

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

First-Class Mail and Periodicals
Service Standard Changes, 2021

Docket No. N2021-1

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INITIAL BRIEF

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I. STATEMENT OF THE CASE

The Postal Service's proposal in this docket represents the greatest reduction in First-Class Mail service in history. The proposal would extend the maximum expected delivery time for mail sent within the contiguous 48 states from three days to five days. The Postal Service proposes to shift mail from air transportation to surface transportation based on the claim that air transportation is not sufficiently reliable, even though the on-time performance between air transportation and surface transportation was only 2.62 percent in FY19. Although the proposal may save money, the Postal Service dresses the proposal in the dubious premise that customers would prefer reliability and consistency over delivery speed, and therefore customer satisfaction should not decline. However, the Postal Service has provided no evidence to support its assessment of the needs of customers. Additionally, the Postal Service expresses no concern for the disproportionate effects of this proposal on customers in certain parts of the country, especially the western states, who will suffer particularly significant declines in service.

The Postal Service's proposal fails to comply with the requirements in Title 39 concerning needs of customers and adequacy of service. The proposal also would unduly and unreasonably discriminate against mailers in the parts of the country that would suffer a slowdown in mail service the most. And the proposal fails to comply with the policies in Title 39 that assign the highest priority to expeditious transportation and delivery of mail. This proposal, if implemented, unquestionably would violate the policies of Title 39.

II. STATEMENT OF POSITION

I oppose the Postal Service's proposal to change service standards. The changes would not meet the needs of customers or provide adequate service. The changes would discriminate against mailers living in certain parts of the country. And the changes would violate policies in Title 39 requiring the Postal Service to assign the highest priority to expeditious transportation and delivery of

mail. The Commission already found that similar changes in service standards implemented in 2000 and 2001 violated policies in Title 39. The current proposal is worse than the changes implemented in 2000 and 2001, so the legal flaws in the current proposal are even greater than in 2000 and 2001.

More generally, slowing mail service is exactly the wrong response to a decline in mail volume and the generally increasing speed at which modern society corresponds. By ignoring the disproportionate effects of this proposal on certain parts of the country, and the magnitude of the changes in those areas, the Postal Service is likely underestimating the decline in volume and, therefore, revenue that this proposal would cause. This proposal could send First-Class Mail volume, and the Postal Service, into the proverbial death spiral.

The Commission should find that the Postal Service's proposal would violate policies in Title 39 and that the proposal is otherwise ill conceived and would serve the nation and the Postal Service poorly.

III. THE POSTAL SERVICE HAS NOT PROVIDED EVIDENCE ON, OR CONSIDERED, THE NEEDS OF CUSTOMERS.

A. The needs of customers are central to the policies in Title 39.

At least four sections of Title 39 require the Postal Service to consider the needs of postal customers:

- Section 403(a): "The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services at fair and reasonable rates and fees";
- Section 403(b)(2): "It shall be the responsibility of the Postal Service * * * to provide types of mail service to meet the needs of different categories of mail and mail users";
- Section 3661(a): "The Postal Service shall develop and promote adequate and efficient postal services";

- Section 3691(c)(3): “In establishing or revising such [service] standards, the Postal Service shall take into account * * * the needs of Postal Service customers, including those with physical impairments[.]”

B. The Postal Service is not considering the needs of customers.

The needs of postal customers are central to the design of service standards and the policies governing operation of the postal system. Two times, Title 39 explicitly refers to the needs of customers, and twice it uses the word “adequate,” which also requires evaluation of the needs of customers.¹ The Postal Service’s direct case contains scant evidence about the needs of postal customers. The Postal Service did not bother to ask individual customers, as distinct from large business mailers, for their opinion about this proposal,² even though individual patrons comprise hundreds of millions of customers and the vast majority of the Postal Service’s customers.³ Moreover, the Postal Service appears to be so determined to implement these changes that witness Monteith testified during oral cross-examination that he could not think of an “example of the type of feedback from customers, including the general public, that might cause the Postal Service not to revise the service standards as proposed in this docket.”⁴ Witness Monteith attempted to clarify this answer on re-direct, testifying that the Postal Service had not yet “received specific customer feedback that would necessarily be actionable yet.”⁵ However, this follow-up response is terribly insensitive to and dismissive of the general public, which has repeatedly objected to the entire proposal through comments to the *Federal Register* notice and to this Commission, surely in numbers never seen before. The action message from the public is clear: Do not change service standards. Instead of

¹ The dictionary definition of “adequate” is “sufficient for a specific need or requirement[.]” Merriam-Webster Online Dictionary.

² Tr. 1/21 (DFC/USPS-T4-14).

³ The opinions of institutional mailers are important, too, but the general public typically is underrepresented in Postal Regulatory Commission proceedings and discussions about postal matters in general.

⁴ Tr. 1/106:20–23 to 1/107:1.

⁵ Tr. 1/135.

listening to the public, the Postal Service relies on wishful interpretations of pre-existing market research that does not examine the specific issues and questions that this proposal raises. Consequently, this research does not directly address the issues in this docket or support a conclusion that the changes in service standards proposed in this docket would meet the needs of postal customers.

To the extent that the Postal Service properly captures and measures the relevant drivers of customer satisfaction, the Commission can infer that the Postal Service's performance in meeting the needs of customers is a component of customer satisfaction. Witness Monteith relies heavily on the Postal Service's "brand health tracker" from quarter 1 of FY21 to advance his claim that the changes in service standards in this docket will not have a "meaningful impact" on customer satisfaction:

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

Witness Monteith draws from Attachment 1 of his testimony, including the bar charts on the final page. For several reasons, the brand health tracker survey is not a trustworthy proxy for the opinions of postal customers about the proposal in this docket.

⁶ USPS-T-4 at 18.

C. The Brand Health Tracker Does Not Define “Reliable.”

The Postal Service claims that slowing mail delivery while possibly increasing the on-time performance to 95 percent will improve its reliability score. However, the Postal Service does not define “reliable” to survey respondents.⁷ If a customer reviews the survey and tries to imagine how to define reliable, the existence of a separate option for “consistently delivers the mail when expected” would cause a respondent to believe that the concept of reliability is distinct from consistency of delivery. More broadly, since reliability is not defined, respondents do not necessarily have the same definition in mind of “reliable.” While one respondent might consider mail delivery in four days or five days nearly every time to be reliable, another respondent might believe that five days to deliver an important letter does not meet her needs, so the Postal Service is not a reliable resource for transmitting correspondence. Also, witness Monteith acknowledged that some customers visit retail units, USPS.com, and other touch points.⁸ Reliability to customers may include not only their assessment of whether mail is delivered in a consistent number of days but also whether they can count on a certain maximum wait time in line at a retail unit,⁹ whether the USPS.com tracking system provides accurate and trustworthy information about the status or location of mail items or their pending or actual delivery, whether the Postal Service properly forwards customers’ mail after they move, whether the Postal Service delivers mail without damage, whether customers’ mail carrier shows up every day, and whether the Postal Service timely and properly responds to complaints about delivery problems or locates missing mail. All these factors could affect perceptions of reliability. In short, while the Postal Service should strive to provide reliable service, the suggestion that slowing mail delivery to increase on-time performance will improve customers’ opinion about reliability is

⁷ Tr. 1/102:4–6.

⁸ Tr. 1/101:12–14.

⁹ For example, if the cutoff time for next-day delivery of Priority Mail Express at a retail window is 4 PM, a customer may not consider the Postal Service to be reliable if the length of the line for window service may range from one minute to 20 minutes, thus reducing the customer’s ability to plan his mailing.

speculative at best. At worst, slowing mail delivery will reduce customers' perception of reliability, harm the Postal Service's reputation, and render the mail even less relevant than some customers already perceive it to be in the modern age of rapid communication. The Postal Service's proposal threatens to validate and reinvigorate the derogatory term "snail mail."

D. Customers Do Not Know Service Standards.

The Postal Service suggests that the proposal in this docket should improve the score in the customer satisfaction survey for "consistently delivers the mail when expected." Even if the Postal Service achieves 95 percent on-time delivery under the new and slower service standards, this score will not necessarily increase. In my testimony, I observed that customers do not actually know the Postal Service's service standards. Instead, customers learn how long the mail takes to be delivered based on years of personal experience.¹⁰ Currently, most single-piece First-Class Mail should be delivered in two or three days. To the extent that customers have formulated an expectation of delivery times, customers' expectations probably are centered around three days, with some allowance for delays. If the Postal Service changes service standards to two to five days, mailing industry insiders will be able to parse these changes and evaluate service performance against these standards. However, the public will understand these changes differently. The public will notice that some mail takes longer for delivery than today but probably will not understand why some mail should take two, three, four, or five days. The public will notice greater variability in the number of days for delivery without understanding exactly why. Therefore, scores on the criterion "consistently delivers the mail when expected" likely will decrease, not increase.

