standard changes is a critical step toward creating a more efficient, cost-effective network.

The Postal Service proposes to change the service standards for First-Class Mail and end-to-end Periodicals in a careful and targeted fashion to address issues caused

by the current service standards that contribute to unreliable service and inefficiencies. Specifically, the service standards proposed by the Postal Service would enhance service reliability and efficiency by expanding the transportation window that is applicable to First-Class Mail and end-to-end Periodicals. The proposed standards would narrow the scope of the surface drive time between the origin processing facility and destination processing facility used to determine the 2-day standard (from 6 hours to 3 hours), and apply 3-, 4-, and 5-day standards within the contiguous United States based on surface drive times. For offshore states and territories, the Postal Service proposes to add a day to mail currently subject to a 3- or 4-day standard, while keeping 5 days as the outer service boundary.

The expansion of the transportation window resulting from these new service standards would enable various operational changes. First, it would enable the Postal Service to move more volume by surface transportation rather than air transportation. Surface transportation is substantially more reliable than air transportation. It generally requires fewer handlings than air transportation and hence has fewer potential points of failure, and it is less susceptible to severe service delays due to adverse circumstances beyond the Postal Service's control, such as bad weather. Second, the transportation window change would enable the Postal Service to create a more efficient surface transportation network throughout the Nation: the Postal Service would have more opportunities to undertake practices (such as routing and consolidating volumes through Surface Transportation Centers, or STCs) that reduce trips and mileage and increase utilization, compared with the current standards. Third, for volume that would still be

transported by air, the transportation window change would give the Postal Service more flexibility to use lower-cost air carriers for offshore transportation.

In short, these proposed service standard changes would result in a more reliable, efficient, and cost-effective transportation network. More volume would be transported through a better-utilized and lower-cost surface transportation network. At the same time, slack would be created in the network that would give the Postal Service a greater ability to provide on-time delivery despite the occurrence of transportation and mail processing delays, which inevitably arise in the normal course of business. The adjusted service standards therefore would help enable the Postal Service to achieve a consistent service performance level of at least 95 percent on-time delivery for First-Class Mail and end-to-end Periodicals.

In addition, expanding the transportation window would lead to a significant reduction in transportation costs, calculated by the Postal Service to be \$279.6 million from FY 2020 levels. This would, in turn, lead to a net financial benefit, after accounting for the volume and contribution loss that could occur due to the service standard changes: overall, the Postal Service calculates a net annual financial improvement of \$169.5 million, compared with FY 2020 levels. The proposal therefore advances the Postal Service's efforts to achieve financial sustainability and supports the maintenance of affordable rates.

This calculation is conservative because it does not account for other savings that these proposed service standards would help facilitate, both in transportation and mail processing. Regarding the latter, while the purpose of this proposal is to expand the transportation window, these standards would also help enable the Postal Service to

adopt future changes to the processing network. Through the creation of a more efficient transportation network that enables First-Class Mail to be transported by surface from coast to coast, the Postal Service would also be able to create streamlined, simplified shape-based processes for the middle mile, improving efficiency. For letters and flats, an expanded First-Class Mail network would enable the Postal Service to merge letter and flats processing into a consolidated network centered on Processing & Distribution Centers (P&DCs). Network Distribution Centers (NDCs), which would be transformed into Regional Distribution Centers (RDCs) to expand reach, would focus on handling parcels. This concept is expected to reduce handlings, improve efficiencies in the processing centers and network, and optimize letter, flats, and package processing for predictable, reliable operations.

The Postal Service has also carefully considered the impact of this proposal on customers. The proposal would alter the service standards for a minor share of First-Class Mail and Periodicals volume, and the Postal Service recognizes that any operational adjustment would cause inconvenience or additional costs for certain customers. Overall, however, the proposed changes are targeted in scope, and implementation of these proposed adjustments would bring benefits to all customers in the form of greater reliability and a more efficient and hence financially sustainable Postal Service.

In this regard, it is critical to keep the scope of the changes in perspective, in terms of the amount of volume that would experience a longer service standard. The majority of First-Class Mail (70 percent) would continue to be subject to a 1-to-3-day standard; indeed, most volume (61 percent) would stay at its current standard.

Single-Piece First Class Mail in particular would be relatively unaffected, as fully 78 percent would remain at its current standard. Tr. 1/53. The overnight standard would not be affected, and First-Class Mail traveling within a local area (with up to a three-hour drive time) would still be delivered within two days; this means that 81 percent of current two-day First-Class Mail volume would retain its 2-day service standard. In total, less than 21 percent of total First-Class Mail volume in the contiguous United States would be subject to a 4-day standard, and less than 10 percent to a 5-day standard. Meanwhile, 93 percent of current Periodicals volume (and 81 percent of end-to-end Periodicals volume) would stay at its current standard.

For the minority of volume that is subject to a shift in service standard, the standard would only change by 1 or 2 days (with most of such volume experiencing a 1-day change). At the same time, the Postal Service would be positioned to provide service on a significantly more predictable and reliable basis, rather than continually failing to meet existing service performance targets. By setting attainable standards, and then meeting those standards on a consistent, sustained basis, the Postal Service would ensure that the standards establish meaningful customer expectations as to the delivery time of mail pieces.

The record also shows that this change would have a limited impact on mail volume. Econometric analysis indicates that changes in delivery speed have only a modest impact on mail volumes. This is consistent with Postal Service market research, which finds that the biggest drivers of customer satisfaction are whether the Postal Service is providing reliable, consistent service. To be sure, the service-standard downgrades for a minority of covered volume may have more pronounced effects for

some customers, depending on their mailing profiles, and some of these customers may feel that those effects outweigh the benefit of improved reliability. To the extent that these customers may reduce their mailings accordingly, the Postal Service's robust and sophisticated econometric analysis recognizes and measures this potential effect. While some other participants have presented their personal views that this service standard change would have a pronounced effect on mail volume, they do not present any evidence that undermines the Postal Service's projections of customer demand following the proposal's implementation.

All of this analysis demonstrates that the Postal Service's initiative is consistent with statutory policies. Pursuant to Section 3691(b)-(c) of Title 39, the Postal Service has reasonably balanced a number of sometimes-conflicting objectives and factors. The service standard changes would enhance the value of postal services by improving reliability and consistency, while minimizing the tradeoffs in terms of reduced service standards. This balancing of reliability, speed, and frequency is also consistent with reasonable rates and best business practices, both of which require efficient cost management, and with various other statutes that require a balance between efficiency and service. In weighing these objectives, the Postal Service has accounted for actual current service levels; customer satisfaction; postal customers' needs; current and future costs; delivery point growth; future mail volume and revenues; and the impact of technology, demographics, and population distribution on mail volumes and the delivery network.

The Postal Service has also reasonably balanced the statutory policies enshrined in the broad universal service parameters in Sections 101, 403, and 3661(a). Service

would remain adequate and efficient, and important letter mail would continue to be transported expeditiously through more reliably prompt First-Class Mail or through the use of Priority Mail Express and Priority Mail. In addition, whatever geographically disparate effects on actual service might flow from the change in the nationally uniform service-standard framework, those disparities do not amount to undue or unreasonable discrimination against longer-distance mailers, in light of the fact that the standards are uniformly applied to all mailers and that, if anything, the service standard changes merely reduce advantages that longer-distance mailers would continue to enjoy. Moreover, any disparate effects are the result of extrinsic constraints that inevitably flow from the real-world application of such nationwide standards, and the application of such standards is consistent with the statutory policy of binding the Nation together through a universal service network.

In sum, the record shows that adoption of these adjusted standards would be in the best interests of mailers and the American people generally. The Commission should issue an advisory opinion finding that the proposed new service standards are consistent with the policies of Title 39 and that the Postal Service has employed sound methodologies to develop the new service standards.²

² This sentence constitutes the Postal Service's position. See Rule 3020.123(b)(3); see *also* Postal Rate Comm'n, Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services, Postal Rate Comm'n Docket No. N2006-1 (Dec. 19, 2006) [hereinafter "N2006-1 Report"], at 12 (articulating the dual focus of an advisory opinion under Section 3661).

II. DISCUSSION OF EVIDENCE, REASONS, AND AUTHORITIES³

A. Longstanding Financial and Service Problems Necessitate This Service Standard Change

This proposal must be considered and understood in the broader financial and operational context facing the Postal Service. As the Commission is well aware, many years of declining mail volumes have placed the Postal Service in a financially perilous condition: the Postal Service has experienced fourteen years of net losses, with a severely underfunded balance sheet, and an insufficient cash balance to make necessary capital investments and to have a reserve to address contingencies. USPS-T-2 at 2, 6–7.⁴

The Commission has already repeatedly recognized that the Postal Service is not in a financially stable position, and that this instability fundamentally threatens the continued fulfillment of the Postal Service’s public service mission to the American people. *E.g.*, Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, PRC Docket No. RM2017-3 (Dec. 1, 2017), at 165–78 (analyzing financial trends and discussing prior Commission findings). As the Commission has further found, to address this financial instability, the Postal Service must undertake efforts to reduce operating costs and increase efficiency. *E.g.*, Order

³ See Rule 3020.123(b)(4).

⁴ The FY 2021 Integrated Financial Plan, which is cited by witness Whiteman and also used in the Plan, projected a \$9.7 billion net loss. See USPS-T-2 at 2. Based on actual FY 2021 performance during Quarters 1 and 2, the Postal Service now projects that the net loss will range between \$2.0 billion and \$9.0 billion, based on varying assumptions regarding revenue and the continued impact of COVID-19. Tr. 2/509, 2/519. However, the precise amount of the net loss is not relevant to the Commission’s consideration of this proposal. The point being made by witness Whiteman is that the Postal Service is in a financially precarious position. Simply because a partial year’s financial results have been better than forecasted does not undercut that fundamental point. It is no basis to maintain service standards that, as the Postal Service has shown, have resulted in unreliable service and operational inefficiencies over a multi-year span.

No. 5763, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Nov. 30, 2020), at 84–86. Network transportation expenses constitute a significant portion of Postal Service expenses, and as the record shows there are substantial opportunities to improve the efficiency and cost-effectiveness of the transportation network by adjusting service standards.

It is also clear that the Postal Service’s current service standards do not enable the Postal Service to reliably deliver First-Class Mail and end-to-end Periodicals on time. The Postal Service sets service standards to specify to customers and mailers how long they should expect it to take for a particular piece of mail to be delivered. While 100 percent compliance with any service standard is not realistic, a key aspect of the Plan is that the service standards should set meaningful expectations for customers about the service they will receive, and therefore support robust service performance targets that can realistically be achieved on a consistent basis. In particular, the Postal Service has, in the Plan, determined that a 95 percent service performance target across all products is an appropriate standard for defining “service excellence.” See Tr. 1/327; USPS-T-1 at 11 n.8; Plan at 5, 24, 27, 34, 40, 53, 56.

There is clearly a need for establishing service standards that are achievable, and the Postal Service would assert that taking the steps here is entirely consistent with the Commission’s interest in ensuring a reliable, efficient mail delivery network for the American people. Specifically, and by way of analogy, the Commission has previously noted the Postal Service’s inability to meet service performance targets and suggested that the Postal Service should set more reasonable targets. *E.g.*, Postal Regulatory

Comm'n, Analysis of United States Postal Service FY 2019 Performance Report and FY 2020 Performance Plan (June 1, 2020) [hereinafter "FY 2020 Analysis"], at 32 ("Once [the] effects [of disruptive events on service performance in FY 2020] can be better quantified, the Commission hopes that more realistic targets will be developed, which the Postal Service's [continuity of operations] planning could be employed to meet." (emphasis added)). In this proceeding, the Postal Service is seeking the Commission's review of a different response to service performance failures, but one which would better accord with customer expectations: namely, to expand the transportation window as part of changes to service standards. Compared with lowering targets to indicate the unreliability of efforts to meet current service standards, this alternative solution is designed to achieve predictability and consistency from the customer perspective.

