UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Michael Kubayanda, Chairman; Ashley E. Poling, Vice Chairwoman; Mark Acton; Ann C. Fisher; and Robert G. Taub

First-Class Mail and Periodicals Service Standard Changes, 2021

Docket No. N2021-1

ADVISORY OPINION ON SERVICE CHANGES ASSOCIATED WITH FIRST-CLASS MAIL AND PERIODICALS

Washington, DC 20268-0001
July 20, 2021
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ADVISORY OPINION ON SERVICE CHANGES ASSOCIATED WITH FIRST-CLASS MAIL AND PERIODICALS

(Issued July 20, 2021)

I. EXECUTIVE SUMMARY

The Postal Service requests an advisory opinion on its proposal to revise the service standards for First-Class Mail and end-to-end Periodicals. Specifically, the Postal Service seeks to increase the service standards by up to two additional days for 38.5 percent¹ of First-Class Mail and 7 percent² of Periodicals mail in order to improve

¹ The Postal Service provides its estimate of affected volume in Figure 1 on page 5 of its Request, which contains First-Class Mail volume by service standard under the current and proposed standards. This estimate is for contiguous letters and flats only. Per the figure, the Postal Service projects that 8.2 percent of current 2-day mail will have the standard increased (43.1 current vs. 34.9 proposed), and 30.3 percent of current 3-day mail will have the standard increased (20.7 proposed 4-day and 9.6 proposed 5-day), for a total of 38.5 percent of contiguous First-Class Mail with an increased service standard. See United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 21, 2021, at 5 (Request); see also Library Reference USPS-LR-N2021-1/9, May 17, 2021, Excel file “LR-N2021-1-9.xlsx.”

² Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021, at 12 n.9 (USPS-T-1).
its service capabilities, achievement of service standards, and reduce mail transportation costs.

The Commission has analyzed the estimated impact of the proposal on service performance, the Postal Service’s financial condition, transportation network, customer satisfaction, and mail volume. The Commission’s advisory opinion is guided by and comports with the policies of Title 39. This Advisory Opinion includes several key findings.

As an initial matter, the Commission finds that the Postal Service’s proposal appears to target mail that consistently fails to meet service performance goals and has the most opportunity for improvement. Expanding the service standard window should make it easier to meet service performance targets and moving mail from air to surface transportation could potentially lead to more efficient transportation. Although the Postal Service’s proposed changes may loosen pinch points within the mail processing network and an adjustment to the transit window time will likely add a buffer for mail processing, the proposed on-time target results may not be achievable without additional focus on underperforming Districts and Areas, processing “handoffs” training, and staffing issues.

The Commission is concerned that the Postal Service has not conducted operational or pilot testing of the proposed service standard changes. The Commission finds the lack of testing to be problematic as data suggest that mail processing is dynamic and requires timely execution to provide reliable service performance.

The Commission observes that the increase in flexibility may decrease network stress and pinch points, which, in turn, should lead to increased service performance and reliability. However, it does not view a service performance target of 95 percent on-time as reliably achievable for all products in the short term. It is concerned that the Postal Service has not fully modeled these changes and has yet to monitor, evaluate, and assess these new service standards in the field.
The Commission finds that, although the methodology used to calculate cost savings for this service standard change may be theoretically sound, the Postal Service’s computation of the estimated cost savings raises potential issues related to the use of FY 2020 as a base year for cost savings, the absence of estimated mail processing costs, and the overall impact on the financial viability of the Postal Service.

The Commission finds that the amount of estimated annual cost savings, even if fully realized, does not indicate much improvement, if any, to the Postal Service’s current financial condition and the estimated cost savings from extending the service standard would be eliminated by additional costs associated with the growth in packages. Therefore, it is not clear that the tradeoff between financial viability and maintaining high-quality service standards is reasonable.

Because the Postal Service has not effectively shown that the baseline model meshes with the current operational reality, it is infeasible to compare the modeled routings with the current costs, and inaccurate to develop a numerical estimate of the cost savings from the potential new surface transportation network. The Commission agrees that there is potential to increase surface transportation efficiency and capacity utilization. For this initiative to be a success, the Postal Service will need to reconfigure its surface transportation network to build efficient trips with multiple stops and hubs. However, the extent to which that will occur, and the amount of cost reductions that would be concurrently achieved, will be a function of implementation.

The Commission finds that the Postal Service has not demonstrated evidence to substantiate its claim that customer satisfaction will not be materially affected by the proposed changes. Even in concept, the supporting market research does not convincingly support the Postal Service’s claims regarding customer satisfaction, such as consistent customer preferences for reliable delivery over fast delivery. In application, the supporting market research ignores the difficult task of weighing the loss of speed of service due to the proposed changes and the purported increase in reliability and consistency of service. Most importantly, though, these reports and their
underlying data do not correspond with those populations that may be affected by the proposal and thus cannot be used to infer the impacts of the proposal on said customers.

As for communication, the Postal Service demonstrated that it is communicating to its customers and stakeholders that it plans to proceed with the proposed service standard changes and is helping these parties understand how the changes will affect them. However, the Postal Service has not shown that it is adapting its proposal based on the concerns or issues raised by its customers and stakeholders.

The Commission finds that the Postal Service cannot conclude with any statistical confidence the impact to First-Class Mail and Periodicals mail volume as a result of an increase in days to delivery. The econometric analysis submitted by the Postal Service in support of its proposal cannot speak to the causal relationship between delivery times and mail volume.

Finally, the Commission finds that the proposed changes are not facially inconsistent with applicable statutory requirements. However, in its filing and throughout this Advisory Opinion process, the Postal Service has not demonstrated that its implementation of the proposed changes will comport with those requirements. Title 39 requires that the Postal Service, as the operator, balance a host of sometimes competing objectives and priorities. The Postal Service contends that the proposed changes enhance its ability to reliably meet its service standards in a more efficient manner, while still meeting the needs of its customers. The Commission finds that the Postal Service’s contention relies upon assumptions that may not be well founded and it may be unable to achieve successful implementation where reliability and efficiency are required.
Based on these findings, the Commission provides the following recommendations to the Postal Service for consideration before implementing its plan, the Postal Service should:

- **Communicate realistic performance targets.** Because the Postal Service has yet to monitor, evaluate, and assess these new service standards in the field, it should consider a 95 percent on-time target as aspirational, due to the highly dynamic factors involved in the postal mail network; the Postal Service should regularly update and publicly communicate realistic targets throughout its implementation.

- **Monitor implementation to balance savings and service.** The Postal Service should ensure cost savings are realized but balanced with and not prioritized over maintaining high-quality service standards.

- **Monitor implementation to drive transportation efficiency.** The Postal Service should closely monitor the implementation of its plan to determine whether the new potential surface transportation network actually increases efficiency and capacity utilization.

- **Gauge customer satisfaction specifically for its proposed changes.** The Postal Service should monitor customer satisfaction going forward, particularly for customer and mailer segments that may be most impacted by the change.

- **Allow transparency into ongoing feedback and consider changes due to that feedback.** The Postal Service should be more transparent in the feedback it receives from stakeholders and keep its plan flexible to the needs of customers, stakeholders, and the general public.

- **Limit the use of econometric demand analyses for purposes in which it does not provide meaningful results.** The Postal Service should not rely upon its filed econometric analysis to estimate the impact of the proposed service changes on volume.
II. PROCEDURAL HISTORY

On March 23, 2021, the Postal Service published a 10-year strategic plan announcing potential changes intended to achieve financial stability and service excellence. In conjunction with this publication, the Postal Service also filed a notice of its intent to conduct a pre-filing conference regarding its proposed changes to the service standards for First-Class Mail and end-to-end Periodicals, which would “generally affect service on a nationwide or substantially nationwide basis.” Further, the Postal Service announced that it would propose amendments to the existing service standards for First-Class Mail and end-to-end Periodicals appearing in 39 C.F.R. part 121. See Notice at 1.

On March 24, 2021, the Commission issued Order No. 5848, which established Docket No. N2021-1 to consider the Postal Service’s proposed changes, notified the public concerning the Postal Service’s pre-filing conference, and appointed a Public Representative. Due to the COVID-19 pandemic, the Postal Service held its pre-filing conference virtually on April 6, 2021. See Notice at 1, 4.

On April 21, 2021, the Postal Service filed its formal request for an advisory opinion from the Commission regarding planned changes to the service standards for First-Class Mail and end-to-end Periodicals. See Request. The intended effective date of the Postal Service’s planned changes is no earlier than September 1, 2021, which is more than 90 days after the filing of the Request. Request at 1-2. The Postal Service

3 See United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf. The Postal Service’s plan is significantly broader than the specific advisory opinion request at issue in this docket, and the Postal Service may pursue other changes as part of its plan that combined have a much different impact on postal services than what is presented and evaluated in this docket.


5 Notice and Order Concerning the Postal Service’s Pre-Filing Conference, March 24, 2021, at 1-2, 4 (Order No. 5848).
The Postal Service asserts that it completed the pre-filing requirements appearing in 39 C.F.R. § 3020.111, and certifies that it has made a good faith effort to address concerns of interested persons about the Postal Service’s proposal raised at the pre-filing conference. See Request at 2.

In support of its Request, the Postal Service provided the direct testimony of five witnesses: Robert Cintron (USPS-T-1), Curtis Whiteman (USPS-T-2), Stephen B. Hagenstein (USPS-T-3), Steven W. Monteith (USPS-T-4), and Thomas E. Thress (USPS-T-5). The Postal Service identified a sixth individual, Sharon Owens, to serve as its institutional witness and provide information relevant to the Postal Service’s proposal that is not provided by other Postal Service witnesses. Request at 2. Additionally, the Postal Service filed eight library references, six of which are available to the public and two of which are designated as non-public material.

Witness Cintron discusses the Postal Service’s ability to meet the existing service standards and the proposed service standard changes and their benefits. See USPS-T-1.

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7 USPS-T-1: Direct Testimony of Curtis Whiteman on Behalf of the United States Postal Service (USPS-T-2), April 21, 2021 (USPS-T-2); Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-3), April 21, 2021 (USPS-T-3); Direct Testimony of Steven W. Monteith on Behalf of the United States Postal Service (USPS-T-4), April 21, 2021 (USPS-T-4); Direct Testimony of Thomas E. Thress on Behalf of the United States Postal Service (USPS-T-5), April 21, 2021 (USPS-T-5).

Witness Whiteman discusses the Postal Service’s financial situation and the estimated impact of the proposed changes on the Postal Service’s financial situation (including estimated cost savings and the estimated net financial impact).9

Witness Hagenstein discusses how the proposed service standard changes would affect the transportation network. See USPS-T-3.

Witness Monteith discusses how the proposed service standard changes may impact customer satisfaction and the tools and techniques used by the Postal Service to communicate with its customers regarding proposed service standard changes.10

Witness Thress provides econometric analysis to estimate the potential contribution impact that could result from implementing the proposed service standard changes.11

On April 23, 2021, the Commission issued Order No. 5875, which set forth a procedural schedule for the proceeding.12

The following eleven parties intervened in this proceeding: (1) Douglas F. Carlson (Carlson); (2) National Postal Policy Council (NPPC); (3) Steve Hutkins (Hutkins); (4) National Association of Letter Carriers, AFL-CIO (NALC); (5) National Newspaper Association (NNA); (6) MPA-The Association of Magazine Media (MPA);

9 See USPS-T-2. The Postal Service filed revised testimony for Whiteman, updating his estimate of the net contribution impact of the proposed changes. See Notice of Errata to Direct Testimony of Curtis Whiteman on Behalf of the United States Postal Service (USPS-T-2), June 2, 2021 (Revised USPS-T-2).

10 See USPS-T-4. The Postal Service filed revised testimony for witness Monteith, which updates the estimated financial impact of the proposed changes. See Notice of the United States Postal Service of Filing Errata to the Direct Testimony of Postal Service Witness Steven Monteith (USPS-T-4), June 2, 2021 (Revised USPS-T-4).

11 See USPS-T-5. The Postal Service filed revised testimony for witness Thress with updated estimates of the financial impact of the proposed changes. See Notice of the United States Postal Service of Filing Errata to the Direct Testimony of Postal Service Witness Thress (USPS-T-5), June 2, 2021 (Revised USPS-T-5).

12 Notice and Order on the Postal Service’s Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 23, 2021 (Order No. 5875).
(7) National Association of Postal Supervisors (NAPS); (8) Association for Postal Commerce (PostCom); (9) National Association of Presort Mailers (NAPM); (10) Mailers Hub (Mailers Hub); and (11) American Postal Workers Union, AFL-CIO (APWU).\(^\text{13}\)

Christopher Laver was designated as Presiding Officer on May 7, 2021.\(^\text{14}\) The Presiding Officer issued rulings amending the procedural schedule and resolving discovery disputes. Intervening parties, the Postal Service, and the Public Representative propounded discovery to clarify the Request and witness testimony. Four Presiding Officer’s Information Requests (POIR) were issued to further develop the record.\(^\text{15}\)

On June 9, 2021, a hearing was held to enter the Postal Service’s direct testimony into evidence and to provide an opportunity for oral cross-examination. The record also includes designated cross-examination responses and other materials incorporated pursuant to Presiding Officer’s Rulings (POR) Nos. 15, 17, and 18.\(^\text{16}\)


\(^{14}\) Order Designating Presiding Officer, May 7, 2021 (Order No. 5888).

\(^{15}\) Presiding Officer’s Information Request No. 1, May 11, 2021; Presiding Officer’s Information Request No. 2, May 14, 2021; Presiding Officer’s Information Request No. 3 and Notice of Filing Under Seal, May 19, 2021; Presiding Officer’s Information Request No. 4, June 24, 2021.

\(^{16}\) See Presiding Officer’s Ruling on Designation of Responses for Inclusion in the Evidentiary Record, June 3, 2021 (POR No. 15); Presiding Officer’s Ruling Noticing Filing of Transcript, Designating Additional Materials for the Evidentiary Record, and Disposing of Outstanding Motions, June 16, 2021 (POR No. 17); Presiding Officer’s Ruling Noticing Filing on Transcript and Designating Additional Materials for the Evidentiary Record, June 17, 2021 (POR No. 18).
Four participants submitted rebuttal testimony: Anita Morrison on behalf of APWU, Stephen Dematteo on behalf of APWU, Carlson, and Hutkins.\textsuperscript{17}

Initial briefs were submitted by the APWU, the Greeting Card Association (GCA), NPPC, Carlson, Hutkins, the Postal Service, and the Public Representative.\textsuperscript{18} The Commission also received 481 statements of position and 2 comments.\textsuperscript{19} Carlson, Hutkins, the Postal Service, and the Public Representative filed reply briefs.\textsuperscript{20}

The record in this docket closed on July 1, 2021.\textsuperscript{21}

\textsuperscript{17} Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Service Workers Union, AFL-CIO, June 2, 2021 (APWU-RT-1); Rebuttal Testimony of Stephen Dematteo on Behalf of the American Postal Workers Union, AFL-CIO, June 2, 2021 (APWU-RT-2); Rebuttal Testimony of Douglas F. Carlson, June 2, 2021 (DFC-RT-1); Rebuttal Testimony of Steve Hutkins, June 2, 2021 (SH-RT-1). Hutkins filed a corrected rebuttal testimony. Rebuttal Testimony of Steve Hutkins, June 10, 2021 (SH-RT-1 (Corrected)).

\textsuperscript{18} Brief of the American Postal Workers Union, AFL-CIO on the Postal Service’s Request for an Advisory Opinion on Changes in the Nature of Postal Services Request for an Advisory Opinion on Changes in the Nature of Postal Services: First-Class Mail and Periodicals, Service Standard Changes, 2021, June 21, 2021 (APWU Brief); Initial Brief of the Greeting Card Association, June 21, 2021 (GCA Brief); Brief of the National Postal Policy Council, June 21, 2021 (NPPC Brief); Douglas F. Carlson Initial Brief, June 21, 2021 (Carlson Brief); Initial Brief of Steve Hutkins, June 21, 2021 (Hutkins Brief); Initial Brief of the United States Postal Service, June 21, 2021 (Postal Service Brief); Initial Brief of the Public Representative, June 21, 2021 (PR Brief).

\textsuperscript{19} The 481 statements of position can be found on the Commission’s website at \texttt{https://www.prc.gov/dockets/doclist/N2021-1/Statement-of-Position}. Comments of Enid Braun, April 26, 2021 (Braun Comments); Comments of Meredith Turshen, April 26, 2021 (Turshen Comments).

\textsuperscript{20} Douglas F. Carlson Reply Brief, June 25, 2021 (Carlson Reply Brief); Reply Brief of Steven Hutkins, June 25, 2021 (Hutkins Reply Brief); Reply Brief of the United States Postal Service, June 25, 2021 (Postal Service Reply Brief); Reply Brief of the Public Representative, June 25, 2021 (PR Reply Brief).

\textsuperscript{21} Presiding Officer’s Ruling Designating Materials for and Closing the Evidentiary Record and Other Procedural Matters, July 1, 2021 (POR No. 20).
III. COMMISSION LEGAL AUTHORITY

The Postal Service must request an advisory opinion from the Commission for proposed changes in the nature of postal services on a nationwide or substantially nationwide basis. See 39 U.S.C. § 3661(b). The Commission’s rules require the Postal Service to file its request “not less than 90 days in advance of the date on which the Postal Service proposes to make effective the change in the nature of postal service involved.” 39 C.F.R. § 3001.72.

Users of the mail are afforded a hearing on the record before the Commission’s review is complete. 39 U.S.C. § 3661(c). The advisory opinion, based on evidence developed during hearings in accordance with 5 U.S.C. §§ 556 and 557, considers whether the Postal Service’s planned changes conform, in terms of its objectives and effects, to the policies of section 3661 and the remainder of Title 39. “The opinion shall be in writing and shall include a certification by each Commissioner agreeing with the opinion that in his judgment the opinion conforms to the policies established under this title [39].” 39 U.S.C. § 3661(c). The advisory opinion is intended to better inform the Postal Service in its decision making process, provide transparency into the decision-making and policy-development process the Postal Service undertook, and provide a different perspective for the Postal Service’s consideration.22

IV. SUMMARY OF POSTAL SERVICE PROPOSAL

A. Postal Service Request

The Postal Service requested that the Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of Title 39, United States Code. Request at 1. Specifically, the Postal Service proposes to revise the service standards for First-Class Mail and end-to-end Periodicals. *Id.* The Postal Service plans for these changes to become effective no earlier than September 1, 2021. *Id.* at 1-2.

For First-Class Mail within the contiguous United States, the Postal Service states that its proposal would narrow the scope of the existing 2-day and 3-day standards; and instead would apply the 4-day and 5-day standards to certain First-Class Mail traveling longer distances between origin and destination. *Id.* at 3. The Postal Service states that most First-Class Mail volume will be unaffected by the proposed changes. *Id.* at 4. It observes that First-Class Mail subject to the existing 1-day (Overnight) service standard will not be affected. *Id.* at 3-4. Overall, the Postal Service asserts that approximately 70 percent of First-Class Mail volume would be subject to the proposed 1-day, 2-day, or 3-day service standards; approximately 21 percent of First-Class Mail volume would be subject to the proposed 4-day service standard; and approximately 10 percent of First-Class Mail volume would be subject to the proposed 5-day service standard.23 The Postal Service plans to apply a 3-6-day standard to certain end-to-end Periodicals merged with First-Class Mail for surface transportation, specifying that the Periodicals standard would equal the sum of 1 day plus the applicable First-Class Mail service standard. *See id.* at 6.

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23 *See id.* at 4. These figures total 101 percent due to rounding.
Specifically, the Postal Service proposes to apply the following standards to First-Class Mail.

**Figure IV-1**

**Proposed Postal Service First-Class Mail Service Standards**

<table>
<thead>
<tr>
<th>1-Day</th>
<th>• Intra-SCF domestic Presort mailpieces properly accepted at the SCF before the day-zero Critical Entry Time (unchanged*)</th>
</tr>
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</table>
| 2-Day          | • Intra-SCF single piece domestic mailpieces where the SCF is also the origin P&DC/F or the combined drive time between the origin P&DC/F, destination ADC, and destination SCF is 3 hours or less  
                 • Inter-SCF domestic mailpieces, if the combined drive time between the origin P&DC/F, destination ADC, and destination SCF is 3 hours or less |
| 3-Day          | • Intra-SCF and inter-SCF mailpieces within the 48 contiguous states where the combined drive time between the origin P&DC/F, destination ADC, and destination SCF is more than 3 hours, but does not exceed 20 hours |
| 4-Day          | • Inter-SCF mailpieces within the 48 contiguous states where the combined drive time between origin P&DC/F, destination ADC, and destination SCF is more than 20 hours but does not exceed 41 hours  
                 • Certain mailpieces originating and/or destinating in non-contiguous areas** |
| 5-Day          | • Mailpieces for which the drive time within the 48 contiguous states between origin P&DC/F, destination ADC, and destination SCF exceeds 41 hours  
                 • All other mailpieces to non-contiguous United States destination |

**Notes:**

* The existing First-Class Mail 1-day service standard is codified in 39 C.F.R. part 121.1(a)(2).  
** Specifically, this refers to the following:  
  • Mailpieces originating in the contiguous 48 states destined to the city of Anchorage, Alaska, the 968 3-Digit ZIP Code area in Hawaii, or the 006, 007, or 009 3-Digit ZIP Code areas in Puerto Rico.  
  • Mailpieces originating in the 006, 007, or 009 3-Digit ZIP Code areas in Puerto Rico and the destination is in the contiguous 48 states.  
  • Mailpieces originating in Hawaii and the destination is in Guam, or vice versa.  
  • Mailpieces originating in Hawaii and the destination is in American Samoa, or vice versa.  
  • Mailpieces for which both the origin and destination are within Alaska.

Request at 5-6.


Source: Request at 3-6.
The Postal Service states that the existing service standards do not reflect declining mail volumes and that attempting to meet the existing service standards has led to high costs, transportation inefficiencies, and difficulties in providing reliable and consistent service performance. See Request at 6. The Postal Service asserts that transporting mail by surface (trucks) is more reliable and cost-effective than air transportation. See id. at 7. The Postal Service states that the proposed changes would allow the Postal Service to use surface rather than air transportation for more mailpieces between additional Postal Service origin and destination processing facilities (OD Pairs). See id. at 3, 7-8. The Postal Service claims that the proposed changes could generate a net improvement to the Postal Service’s finances of approximately $169.5 million annually, when considering transportation cost savings.24

The Postal Service asserts that implementing the proposed changes would enable it to provide more reliable and consistent service performance, improve its ability to run according to its operating plans and optimize its surface transportation network, increase its use of more cost-effective air carriers for volume that will continue to be transported by air (such as volume destined for non-contiguous areas), achieve significant cost savings due to the creation of a more efficient transportation network, and implement future operational benefits. See Request at 6-9. It adds that the proposed changes are a key component of the Postal Service’s Strategic Plan, intended to achieve financial stability and service excellence. See id. at 9-10.

Further, the Postal Service asserts that the proposed changes achieve the objectives of 39 U.S.C. § 3691(b)(1) better than the existing service standards. See id. at 10-12. The Postal Service contends that it has taken into account the factors set forth in 39 U.S.C. § 3691(c), including the broader policies of Title 39, United States Code, as required by 39 U.S.C. § 3691(c)(8). See id. at 10-13. The Postal Service

24 See Revised USPS-T-2. The Postal Service originally estimated the net improvement to be $174.8 million annually. See Request at 9.
discusses how it will continue to satisfy the universal service provisions appearing in 39 U.S.C. §§ 101, 403, and 3661(a) under the proposed service standards. See id.

B. Witness Robert Cintron Testimony

Witness Robert Cintron serves as the Vice President of Logistics at the Postal Service, where he oversees the Postal Service’s Surface Logistics, Air Logistics, International Logistics, Systems Integration Support, Logistics Modeling and Analysis, Mail Transportation Equipment Service Centers, and the Headquarters National Operations Control Center. USPS-T-1 at 1. He states that “[t]ogether, these functions focus on the Postal Service’s logistics capabilities and centralize research, modeling, and analytics for surface and air transportation….” Id. His testimony discusses the Postal Service’s ability to meet the existing service standards and the proposed service standard changes and their benefits.

Witness Cintron explains that its current abilities to meet existing service standards leave room for improvement. Id. at 5. He states that the Postal Service seeks to add up to two additional days for limited categories of First-Class Mail and Periodicals mail in order to improve its service capabilities, achievement of service standards, and reduce mail transportation costs. Id. He states that the most significant revisions would increase the service standard for certain categories of First-Class Mail from a current 1-3-day service standard to a 1-5-day service standard. Id. at 2.

Witness Cintron explains that the proposed changes will allow the Postal Service to increase the volume of First-Class Mail moved by surface transportation, which he states is more cost-effective and more reliable than air transportation. Id. He states that historical service performance measurements indicate that volume transported by surface modes has better on-time performance than volume transported by air. Id. at 9. He states that “air carriers’ flight schedules can be volatile and subject to last minute changes based upon weather delays, network congestion, and air traffic control ground stops.” Id. at 10.
Witness Cintron explains that “[d]elays and schedule alterations occur less frequently with surface transportation, improving its overall on-time reliability.” *Id.* He states that the “current average utilization of surface transportation capacity is 42 percent.” *Id.* At these levels, he observes that ample capacity to absorb volume from air transportation exists. *Id.* He asserts that the capacity of the surface transportation network to absorb volume from air without negative effects from weather delays and ground stops makes it more reliable. *Id.*

Witness Cintron anticipates that the proposed service standard changes will decrease the need to use more expensive air cargo transportation carriers rather than less expensive commercial air carriers for mail routes that include non-contiguous U.S. states or territories. *Id.* at 12. He further anticipates that its proposed changes would enable it to reduce air transport costs by “adding flight schedule flexibility that does not exist with the current service standards.” *Id.* He states that currently commercial air carriers’ flight schedules do not allow it to achieve its current service standards due to the infrequency of necessary routes. *Id.*

Witness Cintron provides a discussion of the existing and planned changes to the service standards. *Id.* at 12-17. He states that the “Postal Service is incapable of meeting its service performance targets, and hence providing reliable and consistent service, under the current standards.” *Id.* at 18.

Witness Cintron further states that the Postal Service “has observed two volume trends which complicate current network operations. First-Class Mail volume has steadily declined at a rate of approximately 3 to 4 percent annually over the past several years,” and that “the rate of decline for First-Class Mail volume has increased during the ongoing Covid-19 pandemic.” *Id.* at 20. He observes that the per-piece costs increase as mail volumes decrease for mail delivered by surface transportation. *Id.* He states that the observed decline in First-Class Mail volume are combined with current service standards requirements “hamper [its] ability to move mail volume cost-effectively.” *Id.*
He explains that in some cases, the current service standards may require the Postal Service to continue transporting mail at substantially decreased volumes. *Id.* at 20-21.