Also, every piece of mail affects two customers: the sender and the recipient. Most of the discussion regarding this brand tracker criterion has focused on the sender. However, the general public receives much more mail

¹⁰ DFC-RT-1 at 9.

than it sends. Customers may consider factors not directly related to service standards when responding to the question of whether the Postal Service consistently delivers the mail when expected. Some respondents probably believe that “consistently delivers the mail when expected” refers to the time of day when the mail is delivered. Many people wait for their mail each day, as receipt of mail can be a highlight of an otherwise monotonous day. Others simply want to secure their mail from theft as soon as it is delivered. Thus, if one customer’s letter carrier arrives between 9:30 and 10:00 AM every day, while another customer’s mail sometimes arrives at 11:00 AM and other times arrives at 7:00 PM, these customers may answer this question on consistency differently. The wording of the response is broad enough that customers may not understand that the focus apparently should be on service standards. Similarly, a landlord faced with this question may think about whether his tenants’ rent checks arrive at the same time each month, without evaluating where the sender mails the letter or on exactly which day. Or a customer may expect to receive a credit card bill or bank statement in the fourth week of each month. These perceptions would not be directly related to service standards — or at least not with such precision as to conclude that slowing mail delivery with the hope of improving on-time performance will necessarily increase customers’ perception that the Postal Service “consistently delivers the mail when expected.” Also, much of the mail that customers receive does not bear a postmark date, so customers could not evaluate delivery times in relation to a service standard even if they wanted to.

E. Customers Might Oppose Slower Service Standards.

Contrary to the Postal Service’s interpretation, the brand health tracker data could demonstrate that the public would oppose the change in service standards. The percentages in witness Monteith’s attachment show the percent of respondents who ranked the item as a 6 or a 7 on a scale of 1 to 7. “Is reliable” scored 58 percent, consistency achieved 55 percent, and not far behind, at 51 percent, was “provides fast mail delivery.” Thus, as a starting point, 51

percent of customers, a majority, want fast mail delivery. The Postal Service's proposal will slow mail delivery. This finding would, alone, be enough to conclude that slowing mail delivery would contradict the policies of Title 39, which require the Postal Service to consider the needs of customers and the adequacy of service.

The Postal Service claims that reliability and consistency are slightly stronger drivers of customer satisfaction than speed of delivery, as shown in the index score in the right column of the final page of the attachment. I have already discussed why reliability and consistency do not necessarily relate to delivery of mail in accordance with service standards. In addition, witness Monteith acknowledged that potentially all respondents who responded that they want fast delivery might want consistent delivery as well.¹¹ Similarly, the 58 percent of respondents who indicated that reliability was important could consist of the same 51 percent of respondents who responded that fast delivery was important. Thus, to the extent that roughly the same individuals are indicating that reliability, consistency, and fast delivery are all important, the brand tracker survey does not support the suggestion that the proposal in this docket would not likely lower customer satisfaction.

Moreover, in prior survey periods, the brand health tracker index showed a near dead heat between reliability and fast delivery, undermining witness Monteith's contention that reliability is the key driver for customer satisfaction.¹² In reality, respondents rank these factors so similarly that they are roughly equivalent in importance, which is a commonsense finding. We should be surprised if customers did *not* value all these answer choices highly.

Regarding common sense, witness Monteith testified that he is not aware of a precedent for a delivery company or postal service to improve customer satisfaction by slowing delivery.¹³ The brand health tracker index supports the

¹¹ See Tr. 1/95:22–25 to 1/96:1–5.

¹² See Tr. 1/130–33.

¹³ Tr. 1/88:24–25 to 1/89:2.

unremarkable conclusion that speed is of utmost importance to Postal Service customers.

Furthermore, and perhaps most fundamentally, witness Monteith admitted that the brand tracker survey results do not disprove the possibility that “a majority of customers would prefer faster delivery to slower but more reliable delivery.”¹⁴ The Commission — indeed, the American public and institutional mailers alike — surely demand more evidence than the Postal Service has provided to establish that mailers would consider improved on-time performance in relation to service standards to be an acceptable tradeoff for the massive reduction in delivery speed that the Postal Service proposes in this docket. The need for evidence is particularly strong when the Postal Service is advancing this proposal under the guise of supposedly improving customer satisfaction.

F. *Federal Register* Comments are Aligned in Opposition.

APWU witness Stephen DeMatteo has provided considerable evidence suggesting that the public is not willing to accept a slowdown in mail delivery. He testified that the APWU has received copies of more than 77,000 comments that the public submitted in response to the Postal Service’s *Federal Register* notice — a number that reflects an extraordinary level of concern and engagement. He concluded from the comments that the public wants reliable and speedy service in the future.¹⁵ Statements of position largely aligned with witness DeMatteo’s description of the *Federal Register* comments continue to pour in to the Commission. The evidence that witness DeMatteo describes aligns completely with my observation, *supra*, that the brand health tracker survey may indicate that customers want *both* fast and consistent service, and they are not willing to accept slower delivery even if consistency increases. Moreover, witness DeMatteo’s evidence strongly suggests that the Postal Service’s spin on the

¹⁴ Tr. 1/100:10–24.

¹⁵ APWU-RT-2 at 10.

brand tracker survey results does not correctly inform the Commission of the public's opinion about the proposal in this docket.

G. Six-Day Delivery is Evidence of a Need for Speed.

The Commission is aware, as well, of the years of debate over six-day mail service and the decision in Congress to retain it. Implicit in the public's desire for six-day delivery is a need for speed. If Americans lost a day of delivery, delivery of some mail would be slowed. This concern is the main reason why Congress has, thus far, retained six-day delivery.

H. Inspector General Survey is Not Probative of Customer Needs.

In his testimony, witness Monteith cited and relied on an Office of the Inspector General report to support his contention that the changes in service standards may not affect some customers. Specifically, he testified, "An OIG report noted that '[w]hile existing service standards for FCM is three to five days, we completed a nationally representative survey in 2019 that demonstrated 71 percent of respondents expected their sent to [sic] mail to arrive in seven days.'"¹⁶ The OIG report is number 20-215-R21, Peak Season Air Transportation. The reference in the report cites the market research, but the citation does not lead to any publicly available information about this particular question or the research methodology. According to witness Monteith, this survey result "suggests that some customers may not be impacted by the service standard changes as they have already expected longer delivery times than our current service standards."¹⁷

In response to a discovery request,¹⁸ the Postal Service indicated that it does not have any additional information about this survey. Therefore, the record does not reflect the questions asked, the answer choices, or the number of respondents who provided each answer choice. Witness Monteith admitted

¹⁶ *Id.* 20.

¹⁷ *Id.*

¹⁸ Tr. 1/19 (DFC/USPS-T4-8(f)).

that the formulation of survey questions can affect the responses.¹⁹ Also, to take a slightly extreme example to demonstrate the point, a possibility exists that 65 percent of respondents indicated that they expect their mail to be delivered in three days, and six percent indicated that they expect their mail to be delivered in seven days. Thus, while the OIG report would have correctly stated that 71 percent of respondents expected their mail to be delivered in seven days, 65 percent would have expected their mail to be delivered in three days. These two conclusions would have dramatically different consequences for the merits of the proposal in this docket. The OIG's decision to draw a line at a certain number of days and report a percentage was necessarily judgmental. While the decision could have been objective, the finding appeared in a report advocating relaxation of service standards during peak season.²⁰ Therefore, the Commission should not rely on market research appearing in an advocacy document and for which the survey questions, answer choices, and distribution of responses were not revealed.

I. The Changes Would Not Meet the Needs of Customers.

In short, the record that the Postal Service submitted in this docket is completely devoid of market research or other evidence concerning public opinion of the tradeoff between speed and consistency. The Postal Service has an obligation to make a sincere effort to learn the needs and preferences of the American public concerning such a tradeoff. The Postal Service cannot be excused for its failure to do so before proposing significant changes in service standards. Meanwhile, the “nearly unanimous” opposition of commenters responding to the Postal Service's *Federal Register* notice²¹ concerning changes in service standards, and the volume and tenor of the statements of position flowing in to the Commission, strongly suggest that the public does *not* accept the tradeoff that the Postal Service is planning to impose, and slowing mail

¹⁹ Tr. 1/104:14–16.

²⁰ OIG Report No. 20-215-R21 at 12–13.

²¹ APWU-RT-2 at 5, lines 9–11.

delivery is unacceptable. In addition, I testified that four-day and five-day delivery would not meet my needs or the needs of my office.²² I also am confident that my own office is not unique, and many institutions and businesses also will find that slower delivery times do not meet their requirements.