Witness Cintron discusses the Postal Service's sustained failure to achieve service performance targets. USPS-T-1 at 6–8. Like the Postal Service's prolonged financial instability, the Commission is well aware of this fact, given that it has repeatedly found that the Postal Service has not met the current service standard targets for First-Class Mail for many years. For example, in recent years, the Postal Service did not succeed in meeting targets for any of the 17 market-dominant First-Class Mail products. See, e.g., Postal Regulatory Comm'n, Annual Compliance Determination, FY 2020 (Mar. 29, 2021) [hereinafter "FY 2020 ACD"], at 4, 160; Postal Regulatory Comm'n, Annual Compliance Determination, FY 2019 (Mar. 25, 2020), at 119. The consistent and, in many cases, pronounced gaps between service targets and actual service performance mean that the Postal Service has not been providing

customers with consistent and reliable delivery. For instance, with respect to Single-Piece First-Class Mail subject to a 3-to-5-day standard, the Postal Service has consistently performed far below the targets; specifically, for that product, the Postal Service fell well below 90 percent on-time performance for each year from 2014 through the present, falling below 80 percent in FY 2015 and FY 2020, and only slightly above 80 percent in FY 2019. USPS-T-1 at 7. These results show that, while service performance challenges have been exacerbated by the COVID-19 pandemic, they long precede it, and the impact of the pandemic has been to highlight the critical need to address the resilience of the Postal Service's network: that is, the Postal Service's ability to provide reliable and consistent service even as circumstances change.

These longstanding financial and service performance challenges must be addressed if the Postal Service is to provide the American people with prompt, reliable, and efficient services in the future. The Plan sets forth a comprehensive, balanced approach to adapting the Postal Service to current and anticipated realities. For the reasons discussed below, these proposed service standards are a key component of achieving the goals of the Plan: service excellence and financial sustainability.

B. The Proposed Service Standards Would Enhance the Postal Service's Transportation Network

1. Comparison of Current and Proposed Standards

The current service standards for First-Class Mail within the contiguous United States set forth a 1-to-3-day range, with surface transportation drive time used in the business rules only in relation to the 2-day standard.⁵ In particular, a 2-day standard

⁵ The standards for end-to-end Periodicals constitute the existing First-Class Mail standards, plus 1 day.

applies to ZIP Code pairs when the surface transportation drive time is 6 hours or less, determined by distance divided by 46.5 miles per hour between origin P&DC and destination Sectional Center Facility (SCF). ZIP Code pairs within the contiguous United States that are more than 6 hours' drive time apart are subject to a 3-day standard, whether the distance between the origin and destination processing plants is 300 miles or 3,000 miles.

These current standards result in a constrained transportation window, which has certain operational consequences from the standpoint of the transportation network. To meet the 6-hour drive time standard, the Postal Service must use a significant amount of direct point-to-point surface transportation with low volume. USPS-T-1 at 22. The expansive geographic scope of the 3-day standard requires that the Postal Service use air transportation for many lanes, since surface transportation can be used only if it is capable of ensuring that the mail arrives by the destination Critical Entry Time (CET) in a cost-effective fashion. See Tr. 1/353-54. In practice, where a mail piece's transit distance is greater than approximately 1,300 miles within the contiguous United States, current service standards require such mail to be routed via the air network. USPS-T-1 at 19. For 3-day volume that can go on surface transportation under the current standards, the limited transportation window also constrains the Postal Service's ability to route that volume in an efficient fashion.

The proposed service standards would expand the available transportation windows by creating a 1-to-5-day range within the contiguous United States, and basing the business rules for each category on surface transportation drive times (other than the overnight standard, which would not change). Specifically, the Postal Service

proposes to narrow the scope of the existing 2-day standard, while applying the following surface drive time requirements to assign ZIP Code pairs to 3-, 4-, and 5-day categories:

- A 2-day standard would be applied to pairs in which the drive time is 3 hours or less;
- A 3-day standard would be applied to pairs with a drive time that is more than 3 hours, but which is 20 hours or less;
- A 4-day standard would be applied to pairs in which the drive time is more than 20 hours, but which is 41 hours or less; and
- A 5-day standard would be applied to pairs in which the drive time is greater than 41 hours.

These drive time standards are based on distance, divided by 46.5 mph, between the origin P&DC, destination Area Distribution Center (ADC), and destination SCF (rather than just considering the origin P&DC and destination SCF).

With respect to Periodicals, the change to the First-Class Mail network necessitates changes to the service standards for end-to-end Periodicals. The Postal Service does not routinely use air transportation to transport Periodicals. Tr. 1/325. Rather, Periodicals either are transported on the surface lanes used for First-Class Mail, or are sent through the NDC network for lanes in which First-Class Mail receives air transportation. *Id.* For end-to-end Periodicals transported with First-Class Mail on surface transportation, the service standard is determined by the First-Class Mail service standard plus one day, and hence this proposal would affect the service standards for that volume. *Id.* Destination-entry and local-turnaround Periodicals and

Periodicals transported via the NDC network are not affected by this service standard change. Tr. 1/159, 1/317, 1/325, 1/371; USPS-T-1 at 31; USPS-T-2 at 8–9.

2. Operational Changes Enabled by the Proposed Standards

By changing the service standards in this manner, the record shows that the Postal Service would be able to implement beneficial changes to the transportation network.

First, these proposed standards would enable the Postal Service to use surface transportation for a greater percentage of First-Class Mail volume and to reduce reliance on air transportation. For First-Class Mail, surface transportation is used unless it is (1) not service-responsive given time or distance constraints, or (2) not cost-effective for a particular lane as compared to air transportation (when considering the volumes at issue). See Tr. 1/351-54, 1/422–23, 1/439. By adjusting the standards for the contiguous United States to more fully account for surface drive times, the Postal Service would be able to choose surface transportation whenever it is the most cost-effective solution, to an extent not possible today. In particular, the proposed standards are designed such that First-Class Mail could be transported by surface transportation coast-to-coast and still meet the destination CET. See Tr. 1/345, 1/388–89.

Although air transportation is generally more expensive than surface transportation, the Postal Service would continue to use air transportation when it is the more cost-effective method to move First-Class Mail on a particular lane. See Tr. 1/384. Indeed, as the Postal Service has discussed, a certain percentage of First-Class Mail would remain on air transportation following the service standard change. The Postal Service estimates that approximately 12 percent of First-Class Mail would remain on air. USPS-T-1 at 30; USPS-T-3 at 27–28. However, the proposed service

standard changes would enable a substantial percentage of volume to move from air transportation to surface transportation, because air would not be assigned solely because of time and distance constraints: approximately 9 percent of First-Class Mail volume currently traveling by air could be moved to surface.⁶ See USPS-T-1 at 30; USPS-T-3 at 27–28.

Second, by expanding the transportation window, the Postal Service would be able to design a surface transportation network that is much more efficient and cost-effective than the network determined by the current standards. The current service standards require the Postal Service to maintain an inefficient level of trips and mileage, with low utilization; indeed, current utilization of network transportation is only approximately 40 percent. USPS-T-1 at 10; Tr. 1/407; *see also* Tr. 1/361; USPS-LR-N2021-1-16; USPS-LR-N2021-1-22. As witness Cintron notes, “the biggest constraint to reducing trips and improving utilization is based on the limited transit windows from origin to destination.” Tr. 1/373; *see also* Tr. 1/184–86. By building in additional transit time, the proposed service standards would provide new opportunities to reduce trips and improve utilization. The Postal Service would be able to transfer and consolidate more volumes through STCs and to create more multi-stop trips. Tr. 1/184, 1/194, 1/271, 1/345–346, 1/350, 1/372–373. The Postal Service would also have significant

⁶ As part of this shift away from air transportation (unless it is the more cost-effective transportation mode for a particular lane), the Postal Service would also no longer treat remittance mail differently from other First-Class Mail when it comes to assigning transportation mode. Remittance volume has been assigned to surface and air transportation separately from other First-Class Mail, and remittance volume for a particular lane may therefore receive air transportation when other First-Class Mail would receive surface transportation. See Tr. 1/335.

opportunities to combine letter and flats volume with parcel volumes on the same trip. Tr. 1/184, 1/346.

There is little operational risk in these straightforward operational changes. The low utilization of the current surface transportation network means that there is ample capacity to handle the additional volume that would be diverted from the air. The Postal Service has well-established processes for assigning and dispatching mail volumes between the different modes of transportation, which can easily be adapted to transferring more volume to surface. Tr. 1/417-18, 1/439, 1/442-43. Surface transportation is generally less operationally complex than air transportation: the former requires fewer “touches,” handoffs, and opportunities for error, delay, and added cost than the latter. USPS-T-1 at 11; Tr. 1/392-93, 1/410. Finally, while the service standard changes would increase workload at the STCs, implementation is not expected to significantly exceed the current capabilities of those locations, and the Postal Service is focused on ensuring that it has an STC network capable of efficiently handling the workload. Tr. 1/205, 1/412-15, 2/481.

Witness Hagenstein’s modeling validates witness Cintron’s conclusion that the adjusted service standards would enable these reliability- and efficiency-enhancing operational changes. *See generally* USPS-T-3. Witness Hagenstein uses a transportation modeling software, Blue Yonder© Transportation Modeler (TMOD), to create an optimized surface network (*i.e.*, a network that minimizes both mileage and trips) based on volumes transported via the First-Class Mail network, the existing network of processing facilities, and various operational parameters and constraints. USPS-T-3 at 6-20; Tr. 1/174-79. This modeling, which is sophisticated and appropriate

to the task at hand, demonstrates that moving to the adjusted service standards would result in an improved network, characterized by reduced consumption of air transportation, surface trips, and surface mileage (with improved surface utilization).

The modeling was composed of multiple steps or iterations, allowing for both the optimization and maximization of efficiencies in the network as well as an accurate comparative analysis of results. USPS-T-3 at 7–8. To summarize:

- The baseline transportation optimization model using current service standards outputs 4,073 daily trips with a daily mileage of 2,139,302 and 66 percent utilization.
- The optimized surface routing model under the proposed service standards, without considering the First-Class Mail volume currently moving through the air, produces 3,566 trips with a daily mileage of 1,805,069 and 74 percent utilization.
- The optimized surface routing model under the proposed service standards, after considering First-Class Mail volumes currently moving through the air and the cost-effectiveness of each mode, adds 319 trips, for a total of 3,885 daily trips with a mileage of 2,011,176, and 77 percent utilization.

Therefore, the model shows overall trip and mileage reductions of 5 and 6 percent, respectively, from moving to the proposed service standards. These reductions derive from both trip elimination and trip restructuring enabled by the increase in the transportation window. For instance, while the baseline model produces 1,896 point-to-point trips, the model using the projected service standards produces 1,338 such trips, due to the ability to transfer volumes via the STC network. Tr. 1/218.

Witness Hagenstein's modeling does not purport to take into account all operational issues or constraints that might exist regarding a particular lane in the real world. Indeed, as the Postal Service has noted, the model itself is not the end of the process, and the Postal Service's transportation planning team would implement the transportation changes enabled by these adjusted standards by designing lanes and assigning the mode of transportation in ways that may vary, in some instances, from the model outputs. USPS-T-3 at 20; Tr. 1/252 (explaining that the model is a directional tool, not a tactical tool), 1/418, 1/439, 1/442–43. That said, the model provides a robust and compelling basis for the conclusion that the service standard changes would increase the efficiency of the surface transportation network.