Witness Cintron provides an overview of the current mail transportation logistics, noting that the Postal Service currently employs primary modes of transportation for the delivery of mail and packages: air and surface transportation. *Id.* at 21-22. He explains that time and cost determine whether it transports by air or by surface. *Id.* at 25. He provides that the Postal Service will transport by air if the volume of mail being transported by surface is too time-consuming to meet applicable service standards or insufficient to justify cost. *Id.*

Witness Cintron states that the proposed changes will enable the Postal Service to “implement cost-saving and efficiency-improving transportation network changes.” *Id.* at 26. He cites an ability to more efficiently utilize surface transportation due to the proposed service standard changes. *Id.* First, with respect to 2-day service standard, he states that the proposed changes will “reduce the geographic reach of [2-day] origin-destination pairs” which will effectively reduce dedicated, inefficient surface transportation. *Id.* at 27. Second, with respect to 3-day, 4-day, and 5-day volume, he proffers that expansion of the available time in the transit window increases the opportunity to route volumes more efficiently. *Id.* He states that the proposal to decrease the 3-day surface transit window time from 28 hours to 20 hours will:

[A]dd sufficient time to allow for efficiency-increasing measures, such as (a) increasing the use of transfers via aggregation sites and surface transfer centers (‘STCs’), (b) combining trailer loads for one destination with loads for other destinations (load sequencing), or (c) routing ‘multi-stop’ lanes where it could pick up volume from multiple origins along the line of travel for final destination.

*Id.*
Witness Cintron notes that the network changes would require modifications to the Postal Service’s mail processing operations, but the Postal Service does not anticipate that those modifications would materially affect cost or revenue.  Id. at 29.

Witness Cintron states that overall the Postal Service anticipates that the proposed changes would decrease its use of domestic commercial air transportation for First-Class Mail volume from 21 percent of letter- and flat-shaped mailpieces to 12 percent.  Id. at 30. He explains that the proposed changes will provide the Postal Service with more flexibility to route mail more efficiently, and to maximize the use of space on each trip.  Id.

Witness Cintron explains that the Postal Service considered the impact of the changes on all relevant stakeholders.  Id. He states that, in some instances, the proposed changes will impact customers by “increasing the amount of time it would take to deliver a piece to a recipient.”  Id. He explains that in order to mitigate any harm from this change, the Postal Service will work to inform retail consumers and the mailing industry about the changes.  Id. at 30-31. He states that the “changes will not directly impact the Postal Service’s workforce.”  Id. at 32.

Regarding the impact of commercial air and surface transportation suppliers, witness Cintron states that the “Postal Service anticipates that the proposed changes would reduce the volume of First-Class Mail carried by air contractors…and cargo air contractors” while increasing the use of surface transportation suppliers.  Id. He states that the Postal Service anticipates that there will be fewer total expenses related to contracted transportation of mail.  Id. He further states that the “Postal Service will work with its contractors to ensure changes are communicated effectively and that negative impacts on suppliers from abrupt changes are minimized.”  Id.
In addition, witness Cintron states that the proposed changes are consistent with the policies and requirements of Title 39. *Id.* at 33. He states that the Postal Service has designed its proposal with certain intended objectives, such as:

[S]eeking to enhance the value of postal services to both senders and recipients; to preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining; and to reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices.

*Id.* He further states that the Postal Service has taken into account all necessary and appropriate factors. *Id.* at 33-36.

Finally, witness Cintron explains that the Postal Service intends to “initiate its own rulemaking to amend its service standards under 39 C.F.R. Part 121.” *Id.* at 36. He states that after considering public comment and the advisory opinion of the Commission, the Postal Service will publish any service standard changes in the *Federal Register* and Title 39 of the Code of Federal Regulations. *Id.*

C. Witness Curtis Whiteman Testimony

Witness Curtis Whiteman serves as the Acting Director of the Budget Department at the Postal Service, where he is responsible for developing and allocating expense budgets to fund field operations and monitoring performance against the plan. USPS-T-2 at i. His testimony provides financial context for the Postal Service’s proposed changes.

Witness Whiteman states that the Postal Service has had 14 years of consecutive net losses of $87 billion since 2007, with a $9.2 billion net loss in 2020. *Id.* at 5. He notes that retirement-related expenses totaled $84.2 billion since 2007. *Id.* However, he explains that retirement-related expenses were not solely the cause of the net losses. *Id.* He asserts that structural and legal constraints have also had a significant impact on the financial results. *Id.* He states that without significant,
sustained efforts to address operating costs, the Postal Service's financial condition will continue to deteriorate. *Id.* at 14.

Witness Whiteman asserts that the proposed changes will reduce the First-Class Mail pounds flown by 49.3 percent. *Id.* at 10. He states that the "reduction will be spread across multiple air carriers, each of which charges a different rate per pound flown." *Id.* He explains that “[w]ith one small exception, air transportation costs have been shown to vary in proportion with volume, due to the nature of the contracts with the carriers.” *Id.* Thus, the “savings resulting from the reduction in air capacity can be calculated for each carrier by multiplying the expected percent reduction in units flown by the carrier’s total cost.” *Id.* Therefore, he expects that the Postal Service will save $196.1 million per year in air transportation costs. *Id.* at 11.

In addition to reducing air capacity, witness Whiteman states that the proposed change will result in decreased surface capacity to allow for more efficient travel paths for current surface volumes. *Id.* He explains that the majority of the cost savings will be seen within Inter-Area contracts. *Id.* at 12.

In combining the impacts to the highway network capability, witness Whiteman expects that the Postal Service will save $83.5 million per year in highway transportation costs. *Id.* at 12-13. In total, he estimates that the proposed changes will result in a total annual cost savings of $279.6 million for purchased transportation. *Id.* at 13. He notes that the projected cost savings are expected to be offset by the potential lost contribution due to the longer delivery standard. *Id.* at 14. The estimated net decrease in annual contribution is projected at $110.1 million. See Revised USPS-T-2. He estimates overall cost savings of $169.5 million per year. See *id.*

D. Witness Stephen B. Hagenstein Testimony

Witness Stephen B. Hagenstein serves as the Director of Logistics Modeling and Analytics at the Postal Service, where his office provides analytics and insights to help the Postal Service review scenarios, plan for future needs, and make strategic
decisions. USPS-T-3 at i. His testimony describes how the proposed service standard changes would affect the transportation network.

Witness Hagenstein provides an overview of the current transportation network, which aims to ensure safe, efficient, and timely movement of mail among postal facilities and between processing and delivery facilities. USPS-T-3 at 1. As a result, the size of the transportation network depends on the size of the processing and distribution network. Id. Within the transportation network, mail is moved to and from Processing and Distribution Centers (P&DCs), International Service Centers (ISCs), Network Distribution Centers (NDCs), Distribution Delivery Units (DDUs), annexes, airports, Post Offices, stations, and branches. Id. at 1-2.

Witness Hagenstein states that the “transportation network must be designed to ensure that mail volumes can be transported between postal facilities within certain transportation windows so that the mail can be processed and delivered in accordance with the applicable processing windows and service standards.” Id. at 2.

The transportation window is a time period between the clearance time (CT) and the critical entry time (CET). Id. CTs are established by origin processing plants, and CETs by destination processing plants. Id. CT represents the earliest time when mail is available for departure from the origin processing facility, and CET represents the latest time that the destination processing facility can accept incoming mail volume to ensure its timely processing at destination and subsequent delivery operations. Id. The transportation window and the distance between OD Pairs inform Postal Service decisions with respect to the transportation mode, which is necessary to move respective classes of mail in accordance with applicable service standards. Id.
Witness Hagenstein explains that First-Class Mail, as well as Priority Mail and Priority Mail Express, are generally transported by air within the contiguous United States when necessary to achieve the applicable service standards.\textsuperscript{25}

Witness Hagenstein explains that declining mail volume and the associated changes in volume distribution in the network have created an unbalanced transportation system and led to less efficient direct transportation of mail. \textit{Id.} at 6. He adds that differing CETs for First-Class Mail and packages cause these separate products to be dispatched on separate networks, which reduces utilization efficiency. \textit{Id.}

Witness Hagenstein explains that routing network trips through consolidation points in order to reduce the inefficient direct transportation and increase capacity utilization remains infeasible because not enough time is available in the transportation windows under the current service standards. \textit{Id.} at 5-6. He avers that the proposed service standard changes analyzed in this proceeding will extend the transportation windows and thus enable the Postal Service to route trips more efficiently.\textit{Id.} Moreover, he states that the extended transportation windows will enable a "significant portion" of First-Class Mail volume to be diverted from the air to the surface transportation network. \textit{Id.} at 5.

Witness Hagenstein proceeds to describe the methodology used to analyze the potential impact of the service standard changes to the surface transportation network. He states that logistics industry optimization software, Blue Yonder© Transportation

\textsuperscript{25} \textit{Id.} at 2-3. In contrast, witness Hagenstein states that Periodicals, USPS Marketing Mail, and Retail Ground are transported exclusively by surface transportation within the contiguous states, owing to more time available to transport these mail classes under their applicable service standards. \textit{Id.} at 3.

\textsuperscript{26} \textit{Id.} at 6. The Postal Service states that the proposed revisions to First-Class Mail service standards will have an impact on contracted inter-SCF highway transportation between origin P&DCs, destination Area Distribution Centers (ADCs), and destination SCFs, within the contiguous United States OD Pairs. \textit{Id.}
Modeler (TMOD), was used to model network scenarios. He explains that the TMOD software was instructed to create optimal routings to move modeled volumes in the network while minimizing transportation miles. \textit{Id.} at 10. He adds that in order to ensure comparative analysis of results, the modeling was an iterative process. \textit{Id.} at 7-8. The iterative process first created a model to optimize the current surface OD Pairs, then introduced current air OD Pairs into the model, and finally analyzed cost effectiveness of the model’s routing results for current air OD Pairs. In further describing the modeling process, he provides the inputs used, the proposed service standard assignment rules, the assumptions made, and constraints of the modeling. \textit{Id.} at 8-19.

Based on the modeling, witness Hagenstein projects that the “percentage of 3-digit [ZIP Code] OD Pairs subject to one-to-two-day and three-day service standards decreases from 8 and 92 percent to 3 and 41 percent, respectively.” \textit{Id.} at 21. He also expects that the “percentage of 3-digit [ZIP Code] OD Pairs newly subject to four- and five-day service standards is 39 and 17 percent, respectively.” \textit{Id.} He explains that the:

\begin{quote}
[Percentage of [First-Class Mail volume] in the contiguous United States subject to a one- or two-day service standard decreases from 43.1 percent to 34.9 percent; the percentage of volume subject to a three-day service standard decreases from 56.9 percent to 34.8 percent; 20.7 percent of volume is subject to changing to a four-day service standard; and 9.6 percent of volume is subject to changing to a five-day service standard.
\end{quote}

\begin{footnotes}
\item[27] \textit{Id.} at 6-7. See Section VII.D for a more detailed discussion and analysis of the modeled network scenarios.
\item[28] \textit{Id.} at 7. The evaluation involved comparing the cost of a surface trip to the cost associated with transporting corresponding volumes via the air transportation network. \textit{Id.} at 7-8.
\item[29] While the transportation model optimized routings for OD Pairs (i.e., origin P&DC; destination ADC; destination SCF pairs), witness Hagenstein presents changes in service standard assignments in terms of 3-Digit ZIP Code OD Pairs. A 3-Digit ZIP Code OD Pair refers to 3-Digit ZIP Code area of mail origin to 3-Digit ZIP Code area of mail destination pair. \textit{Id.} at 20.
\end{footnotes}
Id. at 22. He states that 19 percent of end-to-end Periodicals are projected to see a downgrade in service standard. Id. at 24. He also projects that the percentage of First-Class Mail volume transported via surface is projected to increase from approximately 79 percent to 88 percent, while the percentage of First-Class Mail volume transported by air is expected to decrease from 21 percent to 12 percent. Id. at 26.

Witness Hagenstein concludes that the Postal Service has utilized appropriate data sources and modeling techniques to assess the impact of the proposed service standard changes on transportation time and surface transportation network efficiencies. Id. at 27. While he states that the modeling described in his testimony demonstrates that the proposed changes would lead to a more reliable, cost-effective, and efficient transportation network, he also acknowledges the modeling limitations, which he notes will necessitate significant post-processing work by transportation planners who will finalize modeled routings into actual routings that can be implemented. Id. at 19, 27.

E. Witness Steven W. Monteith Testimony

Witness Steven W. Monteith serves as Chief Customer & Marketing Officer and Executive Vice President for the Postal Service, where he is responsible for all corporate strategies and initiatives to increase revenue and contribution and to improve the customer experience. USPS-T-4 at i. His testimony describes how the proposed service standard changes may impact customer satisfaction and the tools and techniques used by the Postal Service to communicate with its customers regarding proposed service standard changes.

Witness Monteith contends that the proposed changes are unlikely to have a meaningful impact on customer satisfaction. Id. at 18. Instead, the Postal Service anticipates that the proposed changes may improve customer satisfaction scores and mitigate financial impacts. Id. He states that the “top five drivers of customer satisfaction are: (1) reliability; (2) consistently delivers the mail when expected;
provides fast mail delivery; (4) keeps my mail safe; and (5) delivers to the correct address.” *Id.* He explains that the proposed changes seek “to improve the top two drivers [of customer satisfaction]: reliability and consistently delivers the mail when expected.” *Id.* He asserts that the proposal’s improvements to reliability and consistency of service are “unlikely to materially impact the third top driver of customer satisfaction: fast delivery.” *Id.* at 19. He states that “customers’ expectations of delivery times may already be aligned with the proposed service standard changes.” *Id.* He also notes that the changes would impact only a portion of First-Class Mail and Periodicals mail volume. *Id.* at 20.

With regard to the Postal Service’s communication plan, witness Monteith states that the Postal Service disseminated information regarding the proposed changes through established communication channels. *Id.* at 21. These established channels included the network of Postal Customer Councils (PCC), the Business Service Network (BSN), the Business Mail Entry Unit Message Center, and the PostalPro website to communicate with business mailers; the Postmaster General's Mailers Technical Advisory Committee (MTAC) and Areas Inspiring Mail (AIM) to communicate with major mailing associations; and trained employees, the Postal Service website, and the Corporate Communications media arm to communicate with consumers and

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30 The Postal Service states, “[i]n April 2021, the Postal Service provided a briefing on the “Delivering for America” Plan to the Postal Customer Council (“PCC”) leadership. It included both Postal Service and industry leadership from the 144 PCC’s nationwide. Almost 200 people were in attendance. We discussed the proposed service standards changes at the briefing and received feedback on those proposed changes.” Tr. 1/59, June 16, 2021.

31 The Postal Service states:

Specifically, Executive Leadership met with Mailers’ Technical Advisory Committee (“MTAC”) on March 30, 2021 and presented the 10 Year Plan, ‘Delivering for America’ (“the Plan” or “Delivering for America Plan”), which includes the service standard proposal. There were over 600 attendees at the March 30th presentation. On March 31, 2021, the industry participated in a full day of focus group sessions in which industry could raise issues and concerns to Postal Service leadership. Issac Cronkite presented the Plan to Central Area Areas Inspiring Mail (“AIM”) with approximately 420 attendees.

*Id.*
small businesses. USPS-T-4 at 21-23. He mentions that “[s]ome mailers, such as remittance, election, and Periodical mailers, have unique needs and will be impacted by the changes differently than our other mailers.” Id. at 23. For these mailers, he states that the Postal Service has and will conduct specific outreach efforts. Id.

Additionally, witness Monteith states that the Postal Service provided forums where stakeholders could ask questions and provide feedback. Id. at 24. He also states that the Postal Service hosted webinars for business mailers, instructed its employees to receive feedback from the general public, and established a forum for public comment through the current proceeding, which included a pre-filing conference on April 6, 2021. Id. at 24-25.

F. Witness Thomas E. Thress Testimony

Witness Thomas E. Thress serves as Vice President at RCF Economic and Financial Consulting, Inc. (RCF), where he has major responsibilities in RCF’s forecasting, econometric, and quantitative analysis activities. USPS-T-5 at 1. His testimony provides econometric analysis to estimate the potential volume loss that could result from implementing the proposed service standard changes. Id. at 2.

Witness Thress states that he “estimated the historical relationship between mail volumes and average days to delivery via econometric analysis.” Id. at 3. He states that the resulting coefficient(s) from his analysis were applied to estimates of the change in average days to delivery resulting from the proposal in this docket. Id.

Witness Thress states that the “Postal Service estimates a set of econometric demand equations which relate mail volumes to factors which have influenced mail volumes historically, such as postal prices, the macro-economy (e.g., employment), and long-run diversion trends.” Id. at 4. He explains that the equations are updated quarterly and filed with the Commission annually. He submits that the Postal Service filed the most recent set of equations on January 20, 2021. Id.
For First-Class Mail, witness Thress explains that there are six relevant equations because the Postal Service decomposes First-Class Mail across two dimensions for the purpose of estimating econometric demand equations: Single-Piece and Workshare, and by shape: Letters, Cards, and Flats. *Id.* at 9. For Periodicals mail, he explains that there are “three demand equations associated with Periodicals mail: Regular Rate, Nonprofit (including Classroom), and Within County.” *Id.* at 28. He states that the equations “provide a basis for estimating the potential change in First-Class Mail and Periodicals mail volumes in response to a change in service standards.” *Id.* at 36. For his analysis, he uses average days to delivery as the delivery performance measure. *Id.* at 4. He explains that the Postal Service estimates that the proposed changes could increase average delivery time by as much as 19 percent.\(^{32}\)

Witness Thress provides the following formula to calculate the percentage change in mail volume, using “d” as the percentage change in average days to delivery and e as a coefficient on average days to delivery:

\[
v = (1 + d)^e - 1
\]

USPS-T-5 at 36. Using this equation, witness Thress states that the “total number of pieces of volume lost could be calculated by multiplying that percentage by a baseline level of volume.” *Id.* He also states that multiplying lost volume by revenue per piece would provide the estimated loss in gross revenue due to changes in average days to delivery. *Id.* He further explains that “[m]ultiplying lost volume by contribution per piece would generate the estimated net financial impact of changes in average days to delivery to the Postal Service.” *Id.* at 36-37. He concludes that the proposed service

\(^{32}\) Revised USPS-T-5 at 36. Witness Thress’s original testimony estimated the increase in delivery time by 18 percent. See USPS-T-5 at 36.
standards are expected to reduce the volume of First-Class Mail by approximately 1.72 percent, and reduce the volume of Periodicals mail by approximately 0.11 percent.\[33\]

V. SUMMARY OF REBUTTAL CASES

Four participants filed rebuttal testimony. Their testimonies are summarized below.

A. American Postal Workers Union, AFL-CIO

Anita Morrison (APWU-RT-1) serves as the Founding Principal of Partners for Economic Solutions (PES), a full-service urban economics consulting firm. APWU-RT-1 at 1. She testifies that, on behalf of APWU, PES reviewed the service standard changes for First-Class Mail by geographic extent and by the impact on First-Class Mail volume. Id. at 2.

Stephen Dematteo (APWU-RT-2) serves as Executive Assistant to the President of APWU. APWU-RT-2 at 1. In his testimony, he provides a summary of key themes expressed in comments submitted in response to the Postal Service’s Federal Register request for comments on its proposed changes to service standards. Id. at 5-10. In particular, he states that commenters have expressed concern regarding personal financial issues, the impact of the changes on small business, civic pride in the Postal Service, privacy and the lack of internet access for sensitive paperwork, the perception that people in rural areas have few acceptable alternatives to the Postal Service, and confusion and fear regarding the reliability of the Postal Service. Id. He explains that the comments indicate that the public is very much invested in the success of the Postal Service, but also generally dismayed with the current state of delivery performance and a need for speedy and reliable service in the future. Id. at 10.

\[33\] Revised USPS-T-5 at 36-37. Witness Thress originally estimated that the proposed changes would reduce the volume of First-Class Mail by approximately 1.63 percent and reduce the volume of Periodicals mail by approximately 0.10 percent. See USPS-T-5 at 36-37.
B. Douglas F. Carlson

Douglas F. Carlson (DFC-RT-1) testifies that the Postal Service’s proposal would not meet the needs of customers. DFC-RT-1 at 1. He questions whether the Postal Service is properly calculating the impact of the changes on volume and whether the Postal Service is properly representing the preferences of customers. Id. He states that “speed of delivery of information is the most important criterion in the conduct of his business.” Id. at 5. He explains that a “change to four-day and five-day service standards may very well be the tipping point that will drive [his]…current [communication] process [to] an electronic one.” Id. He also notes that the proposed changes will disproportionately affect senders and recipients living in the western states and other distant geographic regions of the United States. Id. at 5-6.

In reviewing testimony from Postal Service witness Thress, Carlson asserts that “it overlooks how customers actually think about mail delivery times and whether to use the mail.” Id. at 6. He believes the Postal Service is underestimating the loss of volume that will be caused by the proposed changes. Id. at 7. He also states that the proposal will not improve customer satisfaction for two reasons: (1) it violates the central tenet of the shipping industry that faster is better than slower; and (2) the Postal Service misunderstands how customers think of delivery times and service performance. Id. at 8-9. He believes that the public will perceive the proposed changes as a deterioration in service, even if the slower delivery is more reliable. Id. at 10.

Additionally, Carlson states that the Postal Service’s proposal to slow service, combined with its proposal in a separate docket to raise prices, is inconsistent with the requirement of 39 U.S.C. § 403(a) to promote adequate and efficient postal services. Id. at 11. He also states that, without having sought the opinions of individual household mailers who rely on the Postal Service, the Postal Service does not know whether the public supports the proposal. Id.
C. Steve Hutkins

Steve Hutkins (SH-RT-1) submits visual representations of how the proposed service changes would look at the level of individual SCFs and at an aggregated national level.\(^{34}\) His analysis reviews whether the impact of the proposed service standards would vary based on geographic location. SH-RT-1 (Corrected) at 6. He reviews the percentage of volume that would shift under the proposed changes and contrasts the average delivery time under the current service standards with the average delivery time under the proposed standards. \textit{Id.} at 14-19. He also provides a map showing the percentage of OD Pairs using air pairs for each destinating SCF. \textit{Id.} at 19-20.

\(^{34}\) Hutkins’s rebuttal testimony refers to the corrected version submitted on June 10, 2021. SH-RT-1 (Corrected) at 6, 7-13.
Source: SH-RT-1 (Corrected) at 7.
Figure V-2
Origin SCF Chicago, IL 606 Proposed Service Standards

Source: SH-RT-1 (Corrected) at 8.
Figure V-3
Percent of Destination Volume per SCF Shifting to SSD 4- or 5-Day

Source: SH-RT-1 (Corrected) at 14.
Hutkins concludes that the “maps show how some areas will have more origin-destination pairs and more mail volume downgraded to a 4- or 5-day standard than other areas.” *Id.* at 21. He explains that although “the average delivery time for the country as a whole may increase 18 percent, the increases will not be uniform.” *Id.* He asserts that certain areas such as the western states, Maine, Florida, and southern Texas, will experience the changes most deeply. *Id.*
VI. BRIEFS AND STATEMENTS OF POSITION

Initial briefs were filed by the APWU, the NPPC, Douglas F. Carlson, Steve Hutkins, the Postal Service, and the Public Representative. Douglas F. Carlson, Steve Hutkins, the Postal Service, and the Public Representative filed reply briefs.

A. Briefs/Reply Briefs

1. American Postal Workers Union, AFL-CIO

   APWU opposes the Postal Service’s proposal and states that its rationale for “these changes are vague and imprecise because they are based on unimplemented models and theories.” APWU Brief at 6. It states that the estimated cost savings and efficiencies are uncertain. Id. at 7. It explains that the proposal is not supported by market surveys or communications with customers. Id. at 8. APWU asserts that the Postal Service’s plan cuts services and slows First-Class Mail so it can implement untested operational changes in hopes of realizing relatively modest cost savings. Id. at 1.

   In addition, APWU contends that the Postal Service admits it could meet the current service standards. Id. at 1. It explains that by the Postal Service’s own assessment, it has the ideas and tools it needs to improve performance under the current service standards. Id. at 7-8.

   APWU states that it engaged PES to study the impact of the proposed changes and found that the service standard change will impact every community in the country. Id. at 8-9. APWU explains that based on its study, “there is no state without at least 34 percent of ZIP code origins affected by the slower service standards.” Id. at 9. It states that the areas most affected by the changes include California, Oregon, Washington, 

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35 See Section II. n.18. GCA also filed a brief, but had not intervened in this proceeding. See id.; GCA Brief. Therefore, its brief will be considered a statement of position below in Section VI.B.

36 See Section II. n.20.
large portions of Nevada, Idaho, Montana, west central Texas, and the Miami area. *Id.* APWU also analyzes the most-impacted destinations where the slower service standards would add 2 days to the current standard and concludes that destination ZIP Codes with the highest share of impacted service are also focused on the West Coast. *Id.* at 10-11. It contends that 28 percent of all in-state pairs will have service standards that will be downgraded, which could result in the slower delivery of First-Class Mail, including Election Mail. *Id.* at 15. APWU also avers that the characteristics of the impacted areas vary widely among the affected states, but most of the ZIP Code areas that could experience the most significant impact from the service standard changes have more than a quarter of their households with individuals 65 years of age, and older and between 10 and 30 percent of their population being a minority population. *Id.* at 15-16.

In addition, APWU states that it launched an online tool for individuals to submit comments to the Postal Service’s comment email address, with a copy of the message shared with APWU. *Id.* at 17. It explains that other organizations replicated the tool and shared comments collected through their channels with the APWU. *Id.* APWU reports that, as of June 2, 2021, it had received almost 77,000 *Federal Register* comments and the comments were nearly unanimous in opposing the planned service standard changes. *Id.* at 17-18. It explains that there were several consistent themes, including personal hardship due to existing delays in mail service, dependence on speedy mail service, the high esteem the public holds for the Postal Service and concerns at the failing of a public service, and confusion and fear regarding delays. *Id.* at 19-21.