Therefore, the weight of the evidence in the record indicates that the changes that the Postal Service proposes in this docket would not meet the needs of customers within the meaning of 39 U.S.C. § 403(b)(2). Alternatively, at a minimum, the Postal Service has not provided evidence that the changes in service standards would meet the needs of customers.

Similarly, the evidence in the record reveals that the changes in service standards would not provide adequate service within the meaning of 39 U.S.C. §§ 403(a) and 3661

(a). To the extent that the changes would increase efficiencies in the transportation network, the Postal Service still must provide adequate services, no matter how efficient they are. The absence of evidence from the Postal Service on the needs of customers, and the overwhelming, heartfelt expressions of need and protest that customers have submitted in response to the *Federal Register* notice and to the Commission directly, establish that the changes that the Postal Service plans would not provide adequate service. Alternatively, at a minimum, the Postal Service has not provided evidence that the changes in service standards would continue to provide adequate service.

J. The Proposed Service Standards Ignore the Needs of Customers.

The conclusion should be obvious from the discussion herein and the design of the service standards that the Postal Service has proposed these changes in service standards without considering the needs of customers, as 39 U.S.C. § 3691(c)(3) requires. Truck driving times and distance determine the new service standards, not the needs of customers in distant parts of the country,

²² DFC-RT-1 at 2–6.

including the West Coast states, south Florida, southern Texas, western Maine, Alaska, and Hawaii. Removing any doubt, witness Monteith confirmed that the new service standards, including the standards that apply between particular origin-destination pairs, are based on transportation requirements and not the “needs of customers.”²³ The record is replete with evidence that the Postal Service is violating 39 U.S.C. § 3691(c)(3) by failing to consider the needs of customers in revising service standards. In general, the Postal Service complies with the statute and considers the needs of customers when it solicits feedback before designing a proposal, listens to the feedback, and incorporates the feedback into the final proposal. The Postal Service does not consider the needs of customers when, as here, it develops a plan, tells the public its plan, and only pretends to listen to feedback, which is the obvious interpretation of witness Monteith’s statement that he could not think of any feedback from the public that might cause the Postal Service not to implement these changes in service standards.²⁴

Docket No. C2001-3 concerned changes in service standards that the Postal Service quietly implemented in 2000 and 2001. The Postal Service revised the definition of the two-day service standard to include only destination ADCs that were within a 12-hour truck drive time from the origin processing plant.²⁵ Prior to 2000, the Postal Service considered the needs of customers, measured by mail volume between origin-destination pairs, as a criterion for maintaining two-day service.²⁶ In contrast, in 2000 and 2001, as in the current docket, the Postal Service applied a distance formula to determine service standards and did not consider the needs of customers. In its public report following the previous complaint case, the Commission determined that “for some patrons in California and locales in the Western and Pacific area, [delivery service] does not exhibit an appropriate balancing of the considerations inherent

²³ See Tr. 1/87:4 to 1/88:19.

²⁴ Tr. 1/106:20–24.

²⁵ Op. C2001-3 at App. B, pp. 16–17.

²⁶ *Id.* 19.

in providing 'adequate and efficient' postal services."²⁷ The same conclusion applies today.

In sum, the Postal Service's plan contradicts four provisions in Title 39 that require the Postal Service to consider the needs of customers. The public outrage to this proposal is both evidence of this failure and a predictable outcome thereof. On the basis of customer needs alone, the Commission should find that the Postal Service's proposal is not consistent with the policies of Title 39.

IV. THE REVISED SERVICE STANDARDS WOULD UNDULY AND UNREASONABLY DISCRIMINATE AGAINST CUSTOMERS IN REMOTE LOCATIONS, INCLUDING THE WESTERN STATES AND OTHER DISTANT AREAS OF OUR COUNTRY.

A. Title 39 Prohibits Discrimination Based on Location.

Title 39 establishes policies to ensure that the Postal Service does not isolate or differentiate service to any customers based on their location. The Postal Service's proposed changes in service standards contradict these two pertinent policies in Title 39:

- Section 101(a) states, in relevant part, "The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."
- Section 403(c) states, "In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or

²⁷ *Id.* App. C, p. 4.

unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.”

Implicit in the requirement in section 101(a) to bind the nation together through correspondence is to provide postal services that overcome challenges of, and potential isolation as a result of, geographic distance. In fact, section 101(a) specifically requires the Postal Service to provide “prompt” services to “patrons in all areas[.]”

For more than a century, airmail was heralded as a technological advancement to bind the nation together and speed communication by quickly bridging vast distances. Americans could communicate coast to coast at a speed close to their communications within the same state, for the low price of a postage stamp. Indeed, section 101(b) requires the Postal Service to “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.” Thus, a central policy of our postal system is to provide effective services regardless of where people live. By the policy of Title 39, the needs of rural customers in Big Sky country in Montana are just as important as the needs of large-city businesses sending mail between New York and Los Angeles.

Against this backdrop, which requires a postal system that binds the nation together, section 403(c) prohibits “undue or unreasonable discrimination among users of the mails.” At its most fundamental level, the Postal Service’s proposal reduces service levels to some patrons simply because of where they live. The Postal Service currently delivers to Hawaii, Alaska, and offshore territories, all of which can be considered “remote” from the contiguous 48 states, in four or five days. Under the proposal, large portions of the Lower 48 states will be deemed similarly “remote.” A substantial portion of the western United States, as well as south Florida, southern Texas, and western Maine, will receive a lower quality of service than the more “centrally” located parts of the country, like Kansas and Kentucky. The central purpose of section 101(a) is to bind all of the

nation together, and residents of the “distant” parts of the country have as much right to be bound to the nation as residents in other parts.

B. The Proposal Would Disproportionately Affect Certain Regions.

In response to a discovery request relating to mail volume originating in various cities, witness Hagenstein reported the percentage of volume that would be downgraded to four or five days. For Carol Stream, Illinois, which serves northern Illinois including part of Chicago, 58 percent of the volume would retain a three-day service standard, while 34 percent would change to four days, and only seven percent²⁸ would change to five days. In sharp contrast, for customers in Los Angeles, 11 percent of the three-day volume would remain three days, while 21 percent would shift to four days, and a stunning 67 percent would shift to five days. The outlook is similarly grim for Portland, Oregon, where 59 percent of the three-day volume would shift to five days, and Seattle, where 46 percent of the three-day volume would shift to five days.

Of course, the changes potentially affect every postal customer. On any given day, any customer, in a nation that the Postal Service must bind together, may send a letter to any destination or receive a letter from any origin. Of the origin-destination pairs subject to a three-day service standard, 39 percent nationally will shift to four days, and 17 percent will shift to five days. In addition, five percent of the pairs subject to a two-day standard will shift to three-day service.²⁹ Thus, this proposal will slow delivery for a majority of origin-destination pairs.

While a focus on origin-destination pairs shows the *possibility* that mail will be delayed, an analysis of *volume* perhaps demonstrates the *likelihood* that customers’ mail will be delayed. The service standards that the Postal Service proposes will change 20.7 percent of the three-day volume to four days and 9.6 percent to five days. The Postal Service’s proposal will slow delivery of nearly

²⁸ The numbers presumably do not add to 100 due to rounding.

²⁹ USPS-T-3 at 21.

one third of First-Class Mail volume to four or five days. And it will slow 8.2 percent of current two-day volume by one day.³⁰

A count of affected origin-destination pairs provides an important insight, as does an analysis of affected volume. An *origin* focus for origin-destination pairs and volume describes the experiences of customers who send mail, which is an important viewpoint because customers have control over the mail that they send and may have specific needs for delivery in a particular number of days. Customers also tend to control when they send mail, although urgent needs arise for most customers periodically. A *destination* focus for origin-destination pairs and volume describes how changes in service standards affect mail recipients. Recipients do not have control over when mail is sent to them. Therefore, recipients may suffer without redress if the Postal Service slows mail delivery.

Unfortunately, a significantly larger chance exists that some customers' mail will be delayed than other customers'. The testimony of witness Hutkins brings all these issues to life with graphical presentations of the regions of the country that will suffer if the Postal Service extends service standards to five days and designs the service standards based solely on distance and truck driving time. The message is clear: Customers in the western states lose, whether they are senders or recipients. Depending on the analysis, customers in south Florida, southern Texas, and western Maine find themselves on the short end of the changes as well.

For customers sending mail from SCF Los Angeles CA, four-day service begins in the next state, Oregon, and five-day service starts in South Dakota and applies roughly to areas east of the Mississippi River.³¹ According to witness Hutkins, "In the western states, as well as southern Florida and parts of Texas, over 75.3 percent of the origin-destination pairs for each SCF would fall within a 4- or 5-day standard * * *. [I]n the Pacific states, many SCFs would have over 90 percent of their pairs under a 4- or 5-day standard; for example, SCF Tacoma

³⁰ *Id.* 22.