- The design of the model ensures that it captures only the impact of the service standard changes, by using the same volumes and operational parameters through each iteration. Tr. 1/177–78.
- The model employs a number of reasonable and appropriate inputs and constraints to ensure that its surface routings align with the operational realities of the postal network. Witness Hagenstein has demonstrated how such inputs as volumes, routings, and baseline truck trailer capacities are reasonable and useful elements to be considered in the model. Tr. 1/177–85. He has explained the reasonableness of other aspects of the model, including estimated costs per mile, container capacity, and certain timing constraints. Tr. 1/196–200. As an example, the model conservatively assumes that containers are only 75 percent full, which accounts for the possibility that additional containers may be generated from multiple operations for the same destination. Tr. 1/197.

- The “slack” created by the extended transportation windows mitigates the risk that the modeled results would materially deviate from actual operational results. As witness Hagenstein notes, while specific operational constraints or issues not considered in the model may require adjustments to the implementation planning, the impact risk is low given the extended transportation windows and ability to adjust dispatch times and arrival times. Tr. 1/187.
- It is also worth noting that, while real world results may differ from modeled performance due to unanticipated factors not incorporated into the model, the proposed service changes would likely make the Postal Service less subject to unanticipated factors than at present, as surface transportation is more reliable and resilient than air transportation. USPS-T-1 at 9. Commercial air travel is both outside of the Postal Service’s control and extremely subject to external factors, such as bad weather and changes to flight schedules. USPS-T-1 at 10; Tr. 1/359–60. By reducing the Postal Service’s reliance on air transportation, the impact of events outside of the Postal Service’s control would be diminished.
- The Postal Service has used the Blue Yonder software in the past, using it to model morning HCR transportation, which achieved savings very similar to the projected savings. Tr. 1/202.

In sum, the evidence in the record demonstrates convincingly that the Postal Service applied thoughtful and reliable analysis, and made conservative and accurate assumptions, in the modeling exercise. As a result, the model has produced network parameters that would enable the Postal Service to achieve more reliable, more financially sustainable, and more efficient mail delivery for the Nation.

C. The Proposed Service Standards Would Improve Service Reliability

By enabling these operational changes, the Postal Service would be able to significantly improve the predictability and reliability of the service that customers receive.

First, the record is clear that surface transportation is consistently more reliable than air transportation. USPS-T-1 at 9 & n.6; USPS-LR-N2021-1-6; Tr. 1/288. Air transportation, both cargo and commercial, is inherently less reliable than surface transportation for a number of reasons. USPS-T-1 at 10. Air carriers' flight schedules are frequently volatile and subject to last minute changes based upon weather delays, network congestion, and air traffic control ground stops. USPS-T-1 at 10; Tr. 1/359–60. In addition, volume capacity for commercial carriers is variable and unpredictable because it depends upon passenger and luggage volumes. *See, e.g.*, Tr. 1/289, 1/394–96. Air transportation also requires considerably more handlings than surface transportation, with each handling being a potential driver of cost and delay.

While surface transportation can also be negatively affected by factors such as bad weather and traffic, the impacts of a delayed (or cancelled) flight are generally more pronounced than a delayed truck trip, and the Postal Service is better able to mitigate the negative consequences of the latter as compared to the former. Therefore, surface transportation is much more resilient than air transportation, in that it presents considerably less risk from the standpoint of service failures. Witness Cintron provides a specific example of this fact, regarding the recent Winter Storm Viola in February of this year. *See id.* During the three weeks encompassing the storm, surface transportation outperformed air (for on-time performance) by 9.3 percentage points. *Id.* As witness Cintron explains, weather can cause delays for both air and surface

transportation; generally, however, delays to the air network impact more mail volume per trip, and air has fewer re-routing alternatives. *Id.* Simply put, moving volume through the surface network should contribute to greater levels of on-time delivery.

Second, the expanded transportation window would increase reliability by creating more slack in the network. In other words, the Postal Service would have more time and flexibility to move mail from origin and destination, and hence be better-positioned to accommodate and absorb adverse circumstances that would inevitably arise in the normal course of business, such as transportation and mail processing delays, while still providing timely service. Tr. 1/217, 1/345–46, 1/312, 1/348. For instance, while this proposal does not alter the mail processing windows, by expanding the available transportation window the buffer time between the planned mail processing clearance time and the transportation departure time could in many cases be increased, which could be used to account for variation in mail processing clearance to help ensure all volumes are loaded on the designed transportation. Tr. 2/478–79. This additional slack would facilitate the Postal Service's ability to increase the amount of mail that is delivered on time. See *also* USPS-T-3 at 13–14 (comparing length of dispatch times between current network and proposed model).

D. The Proposed Service Standard Changes Would Increase Efficiency and Reduce Costs

These operational changes would also enable the Postal Service to achieve significant improvements to efficiency and reduce operating costs, as compared to what would occur if the current standards stayed in place. Witness Whiteman calculates these savings using Commission-approved methodologies based on the modeling conducted by witness Hagenstein. USPS-T-2 at 8–13. As described in section II.B.2

above, this modeling validates that the expanded transportation window would allow for a reduction in volume assigned to the air network and in overall surface transportation mileage and trips. This would result in lower contracted transportation expenses:

- Capacity would be reduced for air transportation and Inter-Area, Inter-Cluster, and Inter-P&DC surface transportation, which would result in reduction in transportation costs. USPS-T-2 at 8–10.
- Less volume would be transported by air, leading to \$196.1 million in annual cost savings. USPS-T-2 at 10–11; USPS-LR-N2021-1-NP2.
- Although more volume would be traveling by surface, that would be more than offset by more efficient surface routes. USPS-T-2 at 11. This leads to \$83.5 million annual cost savings. USPS-T-2 at 13.
- In total, the proposed changes would lead to \$279.6 million in combined annual transportation cost savings. USPS-T-2 at 13–14.

These savings calculations use FY 2020 as the base year, which witness Whiteman has explained is appropriate. Tr. 2/511–13, 2/515. COVID-19 made FY 2020 unusual in many regards, but it remains a reasonable baseline for this purpose. Although transportation costs increased overall in FY 2020, they did not do so to an anomalous degree compared with past years' increases. See *id.* More to the point, transportation costs attributed to First-Class Mail actually decreased in FY 2020. See *id.* Thus, FY 2019 would not have offered a superior baseline.

Witness Whiteman further calculates the net financial impact of this proposal, by comparing the transportation cost savings to the estimated contribution loss from reductions in mail volume caused by this service standard change (derived from witness

Thress's econometric analysis). Overall, when comparing these cost savings of \$279.6 million to the estimated contribution loss of \$110.1 million, the initiative is estimated to improve annual net income by \$169.5 million. USPS-T-2 at 14.

The basis for these calculated savings is clear and straightforward. As Postal Service witnesses have noted, this service standard change is focused on expanding the transportation window, and the additional time that is built into the standards (1) allows more volume to travel by surface and meet the destination CET than is the case today, and (2) gives the Postal Service more opportunity to take advantage of the existing STC network and other measures to create more efficient surface routings, with fewer trips and reduced mileage compared to the current service standards. Capturing these savings is not dependent on further steps to reduce complement, increase productivity, or otherwise make significant changes to operations. Rather, as noted above, the risk of failing to achieve the anticipated efficiencies is low.

The savings figure presented in this docket is conservative, for a number of reasons.

First, the savings do not account for exceptional trips, which supplement regularly scheduled transportation, and whose need is unpredictable and therefore cannot be modeled. Tr. 1/211–212. However, given the extra slack created by expanding the transportation window, which would facilitate the Postal Service's ability to dispatch volumes on the regularly scheduled transportation and avoid extra trips, there is a clear basis to conclude that this proposal would reduce the need for such trips. Tr. 1/212, 1/348. This would increase the potential savings. Tr. 1/212.

Second, while this analysis considers only certain transportation savings, it is also important to note that the proposed service standards would enable additional initiatives set forth in the Plan to improve reliability and efficiency. These service standard changes would be a necessary first step towards implementing a coast-to-coast surface transportation network that would result in better utilized surface transportation, and they would open up fresh opportunities to optimize the mail processing network to enable more streamlined, shape-based processing, improving efficiency and the ability of the Postal Service to meet operating plans. Specifically, as witness Cintron has testified, the Postal Service would be able to merge the new First-Class Mail surface transportation with the existing inter-NDC network, which is dedicated to transporting end-to-end Marketing Mail, Periodicals, and package service products. USPS-T-1 at 28–29. This would “allow NDC network volumes to share space on this transportation and reduce overall network requirements. Instead of maintaining two parallel networks, network efficiencies could be realized by merging the two.” Tr. 1/189; *see also* Tr. 1/203. Moreover, this would allow the existing NDCs to be transitioned into facilities dedicated to package processing, with letter and flats volume processed through the P&DC network. Tr. 1/334.

E. For Offshore Areas, the Changes Would Better Align Standards with Operational Performance and Allow Use of Lower-Cost Air Carriers

As explained, air transportation is inherently less reliable than surface transportation for a number of reasons. USPS-T-1 at 10; Tr. 1/359–60. But beyond the delays, network congestion, and ground stops inherent in all air transportation, other factors decrease reliability when using commercial air carriers for transportation of mail; for example, volume capacity is variable and unpredictable because it is dependent

upon passenger and luggage volumes. See, e.g., Tr. 1/289, 1/394–96. The Postal Service must therefore frequently utilize cargo air carriers to transport mail to and from Alaska, Hawaii, and the overseas territories in order to meet current service standards. USPS-T-1 at 12. While the use of cargo air carriers better enables the Postal Service to achieve current service standards, cargo air carriers are generally more expensive and reduce the cost-efficiency of transportation to and from the contiguous United States. USPS-T-1 at 12. Accordingly, the service standard changes would better enable the Postal Service to utilize more cost-effective commercial air transportation for mail originating or destinating in Alaska, Hawaii, and the overseas territories and to decrease utilization of higher-cost cargo air carriers, while still meeting service standards. USPS-T-1 at 26, 28.

F. The Postal Service Cannot Achieve These Benefits Without Implementing the Service Standard Changes

Achieving these results necessitates that the Postal Service implement these service standard changes. Of course, the Postal Service continually seeks ways to improve the service capability and efficiency of the transportation network within the existing service commitments. Tr. 1/188, 1/372. In that regard, the Postal Service does not contend a lack of any other means to improve service performance results under the existing standards from the levels that exist today. Indeed, the Postal Service is focused on stabilizing operations and fostering service excellence, Plan at 5-6, and recent service performance measurement results have shown that performance is improving.⁷ Nonetheless, these opportunities for improvement are limited under the

⁷ See U.S. Postal Serv., Press Release, USPS Service Performance Shows Continued Improvement Across First-Class Mail and Periodicals, June 10, 2021, <https://about.usps.com/newsroom/national->

current standards, and it is only through adjusting the service standards that the Postal Service can expand the transportation window, and hence significantly improve service reliability and operational efficiency.