APWU states that the Commission should warn the Postal Service about potential legal challenges based on its assertion regarding legal compliance. *Id.* at 21-22. It also contends that “the Commission’s process is opaque to much of the public and stakeholders,” stating that some individuals who submitted position statements noted difficulty in following the process. *Id.* at 22.
APWU asserts that the proposed changes may not satisfy legal requirements. *Id.* at 24. It explains that the slower service standards may be insufficient to meet the mandate of 39 U.S.C. § 101(a), which “requires the Postal Service to provide ‘prompt, reliable, and efficient services’ in all areas and [to] provide postal services to all communities.” *Id.* It states that by “switching to a transportation policy that is the slowest option for mail traveling coast to coast,” the proposed “service standards also fail to meet the requirement in Section 101(e) that the Postal Service ‘give the highest consideration’ to providing the ‘expeditious collection, transportation, and delivery of important letter mail.’” *Id.* at 25. It states that by moving First-Class Mail packages faster (as proposed in Docket No. N2021-2) than First-Class Mail letters, the Postal Service will not comply with section 101(f)’s demand that the “primary goal” of the Postal Service is to move letters overnight. *Id.* at 25-26.

APWU also states that by slowing down First-Class Mail, the Postal Service does not enhance the value of that mail to either senders or recipients as required by 39 U.S.C. § 3691(b)(1)(A). *Id.* at 26. It states that Objectives (B) and (C) may not be met as rural communities may lose out on regular and effective service, and the historic reliability, speed, and frequency of First-Class Mail may be sacrificed for the proposed changes. *Id.* It states that, given the proposed rate increases in Docket No. R2021-2, the requirement of reasonable rates is difficult to reconcile with the proposed service standard changes. *Id.* APWU further asserts that the proposed changes did not consider Factors 1, 2, and 3 in section 3691(c) because the Postal Service did not consider the needs of its customers, including those with physical impairments, and it assumed that customers are willing to trade quality for consistency when the public stated that it wants both. *Id.* at 26-27.

APWU asks that the Commission not ignore the risk that the proposed service standard changes will damage the reputation of the Postal Service in the eyes of the public. *Id.* at 27-28. It “strongly urges the Commission to critically review the Postal Service’s request and rationale to ensure that whatever plan the Postal Service
implements, it does so with the benefit of the Commission's thoughtful and thorough critique.” *Id.* at 4. Further, APWU “urges the Commission to propose that the Postal Service delay its plan until it has taken the steps it has identified to improve performance under the current service standards.” *Id.* at 29.

2. National Postal Policy Council

NPPC states that the Postal Service’s proposal is inconsistent with statutory requirements. NPPC Brief at 3. It explains that the planned changes are driven by transportation cost considerations, and not mailer needs, relegating First-Class Mail to a lesser status than is required by section 101(a). *Id.* at 4-6.

NPPC asserts that the proposed service standard changes will accelerate declines in First-Class Mail volume. *Id.* at 4. NPPC contends that “there is no disagreement that First-Class Mail volume is expected to decline under both current and planned postal policies.” *Id.* at 7. It states that “the record does not establish the likely amount of the volume decline under the proposed standards.” *Id.* Additionally, NPPC states that it is unclear how much confidence should be placed on the econometric analysis prepared for this case because the “days to delivery” variable used in the model is untested, mailers’ perception of delivery times may fundamentally affect their demand for service, and the analysis did not consider the combined effects of the service downgrade and the proposed price increases in Docket No. R2021-2. *Id.* at 7-9. It further states that the proposal does not offer anything to make First-Class Mail more attractive. *Id.* at 9-12.

NPPC states that the proposal assumes cost savings that experience suggests may not be achieved. *Id.* at 4. It explains the Postal Service did not conduct operational or pilot tests of the changes, and the Postal Service appears to have no contingency plans in place. *Id.* at 13-14. NPPC also notes that the proposed changes would impose substantial harm on remittance mailers, but there is no indication in the record that the Postal Service has considered whether $8 million in costs savings
justifies the costs and burdens on remittance mailers. \textit{Id.} at 14-15. It further states that there is no evidence of a plan addressing how the Postal Service intends to inform retail individuals of the new standards or reassure mail delivery. \textit{Id.} at 16.

In conclusion, NPPC contends that “[t]he Postal Service is planning to treat its best and most profitable customers to both degraded service and significantly higher rates.” \textit{Id.} at 17. It “urges the Commission to consider [its] views in preparing its Advisory Opinion.” \textit{Id.} at 18.

3. Douglas F. Carlson

Carlson states that he “oppose[s] the Postal Service’s proposal to change service standards.” Carlson Brief at 1. He maintains that the Postal Service has not considered the needs of customers. \textit{Id.} at 2. He explains that the Postal Service did not ask for opinions from individual customers and could not provide an example of feedback from customers that might cause the Postal Service to modify the proposal. \textit{Id.} at 3. He states that the Postal Service relies on preexisting market research that does not examine the specific issues in this proceeding. \textit{Id.} at 4. He asserts that the Brand Health Tracker (BHT) does not define “reliable” to survey respondents, customers do not know service standards, and customers may oppose slower service standards. \textit{Id.} at 5-8.

Carlson contends that the proposed service standards would unduly and unreasonably discriminate against customers in remote locations because the proposal disproportionately affects certain regions and does not consider the needs of customers in these regions. \textit{Id.} at 14-20. He notes that “the Commission’s public report in Docket No. C2001-3 provides a clear precedent for the conclusion that changes in service standard changes that are based on distance…and that disproportionally affect customers in certain parts of the country….can result in unfairness and undue discrimination under section 403(c).” \textit{Id.} at 21-22. He states that the proposed changes
fail the three-prong test for discrimination in Docket No. C2009-1 (GameFly test). *Id.* at 22-23.

Carlson also provides that the proposed changes do not comply with sections 101(e) and 101(f), by choosing ground transportation over air transportation when air transportation is more expeditious and ground transportation is less prompt. *Id.* at 23-25.

In explaining that an on-time performance of 95 percent is unlikely, Carlson states that the Postal Service has no data to indicate that the network will support 95 percent on-time performance, many root causes delay the mail, early delivery reduces consistency, and delivery performance did not increase after previous changes in 2000 and 2001. *Id.* at 26-30. He attached to his brief a Postal Service PowerPoint presentation from September 11, 2003, showing service performance in the years before and after the changes in 2000 and 2001. *Id.* at 26-30. He attached to his brief a Postal Service PowerPoint presentation from September 11, 2003, showing service performance in the years before and after the changes in 2000 and 2001. He asserts that the Postal Service is underestimating volume losses and recommends that the Commission analyze and discuss the uncertainty that surrounds the Postal Service’s estimate. Carlson Brief at 30-31. He further recommends that “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).” *Id.* at 31. Finally, he suggests that the Commission recommend that the “Postal Service undertake operational improvements now, without changing service standards, to improve on-time service.” *Id.* at 31-32.

Carlson questions whether the GameFly test should, in its current form, govern the analysis of regional discrimination. Carlson Reply Brief at 2. He states that the GameFly test applies to price discrimination and the proposal in this docket does not implicate price discrimination. *Id.* He states that “while the GameFly test provides

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37 *Id.* Appendix 1; see United States Postal Service, Balanced Scorecard and Performance Management in the U.S. Postal Service, Office of Strategic Planning, September 11, 2003.
useful guidance, literal application of [it] to regional service discrimination may lead to problematic results.”  Id.

Carlson contends that the Postal Service improperly distinguishes the Commission’s decision in Docket No. C2001-3.  Id. at 3.  He states that the changes in service levels are substantively identical, with the exception that the changes resulting from the current proposal are worse in terms of regional disparities and depth of service reduction.  Id.  He explains that the “Commission’s opinion in Docket No. C2001-3 compels similar findings of violations of polices in Title 39 in the current case.”  Id. at 3-4.

Carlson next disputes the Postal Service’s contention that customers in remote parts of the country enjoy an advantage that the proposed changes would properly reduce.  Id. at 4.  Using the Postal Service’s example, he states that a central policy of the postal system and the Universal Service Obligation (USO) is to provide service to the Los Angeles resident and the Louisville resident at the same price, and the Postal Service’s price-per-mile comparison is legally irrelevant.  Id. at 4-5.

Carlson also asserts that the Postal Service invokes improper balancing of the objectives in sections 101(a) and 101(f).  Id. at 6.  He states that the Postal Service must perform all the specified mandates where the statutes use the conjunction “and.”  Id.  He explains that “[n]either statute allows the Postal Service to downplay one criterion in favor of another.”  Id. at 7.

Finally, Carlson states that the Public Representative’s brief does not represent the interest of the public.  Id.  He explains that the Public Representative’s brief does not mention Title 39 and ignores input by the public.  Id. at 7-8.  He provides that “while the Public Representative is not required to adopt the positions of commenters, surely public representation includes acknowledging those viewpoints.”  Id. at 8.  He asserts that the brief should be afforded no weight.  Id.
4. Steve Hutkins

Hutkins states that he opposes the Postal Service’s proposal because the proposed service standard changes “will cause undue discrimination of users of the mail who happen to live in places distant from the country’s centers of population.” Hutkins Brief at 1. He explains that highly impacted areas such as the Western states and portions of Florida, Texas, and Maine, “will see more of their origin-destination pairs and more of their volumes downgraded, as well as larger increases in average delivery time, than other parts of the country.” Id. 1, 3-5.

Hutkins notes that the Commission uses a three-prong test to evaluate whether undue discrimination has taken place. It must be demonstrated that: (1) a mailer or group of mailers has been offered less favorable rates or terms and conditions than one or more other mailers; (2) a mailer or group of mailers is similarly situated to the other mailer or mailers who have been offered more favorable rates or terms and conditions of service; and (3) there is no rational or legitimate basis for the Postal Service to deny the mailer or group of mailers the more favorable rates or terms and conditions offered to others. Hutkins Brief at 2.

As to the first prong of the three-part test, Hutkins explains that the less favorable conditions have material impacts and imposing costs on people based on where they live is an example of unfair discrimination. Id. at 6. He states that businesses and institutions will be forced to shift communications to digital platforms, adding to their operational costs. Id. He also states that “[b]ill payments will be late more frequently,” forcing customers “to pay more in late fees, risk being reported to third party debt collectors, and experience lower credit scores.” Id. He further states that mailers might need to use more expensive forms of mail and pay higher than average rates for already expensive classes. Id.

38 Id. at 2; see Docket No. C2009-1, Order on Complaint, April 20, 2011, at 28 (Order No. 718).
Hutkins states that the Postal Service did not conduct any studies to determine how certain groups, such as rural communities, minorities, seniors, low-income families, and those with disabilities, might be impacted by the proposal. *Id.* at 7-8. However, he asserts that while it would be a challenge to capture such data, it should be clear that these groups will be seriously impacted by the proposed changes. *Id.* at 8. He notes that “APWU witness Anita Morrison observed in her testimony, in the most highly impacted Zip Code areas, more than a quarter of households have individuals 65 years of age or older, and 10 to 30 percent of the populations are minority populations.” *Id.* He states that it is also likely that “average citizens and small businesses will be more impacted because they send more single-piece mail.” *Id.*

As to the second prong of the three-part test, Hutkins contends that “users of the mail in the regions that will be more impacted by the new standards are similarly situated to mailers in other regions” because “they send and receive the same kind of mail, they use postal services in exactly the same way, and they pay the same rates for First-Class Mail.” *Id.* at 10. He explains that the argument that users are not similarly situated based on living in different places is nonsensical because location is the factor on which the discrimination is based. *Id.*

As to the third prong of the three-part test, Hutkins asserts that the Postal Service’s two main rationales for the plan – increasing net income and improving reliability of delivery – are highly questionable. *Id.* at 3. He explains that the Postal Service cost savings could be less than projected and it is difficult to predict the results of the proposal when the Postal Service has never made such a change. *Id.* at 10-13. He also notes that it is “important to consider that the changes in service standards may be coupled with an unusually large rate increase.” *Id.* at 14.

Hutkins explains that the Postal Service argues that although “customer satisfaction may be negatively impacted by slowing down the speed of delivery, the negative impact will be outweighed by the positive impact of greater reliability.” *Id.* at 15. He states that in previous N-cases, the Postal Service conducted market
research to support its case but did not conduct research specifically designed to
evaluate how customers might respond to the proposed changes in the current
proceeding. *Id.* at 16. He contends that the:

Postal Service has not presented persuasive evidence that the
new service standards fulfill the requirements of section 301 of
[the Postal Accountability and Enhancement Act (PAEA)], and the
‘improvements’ to customer satisfaction that the plan is projected
to make do not provide a legitimate basis for the discrimination the
plan will cause.

*Id.* at 21.

Hutkins also asserts that the Commission’s Order on the Carlson Complaint
should serve as a precedent that established that geographical discrimination is
encompassed by section 403(c). *Id.* at 21-23. He explains that in the proceeding, the
Commission found that undue discrimination had taken place even though the
“unfairness caused by the changes in 2000 were also ‘unintended.’” *Id.* at 23.

Finally, Hutkins contends that “[r]elaxing service standard can thus be seen as a
form of raising prices.” *Id.* at 26. He states that uniform rate requirement under
39 U.S.C. § 404(d) prohibits the Postal Service from implementing a system in which
rates vary based on where the sender is located. *Id.* at 26-27.

Hutkins urges the Commission to advise the Postal Service not to proceed with
implementation of its proposal to change service standards. *Id.* at 31. He also requests
that if the Commission determines that the proposed service standards cause
discrimination, the Commission should explain why the discrimination is due or
reasonable. *Id.*

Hutkins contends that the Postal Service failed to show that the claim of
discrimination does not pass any of the three-prong test. Hutkins Reply Brief at 2. He
explains that the “test does not require that discrimination be ‘neatly mapped’ onto
‘discrete classes.’” *Id.* In response to the Postal Service’s contention that the feature of
the framework would reduce existing disparities, he states that the “fact that users of the
mail near centers of population subsidize users more distant from these centers is a central feature of universal service.” *Id.* at 6. He states that, “according to the Postal Service’s analysis,...[u]sers of the mail in highly impacted regions are ‘similarly situated’ to users everywhere else.” *Id.* at 7. In response to the Postal Service’s “argument that the proposed changes are reasonable,” he states that “the proposed changes in service standards will introduce an entirely new form of disparity based on speed and mode of delivery.” *Id.* at 8-9.

5. Public Representative

The Public Representative states that he supports the Postal Service’s proposed changes to the service standards, provided the Postal Service address several concerns. PR Brief at 26. He states that the Postal Service’s financial situation is complex, and highlights the shifting demands of mailers and how the Postal Service must adapt to the changes to better align itself with the needs of mailers to establish a sustainable business model going forward. *Id.* at 2-4.

The Public Representative analyzed the Postal Service’s contentions regarding the need for a service standard change and whether its business case is legitimate. *Id.* at 15. He finds that the Postal Service has failed to meet current service standards as both First-Class Mail and Periodicals failed to meet service performance targets in recent years and reiterates the Postal Service’s position that achieving current service standards is not possible without a significant capital infusion. *Id.* at 15-19. He also finds that the Postal Service’s business case is legitimate. *Id.* at 19-20. He states that the Postal Service has provided seemingly reasonable cost savings projections, based on market research that indicates the proposed changes align with mailer expectations. *Id.* However, he notes that the Postal Service’s projections “are entirely based upon its modeling of how these proposed changes will impact affected mailers” and that “modeling is inherently susceptible to inefficiencies in implementation.” *Id.* at 21-22.
He further provides that “the potential for mailer behaviors to change seems to represent a significant blind spot in the Postal Service’s analysis of [its] proposal.” *Id.* at 23. He explains that the Postal Service has not conducted analysis on the cost of the changes to mailers, or how these costs might affect their motivations. *Id.* He proffers that operational or pilot testing could have been instructive but the Postal Service deemed it unnecessary. *Id.*

Finally, the Public Representative asserts that the Postal Service “has not effectively communicated the rationale for these changes to the general public.” *Id.* at 15. He explains that mailers and members of the public have consistently focused on speed of delivery, expressed skepticism about the Delivering for America plan, and indicated that eroded trust in the Postal Service and its motivations. *Id.* at 23. He notes that commenters seem particularly concerned about the anticipated rate increases concurrent with the proposed service standard changes. *Id.* He explains that without a clear understanding of the reasons for the change, it appears as though the Postal Service “is simply moving the goal posts on service standards to improve optics.” *Id.* at 24.

The Public Representative maintains that the “proposed service standard changes are not unduly or unreasonably discriminatory on the basis of geographical location, in violation of 39 U.S.C. § 403(c).” PR Reply Brief at 1. He asserts that “[n]o party to this docket has established that the Postal Service lacked a rational or legitimate basis for the proposed changes.” *Id.* at 2. He states that the Postal Service has provided market research and a financial analysis, and that opposing parties do not establish that the information provided by the Postal Service was insufficient to constitute a rational or legitimate basis. *Id.* He also states that “disparate geographical impacts do not prove unlawful discrimination,” but that the impacts are a factor that must be weighed by the Commission. *Id.* at 3-4. He contends that the Postal Service’s bases for its proposal outweigh the disparate impact of the changes. *Id.* at 4.
6. Postal Service

The Postal Service states that the “current service standards for First-Class Mail and end-to-end Periodicals do not enable it to reliably deliver those products on time. Postal Service Brief at 1. It explains that “[w]hile these problems were exacerbated by the COVID-19 pandemic, they long precede it,” and the COVID-19 pandemic has highlighted the “critical need to address the capabilities and resilience of the Postal Service’s network.” Id. at 2.

The Postal Service states that longstanding financial and service problems necessitate these changes. Id. at 9. It explains that “[t]he Commission has already repeatedly recognized that the Postal Service is not in a financially stable position,” and that this instability “threatens the continued fulfillment of [i]ts public service mission.” Id. It states that its “current service standards do not enable [it] to reliably deliver First-Class Mail and end-to-end Periodicals on time.” Id. at 10. It states that the Commission has previously noted its inability to meet service performance targets and suggested that the Postal Service set more reasonable targets. Id. at 10-11.

The Postal Service contends that the proposed service standards would enhance its transportation network. Id. at 12. It provides a comparison between the current and proposed standards, and also the operational changes enabled by the proposed service standards. Id. at 12-15. First, it states that the proposed standards would enable it to use surface transportation for a greater percentage of volume and reduce its reliance on air transportation. Id. at 15. Second, by “expanding the transportation window,” the Postal Service states it “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.” Id. at 16. It states that there is little operational risk, and that in its modeling exercise, it has applied thoughtful and reliable analysis and made conservative and accurate assumptions. Id. at 16-21.

By enabling these changes, the Postal Service states that it would be able to improve service reliability, increase efficiency, and reduce costs. Id. at 21-25. It
explains that it cannot achieve these benefits without implementing the service standard changes. \textit{Id.} at 26-28.

The Postal Service states that the proposed service standard changes would have a “modest impact on contribution, and could [enhance] customer satisfaction.” \textit{Id.} at 28. It explains that most mail volume would be unaffected by the changed service standards and provides a summary of the impact of the changes on certain mail. \textit{Id.} at 29. It notes that based on past experience, some contribution loss is expected but it is not enough to outweigh the anticipated benefits. \textit{Id.} at 30. It states that other factors such as electronic diversion or price changes have had a much bigger impact on First-Class Mail and Periodicals mail volume as compared to changes in “average days to delivery.” \textit{Id.} It explains that its “econometric findings are also consistent with the results of [its] market research, which shows that reliability has consistently been the most predictive factor in determining customer satisfaction.” \textit{Id.} at 32. The Postal Service also asserts that customers would be adequately informed of the proposal, which may help mitigate any impacts arising from the proposal. \textit{Id.} at 34. It describes how it has engaged in outreach regarding the proposed changes and states that it will continue to engage with and support stakeholders. \textit{Id.} at 34-36.

The Postal Service states that its proposal is in accordance with and conforms to statutory policies. \textit{Id.} at 36. It states that “[b]ecause Section 3691’s objectives-and-factors formulation mirrors the provision governing the market-dominant ratemaking system,…it is evident that the Section 3691 objectives must similarly be balanced against one other.” \textit{Id.} at 36-37. However, the Postal Service states that the Commission should recognize the degree of deference due to the Postal Service in the context of section 3691 because its objectives and factors bear on matters expressly placed within the Postal Service’s discretion. \textit{Id.} at 37. The Postal Service notes that two objectives are not implicated by these service standard changes: Section 3691(b)(1)(B) and (D). \textit{Id.} at 37 n.10.
In discussing the relevant objectives and factors, the Postal Service states that the “service standard changes would enhance the value of postal services to senders and recipients.” *Id.* at 37. It asserts that it considers the objective “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.” *Id.* It states that “[o]verall, 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.” *Id.* at 39. It explains that the corresponding contribution loss in response to the changes would not outweigh the benefits of the change. *Id.* at 39-40.

The Postal Service explains that the “service standard changes would reasonably assure postal customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices.” *Id.* at 40. It states that in evaluating this objective, it takes into account the current and future projected cost of serving customers (Factor 6), delivery point growth (Factor 5), and future mail volume and revenues (Factor 4). *Id.* at 40-41. Additionally, 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 (Factor 7). *Id.* at 41. It states that “[o]ther Title 39 provisions (Factor 8) reinforce the need for the Postal Service to balance reliability, speed, and efficiency.” *Id.*

The Postal Service acknowledges that the items evaluated under this objective may be at tension with one another. *Id.* It states that “assuring delivery reliability and maximizing efficiency may require tradeoffs in terms of speed and *vice versa.*” *Id.* It states that it “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.” *Id.* at 42.

The Postal Service further explains that the service standard changes appropriately account for and balance other statutory policies. *Id.* at 42. Regarding
sections 403(a) and 3661(a)’s requirement of adequate and efficient postal services, the Postal Service states that the record shows that it has ascertained that customers place primary value on service reliability and consistency, and it plans to continue to appropriately balance efficiency, reliability, and speed to ensure service remains adequate overall. *Id.* at 43-44. With respect to section 101(a), (e)-(f), the Postal Service states that it preserves the current service standards for the majority of First-Class Mail and end-to-end Periodicals, and it tailors the proposed changes to increase the use of more reliably prompt and cost-effective surface transportation. *Id.* at 44-45. It also states that for those customers who need faster delivery than would be provided under the proposed changes, Priority Mail Express and Priority Mail would continue to be available. *Id.* at 45. With respect to section 403(c), the Postal Service states that any disparate effects from the proposed service standards are not inconsistent with the section for four reasons: (1) any disparities depend highly on circumstances as they do not map neatly onto a discrete class; (2) to the extent that any disparities exist, they are already features of the service standards framework and the proposal would reduce these disparities; (3) similarly situated mailers would be treated the same; and (4) the effects of the service standard changes are reasonable under the totality of the circumstances. *Id.* at 45-53.

In addition, the Postal Service states that the “[s]tatements of position offer no basis for contrary conclusions” as “[c]ommenters opine on an array of subjects,” some outside the scope of this proceeding. *Id.* at 53-54. It notes that many commenters predict that the proposed changes would degrade service, using anecdotes of service failures as supporting evidence. *Id.* at 54-55. The Postal Service submits that the “service failures illustrate the weakness of the current transportation network.” *Id.* at 55.

The Postal Service concludes that the Commission should issue an advisory opinion finding that the proposed service standards are consistent with the policies of Title 39, and that the Postal Service has employed sound methodologies to develop the
standards. *Id.* at 8, 67. The Postal Service provides the Commission with a statement of proposed findings and conclusions. *Id.* at 60-67.

The Postal Service states that “none of [the proposal’s] critics provide a basis for the Commission to conclude that the [s]tandards are inconsistent with the policies of Title 39, or that the Postal Service should not proceed to implement the [s]tandards.” Postal Service Reply Brief at 1 (footnote omitted). First, the Postal Service states that issues relating to the Postal Service’s rate authority and postal rates are beyond the scope of the proceeding. *Id.* at 1-2. Second, and in response to the States and Cities, the Postal Service submits that consultations with the Commission are not a prerequisite to filing its Request, and that it has fully complied with the regulatory requirements applicable to this process. *Id.* at 2-4.

In addition, the Postal Service states that many parties “fixate narrowly on promptness and would relegate reliability, efficiency, economy, and control of costs to second-tier policy objectives.” *Id.* at 4-5. The Postal Service explains that it must “balance the achievement of all policy objectives in a manner that is operationally and financially sustainable,” and this “cannot be done under [the] current service standards.” *Id.* at 5. It further notes that “meeting current service standards is not feasible,” and it “has not had the operational capacity to meet the current service standards for years.” *Id.* at 6. The Postal Service also states that while its critics argue that it has a responsibility to deliver First-Class Mail quickly, the critics ignore the Postal Service’s obligation to be self-sustaining. *Id.* at 8.

In addressing the claim that the Postal Service has not considered the impact of the proposed changes on election mail, the Postal Service states that it has found that only 3.84 percent of ballot volume would experience a downward change and it has held briefings with election officials to enable them to align their mailings with the standards. *Id.* at 9. The Postal Service notes that “none of the changes proposed in this case is specific to election mail” or the “measures [it] has taken during past elections to expedite election mail.” *Id.*
The Postal Service avers that adjusting service standards is not degrading the mail and that service is not a proxy for expected delivery time. *Id.* It reiterates that any reduction in volume from this factor will be relatively small, compared to the corresponding improvements in reliability and efficiency. *Id.*

The Postal Service states that its “proposal is consistent with statutory requirements,” and it “has explained how [it has] reasonably balanced the various Section 3691 objectives and factors and other statutory policies.” *Id.* at 11. It asserts that the “Commission’s aim should not be to make these balancing determinations in the first instance, but [it] should recognize the broad discretion that the Postal Service exercises under Section 3691.” *Id.* at 15-16. Additionally, the Postal Service contends that the “service standard changes do not discriminate against customers.” *Id.* at 18. It explains that the proposed standards do not meet the three-prong test in *GameFly.* *Id.* at 18-19.

The Postal Service also responds to criticism of its market research on the impact of the proposed standards on customers, stating that “neither Title 39 nor the Commission’s rules require [it] to submit customer surveys (or any other particular kind of evidence).” *Id.* at 23. It asserts that the record evidence supports Postal Service witness Monteith’s finding that reliability is consistently more predictive of customer satisfaction than “fast delivery.” *Id.* at 24.

Regarding its econometric analysis, the Postal Service contends that the analysis is both relevant and reliable. *Id.* at 25. It explains that none of the parties’ criticism provide any substantive grounds for the Commission to reject the analysis. *Id.* at 25-26. It also states that it “properly considered customer needs when deciding upon [the] proposal,” noting that the parties’ “arguments regarding customer costs and needs are unsupported by record evidence,” and include unsupported personal opinion. *Id.* at 27-28. The Postal Service reiterates that “[e]ffects on individual remittance mailers will be minimal and well communicated to customers.” *Id.* at 29-30.
The Postal Service addresses the parties’ criticisms of its projected cost savings and transportation model, noting that it includes “reasonable and appropriate inputs and factors.” *Id.* at 30. It states that no parties have offered any alternative, that it will realize projected cost savings, and that the modeling is accurate and reasonably informs changes. *Id.* at 30-31.