³¹ SH-RT-1 at 10–11.

WA 984 would have 91.37 percent of its pairs (origin and destination) shift to a 4- or 5-day standard.”³² The percentage of pairs shifting to five-day delivery also overwhelmingly and disproportionately affects the western states.³³

The story is the same for destination volumes. Customers in the western states, along with south Florida, southern Texas, and western Maine, bear the brunt of the changes in service standards.³⁴

To present the information differently, witness Hutkins provides a nice bar chart showing which one-digit ZIP Code prefixes, based on volume, will suffer the greatest downgrades to five-day service. The prefix “9”, which includes the West Coast, experiences the greatest diminution of service of any region in the country, with a startling 31 percent of volume slowing to five days.³⁵

Not surprisingly, average delivery times increase the most in the western states as well. While the national average reduction is 18.7 percent, customers in SCF Sacramento CA would suffer a 40-percent reduction in delivery times, to an average of 3.99 days.³⁶

In short, customers in the affected areas, which tend to be the same in most analyses, did nothing wrong except to live in a geographically distant point in a nation that the Postal Service is supposed to be binding together. Instead, the Postal Service is proposing to reduce their level of service while still charging them the same price for service as other Americans. The Postal Service’s proposal effectively drives the nation apart by treating some Americans differently if they live in geographically “remote” parts of the country. Many Americans who live in California and Florida would be surprised and dismayed to learn that they live “too far away” to receive the same quality of service as people living in central regions of the country. Isolating Americans who live in geographically

³² *Id.* 12.

³³ *Id.* 13.

³⁴ *Id.* 14–15.

³⁵ *Id.* 15.

³⁶ *Id.* 18.

“remote” parts of the country contradicts the policy to operate a postal system that overcomes distance, binds the nation together, and provides prompt services to customers in all areas.³⁷

C. The Proposal Would Discriminate Among Users of the Mail in Violation of Section 403(c).

The legal question for the purpose of section 403(c) is whether the Postal Service’s changes in service standards would “make any undue or unreasonable discrimination among users of the mails[.]”

No question exists that the revised service standards would discriminate among users of the mail. Customers who send mail from, and receive mail in, geographically distant portions of the country, including most of the western states, would receive diminished service for no reason other than their location and the fact that they are more likely to send mail to distant locations than customers in other parts of the country. The Postal Service’s intent is not at issue here, but the effect of the changes most certainly is. The changes will discriminate against customers based on geography.

The next question is whether the discrimination would be undue. As discussed in section III.A, *supra*, four sections of Title 39 require consideration of the needs of customers, either directly or through the requirement of “adequate” service. Section 101(a) also requires the Postal Service to provide prompt services to customers in all areas. Designing and changing service standards without considering the needs of customers, or the distant location of certain customers, is improper and unlawful. When these improperly and unlawfully designed changes disproportionately affect, and discriminate against, customers based on their geographic location, the discrimination most certainly is undue.

Finally, the discrimination is not reasonable. By law, the Postal Service must bind the nation together. The Postal Service also must consider the needs of customers in providing services and changing service standards. Abandoning

³⁷ See 39 U.S.C. § 101(a).

the needs of customers from its analysis, and focusing solely on distance, is not a reasonable execution of its duties. Also, in FY19, the air transportation network was only 2.62 percent less reliable, or on time, than the surface transportation network.³⁸ This similarity in on-time performance is not a proper or reasonable launching pad for a massive change in the nature of First-Class Mail service to reduce the use of air transportation, a decision that automatically harms customers living in distant regions of the country. In addition, the Postal Service has provided no evidence of customer preferences to suggest that the public supports slower service in exchange for a possible improvement in on-time delivery performance. For these reasons, changes in service standards that are based solely on distance and that do not consider the needs of customers are not reasonable. Since these changes in service standards are not reasonable, the discrimination that results from them is unreasonable.

The Commission and the public have travelled this path of distance-based service standards and section 403(c) discrimination before. In Docket No. C2001-3, which was similar to the current case, the Postal Service applied a distance formula to determine service standards — two-day service if the truck drive time did not exceed 12 hours — and failed to consider the needs of customers. Also similar to the current case, customers in the western states lost more service than customers elsewhere did. Even though in the realignment in 2000 and 2001 some service standards outside the western states were upgraded, the Commission concluded that “many postal patrons in the western part of the Nation experienced a disproportionate number of service downgrades. Thus, the delivery service under the realignment resulted in a degree of unfairness and undue discrimination under section 403(c) for these patrons.”³⁹

In the previous docket, the Commission also held that the changes in service standards “resulted in a degree of unfairness that was clearly unintended,

³⁸ USPS-T-1 at 9.

³⁹ Op. C2001-3 at 2.

but nevertheless real.”⁴⁰ Providing further guidance that applies to the current case, the Commission singled out the “appropriateness of the process,”⁴¹ which relied on distance and dismissed the needs of customers. In this proceeding, witness Cintron testified that the changes proposed “do not treat different groups of users in different ways. The changes are based on time and distance, which is not only more efficient, but also more equitable.”⁴² In Docket No. C2001-3, the Commission rejected this approach: “The Service defends its process in this case as an even-handed, objective approach to the difficult task of adjusting service standards, but the record shows, among other things, that the ‘drive time rule’ the Service adopted and application of the model had a disproportionate impact on California and other western states.”⁴³ Therefore, “The Commission finds that the Complainant’s assertions of undue discrimination, to the extent they involve delivery in California and other locales in the Pacific and Western areas, have merit.”⁴⁴ My assertions in this proceeding are the same as my assertions in Docket No. C2001-3, and one look at witness Hutkins’s maps tell us that the western states will lose once again and suffer a greater slowdown of mail than most of the country. The issues and legal conclusions are the same as they were 20 years ago, except that, with the lessons of history set to be ignored, the damage to mail service and the discrimination to customers in geographically distant portions of the country will be significantly *greater* now than 20 years ago. If the Commission’s words in Docket No. C2001-3 have any meaning, the current proposal violates section 403(c).

In short, the Commission’s public report in Docket No. C2001-3 provides a clear precedent for the conclusion that changes in service standards that are based on distance, as here, and that disproportionately affect customers in

⁴⁰ *Id.* App. C, p. 12.

⁴¹ *Id.* 11.

⁴² USPS-T-1 at 36.

⁴³ Op. C2001-3 at App. C, p. 12.

⁴⁴ *Id.*

certain parts of the country, as here, can result in unfairness and undue discrimination under section 403(c).

These concerns are not trivial. Although the changes that the Postal Service proposes disproportionately affect customers in several states, the negative consequences perhaps are most consistently and uniformly observable in California, Arizona, Oregon, Washington, and Nevada. In 2019, these states' population comprised nearly 19 percent of the population of the United States.⁴⁵ The Commission cannot ignore discrimination that affects a substantial portion of postal customers. As a resident of California, a state that the Postal Service's proposal will substantially and negatively affect, I urge the Commission to find that the Postal Service's proposed changes would unduly or unreasonably discriminate against customers living in geographically distant areas of the country.

D. The Proposed Changes Fail the *Gamefly* Test for Discrimination.

In Docket No. C2009-1, Complaint of Gamefly, Inc., the Commission established a three-part test for Gamefly to establish a violation of section 403(c):

First, it must establish that it has been offered less favorable rates or terms and conditions than one or more other mailers. Second, it must demonstrate that it is similarly situated to the other mailer or mailers who have been offered more favorable rates or terms and conditions of service. Third, it must demonstrate that there is no rational or legitimate basis for the Postal Service to deny it the more favorable rates or terms and conditions offered to others.⁴⁶

In establishing this test, the Commission did not mention its finding in Docket No. C2001-3. Indeed, the *Gamefly* rule seems appropriate when a small number of mailers claims discrimination, whereas the Commission's analysis in Docket No. C2001-3 is more applicable and relevant when, as here, the discrimination affects at least one fifth of the mailers in the

⁴⁵ www.census.gov/data/datasets/time-series/demo/pepsect/2010s-state-total.html (NST-EST2019-01).

⁴⁶ Docket No. C2009-1, Order No. 718 at 28.

country. Therefore, the Commission's analysis and findings in Docket No. C2001-3 apply to the current proposal.

Nonetheless, the Postal Service's proposal would fail the *Gamefly* test as well. First, the Postal Service would be offering lesser service to customers in geographically distant parts of the country, solely based on distance. Second, the Postal Service would be offering faster service to customers not living in geographically distant parts of the country. Finally, providing service levels based solely on distance while various policies in Title 39, as discussed in this brief, require consideration of the needs of customers, is not a legitimate basis for offering slow service to customers in certain parts of the country. The Commission specifically found in Docket No. C2001-3 that an exclusive focus on truck driving times for setting service standards was not appropriate.⁴⁷ Accordingly, if the *Gamefly* test applies to the Postal Service's current proposal, the Commission should find that this proposal would unduly or unreasonably discriminate against some customers in violation of section 403(c).