An expanded transportation window is necessary to put the Postal Service in a position to achieve service reliability at the robust 95 percent level set forth in the Plan. As discussed in section II.B.1 above, it is the limited transportation window that necessitates the use of air transportation over surface transportation in many instances. The data show that air transportation consistently leads to poorer results, and expecting that the Postal Service could undertake steps to materially change that situation moving forward is not reasonable, given the lack of capacity in the air network and the factors that make air transportation inherently less reliable than surface transportation. USPS-T-1 at 10; Tr. 1/392-95. It is also the limited transportation window that increases the risk of service failures occurring even when surface transportation is being used, since it makes it more challenging for the Postal Service to absorb transportation delays or other adverse circumstances that arise in the normal course of business. By expanding the transportation window, the Postal Service would be able to select a mode of transportation that is more reliable, and would have more slack in the network to mitigate the risk of service failures.

Furthermore, it is only through adjusting the service standards that the Postal Service can expand the transportation window and realize substantial efficiencies in the transportation network. As discussed in section II.B.2 above, the current service

[releases/2021/0610-usps-service-performance-first-class-mail-and-periodicals.htm](https://www.usps.com/newsroom/national-releases/2021/0610-usps-service-performance-first-class-mail-and-periodicals.htm); U.S. Postal Serv., Press Release, U.S. Postal Service Delivery of Mail Sees Across-the-Board Improvements as Recovery from Pandemic Continues, June 3, 2021, <https://about.usps.com/newsroom/national-releases/2021/0603-usps-delivery-of-mail-sees-across-the-board-improvements.htm>.

standards inherently demand more trips with lower utilization than the proposed service standards would. For instance, the proposed 2-day standard would enable the Postal Service to hub more 2-day volumes. Thus, although the Postal Service considered a scenario that would maintain the 2-day standard at its current level (6 hours' drive time) while making current 3-day mail into 3-to-5-day mail, that scenario increased annual mileage by 36 million miles and reduced the estimated savings by approximately \$80 million compared to the proposal. Tr. 1/307.

The enactment of these service standard changes is also necessary in order to enable the development of a coast-to-coast preferential surface transportation network. Tr. 1/304. The development of this network is, in turn, a prerequisite for the Postal Service being able to consolidate the NDC network and the preferential network for letter and flat transportation. *Id.* It is therefore also a prerequisite to achieving the improvements in the processing network discussed above.

G. The Proposed Service Standard Changes Would Have Only a Modest Impact on Contribution and Could Enhance Customer Satisfaction

The Postal Service has considered the impact of these proposed service standard changes on customers, as well as the potential impact on contribution. While the Postal Service recognizes that any change to service standards can impact customers, overall the record shows that the changes would have only a modest impact on contribution, and could improve customer satisfaction by increasing service reliability. USPS-T-4 at 6. In particular, and for the reasons noted above, the Postal Service would be better able to manage customers' expectations as to delivery times and to consistently meet those expectations. *Id.* Furthermore, by reducing operating costs, the proposed change would support the long-term financial sustainability of the

universal postal network and the maintenance of affordable rates, also to the benefit of all mailers. *Id.* at 18–19, 25–26.

1. Most mail volume would be unaffected by the changed service standards

As an initial matter, it is critical to recognize the actual scope of the changes being proposed when assessing the customer impact of this proposal. To summarize the record:

- 61 percent of current First-Class Mail volume would retain its current standard, including 78 percent of Single-Piece First-Class Mail.
- Overnight Presort First-Class Mail would not be affected.
- 81 percent of current 2-day First-Class Mail volume will retain its 2-day standard.
- 70 percent of First-Class Mail volume would receive a standard of 1–3 days, in line with the current range in the contiguous United States, including 75 percent of remittance mail.
- There is a nearly proportional effect on urban and rural areas: 39 percent of urban First-Class Mail would be affected, while 37 percent of rural First-Class Mail would be affected.
- 81 percent of end-to-end Periodicals volume, and 93 percent of total Periodicals volume, would stay at its current standard.

See USPS-T-3 at 23–25; USPS-T-4 at 1–2; Tr. 1/53, 1/144; USPS-LR-N2021-1-24; see *also* Tr. 1/158; USPS-LR-N2021-1-18.

2. Some contribution loss is expected based on past experience, but not enough to outweigh the anticipated benefits

Witness Thress was asked to conduct an econometric analysis to provide his best estimate of the volume losses which might be expected to result from the Postal Service's proposed changes to service standards. USPS-T-5 at 2; Tr. 2/534–36.⁸ The econometric analysis isolates the impact of delivery performance (*i.e.*, changes in average days of delivery) on all First-Class Mail volume and by Single-Piece and Presort Mail, as well as on all Periodicals volume. See Tr. 2/541; USPS-T-5 at 9–18, 28–34. It therefore analyzes how mailers have reacted in the past to changes in delivery performance. USPS-T-5 at 3; USPS-T-4 at 5.

As witness Thress notes, other factors (*e.g.*, electronic diversion, price changes) have had a much bigger impact on First-Class Mail and Periodicals volume as compared to changes in “average days to delivery.” USPS-T-5 at 20, 34; USPS-T-4 at 13. The following table summarizes the results of his analysis regarding First-Class Mail:

Table 1: Drivers of First-Class Mail Volume Loss from FY 2011 to FY 2020
(Billions of pieces)

Driver	Volume Loss
Electronic Diversion	-31.1
Postal Price Changes	-2.3
Average Days to Delivery Changes	-0.456

Moreover, witness Thress finds that Presort First-Class Mail is less sensitive to delivery time changes than Single-Piece First-Class Mail; this is significant, given that

⁸ This responds to the Commission's past exhortation to undertake econometric modeling of the relationship between speed of delivery and mailing behavior. Advisory Opinion on Mail Processing Network Rationalization Service Changes, PRC Docket No. N2012-1 (Sept. 28, 2012), at 70–71, 140.

Presort Letters account for 65 percent of overall First-Class volume. USPS-T-4 at 15. This finding, in combination with the volume impacts above, further suggests that the proposal's impact on First-Class Mail volume is unlikely to be significant.

Using these findings, witness Thress estimated how the proposal would impact the Postal Service's contribution. USPS-T-5 at 36–37; USPS-T-4 at 11–12, 16–17. While some contribution loss is expected, the loss from changes in average days to delivery is modest and is clearly outweighed by the cost savings noted above (as well as the benefits of increased service reliability).

Table 2: Estimated Financial Impact of Proposed Service-Standard Changes

	Contribution
First-Class Mail	-\$110.9 million
Periodicals	\$0.8 million
Net Impact	-\$110.1 million

Witness Thress's analysis is robust and provides a clear basis for the Postal Service and the Commission to analyze the potential impact of the service standard changes on contribution. His modeling relies on sound methodology and is consistent with well-known facts of the postal market and its dynamics. For instance, he forecasts the financial impact of the proposal using all First-Class Mail volume, rather than simply the amount of volume that is impacted, which is appropriate given postal market dynamics. See Tr. 2/531, 2/533. Modeling the financial impacts of only the impacted mail volume would provide an inaccurate estimate of contribution loss. See Tr. 2/531, 2/533.

On rebuttal, witness Carlson questions whether the modeled results would be accurate. But this testimony simply asserts his personal view that customers would

view this change as being much more extensive than it actually is, and therefore that this change could “very well serve as a tipping point that prompts changes in mailing behavior that previous changes in service standards did not.” DFC-RT-1 at 6-7.

However, such personal conjecture provides no basis for the Commission to reject results of a robust and sophisticated econometric analysis. *Cf.* Order No. 1926, Order Granting Exigent Price Increase, PRC Docket No. R2013-11 (Dec. 24, 2013), at 156–57 (utilizing a Postal Service econometric analysis after finding that other parties, despite their criticisms, did not provide an “adequate alternative” to that analysis). Witness Carlson provides no substantive basis for the Commission to conclude that customers would react to these changes differently from prior changes. For instance, commercial customers sending Presort First-Class Mail would be expected to make rational business decisions based on the actual service standards; indeed, a central request of commercial customers during the pre-filing process (to which the Postal Service was responsive) was for a list of the proposed standards by ZIP Code pairs, precisely so they could engage in such an analysis. USPS-T-4 at 15; Tr. 1/60. In addition, as witness Monteith notes, a 1-to-5-day range may also be aligned with many customer expectations already, given the results of a published survey by the Office of Inspector General. USPS-T-4 at 19–20.

The econometric findings are also consistent with the results of Postal Service market research, which shows that reliability has consistently been the most predictive factor in determining customer satisfaction. USPS-T-4 at 13; Tr. 1/66–67. The Postal Service measures customer satisfaction with current service performance using Brand Health Tracker Surveys and other touch points. Tr. 1/18. While “fast” delivery is an

important driver of customer satisfaction, reliability over time has proven to be more predictive of overall satisfaction. Tr. 1/75–76. In addition, the relative importance of “fast” delivery in predicting customer satisfaction has changed over time. For example, “fast” delivery’s ranking as a driver of customer satisfaction dropped from #2 in FY 2019 to #4 in FY 2021. Tr. 1/66–67. This indicates that the Postal Service’s proposal—which, as noted above, would significantly enhance service reliability—could increase customer satisfaction, by enabling the Postal Service to provide customers with more meaningful service standards.

Finally, the impact on customers in witness Thress’s analysis is likely to be somewhat overestimated for Periodicals. Periodicals as a whole are likely to be more sensitive to changes in average days of delivery as compared to end-to-end Periodicals due to the inclusion of more time-sensitive mail pieces. USPS-T-4 at 17. End-to-end Periodicals are not entered at a destinating facility and typically travel from Zones 3 to 9, are hence are more likely to contain monthly or quarterly publications. Specifically:

- 74 percent of all Periodicals volume entered at destinating facility is within Zones 1 and 2 or closer;
- 77 percent of daily and weekly Periodicals is within Zones 1 and 2 or closer; and
- 78 percent of Periodicals volume that travel from Zones 3 to 9 are monthly or quarterly.

Tr. 1/56. Insofar as Periodicals are affected, one major trade association—the National Newspaper Association (NNA)—has endorsed the proposed changes, as its members stand to benefit from the resulting service improvements. Statement of Position of NNA (June 15, 2021), at 1.

3. Customers would be adequately informed of the service standard proposal, which may help mitigate any impacts arising from the proposal

The Postal Service recognizes that customer communication is an important element of implementing any service standard change. USPS-T-4 at 6, 20–25. The Postal Service therefore has been engaged in efforts to ensure that retail and commercial customers understand the service standard changes and would continue those efforts as part of implementing the changes. Informing retail customers about the service standard changes ensures that they understand the impact and can make informed decisions about their mailings. Tr. 1/22. Similarly, informing commercial customers about the service standard changes allows commercial customers to make informed decisions as to their business processes and their mailings. *Id.* Commercial customers, in particular, have a variety of options in partnership with mail service providers to mitigate any impact of these changes, which the Postal Service anticipates they will utilize. USPS-T-4 at 13–14; Tr. 1/29.

The Postal Service has engaged in extensive outreach regarding the proposed changes, and will continue to engage with and support postal stakeholders:

- Industry. The Postal Service has presented the proposal at the Mailers' Technical Advisory Committee (MTAC) and met with various industry associations, Postal Customer Council leadership, and customers from six regulated industries. Tr. 1/55–61. In addition, industry stakeholders requested that the Postal Service release ZIP Code pairings so that they could analyze the impact of the service standards proposal, and this was provided in witness Hagenstein's testimony. See USPS-LR-N2021-1/3, Microsoft Excel file "3_Zip3_OD_Pairs.xlsx". The Postal Service has also shared the feedback

received with postal leadership and highlighted customers' concerns in discussions relating to the proposal. Tr. 1/55–59.