As for other criticisms, the Postal Service states that they are “unpersuasive and lack evidentiary support.” *Id.* at 32. First, the Postal Service asserts that APWU’s “‘public response’ arguments do not survive scrutiny,” and “the Commission should reject them when considering its advisory opinion.” *Id.* at 33. Second, it states that the proposed changes do not undermine the value of First-Class Mail to incarcerated persons. *Id.* at 34.

Based on the record, the Postal Service submits additional proposed findings and conclusions. *Id.* at 35-36.

B. Comments/Statements of Position

The Commission received a total of 484 statements of position from eight organizations, a group of attorney generals and cities, and 473 individuals. The Commission also received two comments. These statements and comments are summarized below.

1. Association for Postal Commerce

The Association for Postal Commerce (PostCom) states that “[t]he proposed service standards are legally deficient, bad policy, and bad business.” PostCom asserts that the proposed changes do not comply with 39 U.S.C. § 3691. PostCom Statement at 2.

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PostCom states that the “proposed changes will degrade, rather than enhance the value of postal services.” Id. at 2. It explains that the evidence indicates that service, and thus the value of mail, will significantly decline for a significant portion of mail users, including senders and recipients of remittance mail and senders and recipients in certain geographic areas. Id. at 3-7. PostCom states that even if service becomes more reliable, “the Postal Service has not established that this increased reliability will enhance the value of postal services” because the Postal Service did not conduct direct research on how customers might respond or on customer preferences, and it did not consult with the mailing industry in developing its proposal. Id. at 8. PostCom contends that the Postal Service also ignores additional costs that will be imposed on mailers due to its proposal, such as changing production locations to avoid service degradation or modifying internal systems and processes to remain compliant. Id. at 10-12.

In addition, PostCom asserts that the Postal Service has failed to properly assess the likely impact of the changes on future volumes and revenues. PostCom explains that because the Postal Service did not specifically analyze the impacts of mail that will be affected by the change in service standards, the volume impacts are significantly underestimated. Id. at 12. It notes that the figures used in the analysis bear no relationship to the increase in delivery times that mail impacted by the proposed changes will see. Id. at 13-15.

PostCom further states that “[g]ood postal policy counsels against implementing the proposed changes.” Id. at 15. It explains that the Postal Service did not perform any analysis on how the combination of proposed service changes, and the proposed rate changes in Docket No. R2021-2, would affect future volume and revenue. Id. It also contends that the proposal appears to be an attempt to avoid making changes necessary to improve service performance by using the impacts of the COVID-19 pandemic as a justification for changes in the future. Id. at 16.
PostCom recommends that the Commission advise against the proposal and immediately reconsider the rate regulations that will reward the Postal Service for inflicting harm on its customers. *Id.* at 17.

2. Greeting Card Association

GCA states that it does not support or oppose the proposed changes. GCA Brief at 5, 14. GCA asserts that, at the least, the Postal Service’s proposal “encompasses all the objectives and factors of sec[tions] 3622(b) and (c) and the requirements of sec[tion] 3691, as well as the more general directives of chs. 1 and 4.” *Id.* at 5. However, it raises several issues it believes the Commission must address and answer in its advisory opinion. *Id.*

GCA states its first issue involves whether the Postal Service’s “inquiry into public reaction support[s] a favorable advisory opinion.” *Id.* at 6. In particular, GCA states that, in contrast to previous N-case proceedings, the Postal Service did not offer survey and qualitative research in this case. *Id.* GCA states that the Commission should be concerned that no such research was done in connection with this proceeding. *Id.*

GCA also notes that the distinction between customer satisfaction and customers’ needs is acknowledged by the Postal Service, but that customers’ needs were not measured. *Id.* at 7. It states that it is useful to measure satisfaction with the service actually provided, but this measurement “does not reflect the varying degrees of customers’ dependence on the mails – including their dependence on rapid delivery.” *Id.* GCA provides several questions for the Commission to consider and answer:

- Were the actions the Postal Service took to inquire into customer reaction adequate to support a favorable recommendation of this service change?
- More specifically, should the Postal Service have investigated the *dependence* of various customer groups on mail service, as well as their satisfaction with it?
- How, and how well, does the Postal Service inform its customers of what delivery schedule they can expect?

*ld.* at 7-8 (emphasis in original).

GCA notes that its focus is on the Postal Service’s communication with consumers and small businesses. *ld.* at 8. It explains that while “channels of communications with large mailers are established institutions,” channels for “consumers and small businesses are, apparently, still in the development stage.” *ld.* GCA would suggest that “the Commission, if it recommends pursuing the service change, also recommend that the Postal Service reinforce its outreach to small business and household customers, perhaps even through a ‘Postal Customer’ mailing similar to those it uses to advise of holiday mailing deadlines.” *ld.*

GCA next questions whether a change in First-Class Mail service standards, which assumes that no changes will be made in First-Class Mail products, can be favorably recommended. *ld.* at 8-9. GCA states that this issue is relevant because the planned change is premised on declining First-Class Mail volumes, and the Postal Service had not tried other volume-boosting initiatives. *ld.* at 9. GCA attaches a chart showing “the comparative volume behavior of different categories of household-origin mail,” namely that bill payments decline rapidly and monotonically while the volume of personal correspondence applications is nearly constant. *ld.* at 10, Attachment I.

GCA also recommends that the Commission should consider how the proposed change might be reflected in the rate schedule. *ld.* at 11. Specifically, GCA notes “two issues for the Commission: (i) how confident is the Commission that this intended 95-percent level will be achieved and maintained? and (ii) is it appropriate to recommend a plan whose justification is largely that it will facilitate a level of performance that should be achieved without the plan?” *ld.* at 11-12 (footnotes omitted). GCA recommends that, even if the Commission decides these issues favorably, the Commission should include in its opinion, an admonition that the
lengthening of First-Class Mail delivery schedules should be appropriately reflected through moderation in First-Class Mail prices. *Id.* at 12.

Finally, GCA notes that Witness Thress testifies that households are more sensitive than non-household customers to changes in average days to delivery. *Id.* GCA explains that the proposed change does not appear to take account of this fact. *Id.* at 13. GCA states that the Commission should take account of the greater sensitivity of household mailers to delivery schedules. *Id.* GCA asserts that an advisory opinion that does not address and answer the questions raised in its Brief would not be fully responsive to the requirements of section 3661. *Id.* at 14.

3. Lexington Institute

The Lexington Institute (LI) states that it opposes the Postal Service’s proposal.40 It contends that the Postal Service has presented the proposed changes “in a vacuum and with minimal financial back-up information.” LI Statement at 1. It explains that the Postal Service should provide information to the Commission, the public, and to Congress regarding the costs of meeting the current standards before any consideration is given to an advisory opinion supporting the proposed changes. *Id.* at 1-2. Absent this information, LI avers that the proposed changes are at best, premature. *Id.* at 2. LI maintains that “[m]ail delivery can and must be treated as a public utility, with a careful, highly detailed, and defensible review of its costs.” *Id.* at 4.

LI asserts that lower mail service quality, such as longer delivery times, perpetuates and accelerates the loss of First-Class Mail from the system. *Id.* at 2. LI states that since the current service standards went into effect in 2014, “the decline in mail service has been most precipitous in the past year.” *Id.* LI explains that, on average, First-Class Mail takes more than half a day longer to be delivered today than it did in 2012. *Id.* at 3.

LI recommends that the Commission oppose the proposal because it accelerates the decline in mail, deteriorates the Postal Service’s financial position, institutionalizes and rewards bad conduct, and changes the Postal Service’s mission that has seldom been changed in 200 years. *Id.* at 5. LI suggests that the Commission adopt a resolution urging Congress to pass appropriate legislation to stop the changes from going into effect (which would be soon after a rate increase). *Id.*

4. Mailers Hub

Mailers Hub urges the Commission to advise against the proposed changes “in the strongest possible terms, and to condemn [the Postal Service] for the short-sighted, wrong-headed, and counterproductive initiatives they are.”41 Mailers Hub contends that “the Postal Service should [examine] why its operating plans, infrastructure, logistics, and culture are failing,” if the current service standards are unattainable. Mailers Hub Statement at 2. It states that the proposal reduces service for the objective of saving a relatively small amount in costs. *Id.* at 1. Mailers Hub explains that the Postal Service cites surveys of mail recipients who want reliable service. *Id.* However, it states that the Postal Service failed to ask ratepayers about their expectations. *Id.* It asserts that “customers who see excellent service as they define it might be actually willing to pay for it, and continue to give the Postal Service their business.” *Id.* at 2 (emphasis in original).

5. MPA – the Association of Magazine Media

MPA takes no position on the proposed changes to First-Class Mail service standards and focuses its statement on Periodicals service.42 It states that the proposal “would be highly problematic if the relaxed service standards are not accompanied by

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the promised improvements in on-time performance or network optimization.” MPA Statement at 2.

MPA urges the Commission to “hold the Postal Service accountable for meeting or exceeding the 95 percent on-time performance target for Periodicals and enhancing transportation efficiencies.” Id. In addition, MPA discussed the Commission’s advisory role in this proceeding, but explained that the “law provides the Commission with an important oversight function to determine whether service standards during the previous year had been met.” Id. at 3. MPA asks the Commission to “hold the Postal Service accountable for meeting its new service standards, including a reduction in CPI cap pricing authority for performance shortfalls.” Id.

6. NAACP, Public Citizen, and NAACP Legal Defense Fund

The National Association for the Advancement of Colored People (NAACP), Public Citizen, and the NAACP Legal Defense and Educational Fund, Inc. (LDF) (collectively NAACP) recommend that the Postal Service’s proposal not be adopted.43 NAACP states that “the Postal Service has provided an essential service that prioritizes timely mail delivery over cost,” and throughout history “Congress has refused to compromise mail service when faced with declining revenues.” NAACP Statement at 2-3. NAACP asserts that the proposal will delay the delivery of medications and essential communications and packages, and it jeopardizes the prompt delivery of ballots at a time of increased use of voting by mail. Id. at 1, 3-6.

NAACP also contends that the proposal fails to further the objectives of the governing law and fails to give proper consideration to the factors the Postal Service is required to consider. Id. at 6. NAACP states that delaying mail delivery by 1 to 2 additional days undermines Congress’s mandate for the Postal Service to provide “prompt” service as required by 39 U.S.C. § 101(a). Id. at 6-7. NAACP asserts that

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“[r]ural communities [ ] are particularly impacted by lengthier mail delivery times,” and the proposal fails to address this impact as required by section 101(b). *Id.* at 7. Similarly, NAACP states that the proposal fails to consider how slowing mail delivery would pose serious harm to people who rely on the delivery of important mail such as medication, ballots, and legal documents, as required by 39 U.S.C. § 3961(c)(3). *Id.* NAACP further states that, although the Postal Service may consider costs savings in revising service standards, Congress made clear in section 101(a) that costs savings is not an appropriate reason to undermine service. *Id.* NAACP asserts that the proposal puts costs above the “expeditious” delivery of mail as required by section 101(e). *Id.* at 7-8. NAACP concludes that by “potentially decreasing mail volumes or harming the Postal Service brand, the proposal may not result in cost savings.” *Id.* at 8.

7. **National Newspaper Association**

NNA states that it supports the Postal Service’s proposed changes. 44 It contends that “the changes might yield marginally-positive results for newspapers.” NNA Statement at 1. It explains that the Postal Service should have standards that are achievable. *Id.* It states that service might improve, noting that “NNA members would experience a significant improvement in service” if the Postal Service were able to deliver newspapers to long-distance subscribers within 5 days. *Id.* NNA also states that the proposed changes might lead to a better infrastructure, an improvement in Periodicals contribution, and a more sustainable Postal Service. *Id.* at 1-2. However, NNA shares several concerns such as its contention that Congress has failed to find a consensus to fix the Postal Service, and the inevitability of a public support financial model. *Id.* at 2-3.

NNA states that its support of the proposal is conditioned upon local mail being delivered on a same-day or next-day basis, upon the Commission remembering that it

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sees little newspaper delivery data, and upon the Postal Service providing a better mail processing operation for Mixed ADC newspaper bundles. \textit{Id.} at 3-5. NNA provides that late newspapers are bad for the Postal Service and that if the Commission concludes that the proposal “is a step toward sustainability, it must be tried.” \textit{Id.} at 5.


Prison Policy Initiative, Inc. (PPI) states that the proposed changes “would be devastating for incarcerated people, a group that lacks access to electronic alternatives.”\textsuperscript{45} PPI explains that the Postal Service discusses the general trend toward electronic substitution, but explains that “none of the electronic alternatives referenced” by the Postal Service “are available to incarcerated postal customers.” PPI Statement at 2. Moreover, PPI notes that where there are electronic correspondence options, such systems are generally inferior to First-Class Mail. \textit{Id.} PPI asserts that while the proposed changes do not directly impact the right of incarcerated people to use the mail, the changes “vitiate the value and utility of First-Class Mail to incarcerated customers in contravention of the policies established by Congress and set forth in the [PAEA].” \textit{Id.} at 2-3 (footnote omitted).

Specifically, PPI contends that the proposal fails to meet three of the four objectives of 39 U.S.C. § 3691(b)(1), and fails to satisfy five of the eight factors of 39 U.S.C. § 3961(c). \textit{Id.} at 3-4. PPI asserts the “proposed service standards substantially degrade the value of First-Class Mail for incarcerated customers,” rather than enhance the value. \textit{Id.} at 3.

Regarding Factor 2, PPI contends that the Postal Service’s evidence regarding customer satisfaction with current service appears to exclude incarcerated people. \textit{Id.} at 4. It explains that the Mail Moments survey was conducted online, the Household Diary study focused on households, and the BHT survey’s methodology is redacted. \textit{Id.}

Regarding Factor 3, PPI states that “incarcerated people need First-Class Mail to maintain personal relationships and complete [certain] transactions.” *Id.* at 5. It explains that delivery must be prompt for First-Class Mail to retain its value for incarcerated mailers. *Id.*

Regarding Factor 8, PPI asserts that the proposal contravenes three policies of Title 39. *Id.* at 6. First, PPI states that excluding First-Class letters from air transportation violates the requirement that they be provided the most expeditious handling and transportation. *Id.* Second, PPI states that the Postal Service’s contention that the proposed changes will make mail more reliable “read[s] the requirements of expeditious transportation and prompt delivery out of [section] 101.” *Id.* at 7. Third, PPI states that mailers in western and northeastern states would pay the same rates for mail delivery that is materially slower than mail sent from more central locations, which is incompatible with the statutory requirement of fair and equitable apportionment. *Id.*

PPI provides that the “proposed service standards would [also] deprive a majority of incarcerated customers of effective First-Class Mail delivery,” despite the statutory requirement that service must be both regular and effective to satisfy 39 U.S.C. § 3691(b)(1)(B). *Id.* at 7-8. PPI maintains that delivery must be prompt to be effective, and many court systems have incorporated existing service standards into procedural rules. *Id.* at 8. PPI states that “reliance of court systems and litigants on previous service standards is legally relevant under Factor 1…which requires the Postal Service to consider the impact of previous service standards on future revisions.” *Id.* (footnote omitted).

PPI avers that the “proposed service standards destroy any assurance of delivery reliability, speed, and frequency consistent with [reasonable rates and] best business practices,” as required by 39 U.S.C. § 3961(b)(1)(C). *Id.* at 9. It states that the proposal ignores the air transportation network that has routinely been used to transport First-Class Mail, leaves incarcerated mailers unable to reliably estimate
delivery times, and excludes incarcerated mailers from customer outreach campaigns. *Id.*

On behalf of incarcerated mailers, PPI requests that the Commission “issue an advisory opinion finding that the proposed service standards do not comply with applicable law.” *Id.* at 10.

9. States and Cities

The Commonwealth of Pennsylvania, the State of New York, the State of California, the State of Colorado, the State of Connecticut, the State of Delaware, the District of Columbia, the State of Hawaii, the State of Illinois, the State of Maine, the State of Maryland, the Commonwealth of Massachusetts, the State of Michigan, the State of Minnesota, the State of Nevada, the State of New Jersey, the State of New Mexico, the State of North Carolina, the State of Oregon, the State of Vermont, the Commonwealth of Virginia, the City of New York, and the City and County of San Francisco (collectively States and Cities) submit a statement of position on the proposed changes.46

The States and Cities recommend that the Commission urge the Postal Service to abandon its proposal and focus its attention “on improving its performance in delivering First-Class Mail and other market-dominant products.” States and Cities Statement at 2. They explain that the proposal “would have significant adverse effects on mail service,” particularly in certain areas of the country. *Id.* at 4-5. They state that even assuming the proposed changes would improve reliability, the proposal disregards both the public interest in speedy mail delivery and the harms that would result from the changes. *Id.* at 5. They state that the proposed changes would harm the ability to carry out essential government functions such as the administration of public benefits programs, the issuance of documents related to unemployment and workers’

compensation, and the processing and issuing of vital records. *Id.* at 6. They also state that they rely on First-Class Mail to administer elections, noting that their election law and systems have been built around the existing service standards. *Id.* at 6-8.

The States and Cities express concern regarding the Postal Service’s failure to study the effects of the proposed changes on specific populations, such as low-income residents, the elderly, individuals with disabilities, and rural communities. *Id.* at 8-10.

They assert that the Postal Service’s proposal to slow delivery prioritizes competitive packages above First-Class Mail, which is inconsistent with 39 U.S.C. §§ 101(e) and 3691(c)(8). *Id.* at 10. The States and Cities explain that the proposed service standards would:

> It would degrade, rather than enhance, “the value of postal services to both senders and recipients,” § 3691(b)(1)(A); it would undermine “regular and effective service in all communities, including those in rural areas or where post offices are not self-sustaining,” § 3691(b)(a)(B); and it would do nothing to “reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices,” § 3691(b)(1)(C).

*Id.* at 11. The States and Cities note that the Postal Service will continue to erode its obligation under section 101(a), if the response to future declines is to further degrade service for Market Dominant products in order to favor its competitive products. *Id.* They contend that the Postal Service should abandon its effort and refocus its energies on fixing its ongoing performance deficiencies. *Id.* at 12.

10. Statement of Position and Comments from Individuals

Generally, individuals from the public oppose the Postal Service’s proposal.\(^{47}\) They expressed concerns regarding the impact of the changes on rural communities.

\(^{47}\) See https://www.prc.gov/dockets/doclist/N2021-1/Statement-of-Position/; see also https://www.prc.gov/dockets/doclist/N2021-1/Comments/.
and small businesses. Other expressed concerns regarding the proposal based on their reliance on speed of delivery, especially for those without reliable access to internet, those who receive medicine by mail, and voters outside of the United States.

VII. COMMISSION ANALYSIS

A. Introduction/Roadmap of Analysis

1. Overarching Conclusion

At a high level, the Postal Service’s proposal appears rational. Providing more reliable service through the use of ground transportation instead of air transportation, while also achieving cost savings for the Postal Service is not unreasonable. The success of the Postal Service’s proposal, however, is dependent on achievement of consistency and reliability in its service performance over time; reasoned assumptions with regard to demand changes; operational implementation; and matching achieved efficiencies to modeled efficiencies. However, the Postal Service has not confidently demonstrated that its plans will achieve these goals to the extent suggested in its proposal.

The following sections of this Advisory Opinion discuss the estimated impact of the proposal on service performance, the Postal Service’s financial condition, transportation network, customer satisfaction, and mail volume. Based on the

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Commission’s analysis, the Commission provides recommendations for the Postal Service to consider if it implements its proposal.

2. Service Issues Findings

The Postal Service’s plan extends the expected time to delivery for 38.5 percent\textsuperscript{50} of contiguous First-Class Mail and 7 percent\textsuperscript{51} of Periodicals. The Commission finds that the plan targets the mail that consistently fails to meet service performance goals and thus, has the most room for improvement in service performance. Therefore, the planned changes should have a positive impact on the Postal Service’s ability to meet its service performance targets. However, the Commission identifies several issues that warrant caution as the Postal Service moves to the implementation phase. Historically, the on-time service performance rate decreases as processing point failures increases. The proposal, by substituting surface transportation for air transportation, does not mitigate processing point failures. It is unclear how the proposal would address the trend of lower on-time service performance caused by processing point failures. The Commission finds that relaxing windows may put the Postal Service in a position to improve service performance, but service reliability will require execution, which has not been tested.

3. Financial/Savings Findings

The Commission finds that the estimated cost savings may be inflated as the data are not complete and several underlying assumptions appear untenable. The estimated cost savings are based on an outlier year (FY 2020) when costs and modes were in flux compared to prior years. Additionally, cost savings for surface transportation are dependent on usage of underutilized capacity and route

\textsuperscript{50} Request at 5.

\textsuperscript{51} USPS-T-1 at 12 n.9.
optimization. Further, even if the Postal Service’s cost savings estimates are accurate, the Commission finds that the proposal does not substantially affect the Postal Service’s financial condition.

4. Transportation Modeling Findings

The Commission finds that the Postal Service has provided a model that, if successfully implemented, would significantly improve the capacity utilization of the surface transportation network. However, the Commission finds that improvements in transportation efficiency modeled by reducing the volume transported by air and reduction in surface miles (6 percent) lack confidence because the model is not grounded in reality; namely, the modeled base case of the current transportation network is notably more efficient than the current network. The mismatch between the baseline modeled network and the actual current network costs (FY 2020) limits the Commission’s confidence in the estimate of efficiency gains from the modeling process. Moreover, reduction in air transportation is a function of the lanes choices, which is not determined by ongoing modeling, but is at the discretion of management. The Commission also provides an examination of other modeling areas which cause concerns about the feasibility of significant efficiency and reliability gains, notably with

52 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, 439, 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, 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; Tr. 2/481; Postal Service Brief at 17.

53 The relatively modest savings that may result from this proposal should also be considered in contrast to the degree to which the Postal Service incurs costs (whether directly quantifiable or not), such as its compliance with statutory prioritization of prompt and reliable delivery, its maintenance of high quality service standards, the value of its products to its customers, and its role as a universal service operator.
regards to peak load and the use of hubs and STCs. The Postal Service has not provided in the proceeding operational plans or proof of concept to show that the modeled outcomes of increased capacity utilization are feasible.

5. Customer Satisfaction Findings

The Postal Service has demonstrated that, in general, customer satisfaction will depend on its ability to achieve standards reliably. However, due to the lack of operational tests and proof of concepts, the Postal Service has not demonstrated its ability to achieve these standards reliably. Further, although capturing data on specific groups may be challenging, the Postal Service has not conducted any research on segmented groups of mailers in order to conclude that the most affected mailers will behave as mailers in general behave. The Postal Service also has not conducted research to demonstrate the degree to which customers value speed of delivery. In addition, although the Postal Service has performed outreach explaining the proposed changes and effects, the Postal Service has not explained or shown how it has incorporated or revised its proposal based on customer feedback and concerns.

6. Demand Analysis Findings

The Postal Service cannot conclude with statistical confidence what the change in demand it has estimated (or the volume change) will result from the proposal. The econometric analysis submitted by witness Thress cannot speak to a causal relationship between delivery times and mail volume. The Postal Service cannot rely upon the estimated volume change resulting from the econometric analysis.

B. Service Performance Analysis

1. Overview

The Postal Service seeks to add up to 2 additional days for limited categories of First-Class Mail and Periodicals in order to improve its service capabilities, achieve its
service standards, and reduce mail transportation costs. USPS-T-1 at 5. The Postal Service states that its proposed changes will enable it to implement cost-saving and efficiency-improving transportation network changes. Id. at 26. It also confirms that the primary goals of the proposed changes in standards are to achieve results that are “‘predictable,’ ‘reliable,’ and ‘consistent.’” Tr. 1/377.

The Postal Service states that these revisions will allow for significant improvements in reliability and reductions in cost by allowing it to increase the volume of First-Class Mail moved by surface transportation, increase efficiency of the surface transportation network, align the service standards with its operational capabilities in light of declining mail volumes, and utilize lower cost commercial air carriers. USPS-T-1 at 2-3.

Proposed changes will reflect declining demand. The Postal Service observes two volume trends which complicate current network operations. Id. at 20. First, it observes that First-Class Mail volume has declined approximately 3 to 4 percent per annum for the past several years. Id. Second, the ongoing COVID-19 pandemic has increased the rate of decline for First-Class Mail volume. Id. The Postal Service states that where it has redundant transportation lanes, declines in volume may justify eliminating a trip. However, current service standards may preclude it from doing so. Relaxed service standards would permit it to delay trips to increase its volume, or route volumes via a hub and spoke network to increase utilization. Id. at 21.

The Postal Service provides an example in which it transports mail or packages by air instead of surface due to low volume and time. It states that First-Class Mail from Fort Myers, Florida to Oklahoma City and Tulsa, Oklahoma were both changed from surface to air transportation due to low volumes and the ability to eliminate a surface trip. Tr. 1/294. The Postal Service states that the average volume of origin to each destination was under 300 pieces per day. Id.

Proposed changes will allow the Postal Service to transport more mail by surface rather than air. The Postal Service explains that two criteria (time and cost) determine
whether it transports by air or by surface. The Postal Service can physically transport mail from one point to another in time to meet applicable service standards and cost. USPS-T-1 at 25. If the volume of mail and packages on a particular lane is insufficient to justify the cost of surface transportation, or if surface transportation is too time-consuming to permit the Postal Service to meet applicable service standards, then the Postal Service transports that volume by air. Id. For example, the Postal Service explains that if mail with a 3-day service standard departs from its origin at 4 a.m. on Day 1, then it must arrive at a destination ADC/SCF by 8 a.m. on Day 2. Id. at 19. This 28-hour window permits the Postal Service to utilize surface transportation where the total transit distance is less than or equal to approximately 1,300 miles. Id. The Postal Service further explains that any OD pairs that would exceed this range or, for other reasons, cannot reach the 8 a.m. time on Day 2, are routed via the air network. Id.

With regard to the proposed 3-day service change, the Postal Service explains that mail volumes that can be transported from an origin P&DC/F to destination SCF within 20 hours would ensure that the 8 a.m. CET on Day 2 would be reached and decrease the likelihood of utilizing the air transportation network. Id. at 27.