V. THE PROPOSED SERVICE STANDARDS DO NOT COMPLY WITH SECTION 101(E) AND 101(F).

A. Under Title 39, Speed is Paramount.

While Title 39 provides some general policies on design and operation of our nation's postal system, two statutes specifically govern issues in this proceeding:

- Section 101(e) states, "In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail;

⁴⁷ See Op. C2001-3 at App. C, p. 11.

- Section 101(f) states, in pertinent part, “In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail[.]”

These sections contain a powerful and clear mandate to the Postal Service. According to section 101(e), not only must the Postal Service provide expeditious transportation and delivery of important letter mail, but the Postal Service also must give *highest* consideration to this requirement in determining *all* policies for postal services. These sections clearly apply to establishment of and changes in service standards for First-Class Mail. Moreover, no other factors, no matter how meritorious, can receive greater consideration than expeditious transportation and delivery of important letter mail.

Air transportation is more expeditious than surface transportation. In FY19, the air transportation network was only 2.62 percent less reliable, or on time, than the surface transportation network.⁴⁸ For traversing long distances, surface transportation cannot compete with air transportation, as most people have observed for a century. Therefore, the Postal Service cannot argue that air transportation is so unreliable that surface transportation is more expeditious than air transportation. This point is particularly beyond dispute for service standards that would change to five days. And even if air transportation does not meet the Postal Service’s definition of reliable, the statute resolves this question. The Postal Service must give *highest consideration* to the *most expeditious* transportation and delivery of important letter mail. “Speed” and “expeditious” are similar concepts; “consistency” and “expeditious” are not. By law, speed is more important than consistency or reliability. Section 101(e) does not allow the Postal Service to drop air transportation unilaterally.

Similarly, by choosing ground transportation over air transportation for First-Class Mail, the Postal Service is failing, in selecting modes of transportation, to give highest consideration to the prompt and economical delivery of all

⁴⁸ USPS-T-1 at 9.

mail, as section 101(f) requires. Surface transportation is slower than air transportation and, therefore, is less “prompt” than air transportation. Even if the switch to surface transportation will lower costs, the Postal Service has not shown that air transportation is now not economical after having been economical enough to support three-day delivery for several decades. Witness Whiteman testified that First-Class Mail volume was 53 billion in FY2020⁴⁹ and 50 billion in FY1971,⁵⁰ when the Postal Reorganization Act took effect.

Also, witness Cintron testified that the changes in service standards will “more realistically align[] the Postal Service’s First-Class Mail service standards with the Postal Service’s operational capabilities in light of declining mail volumes and prior network consolidation and rationalization efforts.”⁵¹ Yet the Postal Service moved *less* mail in FY1971 than today and did so faster than the Postal Service proposes to do now. The public sees the big picture, and the comments in response to this proposal show that the public understands that the Postal Service’s proposal is an unnecessary and illogical step backward.

Even Postal Service performance data show that the proposal in this docket will not comply with section 101(e) and (f). In FY19, the Postal Service delivered on time 81.4 percent of the mail committed to a three-day to five-day service standard.⁵² (Since the three-day standard is the maximum within the 48 contiguous states, and mail within the 48 states comprises most of the volume, this score is largely providing service performance results for mail subject to the three-day standard.) By the fourth day, 93.9 percent of the mail was delivered, and by the fifth day, 97.2 percent of this mail was delivered.⁵³ The Postal Service proposes to shift this mail to surface transportation, potentially delivering none of it in three or four days and 95 percent in five days. Most people, including *Federal Register* and Commission commenters, understand that the current

⁴⁹ USPS-T-2 at 3.

⁵⁰ Tr. 2/505 (DFC/USPS-T2-1).

⁵¹ USPS-T-1 at 3; *see also id.* 5–6.

⁵² Tr. 1/376 (SH/USPS-T1-2).

⁵³ *Id.*

service standards, even if the Postal Service meets them only 81.4 percent of the time, are better than the proposed service standards and a potential two-day slowdown. Under section 101(e) and (f), no question exists that the current service standards provide more expeditious and prompt service than the proposed service standards. The Postal Service must give “highest consideration” to speed. Challenges of reliability and consistency do not justify a failure for the Postal Service to comply with the requirements for speed in section 101(e) and (f).

In Docket No. C2001-3, just like here, the Commission considered section 101(e) and (f) in the context of a shift from air transportation to surface transportation for two-day First-Class Mail. The Commission concluded that “Congress generally considered ‘faster’ delivery to be ‘better’ delivery.”⁵⁴ The same conclusion applies here. Under the current statutes, the Postal Service must prioritize speed of delivery and speed of transportation. In reality, despite the Postal Service’s effort to dress up its plan to slow delivery in the clothes of increased reliability, the Postal Service’s proposal does the exact opposite of the statutory mandates by deemphasizing speed and slowing transportation. Regardless of any other possible merits of the proposal, the proposal does not comply with the law. In fact, if this proposal does not fail to give the “highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail[.]” I cannot imagine a proposal that *would* fail this requirement. The Commission must apply these statutes, not read them out of the law as the Postal Service’s proposal would.

VI. ON-TIME PERFORMANCE OF 95 PERCENT IS UNLIKELY.

The entire premise of the Postal Service’s proposal is that, if service standards are relaxed and mail shifts to surface transportation, the Postal Service will deliver mail on time at least 95 percent of the time, justifying, in the Postal Service’s view, the loss of speed from three days to four or five days.

⁵⁴ Op. C2001-3 at App. C, p. 9.

Although this goal is laudable, several reasons exist to doubt the Postal Service's ability to deliver on this commitment.

A. The Reliability of Air and Surface Transportation Is Comparable.

In FY19, before the pandemic, the on-time performance of air transportation was 89.4 percent, and the on-time performance of surface transportation was 92.02 percent. The mail will not be delivered on time 95 percent of the time when the surface transportation network on which it depends is on time only 92.02 percent of the time. While the Postal Service apparently plans changes to its surface transportation network, we have no actual data, results, specific information, or other evidence to indicate that the transportation network itself will support 95-percent on-time performance. When I provided witness Cintron an opportunity to explain during oral cross-examination, he either could not or would not provide evidence that might have supported the claim that the Postal Service could achieve 95-percent on-time delivery.⁵⁵

B. Many Root Causes Delay Mail.

In FY19, on-time performance of three- to five-day First-Class Mail was 81.4 percent. Since most of the mail volume in this category was three-day mail within the contiguous 48 states, the on-time percentage for three-day mail was close to 81.4 percent. If the transportation networks were achieving on-time performance of 89.4 to 92.02 percent, but mail was delivered on time only 81.4 percent of the time, then obviously other factors besides transportation delay mail. Accordingly, I asked witness Hagenstein to identify these reasons.⁵⁶ He responded and provided a root cause analysis in USPS-LR-N2021-1-7. This spreadsheet includes a "point impact" that shows the extent to which a particular root cause would reduce on-time delivery performance.⁵⁷ The discussion at Tr.

⁵⁵ See Tr. 1/388:12 to 1/390:2.

⁵⁶ Tr. 1/153 (DFC/USPS-T3-12).

⁵⁷ Tr. 1/240, lines 8–9.

1/240–50 is detailed. It establishes that the following root causes are unrelated to the transportation network at issue in this docket:

- Origin Missent
- First Mile
- DPS Delay — Non-Standard Flow
- Destinating Missent
- AADC Processing Delay — Non Standard Flow
- DPS Delay — DPS Looping

To simplify this discussion, if we focus on three-day to five-day letters, which comprise the majority of single-piece First-Class Mail, these six categories account for a total of 4.72 service performance points, dropping on-time performance to nearly 95 percent. For flats, these categories sum to 12.04 service performance points. Moreover, while the transportation at issue in this docket could potentially affect some of the other root causes, transportation is not likely to be the primary factor, so some of the other root causes also contribute to service performance failures. Also, for “Transit Late Destination Primary Scan,” which the transportation at issue in this docket most clearly would implicate, delays and errors not related to the transportation, such as handling problems at the destination P&DC, can show up in this root cause as well.⁵⁸ Indeed, the Commission’s Annual Compliance Determination for FY2020 noted that problems with employee availability affected this root cause.⁵⁹

The purpose of this discussion is to demonstrate, with a supplement from some data, the concept that many factors other than on-time performance of the transportation networks affect on-time delivery of mail. Many of these problems have existed for decades. The Postal Service’s goal to achieve on-time delivery 95 percent of the time⁶⁰ is commendable and appropriate. However, the Postal Service has been unable to fix many of these problems for several years. The

⁵⁸ Tr. 1/250, lines 11–20.