- Remittance mailers. In meetings with industry stakeholders, the Postal Service also met specifically with remittance mailers to discuss the proposed changes and to answer questions. To further address remittance mailers' concerns and needs, the Postal Service established the Remittance Mail MTAC User Group. This group's purpose is to serve as an ongoing forum for the Postal Service and remittance mailers. For example, the Remittance Mailer MTAC User Group will facilitate communications between the Postal Service and remittance mailers and will address and work to resolve issues pertaining to remittance mail. The Remittance Mailer MTAC User Group will remain in effect for as long as remittance mailers continue to benefit from it. Tr. 1/30.
- Election mailers. The Postal Service has conducted briefings with the National Association of Secretaries of State (NASS) and the National Association of State Election Directors (NASED) to explain the proposal. Overall, the Postal Service anticipates that only a small amount of Election Mail would be impacted. USPS-T-1 at 17 n.12. The Postal Service would also conduct outreach to local election officials to ensure that the proposal does not negatively impact any elections. Specifically, the Postal Service would leverage partnerships with NASS and NASED to ensure information is disseminated to state election executives as well as their respective jurisdictions in a timely manner. Tr. 1/17–18, 1/69–70.

- General Public. The Postal Service announced the proposal by issuing alerts and other communications and would do the same if the proposal is implemented. The Postal Service also announced the proposed changes in the *Federal Register* through a notice of proposed rulemaking, see 86 Fed. Reg. 21675 (Apr. 23, 2021), and would publish a final rule announcing the new service standards. USPS-T-4 at 20–25; Tr. 1/25–26.

In sum, the record demonstrates that the proposal would have only a modest impact on contribution and could improve customer satisfaction by providing greater reliability and consistency of delivery service. Additionally, the Postal Service will continue to listen and learn and support mailers as they navigate these proposed changes, which should help mitigate any impacts arising from the proposal.

H. The Initiative Is in Accordance with and Conforms to Statutory Policies

Section 3661(c) requires the Commissioners to certify that the advisory opinion conforms to the policies of Title 39. By extension, this has traditionally been understood to imply that the service change that is the subject of the opinion must conform to applicable policies set forth in Title 39. This service standard change does so.

In revising market-dominant service standards as the Postal Service is doing here, the new service standards must be “designed to achieve” various objectives set forth in Section 3691(b)(1), taking into account the factors set forth in Section 3691(c). As required by Section 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). Because Section 3691’s objectives-and-factors formulation mirrors the provision governing the market-dominant ratemaking

system, 39 U.S.C. § 3622(b)–(c), it is evident that the Section 3691 objectives must similarly be balanced against one another.⁹ A key difference between the two sections is that the Commission is charged with applying the Section 3622 objectives and factors, whereas the Section 3691 objectives and factors bear on matters expressly placed within the Postal Service’s discretion. *Id.* § 3691(a), (c). Thus, while the Commission is generally entitled to its independent opinion regarding service changes subject to Section 3661, it should recognize the degree of deference due to the Postal Service in the particular context of market-dominant service standards additionally subject to Section 3691. The following sections discuss the Postal Service’s current assessment of relevant objectives and factors based on the administrative record.¹⁰

1. Objective A: The service standard changes would enhance the value of postal services to senders and recipients

Objective A concerns whether service standard changes would enhance the value of postal services to both senders and recipients. The Postal Service considers this in light of the actual levels of service that postal customers currently receive, the degree of customer satisfaction with current service levels, and postal customers’ needs. 39 U.S.C. § 3691(c)(1)–(3).

It is well-documented that the Postal Service has been unable to meet existing service standards for several years. USPS-T-1 at 6–8; Plan at 14, 52–53. This is particularly true for 3-to-5-day First-Class Mail, which is most reliant on air transportation. USPS-T-1 at 6–8; Plan at 14, 52–53. As witness Monteith testifies,

⁹ See Order No. 4257 at 17–18 (quoting prior Commission orders).

¹⁰ Two objectives are not implicated by these service standard changes, which do not affect access locations or service performance measurement systems. See 39 U.S.C. § 3691(b)(1)(B), (D).

customer satisfaction is primarily driven by reliability and consistency of service, to a greater and more persistent degree than delivery speed. Tr. 1/64.

The service standard changes here are aimed at addressing this leading customer concern, improving the reliability and consistency of service that customers need, and enhancing customer satisfaction with postal services. Surface transportation has consistently been more reliable than air transportation in recent years, due to the greater volatility of air carriers' flight schedules, the greater number of handoffs and opportunities for delay in air transportation, and air carriers' capacity constraints. USPS-T-1 at 9–11; Plan at 12–13; Tr. 1/390–95. Although performance has fluctuated, the Postal Service has been regularly below targets for both First-Class Mail and Periodicals in recent years. USPS-T-1 at 6–8. The shift of a substantial amount of First-Class Mail from air to surface transportation, which would enable the creation of a more capable coast-to-coast surface transportation network, is expected to improve service performance significantly. This is critical to achieving the stated goal of 95 percent on-time service performance throughout the Nation. USPS-T-1 at 11 n.8. This, in turn, would markedly improve the reliability and consistency, and therefore the value, for postal customers.

The revised service standards and the expectation of 95 percent on-time delivery took account of current actual days to deliver. Tr. 1/348. Indeed, at the same time that the revised service standards would improve reliability, they are designed to minimize negative service impacts. Most First-Class Mail and end-to-end Periodicals would not experience any lengthening of delivery times. Overnight First-Class Mail would experience no change whatsoever; approximately 81 percent of 1-to-2-day First-Class

Mail would remain as such; and approximately 47 percent of 3-day First-Class Mail would stay at that standard. USPS-T-3 at 23. Among remittance mail, 79 percent presently subject to a 2-day standard would retain that standard, and 55 percent subject to a 3-day standard would remain as such. *Id.* at 24. Fully 93 percent of Periodicals (and 81 percent of end-to-end Periodicals) would retain current service standards. *Id.* at 25. And even with respect to the minority of mail subject to newly extended service standards, the historical failure to meet service standards means that a significant portion of that mail is already taking that long to deliver anyway; the difference would be that customer expectations and modern operating realities would now be placed in better alignment. Overall, the new service standards would enhance value by improving reliability while maintaining current service standards and delivery times for the overwhelming majority of First-Class Mail and Periodicals.

The Postal Service does not dispute that customers generally value speed, that some customers do so preeminently, and that some mailers may reduce their mailings in response to the service standard change, notwithstanding the improvement in reliability and consistency of service. Based on econometric analysis of historical volumes and average delivery days, the Postal Service estimates that the service standard change could lead to a drop in volume from FY 2020 levels of approximately 1.71 percent for Single-Piece First-Class Mail, 0.69 percent for workshared First-Class Mail, and 0.11 percent for Periodicals. USPS-T-5 at 37–38. These rates of one-time incremental volume decline, while not salutary, are relatively small, buttressing the conclusion that the diminished satisfaction of these customers would not substantially affect the overall perceived value of postal services. Indeed, the corresponding

estimated contribution loss is far from enough to outweigh the anticipated reliability and efficiency benefits of the service standard change, which inure to all postal users.

USPS-T-2 at 14.

2. Objective C: The service standard changes would reasonably assure postal service customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices

Objective C requires the Postal Service to balance reliability, speed, frequency, and “reasonable rates,” consistent with “best business practices.” 39 U.S.C.

§ 3691(b)(1)(C). In the context of market-dominant products, the Commission has interpreted “reasonable rates” to mean rates that do not threaten the Postal Service’s financial integrity: specifically, rates that allow market-dominant products to cover their attributable costs and, overall, to contribute reasonably toward institutional costs. Order No. 4257 at 229–30. The “best business practices” phrase is a close cousin of the standard for “best practices of honest, efficient, and economical management” used for so-called exigent price increases on market-dominant products; the Commission has construed that standard to include consideration of cost-cutting efforts against the backdrop of the Postal Service’s statutory and political constraints. Order No. 1926 at 125–36.

Given the shared context of market-dominant products, the Postal Service finds it reasonable to incorporate these principles into the application of Objective C. Because service standards do not directly concern rates, “reasonable rates” is understood, in conjunction with the “best business practices” phrase that follows it, to imply reducing costs in order to maintain the financial sustainability of postal services. This construction accounts for the current and future projected cost of serving Postal Service

customers (Factor 6), a key driver of which is delivery point growth (Factor 5).¹¹ It also requires consideration of future mail volume and revenues (Factor 4). Put another way, the Postal Service must determine how to maintain efficiency and reliability in the face of changing factors that affect mail usage and the size of the delivery network (e.g., technology, demographics, and population distribution) (Factor 7). Other Title 39 provisions (Factor 8) reinforce the need for the Postal Service to balance reliability, speed, and efficiency. See 39 U.S.C. §§ 101(a) (prompt, reliable, and efficient services to patrons), 101(f) (transportation for prompt and economical delivery), 403(a) (adequate and efficient postal services at fair and reasonable rates and fees), 403(b)(1) (efficient postal system), 2010 (modern and efficient operations), 3661(a) (adequate and efficient postal services).

The items evaluated under Objective C may be at tension with one another. Assuring delivery reliability and maximizing efficiency may require tradeoffs in terms of speed and *vice versa*. Again, Section 3691 commits the weighing and balancing of these conflicting aims to the Postal Service's discretion. *Cf.* Order No. 5763 at 280–81 (same conclusion as to Section 3622(b)–(c)). A reviewing court would not be at liberty to “substitute the balance [it] would strike for that” which the Postal Service would reach, and the Commission should similarly respect the statute's investiture of the Postal Service with the deciding role. *Id.* at 281 n.344 (quoting *U.S. Postal Service v. Postal Regulatory Commission*, 963 F.3d 137, 141 (D.C. Cir. 2020)).

¹¹ See Order No. 5763 at 27–28; Order No. 5337, Revised Notice of Proposed Rulemaking, PRC Docket No. RM2017-3 (Dec. 5, 2019), at 64. While the recently modified market-dominant price cap includes a mechanism to recoup part of the increase in unit costs due to changes in volume and delivery points, that mechanism is designed to preserve the Postal Service's incentive to reduce costs per delivery point. Order No. 5763 at 73, 85–86.