When the current 2-day service standard was set, the Postal Service expected that mail with a 2-day service standard dispatched on Day 1 at 2 a.m. would “arrive at the destination by the 8:00 a.m. CET.” Id. at 18. However, it learned that expectation was not always valid. It claims that although a 6-hour drive-time window allowed for additional “processing, clearance, and dispatching,”55 the proposed reduction in drive time from 6 to 3 hours will enable it to meet the 8 a.m. CET, thereby justifying surface transport.

54 The Postal Service uses the term CET for both the time the mail must be entered into the system by mailers, which is currently 11 a.m. and the time mail transported by the Postal Service must arrive at the next processing facility, which is 8 a.m.

55 USPS-T-1 at 19.
Overall, the Postal Service anticipates that the proposed changes would decrease its use of domestic commercial air transportation for First-Class Mail volume from 21 percent of letter- and flat-shaped mailpieces to 12 percent. *Id.* at 30. The decrease in its use of air transport corresponds to its stated increase in surface transportation. As a consequence, the number of ground transportation lanes that handle First-Class Mail volumes will increase to handle the additional volume. Tr. 1/337.

*The Postal Service will use lower-cost commercial carriers for non-contiguous areas.* The Postal Service anticipates that its proposed service standard changes will decrease the need to use more expensive air cargo transportation carriers rather than less expensive commercial air carriers for mail routes that include non-contiguous U.S. states or territories. USPS-T-1 at 12. The proposed 4- and 5-day service standard changes are primarily applied to domestic First-Class Mail pieces that originate from or destinate to non-contiguous U.S. states or territories. For instance, a 4-day service standard would be applied to domestic First-Class Mail pieces where the origin is the contiguous 48 states and the destination are selected ZIP Code areas in Alaska, Hawaii, or Puerto Rico.

The Postal Service anticipates that its proposed changes would enable it to reduce air transport costs by “adding flight schedule flexibility that does not exist with the current service standards….” *Id.* It argues that commercial air carrier schedules “are often largely driven by passenger demand and have varying schedules to fit their needs.” Tr. 1/289. For instance, the Postal Service explains that its 7:00 Required Delivery Time is unachievable using commercial air carrier because their schedules are dictated by passenger demand rather than movement of mail. *Id.* Currently, commercial air carriers’ flight schedules do not allow it to achieve its current service standards due to the infrequency of necessary routes. USPS-T-1 at 12.
Surface is more reliable than air. The Postal Service lists several factors that contribute to increased reliability of surface transportation relative to air transportation. First, it explains that “air carriers’ flight schedules can be volatile and subject to last minute changes based upon weather delays, network congestion, and air traffic control ground stops.” USPS-T-1 at 10. Second, the Postal Service suggests that the capacity of the surface transportation network to absorb volume from air without negative effects from weather delays and ground stops makes it more reliable. Id.

The Postal Service states that “volume transported via surface modes has better on-time performance than volume transported by air.” Id. at 9. Table VII-1 shows that, on an aggregate basis, service performance results for First-Class Mail products transported by ground with Overnight, 2-day, and 3-5-day service standards have reported better results than for volume transported by air transport. Id.

<p>| Table VII-1 |
| Air vs. Surface Service Performance, FY 2019–FY 2021 3QTD |
| --- | --- | --- | --- | --- | --- | --- |
| | FY 2019 | FY 2020 | FY 2021 3QTD |</p>
<table>
<thead>
<tr>
<th>First-Class Mail</th>
<th>Air</th>
<th>Surface</th>
<th>Diff</th>
<th>Air</th>
<th>Surface</th>
<th>Diff</th>
<th>Air</th>
<th>Surface</th>
<th>Diff</th>
</tr>
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<tbody>
<tr>
<td>89.40%</td>
<td>92.02%</td>
<td>2.62</td>
<td>87.72%</td>
<td>90.85%</td>
<td>3.13</td>
<td>81.17%</td>
<td>88.81%</td>
<td>7.64</td>
<td></td>
</tr>
</tbody>
</table>

Source: USPS-T-1 at 9.

Lastly, the Postal Service explains that the surface transportation network can be more reliable than air transit because it reduces the “total number of touch points” for mailpieces. Id. at 11. Figure VII-1 illustrates the Postal Service’s observed differences in touch points for air and surface transportation.
**Increase efficiency.** The Postal Service cites an ability to more efficiently utilize surface transportation due to the proposed service standard changes. USPS-T-1 at 26. First, with respect to 2-day service, the proposed changes will “reduce the geographic reach of two-day origin-destination pairs” which will effectively reduce dedicated, inefficient surface transportation. *Id.* at 27. Second, with respect to 3-day, 4-day, and 5-day volume, it proffers that expansion of the available time in the transit window increases opportunity to route volumes more efficiently. *Id.* Specifically, the Postal Service argues that its proposal to decrease the transit window time for 3-day ground service from 28 hours to 20 hours will add sufficient time to allow for efficiency-increasing measures such as (1) increasing the use of transfers via aggregation sites and STCs, (2) combining trailer loads for one destination with loads for other destinations, or load sequencing, or (3) routing “multi-stop” lanes where it could pick up volume from multiple origins along the line of travel for final destination.” *Id.*

The Postal Service explains that with the current service standards in place, it observes 4,073 daily trips with a mileage of 2,139,302, and 66 percent trip utilization. Tr. 1/373. The Postal Service states that the current average utilization of surface transportation capacity is 42 percent. USPS-T-1 at 10. At these levels, the Postal
Service observes that ample capacity to absorb volume from air transportation exists. *Id.* It calculates that the optimized surface routing model under the proposed service standards will produce a 12 percent decline in trips (3,566), 15.6 percent decline in daily mileage (1,805,069), and 12 percent increase in utilization (74 percent). Tr. 1/373. Moreover, the Postal Service will “review current surface lane utilization, identify and implement opportunities to increase utilization by eliminating direct trips with partial loads, and combining volumes to multiple destinations to make full loads for transfer via [STCs].” *Id.* at 350.

The Postal Service has also considered rail transportation as a potential alternative mode of surface transportation. Tr. 1/376. It states that evaluation of current and future opportunities for rail lanes are underway and it even utilized additional rail lanes from New Jersey to several NDCs to move delayed volumes during the months of January and February. *Id.*

2. Commission Analysis

Using witness testimony, library references, responses to interrogatories, and data from past Commission *Annual Compliance Determinations* (ACDs), the Commission evaluates the Postal Service’s contention that changing service standards is necessary to improve service performance. In particular, the Commission analyzes the difficulty the Postal Service has meeting current service performance targets, the reliability of surface versus air transportation, the impact of mail processing failures, and other issues. The Commission finds that although the Postal Service’s proposal targets mail that consistently fails to meet service performance goals, there are issues with the proposal that may impede successful implementation. In its analysis, the Commission attempts to identify assumptions or gaps that may not have been fully considered in the development of the proposal.

*Current difficulty meeting First-Class Mail service performance targets.* The Commission has observed that service performance results for most First-Class Mail
products have degraded since FY 2013. Since FY 2015, all First-Class Mail products have missed their service performance targets. Table VII-2 shows service performance results from FY 2013 to FY 2020.

Table VII-2
First-Class Mail Service Performance, FY 2013–FY 2020

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Single-Piece Letters/Postcards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight</td>
<td>96.8</td>
<td>96.7</td>
<td>95.8</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2-Day</td>
<td>96</td>
<td>95.7</td>
<td>94</td>
<td>95.5</td>
<td>95.5</td>
<td>94.5</td>
<td>92.5</td>
<td>92</td>
</tr>
<tr>
<td>3-5-Day</td>
<td>92.5</td>
<td>88.6</td>
<td>77.3</td>
<td>84.8</td>
<td>86.6</td>
<td>83.5</td>
<td>81.4</td>
<td>79.7</td>
</tr>
<tr>
<td>Presorted Letters/Postcards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight</td>
<td>97.3</td>
<td>97.2</td>
<td>96</td>
<td>96.3</td>
<td>96.6</td>
<td>96.2</td>
<td>95.7</td>
<td>94.9</td>
</tr>
<tr>
<td>2-Day</td>
<td>97.2</td>
<td>96.6</td>
<td>93.8</td>
<td>95.2</td>
<td>95.8</td>
<td>95.1</td>
<td>94.3</td>
<td>93</td>
</tr>
<tr>
<td>3-5-Day</td>
<td>95.4</td>
<td>92.5</td>
<td>88</td>
<td>91.9</td>
<td>93.4</td>
<td>92.2</td>
<td>92.1</td>
<td>90.2</td>
</tr>
<tr>
<td>Flats</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight</td>
<td>86.6</td>
<td>84.9</td>
<td>83.2</td>
<td>84.5</td>
<td>84.6</td>
<td>82.2</td>
<td>81.5</td>
<td>80.3</td>
</tr>
<tr>
<td>2-Day</td>
<td>84.4</td>
<td>82.5</td>
<td>79.8</td>
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<td>82</td>
<td>79.7</td>
<td>81.5</td>
<td>77.5</td>
</tr>
<tr>
<td>3-5-Day</td>
<td>77.6</td>
<td>72.6</td>
<td>65.3</td>
<td>70.9</td>
<td>73.9</td>
<td>71</td>
<td>76.6</td>
<td>73.4</td>
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<tr>
<td>Outbound Single-Piece International</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined</td>
<td>88.9</td>
<td>87.8</td>
<td>85.3</td>
<td>86.2</td>
<td>85.9</td>
<td>83</td>
<td>79.7</td>
<td>72</td>
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<tr>
<td>Inbound Single-Piece International</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Combined</td>
<td>88</td>
<td>85.2</td>
<td>75.6</td>
<td>81.4</td>
<td>85.5</td>
<td>83.5</td>
<td>64.8</td>
<td>66.2</td>
</tr>
</tbody>
</table>

Scores in red did not meet the target.

Figure VII-2 shows the average and median percentage points away from the service performance target by fiscal year for each First-Class Mail product and service standard. These data illustrate a declining trend in the Postal Service’s meeting or exceeding the service performance target it set for each First-Class Mail product and service standard.

![Figure VII-2](image)

*Figure VII-2
First-Class Mail Points Away from Target*

* Since FY 2014, service performance targets for First-Class Mail products have been 96.8, 96.5, and 95.25 percent on-time for the overnight, 2-Day, and 3-5-Day service standards, respectively.

The Commission has discussed the Postal Service’s failure to meet its service standards on multiple occasions. For instance, in its FY 2015 ACD, the Commission observed that service performance results for First-Class Mail Single-Piece Letters/Postcards declined more rapidly than they had in prior fiscal years—particularly for the 3-5-day service standard. FY 2015 ACD at 132; FY 2019 ACD at 116. It explained that the decline was concerning because “for the first time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance target.” FY 2015
ACD at 131. Later, the Commission, in its FY 2018 ACD, observed that service performance for Single-Piece First-Class Mail Letter/Postcards further declined.56

The Commission finds that the volumes most impacted by the proposed changes are those that align with the 3-5-day service standard. The main focus of the Postal Service’s proposal is First-Class Mail with a current 3-day service standard with 53 percent moving to 4-day (36 percent) and 5-day (17 percent) service standards.

*Current difficulty meeting Periodicals service performance targets.* The Commission finds that service performance results for Periodicals products have never met or exceeded its service performance targets. Table VII-3 shows that service performance results for the Periodicals mail product has never met its 91.8 percent on-time target.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In-County</td>
<td>82.0</td>
<td>80.9</td>
<td>77.7</td>
<td>80.1</td>
<td>85.6</td>
<td>85.6</td>
<td>85.7</td>
<td>80.9</td>
</tr>
<tr>
<td>Outside County</td>
<td>81.1</td>
<td>80.8</td>
<td>77.6</td>
<td>79.7</td>
<td>85.3</td>
<td>85.3</td>
<td>85.4</td>
<td>80.7</td>
</tr>
</tbody>
</table>


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Data from Figure VII-3 below show a worsening trend of service performance results when compared to the target from FY 2013 to FY 2015. Although this trend seemed to reverse during FY 2016–FY 2018, service performance results for FY 2019 and FY 2020 were further away from target than the previous year.\textsuperscript{57}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{periodicals_points_away_from_target.png}
\caption{Figure VII-3
Periodicals Points Away from Target}
\end{figure}

\textit{Source: FY 2019 ACD at 128; FY 2020 Service Performance Report at 17; FY 2018 ACD at 185.}

\textsuperscript{57} The Commission suggests that the unique circumstances of FY 2020 may have been a factor in the widening gap between Periodicals service performance results and the corresponding FY 2020 targets.
Evaluating the Postal Service’s contention that surface transportation is more reliable than air. The difference in on-time service performance for the air transportation network and the surface transportation network is a primary component of the Postal Service’s proposed service standard changes for First-Class Mail and Periodicals. The Postal Service contends that First-Class Mail “volume transported via surface modes has better on-time performance than volume transported by air.” USPS-T-1 at 9. With regard to Periodicals, the Postal Service explains that the end-to-end Periodicals volume impacted by the proposed service standard changes traverses its network along with First-Class Mail volume.\textsuperscript{58} It further explains that “an estimated 37 percent of end-to-end periodicals are transported on the FCM network,” 6 percent transverse the NDC network, 57 percent are local turnaround.\textsuperscript{59} Therefore, the Commission’s evaluation of the on-time service performance of First-Class Mail products can be extended to Periodicals as well.

To evaluate the Postal Service’s claim that surface transportation is more reliable than air transportation, the Commission reviewed on-time data by transportation mode for 3-5-Day First-Class Mail going back to FY 2016. Table VII-4 illustrates the results of that evaluation.

\textsuperscript{58} May 17 Response to POIR No. 1, question 29.a.

\textsuperscript{59} Tr. 1/371. The Postal Service states that the turnaround volume either remains in the processing facilities’ service areas, or remains within the intra-NDC service area.
The Commission finds that results from Table VII-4 support the Postal Service’s argument that service performance results for mail transported by surface are historically better than air.\(^{60}\)

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Presort</td>
<td>Air</td>
<td>86.22</td>
<td>87.58</td>
<td>93.50</td>
<td>93.39</td>
<td>90.57</td>
<td>90.93</td>
<td>92.73</td>
<td>91.98</td>
<td>88.96</td>
<td>87.77</td>
<td>92.51</td>
<td>92.22</td>
<td>91.14</td>
<td>89.34</td>
</tr>
<tr>
<td></td>
<td>Surface</td>
<td>91.24</td>
<td>92.00</td>
<td>95.65</td>
<td>95.82</td>
<td>92.53</td>
<td>93.91</td>
<td>95.70</td>
<td>94.88</td>
<td>91.77</td>
<td>90.96</td>
<td>94.95</td>
<td>94.90</td>
<td>92.72</td>
<td>90.37</td>
</tr>
<tr>
<td></td>
<td>Diff</td>
<td>-5.02</td>
<td>-4.42</td>
<td>-2.15</td>
<td>-2.43</td>
<td>-1.96</td>
<td>-2.98</td>
<td>-2.97</td>
<td>-2.9</td>
<td>-2.81</td>
<td>-2.44</td>
<td>-2.68</td>
<td>-1.58</td>
<td>-1.03</td>
<td></td>
</tr>
<tr>
<td>SPLC</td>
<td>Air</td>
<td>72.45</td>
<td>75.19</td>
<td>84.55</td>
<td>85.39</td>
<td>79.21</td>
<td>80.64</td>
<td>83.86</td>
<td>74.94</td>
<td>73.88</td>
<td>84.22</td>
<td>82.93</td>
<td>79.5</td>
<td>78.11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Surface</td>
<td>91.24</td>
<td>83.23</td>
<td>90.01</td>
<td>90.68</td>
<td>84.08</td>
<td>86.47</td>
<td>90.17</td>
<td>89.13</td>
<td>81.01</td>
<td>79.97</td>
<td>88.2</td>
<td>88.46</td>
<td>81.02</td>
<td>80.04</td>
</tr>
<tr>
<td></td>
<td>Diff</td>
<td>-18.79</td>
<td>-8.04</td>
<td>-5.46</td>
<td>-5.29</td>
<td>-4.87</td>
<td>-5.83</td>
<td>-5.27</td>
<td>-5.27</td>
<td>-6.07</td>
<td>-6.09</td>
<td>-3.98</td>
<td>-5.53</td>
<td>-1.52</td>
<td>-1.93</td>
</tr>
</tbody>
</table>

Source: Tr. 1/288; Response to POIR No. 4, question 3.

** The Postal Service indicated that it was unable to further disaggregate the data for FY 2019 and FY 2020.

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\(^{60}\) The Postal Service responded that service performance for air and surface on an annualized basis for Presort in FY 2019 was 91.14 and 92.72, respectively. Service performance for air and surface on an annualized basis for Presort in FY 2020 was 89.34 and 90.37, respectively. In addition, the Postal Service provided that service performance for air and surface on an annualized basis for Single-Piece in FY 2019 was 79.5 and 81.02, respectively. Service performance for air and surface on an annualized basis for Single-Piece in FY 2020 was 78.11 and 80.04, respectively. See Responses of the United States Postal Service Witness Robert Cintron to Presiding Officer’s Information Request No. 4, June 30, 2021, question 6 (Response to POIR No. 4); Library Reference USPS-LR-N2021-1/27, June 30, 2021, Excel file “POIR4 Q1.2.5.6.xlsx.”
The Commission also compares the difference between on-time surface transportation performance for Overnight and 2-day service standards with on-time air transportation performance for First-Class Mail products with a 3-5-day service standard. The comparison is made to directly evaluate the performance of those mail products (overnight, 2-day) that currently utilize the surface transportation network with those mail products (3-5-day) that will use the same network after the proposed changes are implemented. Figures VII-4 through VII-7 show that the difference between networks is more prominent with Single-Piece products than Presorted.

**Figure VII-4**

Presorted Letters Air vs. Surface

Source: Library Reference USPS-LR-N2021-1/6, Excel file “Air Vs Surface To FY21Q3TD.xlsx.”
**Figure VII-5**  
Presorted Flats Air vs. Surface

Source: Library Reference USPS-LR-N2021-1/6, Excel file “Air Vs Surface To FY21Q3TD.xlsx.”

**Figure VII-6**  
Single-Piece Letters Air vs. Surface

Source: Library Reference USPS-LR-N2021-1/6, Excel file “Air Vs Surface To FY21Q3TD.xlsx.”
The Commission finds that the surface transportation network currently utilized to deliver overnight and 2-day mail performs better than the air transportation network used to deliver mail with a 3-5-day service standard. These data comport with the Postal Service’s rationale for its proposed changes—that the surface transportation network has yielded better on-time results than its air network.

**Evaluating the Postal Service’s goal of meeting service performance targets 95 percent of the time with proposed changes.** The proposed shift from air transportation to surface transportation should have a positive effect on the Postal Service’s ability to meet its service performance targets; although, according to the Postal Service’s own estimates it will not meet the new service standards 95 percent of the time. Table VII-5 compares actual FY 2020 service performance results for First-Class Mail products with projected on-time results had the proposed changes been implemented in FY 2020. The comparisons show that the proposed changes are more impactful to the 3-5-day
service standards for First-Class Mail Single-Piece Letters/Postcards and Flat products. These data also suggest that service performance for mail with a 5-day service standard are likely to significantly increase despite product or shape. However, few of the projected on time percentages reach 95 percent.

Table VII-5
Impact of Proposed Changes on First-Class Mail Service Performance

<table>
<thead>
<tr>
<th>Product</th>
<th>SSD</th>
<th>On-time</th>
<th>Total</th>
<th>Proposed Percent On-time Disaggregated</th>
<th>Proposed Percent On-time</th>
<th>FY 2020 Percent On-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPFC*</td>
<td>2</td>
<td>6,994,303,081</td>
<td>7,543,181,151</td>
<td>92.70%</td>
<td></td>
<td>92.00%</td>
</tr>
<tr>
<td>SPFC</td>
<td>3</td>
<td>1,880,997,612</td>
<td>2,159,976,342</td>
<td>87.10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPFC</td>
<td>4</td>
<td>860,104,207</td>
<td>931,674,543</td>
<td>92.30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPFC</td>
<td>5</td>
<td>461,244,046</td>
<td>476,485,378</td>
<td>96.80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPFC Overall</td>
<td>10,196,648,946</td>
<td>11,111,317,414</td>
<td>91.77%</td>
<td>89.9%</td>
<td>79.7%</td>
<td></td>
</tr>
<tr>
<td>PFCM**</td>
<td>1</td>
<td>2,162,808,805</td>
<td>2,272,544,093</td>
<td>95.20%</td>
<td></td>
<td>94.9%</td>
</tr>
<tr>
<td>PFCM</td>
<td>2</td>
<td>2,353,555,330</td>
<td>2,513,207,268</td>
<td>93.60%</td>
<td></td>
<td>93.0%</td>
</tr>
<tr>
<td>PFCM</td>
<td>3</td>
<td>8,574,131,608</td>
<td>9,241,349,009</td>
<td>92.80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFCM</td>
<td>4</td>
<td>5,696,480,695</td>
<td>5,906,444,839</td>
<td>96.40%</td>
<td></td>
<td>90.2%</td>
</tr>
<tr>
<td>PFCM</td>
<td>5</td>
<td>2,964,712,984</td>
<td>3,015,109,373</td>
<td>98.30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFCM Overall</td>
<td>19,588,880,617</td>
<td>20,676,110,489</td>
<td>94.74%</td>
<td>94.8%</td>
<td>90.2%</td>
<td></td>
</tr>
<tr>
<td>Flats</td>
<td>1</td>
<td>14,625,625</td>
<td>18,204,760</td>
<td>80.30%</td>
<td></td>
<td>80.3%</td>
</tr>
<tr>
<td>Flats</td>
<td>2</td>
<td>281,875,795</td>
<td>355,123,473</td>
<td>79.40%</td>
<td></td>
<td>77.5%</td>
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<tr>
<td>Flats</td>
<td>3</td>
<td>184,937,562</td>
<td>240,967,075</td>
<td>76.70%</td>
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<td></td>
</tr>
<tr>
<td>Flats</td>
<td>4</td>
<td>115,256,776</td>
<td>133,970,908</td>
<td>86.00%</td>
<td></td>
<td>83.2%</td>
</tr>
<tr>
<td>Flats</td>
<td>5</td>
<td>66,490,345</td>
<td>71,207,157</td>
<td>93.40%</td>
<td></td>
<td>73.4%</td>
</tr>
<tr>
<td>Flats Overall</td>
<td>648,560,478</td>
<td>801,268,613</td>
<td>80.94%</td>
<td>89.7%</td>
<td>78.7%</td>
<td></td>
</tr>
</tbody>
</table>

* SPFC refers to Single-Piece First-Class Mail.

** PFCM refers to Presorted First-Class Mail.

Source: Response of United States Postal Service Witness Cintron to Presiding Officer’s Information Request No. 3, May 26, 2021, question 2 (Response to POIR No. 3); Response to POIR No. 4, question 1; Library Reference USPS-LR-N2021-1/27, Excel file “POIR4 Q1.2.5.6.xlsx,” tab “Q1.”
As detailed in Table VII-5, the majority of First-Class Mail volume with a current 3-5-day service standard is 3-day mail. Service performance results for these volumes, even with proposed changes underperform relative to volumes with a 4- and 5-day standard. The Commission views this observation as an opportunity for the Postal Service to focus its efforts on these volumes to ensure reliable service performance is achieved for the entire 3-5-day mail product.

With regard to the Periodicals service performance results from the proposed changes, the Postal Service provided these data aggregated at the product level and disaggregated by service standard.

### Table VII-6
**Impact of Proposed Changes on Periodicals Service Performance**

<table>
<thead>
<tr>
<th>Product</th>
<th>SSD</th>
<th>On-time</th>
<th>Total</th>
<th>Proposed % On-time</th>
<th>FY 2020 On-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Periodicals 1</td>
<td>1</td>
<td>1,196,542,509</td>
<td>1,440,542,044</td>
<td>83.10%</td>
<td></td>
</tr>
<tr>
<td>Periodicals 2</td>
<td>2</td>
<td>50,843,419</td>
<td>58,561,770</td>
<td>86.80%</td>
<td></td>
</tr>
<tr>
<td>Periodicals 4</td>
<td>4</td>
<td>184,980,815</td>
<td>202,380,399</td>
<td>91.40%</td>
<td></td>
</tr>
<tr>
<td>Periodicals 5</td>
<td>5</td>
<td>115,291,943</td>
<td>139,514,067</td>
<td>82.60%</td>
<td></td>
</tr>
<tr>
<td>Periodicals Overall</td>
<td>Overall</td>
<td>351,116,177</td>
<td>400,456,236</td>
<td>87.68%</td>
<td>80.7%</td>
</tr>
</tbody>
</table>


Table VII-6 shows that service performance for Periodicals will be positively impacted by the proposed changes, however flat-shaped mail would not achieve the Postal Service’s target of 95 percent on-time service performance.
Impacts of factors other than transportation on service performance results. The Postal Service’s proposed changes focus on expanding transportation windows and moving mail from air to surface. However, the Commission has repeatedly found that while transportation issues impact service performance results, other factors are also important. The dynamic and complex nature of the postal network requires vast components working in harmony to deliver mail consistently, reliably, and efficiently. For instance, the Postal Service did not realize significant increases in service performance for all mail volumes after it implemented its network rationalization initiative in 2012. After its implementation, the Commission found multiple failure points in transit, processing, and delivery network that degraded service performance thereafter. As a consequence, the success of the proposed strategy is tethered to the execution of the entire network rather than just the transit component. After several years of observing service performance results that did not meet targets, the Commission, in its FY 2019 ACD, evaluated the Postal Service’s improvement initiatives regarding increasing area and national service performance results. The Commission determined that the Postal Service made progress in identifying, measuring, and quantifying root causes of failures resulting in poor service performance. FY 2019 ACD at 115. It encouraged the Postal Service to continue to measure root causes relatively consistently to enable meaningful comparisons. Id. In addition, the Commission directed the Postal Service to provide information that would enable the identification of best practices for driving local facilities’ adherence to the existing multi-year national data-driven strategies and targets.61

The Postal Service developed initiatives to correct and abate the impact of transit failures, particularly for facilities that underperform compared to operational targets. It has continued this initiative stating it has conducted “analyses to identify both under-

61 Id. In FY 2018, the Postal Service attributed the decline in performance of all First-Class Mail (including all products, shapes, and service standard) to local facilities’ failure to adhere to the Postal Service’s existing multi-year national data-drive strategies. FY 2018 ACD at 173; FY 2019 ACD at 102.
performing and high-performing Areas, Districts, and Sites. Tr. 1/306. It further explains that service teams were sent to high-impact sites that did not correct or show progress and managers in under-performing sites are reassigned when unable to correct issues. *Id.*

Despite the Postal Service’s efforts, service performance results for most First-Class Mail products and service standards have consistently missed service performance targets from FY 2015–FY 2019.