⁵⁹ ACD FY2020 at 171.

⁶⁰ USPS-T-1 at 35.

Postal Service has not presented any plan or explanation to the Commission of how it plans to fix the variety of operational problems that currently reduces, and will continue to reduce, on-time delivery until the problems are fixed. When asked, witness Cintron did not discuss the plan in any detail, even though the goal to achieve 95-percent on-time delivery is a major premise of the Postal Service's case for slowing delivery.⁶¹ In short, the transportation networks are only one part of an intricate logistical system that contains numerous potential points of failure. Discarding air transportation because the air network is only 2.62 percent less reliable than the surface transportation network is the wrong place to start to fix delivery problems that are related to many more factors than the timeliness of transportation. The Postal Service runs a real risk of slowing mail service and still not achieving 95-percent on-time performance.

The Postal Service should fix these operational problems without implementing changes in service standards and then allow the public to judge whether three-day service performance is satisfactory. Indeed, as recently as 2012, on-time performance for three- to five-day mail was 92.1 percent, and few customers were complaining. Fast and more reliable delivery is possible without changing service standards. The Postal Service has done it before and should do it again.

C. Early Delivery Reduces Consistency.

A certain irony exists in citing the next factor as a problem for consistent delivery, but it is a concern under the Postal Service's theory of reliability. Sometimes mail is delivered faster than the service standard. Witness Cintron acknowledged that early deliveries happen now — i.e., delivery in two days when the service standard is three days — and could happen in the future.⁶² Early truck arrival times will be possible in the future. Mail with a five-day service standard that continues to travel by air almost certainly will be delivered early with

⁶¹ See Tr. 388, line 12 to 390, line 2.

⁶² Tr. 1/401:23–25 to Tr. 1/402:17.

some frequency. If the Postal Service delivers certain five-day mail in four days 25 percent of the time and in five days 70 percent of the time, will customers view this performance as reliable and consistent or as unreliable and inconsistent? Customers are unlikely to know that five days is the service standard, so they may view this mail as late most of the time, or they at least may consider delivery to be inconsistent. I am not advocating for the mail to be held at the destination plant for one or two days so that it is not delivered early, but the reality is that consistency cuts both ways, and if service standards are longer than necessary, some mail will be delivered early, and the Postal Service will undercut its goal of consistency.

D. Delivery Performance Did Not Increase After Previous Changes in 2000 and 2001.

Similar to the current proceeding, in 2000 and 2001, the Postal Service defined a service standard to match a range of truck driving time — in that case, 12 hours for two-day delivery.⁶³ Also similar to the current proceeding, the Postal Service claimed that a shift from air transportation would improve consistency.⁶⁴ I located a Postal Service PowerPoint slide deck from 2003 that shows service performance in the years before and after the Postal Service implemented these changes. The slide deck appears in Appendix 1. Slide 14 reveals that the change in service standards in 2000 and 2001 did not cause a noticeable increase in service performance — or if it did, the increase was minor and nowhere near the magnitude promised in the current proceeding.

VII. THE POSTAL SERVICE IS UNDERESTIMATING VOLUME LOSSES.

The Postal Service asked witness Thress to estimate the loss of mail volume that will result from the current proposal. The proposal will slow delivery of 39 percent of mail by one or two days and slow delivery of approximately 10

⁶³ Op. C2001-3 at App. B. p. 16.

⁶⁴ *See Id.*

percent of mail by two days.⁶⁵ The Postal Service estimated that delivery times will increase by 18.7 percent overall. Witness Thress used this number in his model to produce an estimate of the loss of volume that the current proposal will cause.

I testified that I believe that the Postal Service is underestimating the volume loss.⁶⁶ Businesses and the public will need to think of the mail as taking two to five days instead of two to three days. The focus will become five days, in part because people do not know the Postal Service's service standards in detail and will have minimal basis for thinking that five-day delivery might not apply to their mail. Customers will consider the longest time in the range and will estimate the change in service standards to be a 67-percent increase in delivery times (three days to five days), not an 18.7-percent increase. The changes that the Postal Service plans are the most dramatic reduction in service in history, and the Postal Service should be prepared for a dramatic decline in volume, not the decline in volume that will result from a comparatively modest, but still large, 18.7-percent overall increase in delivery times.

In its advisory opinion, the Commission should analyze and discuss the uncertainty that surrounds the Postal Service's estimate of loss of volume and corresponding loss of revenue.

VIII. CONCLUSION

For the reasons described herein, the Commission should advise the Postal Service that its plan to change service standards does not comply with 39 U.S.C. §§ 101(a), 101(e), 101(f), 403(c), 3661(a), and 3691(c)(3). The Commission also should advise the Postal Service that a substantial risk exists that it has underestimated the loss of volume that these changes will cause. Finally, the Commission should recommend that the Postal Service undertake

⁶⁵ USPS-T-3 at 22.

⁶⁶ DFC-RT-1 at 7–8.

operational improvements now, without changing service standards, to improve on-time service.

Ultimately, the Postal Service finds itself in a difficult financial situation, with few levers to pull to balance the books. To ensure appropriate public input and consistency with law, this problem should be resolved through the legislative and political process. The Postal Service needs more revenue, or Congress should allow the Postal Service to reduce services. However, one outcome is not permissible. The Postal Service must not ignore current law and unilaterally implement a change in service standards that, based on *Federal Register* comments and statements of position submitted to the Commission, the public strongly opposes.

APPENDIX 1



Balanced Scorecard and Performance Management in the U.S. Postal Service

Office of Strategic Planning
September 11, 2003

Kent Smith, Manager, Strategic Business Planning



Balanced Scorecard in the USPS: Overview

- **A Question of Metrics**
 - **Development of Mission Based Metrics**
 - **Validating Performance Measurements**
 - **Implementing Reliable, Verifiable Measurement Systems**
 - **Focusing and Aligning Organizational Initiatives**
 - **Maintaining Balance Among Goals and Objectives**
 - **Establishing a Performance Management System**
 - **Holding Individuals and Units Accountable**
 - **Generating Results**
-



The Postal Service Is... A Question of Metrics

One View

- “a bloated bureaucracy, with lousy service.”
- “The most anti-consumer organization in the country.”
- “full of waste, fraud, and abuse.”
- “the last dinosaur.”

Counterpoint

- “one of the best managed agencies in government.”
- “the most improved service of all measured industries.”
- “rated extremely favorably by consumers.”
- “essential to a growing economy.”



Developing Mission Based Metrics: Measuring What Really Matters

Mission (PRA)

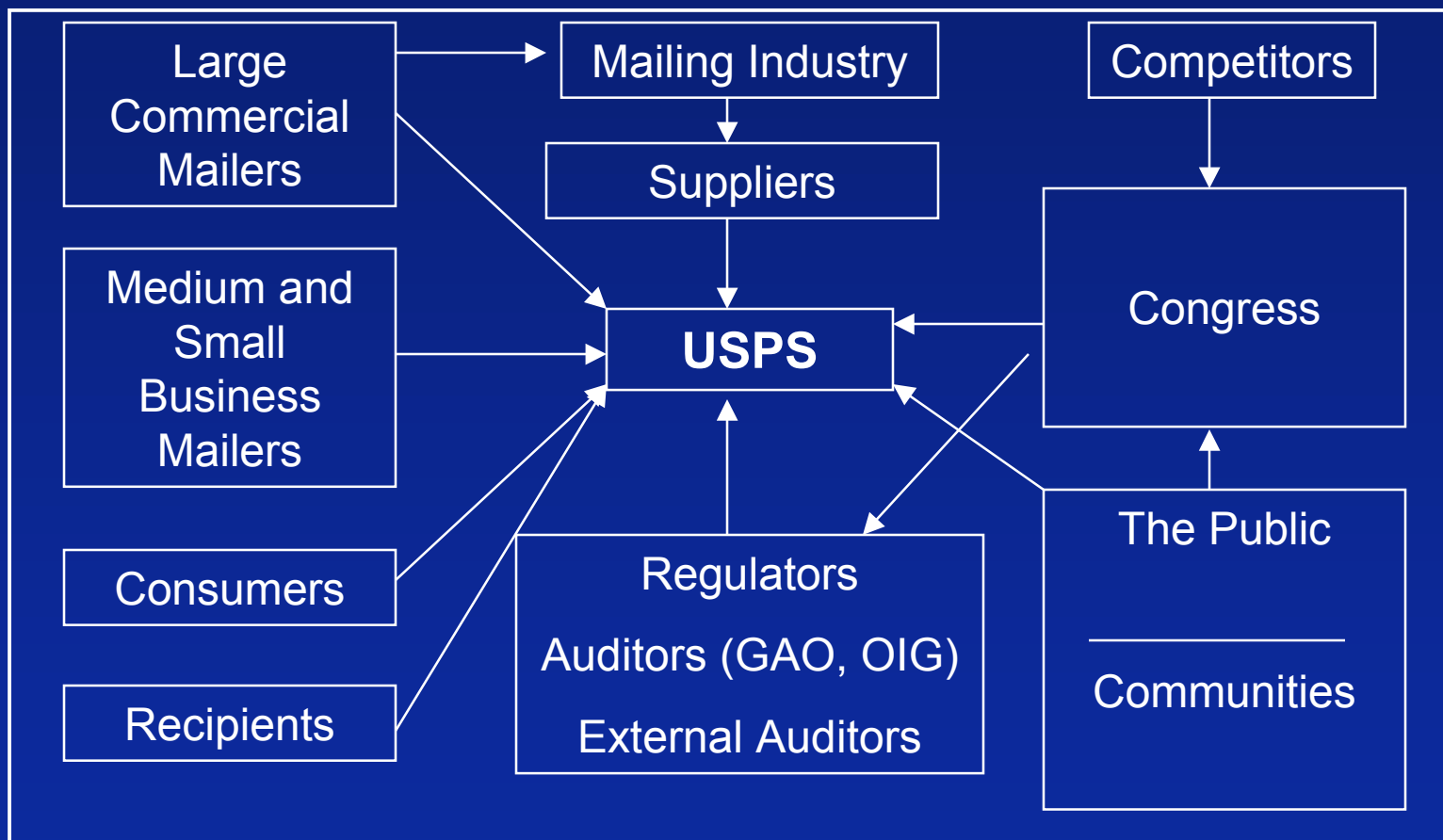
- Provide timely, reliable delivery service
- Efficient operations
- Financially self-supporting (break-even)
- Safe and secure workplace
- Fair working environment