The Postal Service has reasonably determined that the service standard changes at issue would improve both delivery reliability and efficiency, while minimizing the extent of impact on delivery speed. Circumstances pertaining to reliability and speed are discussed in the preceding section. As for efficiency, the service standard changes are expected to reduce air and surface transportation capacity enough to reduce costs by \$279.6 million from FY 2020 levels, or \$169.5 million after accounting for the estimated net decrease in annual contribution from customers dissatisfied with the service standard change. USPS-T-2 at 14. They would also enable other efficiency improvements that are not captured in that figure. This reduction in costs is essential to managing the Postal Service's dire finances and outlook under best business practices, in light of projected mail volumes, revenues, and costs and the Postal Service's statutory constraints. See USPS-T-2 at 1-8; Tr. 2/508–10, 2/519; Plan at 20, 45–46.¹²

3. The service standard changes appropriately account for and balance other statutory policies

The balance that the Postal Service is to strike under Section 3691 must account for policies enshrined in other provisions of Title 39, including the broad universal service parameters in Sections 101, 403, and 3661(a). 39 U.S.C. § 3691(c)(8). These provisions set forth general policies that require balancing in their own right, and which

¹² It bears noting that, contrary to the recent fears of some in the mailing industry, the Commission's authorization—and the Postal Service's impending use—of additional market-dominant pricing authority has been accompanied not by a retreat from efficiency efforts, but by a proliferation of them. See *generally* Plan. In this regard, the service standard changes here are entirely in keeping with the Commission's expectations in modifying the price cap. See Order No. 5763 at 84–86. It also bears noting that these service standard changes are aimed at ameliorating the service performance issues that the Commission lamented in the same Order. *Id.* at 323-25. That improving service performance and operational efficiency requires a lengthening of service standards for a minority of mail does not mean that the new service standards fail to be of "high quality," see 39 U.S.C. § 3622(b)(3); as discussed in this and the preceding section, the service standard changes are designed to enhance the value of postal services and to strike an appropriate balance between delivery speed, reliability, and frequency, based on consideration of customer satisfaction, customers' needs, and various other factors.

give the Postal Service flexibility to adjust its service levels to the public's evolving needs. Therefore, as the Commission has recognized, the Postal Service has significant discretion in applying these policies. See, e.g., Advisory Opinion on Retail Access Optimization Initiative, PRC Docket No. N2011-1 (2011), at 7-9 ("The Postal Service is afforded a significant amount of authority under the statute, and has reasonable discretion to interpret the ambiguous terms delineating its powers and obligations."); Advisory Opinion on Elimination of Saturday Delivery, PRC Docket No. N2010-1 (2011), at 11-13 ("The Postal Service is afforded a significant amount of flexibility in determining how to" fulfill Sections 101 and 403, which "set[] out general postal policies[.]").

i. Sections 403(a)–(b) and 3661(a)

With respect to Sections 403(a) and 3661(a)'s requirement of "adequate and efficient postal services," the former Postal Rate Commission has noted that "[t]he Postal Service has an obligation to ascertain customers' needs, and then determine whether these needs can be met efficiently." Postal Rate Comm'n Report, Complaint on First-Class Mail Service Standards, 2001, Postal Rate Comm'n Docket No. C2001-3 (Apr. 17, 2006) [hereinafter "C2001-3 Report"], app. C at 4. Section 403(b)(2) also involves "the needs of different categories of mail and mail users," while Section 403(b)(1) requires the mail system to be "efficient."

As described in section II.G.2 above, the record shows that the Postal Service has ascertained that customers place primary value on service reliability and consistency. As discussed in sections II.B–D above, the service standard changes are designed to meet those needs efficiently. Moreover, as also discussed above, the

Postal Service would continue to appropriately balance efficiency, reliability, and speed, and ensure that service remains adequate overall.

ii. Section 101(a), (e)–(f)

Among other things, Section 101(a) calls for “prompt, reliable, and efficient services to patrons in all areas.” Under Section 101(e), “the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” Similarly, Section 101(f) establishes a policy priority of “prompt and economical delivery of all mail” “[i]n selecting modes of transportation,” particularly through the use of “[m]odern methods of transporting mail by containerization and programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the Nation.”

The former Postal Rate Commission has observed that “[i]n view of these statutory mandates, the maintenance of current levels of service—and their improvement, wherever feasible—should constitute a cardinal goal of network realignment. This conclusion applies with particular force to First-Class letter mail.” N2006-1 Report at 19. That said, it bears noting that Section 101(a) and (f) balance “prompt[ness]” with “reliab[ility],” “efficien[cy]” and “econom[y],” indicating a recognition that tradeoffs are necessary in providing service and selecting transportation.¹³

Here, the Postal Service achieves that balance by preserving current service standards for the majority of First-Class Mail and end-to-end Periodicals and tailoring the service standard changes to increase the use of more reliably prompt and cost-

¹³ As discussed in the preceding section, other statutory provisions emphasize the policy interests in efficiency and economy. 39 U.S.C. §§ 403(a)–(b), 3661(a); *see also id.* § 2010.

effective surface transportation. The changes would also enable other measures to improve the promptness and efficiency of the surface transportation network, as discussed in section II.B.2 above. These measures include 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.

As for the expedition of important letter mail, 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.¹⁴ Similarly, Priority Mail Express and Priority Mail would 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.

iii. Section 403(c)

Another statutory consideration is Section 403(c), which bars the Postal Service, in providing services, from “mak[ing] any undue or unreasonable discrimination among users of the mails” or “grant[ing] any undue or unreasonable preferences to any such user.” It has been suggested that, because mailers in different areas have differing

¹⁴ 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) [hereinafter “USO Report”], at 25.

numbers of ZIP Code pairs that would experience downgraded service standards, this somehow implicates Section 403(c). See Tr. 1/220–26, 1/230–32. It does not.

For the Postal Service to risk running afoul of this prohibition, three conditions would have to be met: (1) one or more mailers must be offered less favorable rates or terms and conditions than those offered to other mailers; (2) the two sets of mailers must be similarly situated; and (3) there must be no rational or legitimate basis for differing treatment. Order No. 5491, Order Granting the Postal Service’s Motion to Dismiss Complaint with Prejudice, PRC Docket No. C2020-2 (Apr. 28, 2020), at 8; Order No. 718, Order on Complaint, PRC Docket No. C2009-1 (Apr. 20, 2011), at 28. The upshot is that the Postal Service may treat mailers differently so long as that different treatment is reasonable. *E.g.*, *UPS Worldwide Forwarding, Inc. v. U.S. Postal Serv.*, 66 F.3d 621, 634-35 (3d Cir. 1995). Reasonableness is evaluated based on the totality of the circumstances. Order No. 5491 at 13. Courts have given the Postal Service “broad latitude” in distinguishing between different mailers, given the Postal Service’s statutory responsibility to provide universal service in an economical and efficient manner. *Id.* at 634; *Egger v. U.S. Postal Serv.*, 436 F. Supp. 138, 142 (W.D. Va. 1977). The Postal Service submits that, whatever disparate effects may flow from the proposed service standards, those effects are not inconsistent with Section 403(c), for four reasons.

First, any disparities depend highly on circumstances; they do not map neatly onto a discrete class such as “senders and recipients living in western states and other geographic regions of the United States.” DFC-RT-1 at 5. The absolute number or percentage of ZIP Code pairs with changed service standards, see Tr. 1/220, is not

meaningful, because different ZIP Code pairs carry differing volumes. A far patchier and more nuanced picture emerges when relative volumes are taken into account. See Tr. 1/223-26. Thus, differences in impact do not map neatly according to geography; they also depend on mail-usage patterns that vary among ZIP Code pairs.

Second, to the extent that any disparities exist, they are already features of the nationwide service standards framework; if anything, the proposal here would reduce, not create or heighten, existing disparities. Under the non-distance-sensitive price structure for First-Class Mail, a letter to New York City costs the same price in Louisville, KY, and Los Angeles, CA, despite the fact that the letter from Los Angeles travels about 3.7 times as far as the one from Louisville. *E.g.*, USPS-LR-N2021-1/19, Microsoft Excel file “P.Q4 – Hutkins to Hagenstein – 3-dig mode file.xlsx”, tab “OD_Contiguous”. In other words, the Angeleno pays roughly one-quarter the price per mile paid by the Louisvillian. On top of that, the Angeleno currently expects delivery in the same three days as the Louisvillian: this requires the Postal Service to move the Los Angeles–origin letter about 3.7 times as fast as the Louisville-origin letter. All told, the Angeleno is paying the same price (albeit one-quarter the price per mile) and expecting 3.7 times the service speed offered to the Louisvillian.

Under the proposal here, the Angeleno would expect delivery to New York in five days, whereas the Louisvillian is projected to maintain a 3-day service standard. Thus, the Angeleno would get service that is only 2.2 times as speedy as the Louisvillian (in terms of miles per delivery day needed to meet the standard). Given that the Angeleno would still expect more than double the speed (and would now more consistently enjoy the fulfillment of that expectation) for the same price as the Louisvillian, it is difficult to

perceive the Angeleno as a victim here. Whatever the basis for Angelenos' present advantage in both price and speed relative to their Louisvillian counterparts, it certainly cannot be that reducing—while not eliminating—that advantage is itself somehow discriminatory against the still-advantaged Angelenos.¹⁵

Table 3: Price, Distance, Current and Projected Service Standards, and Related Ratios for Los Angeles–New York and Louisville–New York

	Los Angeles to New York	Louisville to New York
Price for 1-ounce Single-Piece First-Class Mail letter	\$0.55	\$0.55
Distance (miles)	2,816	755
Price per mile	\$0.000195	\$0.000728
Price per mile ratio (LA:Louisville)	0.268	
Current service standard (delivery days)	3	3
Expected speed (miles/delivery days)	938.7	251.8
Expected speed ratio (LA:Louisville)	3.728	
Projected service standard (delivery days)	5	3
Expected speed (miles/delivery days)	563.2	251.8
Expected speed ratio (LA:Louisville)	2.237	

Third, the first two prongs of Section 403(c) are not triggered, because similarly situated mailers would be treated the same. For example, all First-Class Mail with a drive time of more than 41 hours will have a 5-day service standard, whether the letter

¹⁵ To be clear, the point here is not that, to the extent that a nationwide service-standard framework or a non-distance-sensitive price structure create disparities in favor of longer-distance mailers, those disparities are somehow suspect under Section 403(c). As explained immediately below, any such disparities are eminently reasonable. Nor should it be inferred that the service standard changes were motivated by an intent to alleviate distance-based disparities in expected speed. Rather, the point here is simply about the natural consequences of the current and proposed service standards and about the lack of disadvantage for longer-distance mailers, when one considers the terms and conditions for First-Class Mail as a whole.

is traveling from Los Angeles to Augusta, GA (2,350 miles; 53.5 hours) or from Louisville to Medford, OR (2,363 miles; 47.8 hours). *See id.* Moreover, all mailers in a given origin locale are being offered the same terms of service: all Angelenos wishing to send a letter between 3 and 20 hours away can expect 3-day service, for instance. That some destinations are farther from the Angeleno than the Louisvillian does no more to undermine the universality of service terms than the fact that different Angelenos send varying amounts of mail across varying distances. The same distance-based service expectations are provided to all mailers, and so there is no differing treatment. *See* Order No. 5491 at 11 (“[Single-Piece First-Class Mail users] receive identical service because they purchase the same product, First-Class letters. Mail pieces under these rates are subject to the same service standards; size; shape and weight restrictions; and content restrictions.”).

Fourth, the effects of the service standard changes are reasonable under the totality of the circumstances, thereby passing muster under Section 403(c)’s third prong. *See id.* at 13. As discussed above, the proposal here does not create disparate treatment; if anything, it reduces existing disparities. Even if one only considered the service standards standing along without considering the other aspects of First-Class Mail, transportation changes applied in an objective and neutral fashion may unavoidably yield longer delivery times for pieces traveling longer distances. C2001-3 Report, app. B at 8, app. C at 12 (“Geography, network design, and distances all play legitimate roles in determining service standards.”). Given its sheer size and geographic diversity, the United States is particularly subject to such unintentional discrepancies—which, rather than constitute undue discrimination, simply manifest the

realities of time, space, energy expenditure, population distribution, and highway and air infrastructure.