With regard to Periodicals, in FY 2013, the Commission noted that despite service performance for Periodicals mail being significantly higher than in FY 2012, it did not meet its service performance goals. FY 2013 ACD at 113. In the following year, the Postal Service attributed lower service performance results to extreme weather during the first two quarters of the fiscal year. FY 2014 ACD at 110. The Commission found that the “difference in quarterly service performance scores due to weather was relatively minimal in FY 2014.” *Id.* In addition, the Commission observed a pronounced difference between service performance results for Destination Entry and End-to-End measurement. *Id.*

In FY 2015, the Commission determined that all flat-shaped products had been substantially below targets since FY 2012. FY 2015 ACD at 102. Partially due to the Postal Service’s inadequate responses to most of the Commission’s FY 2014 directives, the Commission took a holistic approach to service performance issues for Market Dominant flat products across all mail classes (First-Class Mail, Standard Mail, Periodicals, and Package Services).

In its most recent ACD, the Commission determined that In-County and Outside County Periodicals were not in compliance primarily due to the fact that each product had remained below target since FY 2009. FY 2020 ACD at 197. As a consequence, the Commission directed the Postal Service to “evaluate the efficacy of its FY 2021 nationwide efforts to improve In-County and Outside County Periodicals service performance…” *Id.* It also directed the Postal Service to utilize its development of point
impact data to “quantitatively link decreases in Periodicals service performance results to root causes of failure.” *Id.* at 198.

A significant portion of Periodical and First-Class Mail volumes had traveled and continue to travel on the Postal Service’s surface transportation network. This suggests that not meeting past and present service performance targets is not due solely to issues with the air transportation network. In its previous assessments, the Commission found that service performance for First-Class Mail products and Periodicals had been impacted by factors such as processing failures at the district, area, and national levels as well as transportation issues.

*The Commission’s approach to evaluating service performance failures.* The Commission evaluates root cause point impact data provided by the Postal Service. In general, these data quantify the number of percentage points by which on-time service performance for First-Class Mail Single-Piece Letters/Postcards decreased due to each specific root cause of failure.\(^62\) These point impacts were developed from the External First-Class (EXFC) Measurement Root Cause Failure Analysis and were calculated with the following formula:\(^63\)

\[
(1 - \text{EXFC Weighted Score}) \times \text{Root Cause Category Failure Percentage} = \text{Root Cause Category Point Impact}
\]

---

\(^62\) FY 2018 ACD at 141. The Postal Service assigns a root cause indicator to a First-Class Mail Single-Piece Letter or Postcard that is delivered after the applicable service standard. See Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman’s Information Request No. 1, January 11, 2019, question 24 (Docket No. ACR2018, Response to CHIR No. 1). The root cause indicator corresponds with the failure to clear a mailpiece through a specific processing action. See Docket No. ACR2018, Response to CHIR No. 1, question 24; see also Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman’s Information Request No. 2, January 17, 2018, question 8.a. (Docket No. ACR2017, Response to CHIR No. 2).

\(^63\) See Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-20 of Chairman’s Information Request No. 3, January 28, 2019, question 10.c.
Table VII-7 illustrates the hierarchy of root causes specific to the mail processing phase.

**Table VII-7**  
Root Causes Specific to Mail Processing

<table>
<thead>
<tr>
<th>Processing Phase Root Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery point sequence (DPS) Delay - Bin 2</td>
</tr>
<tr>
<td>DPS Delay - DPS Looping</td>
</tr>
<tr>
<td>DPS Delay - Non-Standard Flow</td>
</tr>
<tr>
<td>Destinating Missent</td>
</tr>
<tr>
<td>Automated Area Distribution Center (AADC) Processing Delay - Managed Mail Program to DPS Delay</td>
</tr>
<tr>
<td>AADC Processing Delay - Non Standard Flow</td>
</tr>
<tr>
<td>Origin Missent</td>
</tr>
<tr>
<td>Transit - Late Secondary Scan</td>
</tr>
<tr>
<td>Transit - Missing Outgoing Scan</td>
</tr>
<tr>
<td>Transit- Missing Destination Primary Scans</td>
</tr>
<tr>
<td>Transit - Late Destination Primary Scan</td>
</tr>
<tr>
<td>Origin Delay - Outgoing Primary to Outgoing Secondary</td>
</tr>
<tr>
<td>Origin Delay - Cancellation of Outgoing Primary</td>
</tr>
<tr>
<td>Origin Delay - Late Cancellation</td>
</tr>
<tr>
<td>First Mile (Commercial Mail)</td>
</tr>
<tr>
<td>Other Root Cause Point of Failure</td>
</tr>
</tbody>
</table>

Source: FY 2019 ACD at 104.

The Postal Service quantifies the number of percentage points by which on-time service performance decreased due to a specific root cause indicator using the following formula:  

\[
Point \ Impact = \left[ \frac{\text{Failed Volume Attributed to Specific Root Cause}}{\text{Total Failed Volume Attributed to All Root Causes}} \right] \times \text{Failure Rate} \times 100
\]

---

\[64\] FY 2019 ACD at 105; see also Docket No. ACR2019, Responses of the United States Postal Service to Chairman’s Information Request No. 3, January 21, 2020, questions 3.a., 3.d., 4.a., 4.d., 7.a., and 7.e.
In general, the Commission has observed that these metrics have been reliable indicators when used to measure failure points in the postal network. However, starting in FY 2019 some point impact data were not collected or calculated in the same manner as those from FY 2015 – FY 2018 and are therefore not directly comparable to prior years. FY 2019 ACD at 105. Nonetheless, the Commission views the evaluation of these metrics (both historic and current) as necessary to highlight current and potential failures that may impact the Postal Service’s proposed changes.

The Postal Service did not rely on any of these metrics in developing its proposed changes. Instead, despite not modeling the changes, witness Cintron claims that any necessary mail processing changes would not materially impact service performance. USPS-T-1 at 29.

Through this root cause analysis, the Commission has found that service performance for First-Class Mail products and Periodicals has been mostly impacted by transit failures but additional factors such as processing failures at the district, area, and national levels also play a role. The Commission discusses the root causes with the most impact below.

The Commission’s monitoring of the Postal Service’s Critically Late Trips (CLTs)\(^{65}\) shows a generally declining trend with FY 2019 as an exception. The Postal Service attributed the increase in FY 2019 solely “to increased scanning performance stating that improving Surface Visibility scanning performance resulted in the capture of a larger data pool; in turn, that enable the Postal Service to identify and report more CLTs in FY 2019 than in prior years. FY 2019 ACD at 111. Table VII-8 shows that the number of CLTs declined significantly between FY 2015 and FY 2018. The number of CLTs in FY 2020 was also significantly lower than in FY 2019 when the Postal Service improved its identification process.

\(^{65}\) CLTs are trips that arrive more than 4 hours after their scheduled time. See FY 2020 ACD at 114.
Table VII-8
Critically Late Trips

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total CLTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015</td>
<td>42,126</td>
</tr>
<tr>
<td>FY 2016</td>
<td>39,945</td>
</tr>
<tr>
<td>FY 2017</td>
<td>16,319</td>
</tr>
<tr>
<td>FY 2018</td>
<td>9,872</td>
</tr>
<tr>
<td>FY 2019</td>
<td>17,034</td>
</tr>
<tr>
<td>FY 2020</td>
<td>8,955</td>
</tr>
</tbody>
</table>

Source: Response to POIR No. 4, question 1; Library Reference USPS-LR-N2021-1/27; Excel file “FY17 CLT.xlsx;” Excel file “FY18 CLT.xlsx;” Excel file “FY19 CLT.xlsx;” Excel file “FY20 CLT.xlsx.”

The Postal Service has not directly quantified the impact of CLTs on service performance results; therefore, the Commission evaluates the point impact of top root causes associated with transportation.

*Processing failures specific to transit have a significant impact.* To monitor processing problems specific to transit, the Postal Service measures whether mail was processed on time at the origin processing facility, but scanned late at the destinating processing facility. FY 2018 ACD at 147. This type of failure is referred to as an AADC/ADC processing delay. The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as experiencing an AADC/ADC processing delay if the mailpiece:66

- receives a processing scan at the expected AADC facility after 12 p.m. on the day before the expected day of delivery; and
- fails to meet any subsequent processing cycle time checkpoints.

Table VII-9 shows that from FY 2015 to FY 2018 AADC/ADC processing delays exhibit the effect of seasonality with a substantial decline during the second half of the

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66 Id.
fiscal year. Generally, these data evidence a significant impact to service performance results for First-Class Mail Single-Piece Letters/Postcards with a 3-5-day service standard.

### Table VII-9

<table>
<thead>
<tr>
<th>Nationwide Impact of AADC/ADC Processing Delays for First-Class Mail with a 3-5-Day Service Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide Impact of AADC/ADC Processing Delays for 3-5-Day</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
</tr>
<tr>
<td>FY 2016</td>
</tr>
<tr>
<td>FY 2017</td>
</tr>
<tr>
<td>FY 2018</td>
</tr>
</tbody>
</table>

Source: FY 2018 ACD at 147.

In FY 2020, the Commission observed that “Transit Late Destination Primary Scan” had the greatest impact to service performance results and was the top root cause reported for 3-5-Day Single-Piece Letters/Postcards. FY 2020 ACD at 170 (footnote omitted). This indicator is assigned if the last outgoing scan of any type at an origin facility is on time and the First Incoming Primary Scan at the expected destination facility is late. *Id.* Similar to other point impacts from processing and transportation, Table VII-10 shows that the service performance impact from Transit Late Destination Primary Scan had been significant in FY 2019 and FY 2020.\(^{67}\)

\(^{67}\) The Postal Service asserted that the significant increases reported in Quarters 3 and 4 of FY 2020 compared to the corresponding periods in FY 2019 were largely due to COVID-19 pandemic related impacts. *Id.* at 171.
The Postal Service has not provided evidence that the proposed changes will eliminate these type of failure points. Due to the significance of processing delays related to transit on service performance results, the Postal Service must monitor and correct these failures to reach its goal of providing reliable service.

To further understand how the proposed changes might affect the root cause impacts, the Commission reviewed the AADC/ADC delays related to modes of transportation. Table VII-11 displays the reported percentage point impacts cause by ground transit AADC/ADC processing delays on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015–FY 2018.  

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Table VII-10  
Nationwide Impact of Transit Late Destination Primary Scans for 3-5-Day Service Standard

<table>
<thead>
<tr>
<th>Nationwide Impact of Transit Late Destination Primary Scans for 3-5-Day</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2019</td>
<td>6.75</td>
<td>5.06</td>
<td>2.72</td>
<td>2.33</td>
</tr>
<tr>
<td>FY 2020</td>
<td>5.38</td>
<td>5.01</td>
<td>6.22</td>
<td>10.29</td>
</tr>
</tbody>
</table>

Source: FY 2020 ACD at 171.

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68 For FY 2019 and FY 2020, the Postal Service provided percentages of mail volumes with AADC/ADC processing delays rather than point impacts for AADC/ADC processing delays specific to ground transportation in Response to POIR No. 4, question 5.
In its FY 2018 ACD, the Commission determined that although a larger proportion of 3-5-Day First-Class Mail Single-Piece Letters/Postcards were transported by ground, ground transit AADC/ADC processing delays were not as large as the overall point impact reported for the corresponding indicator specific to air transit. FY 2018 at 153.

A comparison of the data in both tables shows that the impact of AADC/ADC delays related to air transportation is much higher than the impact of the delays related to surface transportation.\textsuperscript{69} The tables also show that for both air and surface transportation, there is a larger impact in Quarters 1 and 2 when volume is highest. The Commission is concerned that when volume is moved from air to surface, the point impact of AADC/ADC delays related to surface transportation will increase, offsetting some of the expected service performance gains. Because the Postal Service did not evaluate the point impacts of the proposed changes or model the mail processing changes, the impacts on AADC/ADC delays are not known.

\textsuperscript{69} For FY 2019 and FY 2020, the Postal Service provided percentages of mail volumes with AADC/ADC processing delays rather than point impacts for AADC/ADC processing delays specific to air transportation in Response to POIR No. 4, question 2.
Table VII-12
Nationwide Impact of AADC/ADC (Air) Processing Delays on First-Class Mail SPLC with a 3-5-Day Service Standard

<table>
<thead>
<tr>
<th>AADC/ADC Air</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016</td>
<td>14.67</td>
<td>13.73</td>
<td>7.63</td>
<td>7.07</td>
</tr>
<tr>
<td>FY 2017</td>
<td>9.77</td>
<td>9.65</td>
<td>7.11</td>
<td>7.74</td>
</tr>
<tr>
<td>FY 2018</td>
<td>11.76</td>
<td>14.14</td>
<td>7.42</td>
<td>7.59</td>
</tr>
</tbody>
</table>

Source: FY 2018 ACD at 149.

Processing failures not related to transit. Another processing indicator, origin missent, is designed to monitor whether specific processing actions are completed at the correct local facility. The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as origin missent if the mailpiece:\textsuperscript{70}

\begin{itemize}
  \item is processed in an outgoing processing operation at an unexpected origin facility; and
  \item is not miscoded.
\end{itemize}

If these conditions are met and the mailpiece is not assigned either the collection delay or Last Mile failure root cause indicator, then the origin missent indicator will be assigned.\textsuperscript{71} This indicator includes mailpieces processed at consolidation facilities. Table VII-13 shows that the impact of origin missent failures on service performance is minimal—especially in comparison to failures specific to transportation.

\textsuperscript{70} Docket No. ACR2017, Response to CHIR No. 2, question 8.a.; see Docket No. ACR2018, Response to CHIR No. 1, question 24.b.

\textsuperscript{71} Docket No. ACR2017, Response to CHIR No. 2, question 8.a.
Other potential issues. The Postal Service contends that mail “volume transported via surface modes has better on-time performance than volume transported by air.” USPS-T-1 at 9. To explore this issue further the Commission asked the Postal Service to provide information related to on-time percentages disaggregated by drive time. In response, the Postal Service provided data illustrating the volume of FY 2020 measured mail that would have been delivered in 1, 2, 3, 4, 5, and 6 days given the proposed drive-time windows. Table VII-14 illustrates that data for First-Class Single-Piece Letters and Postcards and First-Class Presort Letters and Postcards volume combined. It is disaggregated by drive time and current 1- to 3-day service standard. This constitutes the majority of mail volume currently on the surface transportation network.
Table VII-14
FY 2020 On-Time Service Performance for First-Class Mail Letters and Postcards
Disaggregated by Drive Time

<table>
<thead>
<tr>
<th>Drive Time (Hours)</th>
<th>Current Service Standard</th>
<th>Percent of Measured Volume Transported Within This Drive Time</th>
<th>Percent Delivered Within Service Standard</th>
<th>Percent Delivered 1 Day Late</th>
<th>Percent Delivered 2 Days Late</th>
<th>Percent Delivered 3 Days Late</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18.0%</td>
<td>95.2%</td>
<td>3.2%</td>
<td>0.8%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>79.8%</td>
<td>93.0%</td>
<td>4.5%</td>
<td>1.2%</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>92.8%</td>
<td>90.7%</td>
<td>6.3%</td>
<td>1.6%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>98.0%</td>
<td>90.0%</td>
<td>6.6%</td>
<td>1.8%</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>99.9%</td>
<td>86.9%</td>
<td>9.0%</td>
<td>2.3%</td>
<td>1.8%</td>
<td></td>
</tr>
<tr>
<td>&gt; 41</td>
<td>99.0%</td>
<td>87.9%</td>
<td>8.1%</td>
<td>2.1%</td>
<td>1.9%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Library Reference USPS-LR N2021-1/12, May 18, 2021, Excel file “USPS-LR-N2021-1_12_POIR Drive Time Request.xlsx.”

Table VII-14 shows that in general the percentage of mail that meets its service standard declines as the drive time window expands. The percentage of mail that is delivered 2 and 3 days late also increases. The proposal, by substituting surface transportation for air transportation, increases surface transportation drive times. The percentages in the table were derived from FY 2020 data and do not reflect the expected increases in volume that will be transported by surface under the proposal. It is unclear how the increased volume will impact these results or how the proposal would address the trend of lower on-time service performance for longer drive time distances.
With regard to staffing issues, the Postal Service explains corrections will be made as the pandemic is addressed. Tr. 1/307. It states that “large hiring efforts were made to help fill gaps in staffing.” Id. The Postal Service further explains that management training has resumed and annex space and sorting equipment has been approved to expand processing capacity. Id.

With regard to underperforming Districts/Areas, the Postal Service explains that it conducted analyses to identify under-performing and high-performing Areas, Districts, and Sites. Id. at 306. After identifying the bottom 10 Districts, it would create action plans to address performance issues which include reassigning managers linked to under-performing sites. Id.

Previously, the Commission had commenced evaluation of several Area- and National-level improvement initiatives to increase service performance results. To this point, disregarding the unique circumstances in FY 2020, those initiatives have not significantly increased service performance results. Therefore, the Commission is concerned that the improvement initiatives linked to the proposal are unproven and will likely require time to yield results. For example, the Postal Service contends that it will continue to conduct daily review and analysis of service failures—similar to what was successfully accomplished prior to the pandemic—to promptly resolve root causes of processing failures. Id. at 309. The Commission notes that, in FY 2019, service performance results for both First-Class Mail and Periodicals were significantly impacted by processing failures. FY 2019 ACD at 107, 128. In addition to processing failures, the Commission also found in FY 2019 that Last Mile failures were a top root cause of underperformance. Root cause failures during the Last Mile phase, while the Postal Service is focused on mitigating failures during the processing phase, speak to the interconnected nature of the postal delivery network. The Commission finds that the fluidity of the Postal Network would require exhaustive evaluation at the collection, processing, and Last Mile phases to ensure reliable performance. It is unclear that the
Postal Service has considered factors, other than differences in transit mode and impact to transportation processing, which would adversely impact service performance.

3. Service Conclusion

The Postal Service’s proposed changes appear to target the mail that is most likely to miss its current service performance goals. Expanding the service standard window should make it easier to meet service performance targets and moving mail from air to surface transportation could potentially lead to more efficient transportation. Regarding mail processing impacts, although the Postal Service’s proposed changes may loosen pinch points within the processing network and an adjustment to the transit window time will likely add a buffer for mail processing, the proposed on-time target results may not be achievable without additional focus on underperforming Districts/Areas, processing “handoffs,” training, and staffing issues.

The Commission is concerned that the Postal Service has not conducted operational or pilot testing of the proposed service standard changes. Further, the Postal Service states that it did not consider operational testing necessary due to its well-established understanding of the nexus between current service standards and its time and distance framework. Id. at 374. The Commission has found in the past that that nexus may not be as well-understood as the Postal Service claims as evidenced by its failure to improve service performance even after identifying pinch points throughout the network. The Commission finds the lack of testing to be problematic as data suggest that mail processing is dynamic and requires timely execution to provide reliable service performance. The Postal Service claims, however, that it understands that some mailers may change mailing patterns in response to the proposal; therefore, it

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72 Tr. 1/374. The Postal Service evaluated a scenario that maintained current 2-day service standards while extending 3-day to 3-5-day service standards. The results of this model scenario increased annual mileage by 36 million miles and reduced estimated annual savings by approximately $80 million versus the current proposal. Id. at 307.
will continue to monitor lane utilization and adjust under-utilized transportation to improve efficiencies. *Id.* at 375. The Commission encourages it to do so.

The Postal Service determined that a target of 95 percent on-time service performance was an "appropriate standard"\(^{73}\) and achievable goal. It supports this claim by observing the service performance of First-Class Mail products delivered within 1 or 2 days after the service standard. *Id.* It explains that the proposed changes will add flexibility in the network, which is described as the ability to route the same volumes on fewer trips by combining routes to STCs or taking advantage of multi-stops.\(^{74}\) It states that this flexibility will improve trip utilization, reduce trips, reduce yard and dock activity, and allow additional volumes to be routed via surface instead of air transportation.\(^{75}\)

The Commission observes that the increase in flexibility may decrease network stress and pinch points, which, in turn, should lead to increased service performance and reliability. However, it does not view a service performance target of 95 percent on-time as reliably achievable for all products in the short term. It is concerned that the Postal Service has yet to monitor, evaluate, and assess these new service standards in the field.

C. Financial/Cost-Savings Analysis

1. Overview

The Postal Service estimates that the proposed changes will decrease annual cost for air transportation by $196.1 million and highway transportation by $83.5 million.

\(^{73}\) *Id.* at 320.

\(^{74}\) See Responses of the United States Postal Service Witness Robert Cintron to Mailers Hub’s Revised Interrogatories (MH/USPS-T1-1-14, 16, 18), June 1, 2021; question 12.a. (June 1 Postal Service Response to Mailers Hub’s Interrogatories MH/USPS-T1-1-14, 16, 18).

\(^{75}\) See June 1 Postal Service Response to Mailers Hub’s Interrogatories MH/USPS-T1-1-14, 16, 18, question 12.a.
resulting in a total annual cost savings of $279.6 million for purchased transportation. USPS-T-2 at 13. The final estimate of transportation cost savings takes into account a reduction in revenue from the expected loss in volume, due to the change in service standard. See generally USPS-T-4 and USPS-T-5. Witness Monteith originally estimated the revenue reduction equal to $104.8 million, which was revised to $110.1 million. Consequently, the annual net financial gain the proposal would bring, was originally projected at $174.8 and subsequently revised to $169.5 million.\(^76\)

For air transportation, witness Hagenstein estimates that the proposed service standard change would reduce First-Class Mail pounds flown by 49.3 percent. ld. 1/169. Witness Whiteman uses this estimated reduction in air capacity to calculate the reduction in air capacity flown on each of the Postal Service’s air networks (United Parcel Service, Inc. (UPS), Commercial Air, Federal Express Corporation (FedEx) Day Turn). See Library Reference USPS-LR-N2021-1/NP2. He estimates the Postal Service will obtain annual gross savings equal to $196.1 million from the proposed change in service standards for air transportation.

For surface transportation, witness Whiteman maintains that the addition of an extra day to the existing service standards would allow more efficient surface (highway) travel paths to offset the increase in surface capacity costs which would result from shifting mail from air to surface transportation. USPS-T-2 at 11.

Witness Whiteman estimates the proposal’s surface transportation savings by estimating the reduction in required capacity for each type of purchased highway contract (Inter-Area, Inter-Cluster, and Inter P&DC), and then multiplies this figure by

\(^{76}\) In response to a POIR, witness Monteith updated his estimate of the net contribution impact from the service standard changes at issue in this proceeding to -$110.1 million (from the original estimate in his testimony of -$104.8 million). See Revised USPS-T-2; Tr. 1/77-78.
base costs for each contract type.\textsuperscript{77} This calculation yields an expected reduction of $83.5 million annual purchased highway transportation costs.

Witness Whiteman’s initial estimate of transportation costs savings is the sum of the expected savings in air transportation costs and highway transportation costs for an annual total transportation cost reduction of $279.6 million.\textsuperscript{78} With the revision of the revenue reduction, the annual net financial gain the proposal would bring from highway transportation, was originally projected at $174.8 and subsequently revised to $169.5 million.\textsuperscript{79}

The Postal Service confirms that its proposal may increase transportation window times by increasing the buffer time between a mail processing clearance time and its associated transportation departure.\textsuperscript{80} The Postal Service notes that a Highway Contract Route driver shortage\textsuperscript{81} will not affect the cost savings estimated for this change as a longer window will allow it to consolidate volumes to STCs within the

\textsuperscript{77} See Library Reference USPS-LR-N2021-1/NP2, Excel file “Transportation Savings-NonPublic.xlsx,” tab “Highway.” The product of the percentage change in capacity and the cost to capacity variability, yields an estimate of the percentage change (reduction) in costs. Multiplying the percentage change in costs by baseline costs yields expected reduction in highway transportation costs from that baseline.

\textsuperscript{78} Annual gross cost-savings of $196.1 million (air) and $83.5 million (surface). USPS-T-2 at 13.

\textsuperscript{79} In response to a POIR, witness Monteith updated his estimate of the net contribution impact from the service standard changes at issue in this proceeding to -$110.1 million (from the original estimate in his testimony of -$104.8 million). See Revised USPS-T-2; Tr. 1/77-78.

\textsuperscript{80} “[T]he buffer time between the planned mail processing clearance time and the transportation departure time could be increased, in many cases, due to the longer transportation window. This added time could be used to account for variation in mail processing clearance to help ensure all volumes are loaded on the designed transportation. See Responses of the United States Postal Service to Questions 1-14 & 16-20 of Presiding Officer’s Information Request No. 2, May 21, 2021, question 1.c. (Response to POIR No. 2).

\textsuperscript{81} “[T]he increase in ground transportation costs was largely driven by higher unit costs per mile due to supplier cost pressures resulting in part from a national shortage of truck drivers, as well as higher average fuel costs.” See United States Postal Service, 2020 Report on Form 10-K, November 13, 2020, at 22, available at https://www.prc.gov/docs/115/115086/2020%2013%2010-K.pdf (Postal Service FY 2020 Form 10-K).
existing surface transportation network offsetting the additional costs of transporting volumes from air to surface. Postal Service FY 2020 Form 10-K at 44.

However, it maintains that longer transportation windows would not translate into longer mail processing time. Response to POIR No. 2, question 1. The Postal Service explains that its proposal may increase the mail processing time associated with sorting trays to surface lanes, but its proposal may also decrease the mail processing time associated with scanning and sorting to air separations. It determined that there would be no material impact to cost or revenue associated with mail processing, although it did not perform a formal analysis of the expected impact of its proposal on mail processing time. See id. questions 7.a., 7.b.

Finally, the Postal Service estimates it would cost approximately $550,000 to update various operational and management systems, but other implementation costs would be de minimus. It appears that the system updating activities with tangible costs are related to delivery tracking using webtools and help desk services (e.g., Package Tracking, Webtools, Service Delivery Calculator, etc.). See id. question 9.a.

2. Commission Analysis

The Commission used witness testimonies and accompanying library references, responses to interrogatories and Presiding Officer’s Information Requests (POIRs); the Postal Service’s 10-year strategic plan; the FY 2021 and FY 2020 Integrated Financial Plans; and FY 2020, FY 2019, and FY 2018 Forms 10-K to analyze the Postal Service’s claim that the proposed service standard changes will reduce costs and improve the Postal Service’s financial viability.