GPRA Metrics

- On-Time Service Performance
- Total Factor Productivity (TFP)
- Revenue Performance
- OSHA Illness/Injury Rates
- Voice of the Employee Survey Index



Validating Performance Measurements: Customer Focused Goals





Validating Performance Measurements: Methods

- **Market Research and Competitive Intelligence**
 - **Customer Satisfaction Measurement (CSM)**
 - **We Want to Know (Comments/Complaints) and CSC/BSN**
 - **National Postal Forum**
 - **Postal Customer Councils**
 - **Mailers' Technical Advisory Council**
 - **Mailing Industry Task Force**
 - **Suppliers' Council**
 - **Industry Conferences**
 - **Account Managers**
-



Valid, Reliable Measurement Systems: Using Third-Party Systems Where Possible

- **Service**
 - External First-Class Measurement System (EXFC)
 - Priority-End-to-End (PETE)
 - Express Mail Product Tracking System (PTS)
- **Safety**
 - OSHA Illness/Injury Rates
- **Workplace Environment**
 - Voice of the Employee Survey Index
- **Revenue**
 - Audited Financial Systems



Focusing and Aligning Programs: Creating Interdependencies

National Performance Assessment Program

- Headquarters Officers and Direct Reports
- Postal Career Executives (PCES)
- Individual Post Offices, Plants
- Managers and Supervisors
- All Executive and Administrative Employees
- Eventually (through bargaining) all employees

Common Output
(Results) Goals

Service Improvement

Productivity

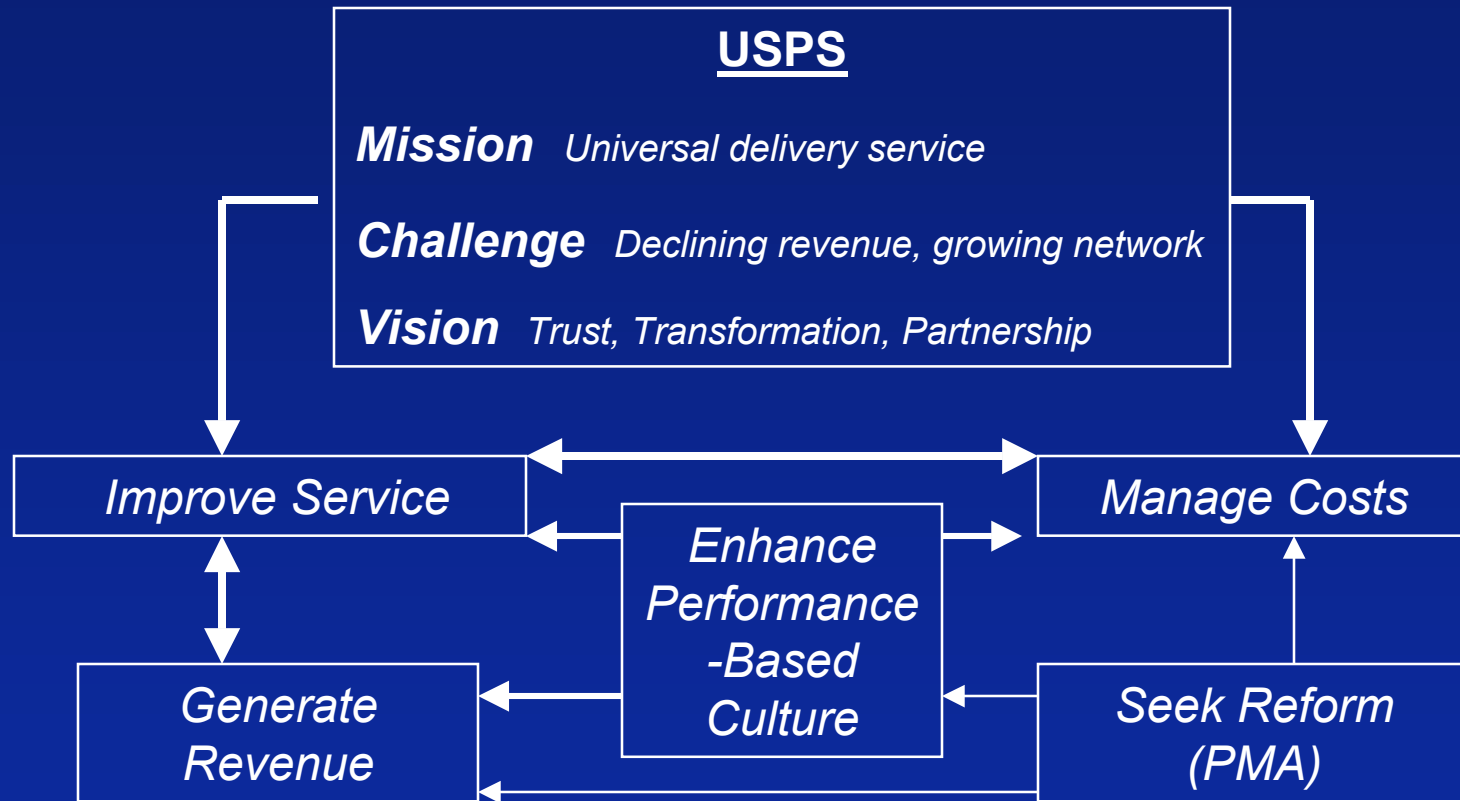
Safety

Workplace Environment

Revenue



Balancing Goals and Objectives: Priorities and Cross-Functional Focus





Balancing Goals and Objectives: Strategic Transformation Initiatives

“Direct Report” Pool (Overall USPS Performance) +

Individual Contribution to Corporate Goals

Service

- EC satisfaction with planning process/ planning documents

Productivity

- Budget performance

Workplace

- Staff training and development
 - Safety
 - VOE rating
-



Cascading Goals: Delivery Supervisor

Unit (local post office) + Personal Objectives

Service

- *Delivery Service Performance*

Productivity

- *Delivery Productivity*

Safety

- *OSHA Illness/Injury Rate*

Workplace Improvement

- *Voice of the Employee Survey*

Revenue Generation

- *Carrier sales program results*



Performance Management Systems: Not Business as Usual

■ **CustomerPerfect! Annual Management Cycle**

- *Based on Baldrige Review Process*
- *Establish, Deploy, Implement, Review*

■ **Linking Performance with Budgets**

- *Program Performance Assessment (similar to PART)*
- *Investment Management and Program Evaluation*
- *Transformation Program Integration and Implementation*