Once again, the non-distance-sensitive price structure of First-Class Mail supplies a helpful reference point. Coast-to-coast mail bears the same price tag as local or intrastate mail, even though coast-to-coast mail travels longer distances, consumes more energy, and activates more nodes within the transportation network—in short, commands more resources. Yet, far from considering this an instance of undue discrimination that violates the universal service obligation’s nondiscrimination principle, the Commission has treated non-distance-sensitive pricing for First-Class Mail as a feature of universal service—even though such pricing is a matter of Postal Service discretion and tradition, not a statutory mandate. See USO Report at 30 n.10, 77-78, 139-41, 185, app. B at 260, app. H at 52, 55. Indeed, at least one court has held that “the rather broad anti-Balkanization principle” inherent in Section 101(a) insulates non-distance-sensitive pricing from a Section 403(c) challenge, notwithstanding its obscuring of cost considerations and the resulting cross-subsidies between mailers. *Mail Order Ass’n of Am. v. U.S. Postal Serv.*, 2 F.3d 408, 436–37 (D.C. Cir. 1993); see also *Time, Inc. v. U.S. Postal Serv.*, 710 F.2d 34, 41 n.8 (2d Cir. 1983) (disparate cost-coverage levels among different mail classes did not violate Section 403(c)). Any claim that distance-based disparities in expected delivery speed constitute unlawful discrimination is merely the flip-side of an argument that non-distance-sensitive prices do the same, yet that argument is contrary to settled precedent.

If a nationally uniform, non-distance-sensitive pricing structure—which the Postal Service can control—is not unduly or unreasonably discriminatory, then geography,

population density, and physics—none of which the Postal Service can control—provide all the more of a rational basis for differing experiences that may result from a nationally uniform service-standard framework. See Order No. 1892, Order Granting, in Part, Motion to Dismiss and Holding Complaint in Abeyance Pending Further Action, PRC Docket No. C2013-10 (Nov. 27, 2013), at 12 n.19 (allegations of more frequent service standard violations in rural areas are insufficient to sustain a Section 403(c) claim).

In sum, it is not evident that the proposed changes would have disparate effects among a discrete class of mail or mailers, particularly in terms of actual service received. Far from harming longer-distance mailers, those mailers actually enjoy a preferential value proposition compared with shorter-distance mailers, and the proposed service standard changes would preserve that preference while reducing the size of the disparity. Finally, any disparities in expected delivery speed (whatever their direction) are a consequence of geography, physics, population distribution, and the statutory preference for universality of postal services, and therefore are not undue or unreasonable.

At least one party has suggested that the former Postal Rate Commission's report in Docket No. C2001-3 represents contrary authority, see Tr. 1/219–24, but that suggestion is in error. The service standard changes here are materially different from those at issue in Docket No. C2001-3 in terms of procedural posture. In 2001, the Postal Service implemented the second part of an initiative that the Postal Rate Commission had already examined in a Section 3661 proceeding. Yet in Docket No. C2001-3, the Postal Rate Commission found these changes to be beyond the scope of the original proposal, and this determination presumably colored its substantive

findings. Thus, the Postal Rate Commission specifically lamented that the Postal Service had not filed a new advisory opinion request prior to implementing the “phase two” changes, and thus had missed “an opportunity to develop a record to support the contention that ‘3 days is fast enough’ to satisfy the statute.” C2001-3 Report, app. C at 8. It was this absence of a full airing that led the Commission to assume that the Postal Service had eschewed serious consideration and thus failed to evince a rational basis for the effects of the “phase two” service standard changes. *Id.*, app. C at 9.

By contrast, the Postal Service here has done precisely what the Postal Rate Commission wished had been done in 2000-2001: file a request for an advisory opinion in the interest of developing a record and publicly demonstrating the reasonableness of the proposed changes. The Postal Service has presented ample testimony about the current service, operational, and financial realities that justify this proposal, specifically explaining why disparate service-standard profiles are an inevitable—and thus not unreasonable—result of geography and other extrinsic factors. See Tr. 1/219–24, 1/229–30. It is unreasonable to expect every set of service standards to ensure that a given service standard will apply to the same proportion of mail for each mailer or group of mailers anywhere in the Nation; such a system would demand such baroque complexity that it would defy articulation in regulations or operating procedures.¹⁶ The more straightforward option is to treat a framework of objective, distance-based service standards as rational and therefore sufficient to pass Section 403(c) muster, both

¹⁶ Indeed, one shortcoming that the Postal Rate Commission found in Docket No. C2001-3 was that the service standard changes were not applied uniformly, but depended, in some measure, on local management decisions about facility arrangements; it was these particularized decisions that gave rise to service disparities. C2001-3 Report, app. D at 5–6. If anything, then, the objective, nationally uniform service-standard framework here should be seen not as replicating the faults at issue in Docket No. C2001-3, but as remedying them.

because of the logical connection between distance and service time and because of the degree to which uniform standards serve the public policy interest of binding the Nation together. 39 U.S.C. § 101(a); *MOAA*, 2 F.3d at 436-37; see *U.S. Postal Serv. v. Council of Greenburgh Civic Ass'ns*, 453 U.S. 114, 134 (1981) ("If Congress and the Postal Service are to operate as efficiently as possible a system for the delivery of mail which serves a Nation extending from the Atlantic Ocean to the Pacific Ocean, from the Canadian boundary on the north to the Mexican boundary on the south, it must obviously adopt regulations of general character having uniform applicability throughout the more than three million square miles which the United States embraces. In so doing, the Postal Service's authority to impose regulations cannot be made to depend on all of the variations of climate, population, density, and other factors that may vary significantly within a distance of less than 100 miles.").

Overall, the Postal Service has demonstrated how these service standard changes would conform to all applicable policies of the statute, and that this conclusion is not belied by Commission findings fifteen years ago regarding a different service standard change in a fundamentally different substantive and procedural context.

I. The Statements of Position Offer No Basis for Contrary Conclusions

Over 400 statements of position have been submitted in Docket No. N2021-1.¹⁷ Commenters opine on an array of subjects, by no means tailoring their remarks to the proposal now before the Commission. The Postal Service observes that advisory opinions from the Commission "shall address the specific changes proposed by the

¹⁷ This brief takes into consideration those statements of position posted on or before June 15. The Postal Service may respond to any later-filed statements of position in reply comments.

Postal Service in the nature of postal services.” 39 C.F.R. § 3020.102(b). Thus, issues that are not germane to the service standards proposed in Docket N2021-1 need not be addressed here.

Several of the issues raised by commenters fall outside the scope of this proceeding. Such non-germane issues include:

- Pensions and retiree health benefits;
- Postal banking;
- Appropriations;
- Service standards and/or service performance regarding packages, *see also* APWU-RT-2 at 9 (acknowledging confusion among public commenters about the fact that this initiative does not concern packages);
- Removal of sorting machines and collection boxes;
- Tenure of the current Postmaster General;
- Potential changes to the retail network; and
- “Privatization” of aspects (or indeed the entirety) of the Postal Service.

None of these issues, however important, properly falls within the scope of this proceeding. Changes to the service standards for First-Class Mail and end-to-end Periodicals, however, do fall within the scope of this proceeding, and the statements of position that focus on such changes are addressed below.

Many commenters predict that the proposed changes to service standards for First-Class Mail and end-to-end Periodicals would degrade service, disrupting the provision of goods and services while leaving vulnerable customers and financially

stressed business with no viable recourse. As supporting evidence, many of these commenters relate anecdotes of service failures that have impacted them negatively.

To the extent that these anecdotes relate to First-Class Mail and end-to-end Periodicals—the subjects of this proceeding—the Postal Service submits that these service failures illustrate the weakness of the current transportation network. Indeed, perhaps unwittingly, the commenters who cite these failures make a strong case for the proposed changes. Bills do not, in general, arrive late due to the insufficient speed of surface transportation, but rather because a mailer relied on a service standard that failed to materialize: had the mailer known that delivery would take longer, the mailer could have mailed sooner. The commenters' frustrations, in other words, arose from a lack of reliability currently ingrained in the transportation network. Extra days can generally be planned around, at least when they are clearly indicated in advance; sporadic delays of fluctuating duration cannot. NNA, in its statement supporting the proposed changes, notes the difficulties caused by such delays for an industry defined by periodicity. Citing missed deliveries, late deliveries, and instances where “newspapers . . . arrived in batches of several weekly issues at once,” NNA declares, “If the standard were diminished but actual service improved to a 5-day performance, publishers would be delighted.” NNA Statement of Position at 1. The same holds for any customer who craves confidence about when a mailing will reach its destination. The Postal Service accordingly aims, with the proposed changes now before the Commission, to deploy a transportation network capable of delivering on time and with consistency, one on which customers can count. Vulnerable customers who rely on the Postal Service for timely predictable delivery would also stand to benefit.

The National Association for the Advancement of Colored People, Public Citizen, and the NAACP Legal Defense and Educational Fund, Inc. (NAACP et al.) raise several issues not broached by other commenters. Notably, NAACP et al. voice concern over the impacts of the proposed changes on rural customers, their appropriateness during the pendency of the COVID-19 pandemic, their relation to election mail, and a purportedly illegitimate privileging of cost reduction over delivery speed. Statement of Position of NAACP et al. (June 11, 2021), at 6–7.¹⁸ As explained above, insofar as persons in vulnerable communities—including rural communities—currently experience delivery delays and other service failures, they stand to benefit from the proposed changes, which aim to provide more reliable deliveries and consistent customer expectations. With regard to the pendency of the pandemic, it bears mentioning that many of the service performance failures raised by other commenters have been exacerbated by the effects of the COVID-19 pandemic on air transportation and by the strain on the Postal Service’s surface transportation networks in attempting to shoulder the resulting burden of meeting current service standards. See FY 2020 ACD at 109–16. As noted by NNA, the network overhaul with which the proposed standards changes would coincide is “expected to lead to fuller and more efficient trucks, better transportation lanes within the NDC network, more surface transportation centers and a strong commitment to achieve the new goals.” NNA Statement of Position at 1. If anything, the pendency of COVID-19, its disruption of air transportation, and the

¹⁸ NAACP et al. also express concern about delivery of medications. NAACP et al. Statement of Position at 7. As noted above, packages, such as might contain medications, are not at issue in this proceeding.

resultant burden on surface transportation to meet current service standards makes these corrective measures more, not less, urgent.

As for election mail, the Postal Service notes that, based on November 2020 general election data and the use of the ballot Service Type ID in the Intelligent Mail Barcode, only approximately 3.84 percent of inbound First-Class Mail ballot volume would experience a downward change in service standards. Tr. 1/286. In order to mitigate even that impact, the Postal Service has already held two briefings with election officials since the release of the Plan. Tr. 1/69–70. At both briefings, the proposed service standard changes were discussed, and feedback on the proposal was received. *Id.* The Postal Service will continue to communicate with national election associations, federal organizations, state election executives, and local election officials to inform them of any changes and garner their feedback, comments, suggestions, and concerns. *Id.*; see Tr. 1/17. This outreach is ongoing and will continue past any implementation. USPS-T-4 at 23–24.

The Postal Service stresses that projected cost savings do not, as NAACP et al. suggest, constitute the sole factor motivating the proposed changes. As described in the preceding sections, the proposed service standard changes would both reduce cost and improve service reliability, with minimal impact on delivery speed. Furthermore, the cost savings associated with this plan are not envisioned as ends in themselves; rather, they are intended to ensure that universal service at affordable rates remains financially sustainable into the future. See USPS-T-1 at 34; USPS-T-2 at 2, 7. As discussed in section II.H above, Congress has committed to the Postal Service the discretion to balance service reliability, speed, and frequency in light of reasonable rates and best

business practices and to account for costs, existing service levels, and various factors that affect the financial viability of the universal service network. The service standard changes here represent a considered and reasonable effort to strike such a balance.

NAACP et al. also conjecture that “by potentially decreasing mail volumes or harming the Postal Service brand, the proposal may not result in cost savings for the Postal Service.” NAACP et al. Statement of Position at 8. The Lexington Institute remarks, along similar lines, that “[l]ower mail service quality (*i.e.*, longer delivery times) perpetuates and accelerates the loss of [F]irst-[C]lass [M]ail from the USPS system,” and asserts that “this erodes USPS’s financial standing.” Statement of Position of Lexington Institute (June 11, 2021), at 2. These statements align with the prediction, put forth by other commenters, that the proposed changes would precipitate a “death spiral,” whereby declining service leads to declining demand and thus to declining revenue that outstrips the cost savings.