The Commission finds that, although in theory the methodology the Postal Service uses to estimate cost savings may be sound, in practice the Postal Service’s computation of the estimated cost savings raises potential issues related to the use of FY 2020 as a base year for cost savings, the absence of mail processing cost estimates, and the overall impact on the financial viability of the Postal Service.
FY 2020 was not an ordinary year for the Postal Service with regard to costs. In its FY 2020 Form 10-K, the Postal Service noted that total transportation costs for FY 2020 increased $630 million, or 7.7 percent, compared to the prior year. Postal Service FY 2020 Form 10-K at 44. The Postal Service acknowledges that this increase was primarily driven by two COVID-19 pandemic related events: (1) higher shipping and package volumes; and (2) higher expenses for chartered air transportation. Id. Highway transportation costs also increased in FY 2020, due to the increased number of miles driven as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability and increased highway transportation costs. Id. Because of the impact of the COVID-19 pandemic on transportation costs, the use of FY 2020 as a baseline may result in an overestimation of cost savings.

The Postal Service states that it chose FY 2020 as its base year because year-to-year increases at the level of FY 2020 transportation costs are not unprecedented. Tr. 2/511. Table VII-15 shows that air transportation costs by mode associated with the service standard change have increased each year since FY 2017, but significantly, FY 2020 transportation costs were the highest in the preceding 3 years. Total air transportation costs in FY 2018 increased over 16 percent compared to the prior year due to increased package volumes and higher costs associated with the use of chartered flights.83 During FY 2019, the Postal Service had time to adjust operations

82 Id. at 23.

83 Postal Service FY 2018 Form 10-K states that “[a]ir transportation expenses increased $411 million, or 16.6%, during the year ended September 30, 2018, compared to the prior year, primarily due to increased package volume, higher jet fuel prices and increased expenditures on charters.” See United States Postal Service, 2018 Report on Form 10-K, November 14, 2018, at 39, available at https://www.prc.gov/docs/107/107071/2018%2011-14%20form%2010-k%20.pdf. The total air costs reported in the Forms 10-K include additional air costs not included in Table VII-15 because costs for FedEx Night Turn, Peak, Alaska Non Preferential, Alaska Preferential, and Hawaii and Air Taxi are included in the Form 10-K total air costs.
and reduce its air transportation costs by using multiple carriers.\textsuperscript{84} The Postal Service was able to make these adjustments without changing existing service standards or significantly degrading service performance for First-Class Mail or Periodicals.\textsuperscript{85} FY 2020 air transportation conditions and costs were similar to FY 2018 with increased package volume and increased costs for charters.\textsuperscript{86} However, the Postal Service has not been able to adjust its operations, similar to the adjustments undertaken in FY 2019, to reduce its transportation costs. The Postal Service acknowledges that “the commercial airline industry has begun to recover since the beginning of the pandemic” but claims that it “continue[s] to be at risk of…incurring much higher costs….” \textit{Id.} at 12. The Commission reviewed relevant financial documents, but such review did not reveal corroborating evidence that FY 2020 was not anomalous. Consequently, the Commission does not consider FY 2020 to be a representative year for air transportation costs.

\textsuperscript{84} Postal Service FY 2019 Form 10-K states that “[a]ir transportation expenses increased $178 million, or 6.2%, during the year ended September 30, 2019, compared to the prior year, primarily due to higher jet fuel prices and increased volumes on multiple carriers.” \textit{See} United States Postal Service, 2019 Report on Form 10-K, November 14, 2019, at 37, available at https://www.prc.gov/docs/111/111026/2019%2011-14%2010-k%20x.pdf.

\textsuperscript{85} Comparison of service performance results from FY 2018 and FY 2019 ACD.

\textsuperscript{86} Postal Service FY 2020 Form 10-K states that “[a]ir transportation expenses increased $391 million, or 12.7%, compared to the prior year, due to higher Shipping and Packages volumes and higher expenses for chartered air transportation as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability, partially offset by lower average jet fuel prices.” Postal Service FY 2020 Form 10-K at 44.
Table VII-15
Comparison of Relevant Air Transportation Costs by Mode Over Time

<table>
<thead>
<tr>
<th>Year</th>
<th>UPS</th>
<th>Commercial Air</th>
<th>UPS + Commercial Air</th>
<th>FedEx Day Turn</th>
<th>Total Air Transportation Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$159,904,315</td>
<td>$211,325,403</td>
<td>$371,229,718</td>
<td>$1,717,493,579</td>
<td>$2,088,723,297</td>
</tr>
<tr>
<td>2018</td>
<td>$193,813,233</td>
<td>$214,494,006</td>
<td>$408,307,239</td>
<td>$2,059,857,467</td>
<td>$2,468,164,707</td>
</tr>
<tr>
<td>2019</td>
<td>$204,015,067</td>
<td>$192,571,967</td>
<td>$396,587,034</td>
<td>$2,084,562,680</td>
<td>$2,481,149,714</td>
</tr>
<tr>
<td>2020</td>
<td>$192,755,567</td>
<td>$175,166,862</td>
<td>$367,922,429</td>
<td>$2,394,378,214</td>
<td>$2,762,300,643</td>
</tr>
</tbody>
</table>

Total Annual Cost Changes By Mode

<table>
<thead>
<tr>
<th>Year</th>
<th>UPS</th>
<th>Commercial Air</th>
<th>UPS + Commercial Air</th>
<th>FedEx Day Turn</th>
<th>Total Air Transportation Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 to 2018</td>
<td>$33,908,918</td>
<td>$3,168,603</td>
<td>$37,077,521</td>
<td>$342,363,888</td>
<td>$379,441,409</td>
</tr>
<tr>
<td>2018 to 2019</td>
<td>$10,201,834</td>
<td>$(21,922,039)</td>
<td>$(11,720,205)</td>
<td>$24,705,213</td>
<td>$12,985,008</td>
</tr>
<tr>
<td>2019 to 2020</td>
<td>$(11,259,500)</td>
<td>$(17,405,105)</td>
<td>$(28,664,605)</td>
<td>$309,815,534</td>
<td>$281,150,929</td>
</tr>
</tbody>
</table>

Table VII-16 shows that highway transportation costs also experienced steady growth between FY 2017 and FY 2020. However, the change in costs in FY 2020 was slightly larger than any other year-over-year change during this period. According to the Postal Service, highway transportation costs increased so much in FY 2020 primarily due to an increase in mileage as volumes shifted from air to surface as a result of the restrictions on air transportation driven by the COVID-19 pandemic.\textsuperscript{87} As with air transportation, using FY 2020 highway transportation costs to estimate cost savings from the service standard changes may result in overestimation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Inter P&amp;DC</th>
<th>Inter Cluster</th>
<th>Inter Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$144,585,716</td>
<td>$240,731,797</td>
<td>$859,846,468</td>
<td>$1,245,163,980</td>
</tr>
<tr>
<td>2018</td>
<td>$185,173,047</td>
<td>$239,464,532</td>
<td>$909,292,322</td>
<td>$1,333,929,901</td>
</tr>
<tr>
<td>2019</td>
<td>$174,632,640</td>
<td>$246,458,868</td>
<td>$975,923,247</td>
<td>$1,397,014,755</td>
</tr>
<tr>
<td>2020</td>
<td>$174,227,054</td>
<td>$249,405,828</td>
<td>$1,090,577,263</td>
<td>$1,514,210,146</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Inter P&amp;DC</th>
<th>Inter Cluster</th>
<th>Inter Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 to 2018</td>
<td>$(40,587,331)</td>
<td>$(1,267,265)</td>
<td>$49,445,854</td>
<td>$88,765,921</td>
</tr>
<tr>
<td>2018 to 2019</td>
<td>$(10,540,407)</td>
<td>$6,994,336</td>
<td>$66,630,925</td>
<td>$63,084,854</td>
</tr>
<tr>
<td>2019 to 2020</td>
<td>$(405,586)</td>
<td>$2,946,960</td>
<td>$114,654,016</td>
<td>$117,195,391</td>
</tr>
</tbody>
</table>


\textsuperscript{87} Postal Service FY 2020 Form 10-K states that “[h]ighway transportation expenses increased $236 million, or 5.2%, compared to the prior year, primarily due to an increase in the number of miles driven as modes of transportation shifted as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability....” Postal Service FY 2020 Form 10-K at 44.
Table VII-17 shows the annual change in air and highway transportation costs between FY 2017 to FY 2018, FY 2018 to FY 2019, and FY 2019 to FY 2020. As seen from the table, although both air and highway costs increased significantly between FY 2019 and FY 2020, the increase in total air transportation was much higher than the increase in total highway transportation. This occurred even though, according to the Postal Service, volume was shifted from air to highway, suggesting that the non-volume related increase in costs were higher for air than for highway. Therefore, the estimated savings from shifted volume from air to highway, based on FY 2020 costs are likely to be overstated.

### Table VII-17
Comparison of Annual Changes in Relevant Air and Highway Transportation Costs Over Time

<table>
<thead>
<tr>
<th>Year</th>
<th>Air</th>
<th>Highway</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 to 2018</td>
<td>$379,441,410</td>
<td>$88,765,921</td>
</tr>
<tr>
<td>2018 to 2019</td>
<td>$12,985,007</td>
<td>$63,084,854</td>
</tr>
<tr>
<td>2019 to 2020</td>
<td>$281,150,929</td>
<td>$117,195,391</td>
</tr>
</tbody>
</table>

It is unclear from the data available whether the pandemic has set a new normal for Postal Service transportation costs or whether the FY 2020 costs are actually an anomaly. FY 2020 may not represent the transportation conditions which will prevail through the years in which the Postal Service’s projection of transportation savings are made (FY 2022-FY 2030). The savings in transportation costs estimated by the Postal Service are based on a year impacted by a pandemic where the increase in Air Transportation Costs between FY 2019 and FY 2020 were more than double the increase in Highway Transportation Costs during the same time. The Commission has raised several questions on the applicability of the FY 2020 cost data and is therefore not confident that cost savings calculated using FY 2020 and projected forward will prevail in FY 2021 and beyond.

It would be beneficial for the Postal Service to increment the implementation of its proposed service standard changes while it takes this time to evaluate whether the, pandemic-influenced periods of FY 2020 or FY 2021 have set a “new normal.”

*Improvement in Postal Service financial condition.* Assuming the cost savings are not overestimated, it is important to view those savings in context, and acknowledge the competing priorities of maintaining high quality service standards and financial viability. The Postal Service’s projected net cost savings of $169 million represents 3.4 percent of total transportation costs for FY 2020 and less than a quarter of one percent of the total FY 2020 operating expenses of 82 billion.\(^ {88} \)

\(^ {88} \) FY 2020 Cost Segment and Component Report.
In discussing this tradeoff, the Postal Service avers:

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 [P&DCs], [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.

Postal Service Brief at 4-5.

In contrast, NPPC argues:

The Postal Service’s own estimate (which in past cases have materially overestimated the actual cost savings it experienced) is that the net effect of the service standard degradation would be an annual increase in net income of $169.5 million. That equates to only 0.23 percent of the Postal Service’s annual $73.1 billion in revenues. The Postal Service has not explained why such a tiny savings justifies such a major significant change. And the prospect for remittance mail makes even less sense. While creating grave risks to remittance mailers of loss of coverage on insurance policies, late payment fees, and the like -- not to mention the operational costs imposed on commercial mailers that receive remittance mail -- the Postal Service expects to save only $8 million (0.01 percent of the Postal Service’s annual revenues) from those cutbacks. What’s more, the proposal appears unaccompanied by any plan to inform the millions of remittance mailers of the changes.

NPPC Brief at 3 (internal citations omitted).
As discussed in Section VII.D.2., the Postal Service did not model the mail processing steps that will be necessary to implement the proposed changes. It also did not analyze the impact the proposed changes would have on pinch points that affect the cost of mail processing. Therefore, the Commission cannot determine what the actual tradeoff will be. However, the projected 8 year transportation savings from changing service standards are less than the projected increase in total transportation costs over that same time period when one considers the additional package service costs projected in Library Reference USPS-LR-N2021-1/NP10.89

The Postal Service notes in its FY 2020 Form 10-K that the higher growth in packages driven by the pandemic increased revenue and cash flow but produced a lower contribution margin per revenue dollar because of higher associated labor and transportation expenses. Postal Service FY 2020 Form 10-K at 68.

Furthermore, the Postal Service states that there has been an unexpected continued surge in package volume lasting beyond the peak season. Tr. 2/511. The Postal Service reports that First-Class Package Service volume has increased by 49.9 percent and Priority Mail volume by 27.1 percent compared to Quarter 2 of FY 2020. The Postal Service further states that “(t)herefore, even with commercial air at full capacity, some charters will likely be required to support this persisting high level of network package volume.” Id. at 513.

Pursuant to the Postal Service statement, this package growth would be transported by air, generally a more expensive mode than surface,90 with higher associated labor costs to process labor intensive packages. These higher package-


90 The Postal Service contends “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; Postal Service Brief at 15.
related costs, combined with the proposal-related decreased First-Class Mail revenue\textsuperscript{91} that is comparatively higher, may not improve the Postal Service’s financial condition.

3. Financial/Cost Savings Conclusion

In conclusion, the Commission finds that although the methodology used to calculate cost savings for this service standard change may be theoretically sound, using FY 2020 as a base year is likely to lead to overestimation. The Postal Service has not shown that the higher transportation costs in FY 2020 were a result of maintaining the existing First-Class Mail and Periodicals service standards. Rather, the FY 2020 costs were heavily impacted by the COVID-19 pandemic. Given the uncertainty caused by the COVID-19 pandemic, the Commission is not able to confirm the cost benefits in future years of implementation as shown in Figure VII-8.

\textsuperscript{91} APWU argues “[t]he service standard changes and the slowing of First-Class Mail is also likely to cause indelible harm to the Postal Service’s reputation and relationship with its customers and the public, undermining the Postal Service’s plans for financial growth and recovery.” APWU Brief at 2.
In addition, the Postal Service did not model or estimate any associated mail processing costs, making the cost savings estimates even less certain. Further, the Commission finds that the amount of estimated annual cost savings, even if fully realized, does not indicate much improvement, if any, to the Postal Service’s current financial condition and the estimated cost savings from extending the service standard would be eliminated by additional costs associated with the growth in packages. Should the Postal Service implement the proposed changes, the Commission recommends that the Postal Service closely monitor implementation to ensure that cost savings realized are balanced with the maintenance of high quality service standards, the statutory prioritization of prompt and reliable delivery, the value of its products to its customers, and the Postal Service’s role as a universal service operator.
D. Transportation Modeling Analysis

1. Overview

The Postal Service states that the service standard change modeling and analysis was initiated by its decision to transport more mail by surface transportation. Tr. 1/319. The decision to transport more mail by surface was in turn prompted by lack of available capacity in the air network and the low capacity utilization in the ground network, as well as issues with on-time performance related to usage of the air network over the last several years. Id. at 386-88, 391.

The Postal Service states that the modeling demonstrates that the proposed changes would lead to a cost-effective, and a significantly more reliable and efficient transportation network. USPS-T-3 at 27; Postal Service Brief at 27. In particular, it states that its transportation model shows that an “optimized” surface transportation network with new, looser transportation windows and constraints will be able to absorb First-Class Mail volumes shifted from the air transportation network without increasing overall network mileages, increase capacity utilization by maximizing the use of space on each trip, and decrease transportation costs. USPS-T-1 at 26-30.

The Postal Service provides that its analysis started with a baseline network which represents an optimal network under the current service standards, i.e., a network in which modeled volumes\(^92\) are routed in the most efficient way that reduces both trips and mileages. Tr. 1/182. It also points to TMOD software’s limitations and

\(^{92}\) The Postal Service explains that the modeled volumes include First-Class Mail, inbound and outbound international mail (letters, flats, and packets), Marketing Mail, and Periodicals identified as being transported via First-Class Mail network, and priority parcels and flats. Tr. 1/175, 214. The Postal Service also lists products which are transported in the current network but were not included in the modeling, on the basis of being outside the scope, namely Priority Mail Express (PME) and Mail Transport Equipment (MTE). Id. at 187.
modeling constraints and gives numerous warnings that the modeled routings and transportation mode assignments are not final and need to be analyzed by subject matter experts who would account for the complexity of the Postal Service’s business rules and model’s limitations, prior to any implementation.

The Postal Service clarifies that it has two goals for the proposed service standard changes: to improve its service performance capability and to improve cost effectiveness of the network. Tr. 1/315. At the same time as cost-effectiveness and service performance improvements are expected, the Postal Service alludes to the necessity to build a coast-to-coast network as a prerequisite for its future consolidation with the NDC network. Postal Service Brief at 28.

2. Commission Analysis

In the sections that follow, the Commission analyzes the extent to which the baseline network scenario, which forms the basis of the Postal Service’s analysis, is a realistic representation of the existing inter-SCF network. Next, the Commission evaluates the efficiency gains estimated in each modeled network scenario. Finally, the Commission examines the potential impacts of the model’s limitations and modeling assumptions, which may further inform the extent to which the modeled routings can be implemented into the actual routings, in the context of the Postal Service’s goals to improve its service performance capability and reduce transportation costs.

a. Modeled Network Scenarios

The proposed service standards, if implemented, will be introduced to the existing inter-SCF network. The Postal Service’s analysis of the impact of its proposal

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93 The Postal Service points to TMOD software’s ability to build only one-way trips and explains that the complexity of its business rules was reduced in an effort to make the comparative analysis of modeled network scenarios less difficult. USPS-T-3 at 11-12, 19.

94 See, e.g., id. at 19, 27; Tr. 1/159, 237, 337, 410.
on the transportation network relies on a baseline network for comparison with the optimized model network. As such, the Commission evaluates the baseline network in order to determine whether it is an accurate representation of the existing network. The Commission concludes that the baseline network meets or surpasses some of the Postal Service’s current transportation efficiency goals, which include, among others, a 65 percent utilization and trip reduction. Tr. 1/315.

The proposed service standards were introduced to the modeled baseline network during the model’s first iteration. The Commission evaluates the efficiencies gained during the model’s first iteration and determines that the anticipated increase in average trip length, stemming from the newly gained ability to build multi-stop trips or route trips through hubs, is not apparent and that the most notable efficiency gain is the reduction in long-distance transportation, possibly suggesting that routings through consolidation points or with added stops may have been established in the baseline network.

Finally, the Commission analyzes model network changes following the introduction of air First-Class Mail volumes to the surface transportation network during model’s second iteration. The Commission concludes that the efficiently routed modeled network was estimated by the Postal Service to be able to absorb 43 percent of air First-Class Mail volumes by placing that diverted volume on a combination of existing routings and legs, suggesting insufficient volumes to justify adding expensive long-distance transportation to the network exclusively for the diverted volumes.

*Baseline network.* The Postal Service explains that the baseline network represents an optimal network under the current service standards, and that it was modeled using the same set of optimization instructions as the network under the proposed First-Class Mail service standards, *i.e.*, to minimize network trips and mileages while moving all modeled volumes. *Id.* at 182. The model of the baseline network used optimal trip departure time from origin within the applicable transit window constraints, used the same average vehicle speed to determine transit windows, was
allowed the same number of stops per trip, and trips in it were routed to move the volumes in the most efficient way. *Id.* at 182-84.

The difference between the baseline network and the “optimized” network under the proposed First-Class Mail service standards was in the increased flexibility to build more efficient multi-stop trips (including expanded use of hubs), due to the increase in transportation window. *Id.* at 184.

As noted above, the Commission has attempted to evaluate the baseline network as an accurate representation of the current surface transportation network. The table below shows the number of daily trips, daily mileages, average trip length, and average trip utilization, in the modeled baseline network and in the actual network, for March 2020. The actual network trips and mileages, as provided by the Postal Service, were filtered to remove transportation between network nodes which carried products determined outside the scope of the model, and excluded from modeling (PME and MTE). *Id.* at 201. However, such excluded transportation may also carry products that were included in the modeling. *Id.*

<table>
<thead>
<tr>
<th></th>
<th>Actual network</th>
<th>Baseline network</th>
<th>Absolute difference</th>
<th>Baseline / Actual network -1, % difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of trips</strong></td>
<td>6,308</td>
<td>4,073</td>
<td>-2,235</td>
<td>-35%</td>
</tr>
<tr>
<td><strong>Daily mileages</strong></td>
<td>2,406,448</td>
<td>2,139,302</td>
<td>-267,146</td>
<td>-11%</td>
</tr>
<tr>
<td><strong>Average trip length</strong></td>
<td>381 miles</td>
<td>525 miles</td>
<td>+144 miles</td>
<td>+38%</td>
</tr>
<tr>
<td><strong>Trip utilization</strong></td>
<td>39%</td>
<td>66%</td>
<td>+27 pp</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Tr. 1/175, 201.*
The Postal Service confirms its constrained ability to route current surface volumes “in an efficient fashion.” Postal Service Brief at 13. Table VII-18 shows that the baseline network included 35 percent fewer trips than the actual network (as filtered by the Postal Service), with the daily mileage evaluated in the baseline network about 11 percent lower, and trips in the baseline network about 38 percent longer in distance, on average. Additionally, the average length of a trip eliminated from the optimized baseline network is about 120 miles. In the “baseline” network, 53 percent of trips were routed through consolidation points or had multiple stops, rather than being routed directly from the point of origin to the point of destination. Tr. 1/218.

Trips which transport volumes to multiple destinations along the line of travel from a single point of origin (load sequencing) are generally longer than trips to a single point of destination. Such trips transport combined loads and could lead to elimination/reduced operating frequency of shorter-distance trips in the network, and to improved utilization of vehicle capacity. Trips routed through STCs are also generally longer than direct trips between two locations.95

For the purposes of modeling, trips in the “baseline” were allowed the same amount of trip stops as trips in the modeled network under the proposed service standards, i.e., up to two additional stops per trip. Id. at 184; USPS-T-3 at 15.

However, testing showed that increasing the number of stops in the modeled network increased trip complexity.96

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95 In addition to the travel time associated with driving to the STC from an originating P&DC on the way to the destination SCF (2 hours, on average), the Postal Service also notes that the mail processing activities at the STC, on average, take about 4 hours. Id. at 199.

96 Tr. 1/184-85. Specifically, the Postal Service refers to “anything over three stops.” Additional stops were tested in the modeled network under the proposed service standards, i.e., a network with greater transportation windows and free of site-specific constraints, or constraints imposed by transportation deemed outside of the scope of the model.
The determination to allow a maximum of two stops per trip in the modeled network, in which the ability to create efficient routings is enhanced by reduced network complexity and greater transportation windows, suggests that trips in today’s network include at most one stop, when not routed as direct trips.

Furthermore, the Postal Service explains that in the current network, point-to-point routings exist between all surface lanes,\(^97\) and indicates that routing trips through consolidation points remains infeasible under the current service standards, and that reducing trips and increasing utilization could only be accomplished by adjusting trip frequency in lanes with multiple trips.\(^98\)

This suggests that direct P&DC to SCF trips are the commonly used routing in the actual current surface transportation network.

Reduced trip frequency, average distance of an eliminated trip of 120 miles,\(^99\) fewer daily mileages, greater capacity utilization, longer trip distance in the network, on average, and more than half of network’s trips routed through consolidation points suggest that the optimization model may have “accomplished” routings and efficiencies in the baseline network that are not frequently occurring in the actual network, efficiencies the Postal Service presently aims to achieve.\(^100\)

The following table contains the annual mileages in the baseline network and the FY 2020 surface transportation costs used by the Postal Service to calculate surface transportation-related savings, by contract category. The annual mileages were calculated with the assumption that the modeled trips run 307 days per year (i.e., daily

\(^97\) With one or multiple trips per lane.

\(^98\) Tr. 1/186, 373; USPS-T-3 at 5-6; USPS-T-1 at 19, 21, 27-28. No such opportunity exists in lanes with single trips, which are constrained by service standard commitments. Tr. 1/373.

\(^99\) In other words, less than a 3-hour transit time from origin.

\(^100\) Tr. 1/315. The Postal Service describes its goals of 65 percent utilization, reduction in trips and costs/cost control, and reduction in yard and dock activity. Id.
except Sundays and days after holidays). The costs are the FY 2020 costs for regular and emergency contracted transportation in the inter-SCF network, are not “filtered” to account for transportation outside the scope of the model, and do not include costs incurred on contracted inter-SCF exceptional and “Christmas” transportation.

Table VII-19
Comparison of Modeled Baseline Network Mileages and FY 2020 Costs by Contract Category

<table>
<thead>
<tr>
<th>Contract Category</th>
<th>Baseline network annual mileages (a)</th>
<th>FY 2020 surface transportation costs, $ millions (b)</th>
<th>Baseline network annual mileages, as % of total</th>
<th>FY 2020 surface transportation costs, as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-Area</td>
<td>509,879,722</td>
<td>$1,091</td>
<td>78%</td>
<td>72%</td>
</tr>
<tr>
<td>Inter-Cluster</td>
<td>137,330,310</td>
<td>$249</td>
<td>21%</td>
<td>16%</td>
</tr>
<tr>
<td>Inter-P&amp;DC</td>
<td>9,555,559</td>
<td>$174</td>
<td>1%</td>
<td>12%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>656,765,591</td>
<td>$1,514</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Column (a) Tr. 1/191; Column (b) Library Reference USPS-LR-N2021-1/4, April 21, 2021, Excel file “Transportation Savings_Public.xlsx.”

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101 Tr. 1/191. The text in the records reads “daily except Mondays.” As this is likely an error, the Commission has assumed that the Postal Service intended the text to read “daily except Sundays.”

102 The Postal Service records expenses associated with contracted inter-SCF exceptional and peak period transportation in separate accounts. Specifically, there is a separate account for each of inter-P&DC exceptional, inter-P&DC Christmas, inter-cluster exceptional, inter-cluster Christmas, inter-area exceptional, and inter-area Christmas related transportation expenses.
Table VII-19 indicates that inter-P&DC transportation accounts for only 1 percent of the mileage in the baseline network, and that 21 percent and 78 percent of modeled mileages are for inter-Cluster and inter-Area contracted transportation, respectively.\(^\text{103}\) At the same time, the Postal Service’s FY 2020 expenditures on inter-P&DC transportation accounted for 12 percent of costs, with approximately 16 percent and 72 percent of total FY 2020 costs reported for inter-Cluster and inter-Area transportation, respectively.\(^\text{104}\)

The data contained in Tables VII-18 and VII-19 show that there is a mismatch between the “baseline” network that the Postal Service is using for modeling and the operational realities of the FY 2020 surface transportation network.