■ **National Performance Assessment (NPA)**

- *Unit and individual contributions to organizational goals*
-



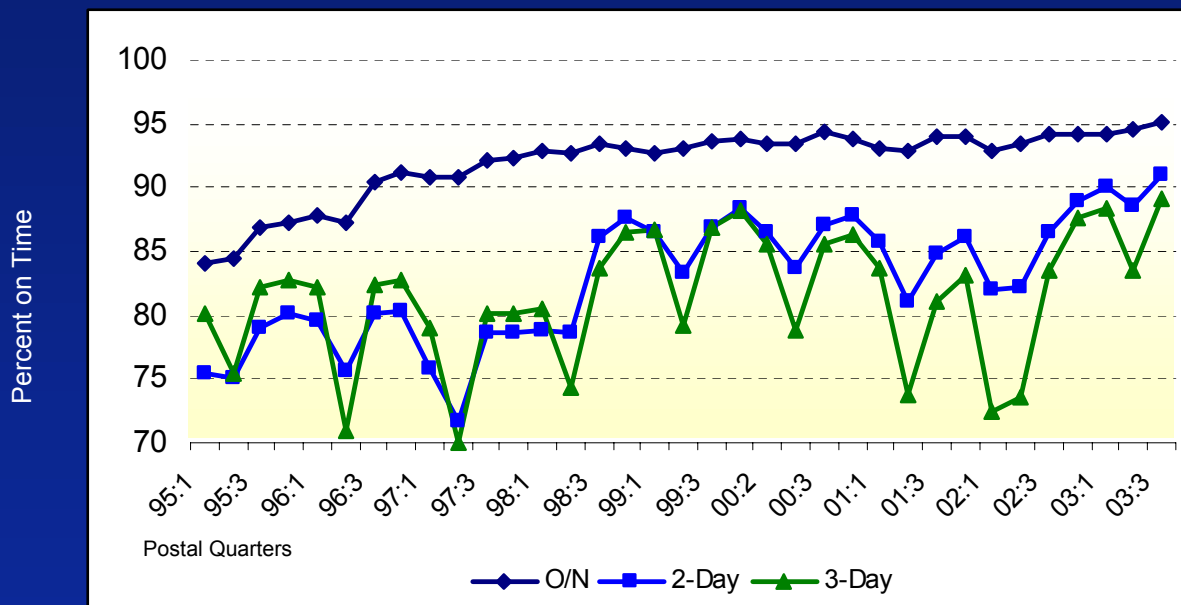
Holding Individuals and Units Accountable: National Performance Assessment (NPA)

	Unacceptable (0)	Contributor (4 - 9.99)	High Contributor (10 - 12.99)	Exceptional Contributor (13.0 +)
Service		Express Mail Priority Mail	FCM 3 Day FCM ON	Priority Air FCM 2 Day
Safety			OSHA Illness and Injury Rate	
Workplace			VOE Survey Results	
Revenue	National Total Revenue			
Productivity				Total Factor Productivity

Corporate Summary: 9.93 (Contributor) – HQ (PMG and Direct Reports)



First-Class Mail Service Performance History





Generating Results

Service Performance (Customer Satisfaction)

Percent Consumers Rating Overall Postal Performance (Good, Very Good, or Excellent)

Customer Segment	1998 (%)	1999 (%)	2000 (%)	2001 (%)	2002 (%)
Residential	93	92	92	92	93
Business	90	90	90	88	91

Source: Customer Satisfaction Measurement System, USPS Consumer Advocate



Generating Results: Service Performance (Customer Satisfaction)

Overall Customer Satisfaction Index Ratings

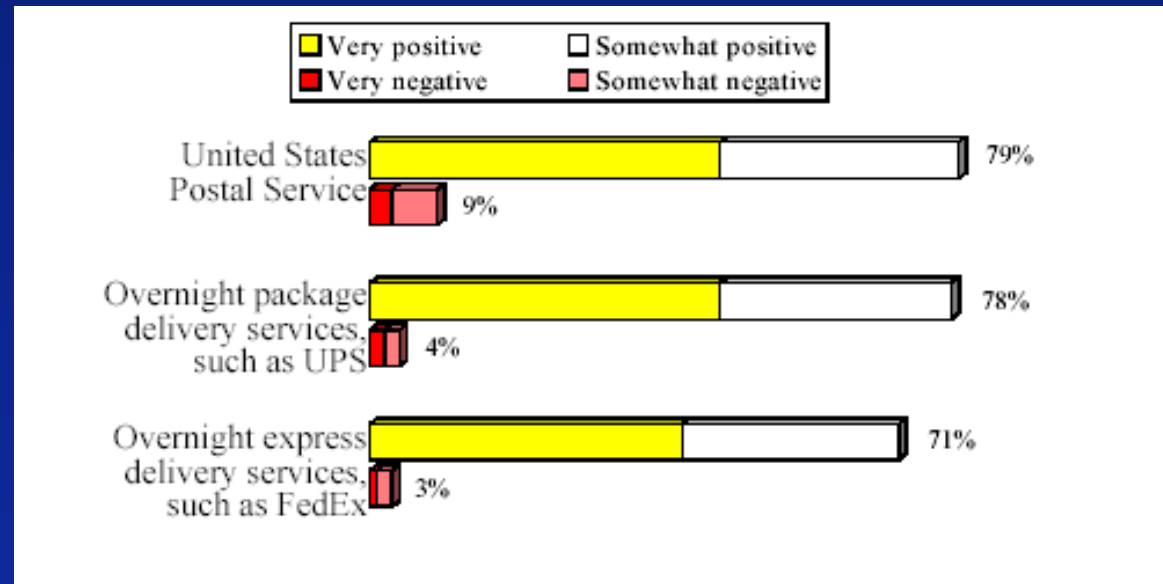
<u>Firm/Industry</u>	<u>Baseline (First Measurement)</u>	<u>2003</u>	<u>Change from Baseline (%)</u>
U. S. Postal Service	61	72	18
U. S. Postal Service (Parcel/Express Services)	69	75	8.7
Parcel/Express Delivery Service Industry	81	79	-2.5
Scheduled Airlines	72	66	-6.9
Telecommunication Services	75	72	-1.4
Energy Utilities	75	73	-2.7
Hotels	75	73	-2.7
Transportation, Communication and Utilities Industry	75.5	70.9	-6.1
Service Industry	74.4	72.8	-2.2

Source: 2003 Transportation/Communication/Utilities and Services Industry Report, American Society for Quality



Generating Results: Service Performance (Customer Satisfaction)

Most Have A Favorable View of the U. S. Postal Service



Source: President's Commission Survey, Peter D. Hart Research Associates, Inc./American Viewpoint



Generating Results: Affordable Prices

Rates/CPI

Real Postal Rates

(adjusted for inflation in 2003 dollars)

1972-1975	0.348
1976-1980	0.386
1981-1985	0.368
1986-1990	0.366
1991-1995	0.377
1996-2000	0.363
2001-2003	0.365

Source: USPS Finance

Rates/Comparison

Postage rates in U. S.
dollars for 20-gram letter

Country

Japan	0.68
Germany	0.64
New Zealand	0.46
Great Britain	0.46
Netherlands	0.46
United States	0.37
Canada	0.35
Australia	0.33

Source: USPS International Services, postage and exchange rates as of June 11, 2003.



Generating Results: Managing Costs (Productivity)

Comparative Productivity Performance, 1998-2002

	1998	1999	2000	2001	2002
USPS Total Factor Productivity	-1.0	-0.1	2.2	1.7	1.1

Source: USPS Finance

- Reduced 60,000 employees since FY2000
- Despite adding 3.6 million new deliveries
- Total cost increasing by annual average of 3.1 percent over the last five years



Generating Results: Safety

Performance Trends on OSHA Illness and Injury Rate

	1998	1999	2000	2001	2002
Target	Baseline	2.04	1.90	7.86	8.41
Actual	1.84	1.92	1.93	8.58	7.72

Note: FY1998-2000 target and performance rates are Lost Workday Injuries; FY2001-2002 target and performance rates are OSHA Injury and Illness Rates.



Generating Results: Workplace Improvement (VOE Survey)

Voice of the Employee (VOE) Survey Rating

	1998	1999	2000	2001	2002
Actual	Survey under development	57.3	57.5	58.1	58.8

VOE Survey Index

- Recognition
- Accountability
- Exclusion
- Sexual Harassment
- Being treated with dignity and respect
- Communication



Generating Results: Revenue

98 percent of plan over last five years

Increased competition

- Direct (UPS, FedEx)
- Indirect (EBBP, E-Mail)

■ **Decline of economy**

- Collapse of dotcoms
- Reduction in advertising
- Financial sector problems
- Declining consumer confidence

■ **War/Terrorist/Anthrax Shocks**



Lessons Learned (So Far)

- **Top Management and Stakeholder Support** (measure the right things)
 - **Consistency** (we've been at this since 1992)
 - **Performance Management Discipline** (not an add-on)
 - **Simplicity** (we are talking to 700,000 employees and millions of customers)
 - **Clarity and Focus** (limit the number of top-line goals)
 - **Cross-Functional Integration and Alignment** (what do most of the people in the organization do, and what does each contribute?)
 - **Performance Accountability** (manage what you measure and reward performance)
 - **Communications** (constant)
-



USPS Balanced Scorecard

THANK YOU VERY MUCH

QUESTIONS?