For all of this dire speculation, no participant has offered evidence to bear it out. To the contrary, the sole non-anecdotal record evidence about potential demand effects is the econometric analysis performed by witness Thress.¹⁹ While that analysis forecasts a decline in volume, the forecasted decline is not anticipated to spark a negative feedback loop or to swallow all concomitant benefits. See USPS-T-5 at 36–38. Indeed, even when the anticipated volume decline is factored in, the Postal Service’s model projects significant net savings. USPS-T-2 at 14. Bolstering this analysis—and unaccounted for in the anecdotes and speculation offered by commenters—is record

¹⁹ See Rule 3020.123(g) (noting that Statements of Position shall be limited to the existing record and shall not include any new evidentiary material); *cf.* Order No. 1926 at 156–57 (utilizing a Postal Service econometric analysis after finding that other parties, despite their criticisms, did not provide an “adequate alternative” to that analysis).

evidence demonstrating the degree to which customers measurably and consistently place higher value on service reliability than speed. USPS-T-4 at 18–20; Tr. 1/63–64. To the extent that some customers may value delivery speed, perhaps even to a determinative degree, the record evidence does not support a conclusion that these customers would set off a wild cascade of demand decline, but rather that customer satisfaction would remain stable, if not improve, with more reliable service. Rather than harm the Postal Service’s brand, then, the proposed changes should, if anything, alleviate the reputational damage accruing to late and missed deliveries. As NNA observes, “[e]very time a newspaper reader receives a late newspaper, the publisher gets a black eye. But so does the Postal Service.” NNA Statement of Position at 5. Over time, customers of every sort—whether business mailers, bill recipients, or individuals sending letters and postcards—may invest greater trust in a Postal Service that sports fewer “black eyes.”

The Lexington Institute further presents recent service failures, along with their alleged codification in the proposed service standards, as part of an alleged strategy to deemphasize First-Class Mail in favor of packages. Lexington Institute Statement of Position at 3. To the extent that this aspect of the Lexington Institute’s remarks implies a strategy about packages, any such strategy would be outside the scope of this proceeding, which does not concern packages. That said, the Lexington Institute’s rhetoric suffers from the fact that the Plan also envisions similar service standard changes for First-Class Package Service. Plan at 27, 30, 53; *see generally* United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, PRC Docket No. N2021-2 (June 17, 2021). More fundamentally, the

service standard changes constitute an attempt to improve service quality for First-Class Mail, and are an important part of a Plan whose overall purpose is to make mail delivery 6-days a week financially viable in the long term. Therefore, the Plan fully recognizes the centrality of mail to the Postal Service's statutory mission, and arguments to the contrary are baseless.

III. STATEMENT OF PROPOSED FINDINGS AND CONCLUSIONS

Based on the record in this proceeding as cited in the preceding sections, the Commission should find the following:

1. Many years of declining mail volumes have placed the Postal Service in a financially perilous condition. The Postal Service has experienced fourteen years of net losses, with a severely underfunded balance sheet, and an insufficient cash balance to make necessary capital investments and have a reserve to address contingencies. *See supra* section II.A.
2. Network transportation expenses constitute a significant portion of Postal Service expenses. *See supra* section II.A.
3. The Postal Service has experienced a sustained failure to achieve service performance targets for many years. *See supra* section II.A.
4. The consistent and, in many cases, pronounced gaps between service targets and actual service performance mean that the Postal Service has not been providing customers with consistent and reliable delivery. *See supra* section II.A.
5. Surface transportation is generally less operationally complex than air transportation: the former requires fewer "touches," handoffs, and opportunities for error, delay, and added cost than the latter. As a result, surface

transportation is consistently more reliable than both commercial and cargo air transportation. *See supra* section II.B.2.

6. The current service standards require the Postal Service to maintain an inefficient level of trips and mileage, with low utilization. *See supra* section II.B.2.
7. These proposed standards would enable the Postal Service to use surface transportation for a greater percentage of First-Class Mail volume and to reduce reliance on air transportation, because air would not be assigned solely because of time and distance constraints. *See supra* section II.B.2.
8. By expanding the transportation window, the Postal Service would be able to design a surface transportation network that is much more efficient and cost-effective than current service standards permit. *See supra* section II.B.2.
9. The low utilization of the current surface transportation network means that there is ample capacity to handle the additional volume that would be diverted from the air. The Postal Service has well-established processes for assigning and dispatching mail volumes between the different modes of transportation, which can easily be adapted to transferring more volume to surface. *See supra* section II.B.2.
10. By building in additional transit time, the proposed service standards would provide new opportunities to reduce trips and improve utilization. The Postal Service would be able to transfer and consolidate more volumes through STCs and to create more multi-stop trips. The Postal Service would also have significant opportunities to combine letter and flats volume with parcel volumes on the same trip. *See supra* section II.B.2.

11. Witness Hagenstein's modeling validates the conclusion that the adjusted service standards would enable these reliability- and efficiency-enhancing operational changes. *See supra* section II.B.2.
12. The operational changes, in turn, would enable the Postal Service to significantly improve the predictability and reliability of the service that customers receive. The Postal Service would be better able to manage customers' expectations as to delivery times and to consistently meet those expectations. *See supra* sections II.C & II.G.
13. Postal Service market research shows that reliability has consistently been the most predictive in determining customer satisfaction. *See supra* section II.G.2.
 - a. While "fast" delivery is an important driver of customer satisfaction, reliability over time has proven to be more predictive of overall satisfaction.
 - b. The relative importance of "fast" delivery in predicting customer satisfaction has dropped over time.
 - c. Therefore, the anticipated improvement of service reliability should enhance customer satisfaction.
14. The Postal Service has ensured that service standards would remain unchanged for most volume within the affected categories of mail. *See supra* section II.G.1.
 - a. With these changes, an estimated 61 percent of current First-Class Mail volume would retain its current standard, including 78 percent of Single-Piece First-Class Mail.
 - b. Overnight Presort First-Class Mail would not be affected.

- c. 81 percent of current 2-day First-Class Mail volume would retain its 2-day standard.
 - d. 70 percent of First-Class Mail volume would receive a standard of 1–3 days, in line with the current range in the contiguous United States, including 75 percent of remittance mail.
 - e. 81 percent of end-to-end Periodicals volume, and 93 percent of total Periodicals volume, would stay at its current standard.
 - f. There is a nearly proportional effect on urban and rural areas: 39 percent of urban First-Class Mail would be affected, while 37 percent of rural First-Class Mail would be affected.
15. These operational changes would enable the Postal Service to achieve significant improvements to efficiency and reduce operating costs, as compared to what would occur if the current standards stayed in place. *See supra* section II.D.
- a. Less volume would be transported by air, leading to an estimated \$196.1 million in annual cost savings.
 - b. Although more volume would be traveling by surface, that would be more than offset by more efficient surface routes, leading to about \$83.5 million annual cost savings.
 - c. In total, the proposed changes would lead to about \$279.6 million in combined annual transportation cost savings.

- d. By reducing operating costs, the proposed change would support the long-term financial sustainability of the universal postal network and the maintenance of affordable rates, to the benefit of all mailers.

16. Witness Thress's econometric analysis is robust and provides a clear basis for the Postal Service and the Commission to analyze the potential impact of the service standard changes on demand and contribution. *See supra* section II.G.2.

- a. His modeling relies on sound methodology and is consistent with market research and well-known facts of the postal market and its dynamics.
- b. This analysis supports an estimate of up to \$110.1 million in contribution loss resulting from the service standard change.

17. Overall, when comparing the cost savings of \$279.6 million to the estimated contribution loss of \$110.1 million, the initiative is estimated to improve annual net income by \$169.5 million. *See supra* section II.D. The initiative would enable additional cost savings as well which are not captured in this cost savings figure.

18. The Postal Service has been engaged in efforts to ensure that retail and commercial customers understand the service standard changes and would continue those efforts as part of implementing the changes. Informing customers about the service standard changes helps to ensure that they understand the impact and can make informed decisions about their mailings. *See supra* section II.G.3.

On the basis of these findings as supported by the evidence in the record, and by the authorities discussed above, *see supra* section II.H, the Commission should conclude the following:

1. The evidence in the record demonstrates convincingly that the Postal Service's modeling employs thoughtful, reliable analysis and conservative and accurate assumptions. As a result, the model has reasonably produced network parameters that would enable the Postal Service to achieve more reliable, more sustainable, and more efficient mail delivery for the Nation.
2. The proposed service standard changes are, on the whole, reasonably likely to enhance the Postal Service's ability to develop and promote adequate and efficient postal services. 39 U.S.C. § 3661(a).
3. The Postal Service has designed the proposed service standards to reasonably balance the relevant statutory objectives enumerated in 39 U.S.C. § 3691(b)(1), taking into account the statutory factors enumerated in 39 U.S.C. § 3691(c).
4. The service standard changes would enhance the value of postal services by improving reliability and consistency, while minimizing the tradeoffs in terms of reduced service standards. 39 U.S.C. § 3691(b)(1)(A).
5. This balancing of reliability, speed, and frequency is also consistent with reasonable rates and best business practices, both of which require efficient cost management. *Id.* at (b)(1)(C).
6. The balancing also appropriately accounts for various other statutes that require a balance between efficiency and service. *Id.* §§ 101(a), 101(f), 403(a), 403(b)(1), 2010, 3661(a).

7. In weighing these objectives, the Postal Service has accounted for actual current service levels; customer satisfaction; postal customers' needs; current and future costs; delivery point growth; future mail volume and revenues; and the impact of technology, demographics, and population distribution on mail volumes and the delivery network. *Id.* § 3691(c)(1)–(7).
8. Any disparate impacts resulting from the service standard change do not amount to undue or unreasonable discrimination. *See id.* § 403(c).
 - a. The disparate impacts of the proposed service standard changes are circumstantial and would not affect a discrete class of persons that might be compared with a separate, similarly situated class.
 - b. The current universal service-standard framework, combined with the non-distance-sensitive price structure of First-Class Mail, creates disparities in expected delivery speed and service–price value propositions that disproportionately advantage longer-distance mail over shorter-distance mail. To the extent that some longer-distance ZIP Code pairs may experience a service standard change, such changes would merely reduce—and certainly do not eliminate or reverse—longer-distance mailers' disproportionate advantages. The perpetuation of this advantage precludes any finding of discrimination, let alone undue or unreasonable discrimination, against longer-distance mailers.
 - c. To the extent that any service standards might theoretically exacerbate existing disparities between mailers in different places, external constraints of geography, physics, and population distribution, as well as

the statutory policy of “binding the Nation together,” place such differences well within the broad parameters of reasonableness. C2001-3 Report, app. B at 8, app. C at 12; see *MOAA*, 2 F.3d at 436–37; Order No. 1892 at 12 n.19.

IV. CONCLUSION

Pursuant to 39 U.S.C. § 3661 and 39 C.F.R. Part 3020, for the foregoing reasons and based on the record in this proceeding, the Commission should adopt the Postal Service’s proposed findings and conclusions above and should issue a favorable advisory opinion that the proposed service standard changes raised by the United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, PRC Docket No. N2021-1 (Apr. 21, 2021), are consistent with the policies of Title 39, United States Code.

Respectfully submitted,

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