The Postal Service has pursued initiatives to improve capacity utilization and reduce network trips to date. Tr. 1/372-73. These efforts were limited to lanes with multiple trips and the biggest obstacle the Postal Service has encountered was associated with not enough time available in the transportation windows to route trips through hubs and transfer volumes. \textit{Id}. The proposed service standards were designed to address this obstacle.

However, the transportation window has not been the only impediment to the success of these initiatives. The Postal Service names the inability to eliminate trips “needed for other purposes” and time constraints for certain trips which “necessitate maintaining [them] at particular times.” \textit{Id}. Such constraints are unrelated to First-Class

\(^{103}\) Inter-Area transportation includes transportation of mail between a postal facility (facility) in one postal area (area) and a facility in a different area, where neither facility is an NDC. Inter-Cluster transportation includes transportation of mail between a facility in one district and a facility in a different district, where both facilities are within the same area and neither facility is an NDC. Inter-P&DC transportation includes transportation of mail between a processing and a distribution facility, where both facilities are within the service area of a postal district, within a postal area, and neither facility is an NDC. USPS-T-2 at 8 n.4.

\(^{104}\) For this reason, the data provided by the Postal Service for costing purposes cannot be directly compared to the “actual” network data regarding trips and mileages contained in Table VII-18, \textit{supra}. 
Mail volumes' transportation windows and would not be affected by the proposed changes.

In the instant proceeding, the Postal Service identified Priority Mail Express (PME), Mail Transport Equipment (MTE), and certain transportation used for PME and MTE as being outside the scope of the transportation model. Id. at 187. To describe the impact that these will have on the projected surface transportation network outcomes, the Postal Service alludes to the need to consider them prior to implementation of network changes and to their ability to inhibit mileage reduction in certain cases. Id. Certain site-specific constraints, not accounted for in the modeling, are described as possibly forcing adjustments to modeled departure times, which would prevent pairings with volumes at origin. Id.

It is unclear to what extent the omitted PME- and MTE-related transportation overlaps with the latter two obstacles that have prevented transportation efficiency improvements so far (i.e., the inability to eliminate trips needed for other purposes and time constraints, which require maintaining certain trips at particular times). The Postal Service did not provide justification for excluding PME- and MTE-related transportation or show that all known obstacles to efficiency improvement efforts to date were deemed to be within the scope of, and accounted for in, the transportation model.

This does not mean that the Postal Service cannot increase the efficiency of its surface transportation through its proposed changes. Rather, it highlights the difficulty of assessing the projected 6-percent mileage reduction and other improvements in the context of the limited proceeding in front of the Commission.

The Postal Service uses the TMOD model sponsored by witness Hagenstein to estimate the change in the efficiency of the surface transportation network. Similar to the examination of the “baseline” and actual inter-SCF surface transportation networks, the Commission examined the changes to the surface transportation network which resulted from each iteration of the modeling process.
Model's first iteration. The baseline network included First-Class Mail volumes currently assigned to surface transportation. As described above, the routings in the baseline network were modeled following the optimization instructions to route all network volumes in the most efficient way that reduces both trips and mileages. \textit{Id.} at 182. In the first iteration of the optimized network, the more relaxed First-Class Mail service standards, with the extended transportation windows, were introduced. USPS-T-3 at 7. The modeled volumes\textsuperscript{105} remained unchanged (\textit{i.e.}, no air volumes were introduced into the network during the first iteration); however, the changed service standards assignments for the modeled First-Class Mail volumes created opportunities to route the first iteration of the optimized network more efficiently.

As depicted in Figure VII-9 below, within the current service standards, 40 percent of the First-Class Mail volume needs to be transported to the destination SCF by the 8 a.m. CET on Day 1, and 60 percent of the First-Class Mail volume needs to be transported to the destination SCF by the 8 a.m. CET on Day 2.\textsuperscript{106} With the new service standards, the first iteration of the optimization model reconfigured the service areas covered by the new service standards and adjusted transportation windows for corresponding First-Class Mail volumes.

\textsuperscript{105} The modeled volumes included: First-Class Mail, inbound and outbound international mail, Periodicals and Marketing Mail identified as being transported via First-Class network, and priority parcels and flats. Tr. 1/175, 214.

\textsuperscript{106} To analyze network requirements in this section, the Commission excludes First-Class Mail volumes which travel 0 miles between the origin P&DC, the destination ADC, and the destination SCF, to limit the analysis to the volume that requires inter-SCF transportation. The Postal Service confirmed that these volumes were excluded from the transportation model, on the basis that they did not impact the network, but were included in the presented impact analysis. Tr. 1/207.
As detailed in Figure VII-9, with the proposed service standard changes, the amount of First-Class Mail volume subject to a 2-day service standard that is required to be transported to the destination SCF by the 8 a.m. CET on Day 1 is 26 percent, down from 40 percent. 107

The amount of volume that is currently in the surface transportation network that will be subject to the new 3-day standard is approximately 58 percent. The remaining 16 percent of First-Class Mail volume modeled in the baseline/first optimization iteration

107 The geographic reach for 2-day OD Pairs was reduced from 280 miles or less to 139.5 miles or less, or from up to 6 hours of transit time to up to 3 hours of transit time. USPS-T-3 at 13. A 3-day service standard was assigned to OD Pairs where the combined distance between the origin P&DC and the destination SCF was greater than 139.5 miles and up to 930 miles, or the combined transit time between the origin P&DC and the destination SCF was between 3 and 20 hours. Id. at 14.
network was assigned to the 4-day service standard and required to reach the
destination SCF by the 8 a.m. CET on Day 3.

The Postal Service notes that the proposed reduction in geographic reach of 2-
day OD Pairs was to add approximately 3 hours to the transit window with the following
potential operational benefits: the ability to support an initiative to hub 2-day volumes
within a 3-hour drive of the origin facility, or the ability to accommodate later dispatches
and thus reduce dedicated, inefficient transportation. 108

Similarly, assigning a 3-day service standard to OD Pairs with a combined
distance of up to 930 miles was expected to add sufficient slack time to the transit
windows to support later dispatches in order to facilitate pairing of volumes for multiple
destinations at origin, or pairing of volumes from multiple origins along the line of travel
for final destination, or to increase the use of transfers via STCs, as well as allow for
delayed dispatches, in order to help ensure that all mail is loaded onto designated
transportation, and thus reduce extra transportation. USPS-T-1 at 27; Tr. 1/345-46.

The change in the modeled network with the introduction of more time in the
transportation windows is projected by the Postal Service to lead to improved efficiency,
as can be understood through several different metrics. As illustrated in Figure VII-10
below, as the average distances for 2- and 3-day OD Pairs in the modeled network
decreased, the First-Class Mail volume per OD Pair increased. More specifically, the 2-
and 3-day OD Pairs’ average distances decreased 49 and 24 percent, respectively, and
First-Class Mail volume per OD Pair increased 212 and 121 percent, respectively.

108 USPS-T-3 at 13; USPS-T-1 at 18-19, 27; Tr. 1/345-46. The Postal Service listed factors that
currently prevent timely dispatches from origin and make the current 2-day service standard
“impracticable.” USPS-T-1 at 18. Among those are late mail arrival due to transportation delays, issues
with equipment reliability, staff availability issues, mail preparation and readability issues, integrated
dispatch and receipt throughput constraints, and delays in upstream operations impacting clearance of
subsequent operations. Tr. 1/198.

109 While OD Pairs are not equivalent to actual trips, the only data available to the Commission
were First-Class Mail volumes transported in the network between 3-Digit ZIP Code pairs and between
origin and destination processing facility pairs, i.e., OD Pairs.
The information reviewed by the Commission suggests that the estimated reduction in point-to-point 2-day transportation will only be achieved if origin P&DCs are capable of dispatching these trips with sufficient time to hub some of these volumes within a 3-hour radius. In the absence of successfully implemented hub operations, point-to-point 2-day transportation may be less likely to be eliminated.\textsuperscript{110} However, the data in Figure VII-10 above indicates that OD Pairs within 3-hours’ drive time from origin

\textsuperscript{110} The Postal Service states that it “does not expect to employ more direct transportation” for 2-day volumes, but does not confirm that it expects to see a decrease in this transportation. Tr. 1/207.
have higher volumes, which means they will generally have the capability for higher capacity utilization on a dedicated point-to-point route.

Table VII-20 below provides information on the efficiencies gained by the introduction of the proposed service standards to the baseline network volumes, in terms of the number of daily trips, daily mileages, average trips' distances, and average capacity utilization in the modeled networks.

### Table VII-20
Comparison of Baseline Network and First Iteration of Optimized Network

<table>
<thead>
<tr>
<th></th>
<th>Baseline Network</th>
<th>First Optimization Iteration</th>
<th>Absolute Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Trips</td>
<td>4,073</td>
<td>3,566</td>
<td>-507</td>
<td>-12%</td>
</tr>
<tr>
<td>Daily Mileages</td>
<td>2,139,302</td>
<td>1,805,069</td>
<td>-334,233</td>
<td>-16%</td>
</tr>
<tr>
<td>Average Trip</td>
<td>525 miles</td>
<td>506 miles</td>
<td>-19 miles</td>
<td>-4%</td>
</tr>
<tr>
<td>Trip Utilization</td>
<td>66%</td>
<td>74%</td>
<td>+8 pp</td>
<td></td>
</tr>
</tbody>
</table>

Source: Tr. 1/175.

In addition, the first iteration of the optimized network model included only 1,338 point-to-point trips (i.e., 38 percent of the network’s trips), indicating that 62 percent of trips in this new network were routed through consolidation points or as multi-stop trips. This is an important driver of the increase in average trip utilization from 66 to 74 percent.

Table VII-20 suggests that the average trip distance in the first iteration of the optimized network did not increase in response to the added time from the change in service standards. Such result further supports the possibility that most of the more

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111 Tr. 1/218. This represents an improvement over the baseline network, in which 53 percent of trips were routed through consolidation points.
efficient, longer-distance routings with stops or through consolidation points may have been achieved in the baseline network.

Additionally, the data indicate that the average distance per trip eliminated during the first iteration was approximately 660 miles.\(^{112}\) This indicates that efficiencies added during the model’s first iteration could be associated with the opportunity to delay dispatches and the associated opportunity to pair 3- and 4-day volumes at origin, while utilizing baseline network’s routings, leading to a consolidation of longer trips.

The first iteration of the optimization model includes significantly fewer trips than occurred in FY 2020,\(^ {113}\) but this major change was not modeled in the first optimization, it was modeled as part of the baseline network. The results of the first iteration of the optimized model show that the Postal Service’s modeling suggests that major gains in surface transportation efficiency can be achieved even if there is not a shift in volume that is currently transported via the air transportation network. They also suggest that these major gains will only occur if point-to-point transportation is consolidated.

**Model’s second iteration and final determination of cost-effectiveness.** For the second iteration of the optimization model, the Postal Service volumes currently assigned to air transportation were added for potential transportation via surface. The Postal Service states that the routings generated in the first iteration were “locked” into place. USPS-T-3 at 7. This means that the added air volume could be placed onto surface transportation routings that were already in place, or onto newly added optimal routings, developed exclusively for air OD Pairs during the model’s second iteration.

Approximately 30 percent of the air volumes diverted to surface were placed onto 676 of the routings from the first iteration of the optimization network. Tr. 1/175. The

\(^{112}\) This is in contrast to the average distance of a trip eliminated in the baseline network—approximately 120 miles.

\(^{113}\) There are 43 percent fewer trips in the first iteration of the optimized network than in the actual network for FY 2020.
remaining air volume required 1,115 new surface routings, with an average mileage of 1,306 miles, and a utilization of 57 percent.\textsuperscript{114} These routings were evaluated for cost-effectiveness by comparing the estimated cost of transporting their volumes by air to the cost of transporting them by surface. USPS-T-3 at 7.

The Postal Service states that of the efficient routings created during the model’s second iteration, 319 routings were determined to be cost-effective and added to the final network to move the diverted air volumes. Tr. 1/175. The average mileage per added routing was 453 miles, and average utilization for these cost-effective routings was 82 percent.\textsuperscript{115} The volume that could not be placed on cost-effective surface transportation remains in the air transportation network.

The final network thus includes the efficient routings from the first optimization iteration and the efficient routings from the second optimization iteration that were determined to be cost-effective.

As detailed in Figure VII-11, all of the added volume is subject to the 4- and 5-day service standard. The total First-Class Mail volume transported in the final surface transportation network increased 15 percent.

\textsuperscript{114} Id. These new routings, established exclusively for air volumes, added approximately \((1,115 \times 1,306) = 1,456,190\) daily mileages to the second iteration of the optimized network, \textit{i.e.}, increased daily mileages in the second iteration network by 81 percent. \textit{Id.}

\textsuperscript{115} Id. The Postal Service explains that the 82-percent utilization was achieved by the model layering in diverted First-Class Mail volumes onto existing trips from the first iteration. \textit{Id.} at 210.
In the final network, approximately 51 percent of First-Class Mail is transported within the transit window applicable to the 3-day service standard, 23 and 24 percent within the transit windows applicable to the 2- and 4-day service standards, respectively, and the remaining approximately 3 percent is transported within the 5-day service standard reach.

As detailed in the following Figure VII-12, the addition of the volumes currently transported by air increased the average distance and the average volume for the 4-day OD Pairs transported in the surface transportation network. No 5-day volumes were
transported in the surface transportation network in the previous, first iteration of the optimized network.

**Figure VII-12**

Average OD Pair Distance and Average First-Class Mail Volume per OD Pair in the Baseline, First Optimization Iteration, and Final Network, by First-Class Mail Service Standard

As illustrated in the above Figure VII-12, the average distance per 4-day OD Pair, for which volumes were assigned to the final surface transportation network, would increase by 10 percent, while the increase per 4-day OD Pair volume would amount to approximately 10 percent as well.

Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11 - 3_Digit_Pair.xlsx.”
As for the 5-day volume assigned to the surface transportation network in the model, the average OD Pair distance reaches 2,325 miles, with approximately 7,500 First-Class Mail pieces per pair.

<table>
<thead>
<tr>
<th></th>
<th>First Iteration Network</th>
<th>Final Network</th>
<th>Absolute Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Trips</td>
<td>3,566</td>
<td>3,885</td>
<td>319</td>
<td>+ 9%</td>
</tr>
<tr>
<td>Daily Mileages</td>
<td>1,805,069</td>
<td>2,011,176</td>
<td>206,107</td>
<td>+ 11%</td>
</tr>
<tr>
<td>Average Trip Length</td>
<td>506 miles</td>
<td>518 miles</td>
<td>+ 12 miles</td>
<td>+ 2%</td>
</tr>
<tr>
<td>Trip Utilization</td>
<td>74%</td>
<td>77%</td>
<td></td>
<td>+ 3 pp</td>
</tr>
</tbody>
</table>

Table VII-21
Model’s Second Iteration

Source: Tr. 1/175, 192; Library Reference USPS-LR-N2021-1/3, Excel file “3_SSD_5D_Vol_Impacts_CONUS.xlsx.”

The addition of long-distance 4- and 5-day volumes currently transported by air increases First-Class Mail volume in the modeled final surface transportation network by 15 percent.\textsuperscript{116} The final network, with the routes necessary to carry this additional volume, is estimated to have 9 percent more trips, 11 percent more network mileages than the first iteration network without the volume currently in air transportation, and trips 2 percent longer, on average. Even with the additional trips, the model provided by the Postal Service estimates that capacity utilization will further improve from 74 percent to 77.4 percent. Tr. 1/175, 182.

\textsuperscript{116} To summarize, the efficiently routed first iteration of the optimized network was able to absorb 30 percent of air First-Class Mail volumes. The additional 13 percent was then placed on the combination of existing efficient routings and newly established routings/legs, for a total of 43 percent of First-Class Mail pieces diverted to the surface transportation network. The remaining approximately 57 percent of First-Class Mail volume was determined to remain in the air transportation network. See Library Reference USPS-LR-N2021-1/3, Excel file “3_SSD_5D_Vol_Impacts_CONUS.xlsx,” tab “Air_Finance_Summary.”
The average distances of 4- and 5-day OD Pairs diverted from the air transportation network and assigned to surface transportation are 1,400 and 2,325 miles, respectively. The average length of added routing to the final network is 453 miles, and the average trip distance in the final network increases only 2 percent. This indicates that the diverted volumes were either placed on existing routings from the model’s first iteration or on a combination of existing routings and legs added exclusively for the diverted air volumes.

The Postal Service explains that longer trips have higher costs and require more volume to offset the cost of transporting that volume via air. Id. at 175, 210. Placing air volumes on a combination of existing surface routings and legs in the network indicates that these volumes were not sufficient to justify adding new purchased long-distance transportation.

b. Other Modeling Issues

Witness Hagenstein states that the transportation model is “directional” and was not designed to be “tactical in nature.” Id. at 252. The limitations of modeling and the practicalities of running a complex operation like the Postal Service’s surface transportation will have to be accounted for in the process of implementing the changes outlined in the Postal Service’s proposal. The Postal Service’s investigation process into the projected lane assignments was underway at the time of the hearings, and without the actual lane assignments, the Postal Service was not able to provide an estimate of the percentage of lane assignments that would require changes from the modeled transportation lanes. Id. at 253.

The Postal Service explains that the changes that most contributed to the estimated reduction in network mileages (through more efficient routings and subsequent elimination of redundant trips) were the multi-stop and the hub/STC assignment instructions. Id. at 185.
In this section, the Commission examines the modeling assumptions and the model’s limitations, in an effort to evaluate their impacts on the changes in the transportation network, including the potential efficiency gains and cost reduction.

**Transfers at STCs.** The implementation of the extended transportation windows will result in more volume transferring via STCs. *Id.* at 205. The Postal Service states that the associated increase in volume transfers through STCs is not expected to significantly exceed current capabilities of these locations.117 However, the Postal Service also acknowledges that such an expectation is based on feedback from contracted STCs that are capable of handling additional volumes “above and beyond what they have right now” and that some hubs do experience workload constraints.118 Despite this, STC constraints considered in the model were based on the feedback from the sites able to handle additional volumes. *Id.* at 265-66.

For the purposes of modeling, 2 hours were added to the transit times for shipments routed through STCs, in order to account for processing and cross-docking of containers.119 The Postal Service explains that the model did not differentiate between postal-operated and contracted STCs and thus did not account for these sites’ varying capabilities.120

The Postal Service provides that it currently takes 4.14 hours on average to transfer volumes at STCs and an additional 1.95 hours, on average, to route a trip.

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117 *Id.* The capabilities that the Postal Service received feedback on include sites’ abilities to handle unloads and loads and cross-dock containers or working containers. *Id.* at 266.

118 *Id.* at 266, 373. The Postal Service explains that while a primary function of an STC is to consolidate volumes from multiple origins to a group of destinations within its service area, STCs are also used as aggregation sites to prepare volumes from multiple origins within its service area for transportation in the network. *Id.* at 260-61.

119 USPS-T-3 at 17. Witness Hagenstein characterizes this as “a minimum of two hours” for processing (*id.*), but it is unclear when the model would allocate more than 2 hours for activities at an STC because the STC operations were not separately modeled.

120 Tr. 1/264. The Postal Service provides that of the 13 STCs it operates, 6 are postal facilities. *Id.* at 412.
through an STC versus as a direct trip. The charts below show the current average volume transfer time by STC, for two- and three-leg trips.

**Figure VII-13**

Average Volume Transfer Time (Hours) for Two-Leg Trips

Source: Library Reference USPS-LR-N2021-1/17, Excel file “Q15b -STC vs Direct Analysis.xlsx,” Tr. 1/199.

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121 *Id.* at 199. The Postal Service provides data for 6,765 dispatches, routed as 2-, 3-, 4-, or 5-leg trips, and for each dispatch includes the time it currently takes to transfer volumes at STCs as well as the miles for dispatches when routed through STCs and when routed as direct trips. *See Library Reference USPS-LR-N2021-1/17, May 24, 2021, Excel file “Q15b -STC vs Direct Analysis.xlsx.”*

122 For two-leg trips, STCs for which averages are provided represent trips’ final destinations; for three-leg trips, STCs for which averages are provided represent destination STCs, *i.e.*, stops between origin aggregation facilities and destination processing facilities.
As the data in Figures VII-13 and VII-14 suggest, of the 9 STCs included in 2-leg trips, 4 show average volume transfer times below the 4.14 hour national average; of the remaining 5 STCs, 4 STCs’ transfer times are 1 to 1 ½ hours longer.

As for 3-leg trips, of the 11 STCs, 5 show average volume transfer times below 4.14 hours; of the remaining 6 STCs, 3 show average transfer times ½ hour to 2 hours longer than the national average.\(^{123}\)

The following chart shows the time needed to execute a hub transfer, on average, by deviating a trip through STC\(^{124}\) and to transfer volumes, for three-leg trips.

\(^{123}\) The average volume transfer times range from 3.1 to 5.6 hours for STCs used for 2-leg trips, and from 2.9 to 6.3 hours for STCs used for 3-leg trips. As for the deviation times, 2-leg trips’ averages range from 0.4 to 1.4 hours, while 3-leg trips’ averages range from 1.3 to 2.9 hours.

\(^{124}\) The Commission calculated diversion times using the average speed of 46.5 mph.
In order for the Postal Service’s proposed changes to successfully lead to reduced cost and increased service reliability, operations at STCs will have to be both cost-effective and timely. The Postal Service has acknowledged difficulties finding hub locations that could handle volume transfers in past efforts to hub volumes as well as a possibility that volume transfers through the STCs which experience workload constraints could be limited until these sites are evaluated and adjusted. Tr. 1/372-73. Despite this, the Postal Service has not provided research in the context of this proceeding as evidence that this operational component will not be a hurdle to successful implementation and claims that it is ready to implement changes in the
network “[a]ll at once,” rather than stagger the implementation over time and/or over geographic areas. *Id.* at 429.

*Suitability of the modeled volume.* The historical volume data that were used to populate the model pertain to what the Postal Service characterizes as an “average” month of the year (March of FY 2020) and an “average” day of the week (Wednesday). *Id.* at 157. The Postal Service explains that it aimed to estimate the potential benefits of the proposed changes on the Postal Service’s “regular network.” *Id.* at 257.

However, the Postal Service also acknowledges that peak load transportation “has been an issue,” that it requires processing in different facilities, and that it leads to significant portions of the network changed to accommodate peak volumes. *Id.* Moreover, the Postal Service expects that a separate peak transportation planning process will continue. *Id.* at 258.

Transportation mode assignments during peak periods may also differ from those used to estimate mileage reduction and the amount of air volume that will be successfully shifted to the surface transportation network. *Id.* at 178.

Witness Hagenstein sponsors materials that contain an estimate of a 6-percent reduction in surface transportation network mileages, and witness Whiteman applies this reduction in miles to the total annual FY 2020 costs, as if the “regular network” operated at all times of the year. Similarly, the estimated reduction in First-Class Mail pounds flown was applied to the annual pounds flown and associated costs.125

Witness Hagenstein agrees that the “peak load” transportation network is not the same as the “regular network.” Tr. 1/256-57. The Postal Service has not indicated how the “peak load” network will operate after the proposed service standard changes and concurrent operational changes.

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125 See Library Reference USPS-LR-N2021-1/NP2, Excel file “Transportation Savings-NonPublic.xlsx.”
This presents two obstacles in the current proceeding. First, estimating the change in transportation costs for the entire year is difficult with the knowledge that the transportation network will be meaningfully different during roughly a quarter of the year. And the Postal Service has not filled this information gap to provide clarity. Second, the other stated goal of these changes is to increase reliability. The “peak load” network has clearly experienced reliability issues in recent history. The Postal Service, by not modeling with these volumes, has not addressed this meaningful service concern, and thus the Commission cannot provide an informed discussion on how reliability can be expected to change or improve during this vital quarter for mail operations, and the public’s use thereof.

Transit time. The Postal Service explains that the transit times determined in the model represent combined drive times between nodes on the way from the origin P&DC to the destination SCF and that they are based on the average vehicle speed of 46.5 mph for trips up to 1,000 miles and 55 mph for trips longer than 1,000 miles. Id. at 183.

The Postal Service acknowledges that the 46.5 mph speed it used in its modeling may not have accounted for the U.S. Department of Transportation-required breaks for the modeled long-distance transportation.126

Additionally, re-structured trips, which are covered by existing Highway Contract Route (HCR) contracts, may require modifications to those contracts. Id. at 212.

The Postal Service explains that the requestor of an HCR contract change generally uses the 46.5 mph speed to determine transit times. Id. at 183. However, for contract modifications with existing trips in the lane, on-time performance is taken into account, and transit times may be recalculated based on a different average speed assumption. Id. Additional issues may be identified by the supplier with respect to the

126 Id. at 187. The 55 mph assumption is likely even more problematic with regard to accounting for such breaks.
proposed transit time and lead to further adjustments to the average speed assumption.\textsuperscript{127}

As a result, some of the modeled routings may require longer transit times than modeled and may not be possible to implement as modeled. These would most likely include longer-distance trips, due to longer distances traveled (and more of the transit time impacted).

\textit{Site-specific operational nuances and mitigation efforts.} The Postal Service explains that issues such as yard and dock constraints, processing constraints driving volume arrival profile requirements, and general mail processing issues outside of the transportation model were not accounted for in the modeling. \textit{Id.} at 187.

For sites with such constraints, and those with timely operations, pressure may be added by the anticipated shift in processing and dock operations for the diverted air volumes to a later window.\textsuperscript{128}

The Commission notes that the first iteration of the optimized network accomplished significant efficiencies, with 12 percent of trips and 16 percent of mileages eliminated from the modeled surface transportation network, largely due to the newly gained ability to pair volumes at origins and consolidate long-distance transportation. This is evidenced by the average distance of a trip eliminated during the first iteration—660 miles. \textit{See Table VII-20.} However, the modeled dispatch times that enabled such pairing of volumes from origin did not account for current or future site-specific constraints.

\begin{table}
\centering
\begin{tabular}{|c|c|}
\hline
\textbf{Year} & \textbf{Average Distance Eliminated} \\
\hline
2021 & 660 miles \\
\hline
\end{tabular}
\caption{Average Distance Eliminated During First Iteration of Optimized Network}
\end{table}

\textsuperscript{127} \textit{Id.} The proposed transit times can be adjusted based on time of day, traffic, traffic lights, and local speed limits constraints. \textit{Id.}

\textsuperscript{128} \textit{Id.} at 364. Air volumes are currently dispatched between 12 a.m. and 3 a.m. USPS-T-1 at 29-30. The Postal Service expects a shift in volume arrival and dispatch profiles. Tr. 1/364. However, the anticipated shift in processing and dock operations for the air First-Class Mail volumes diverting to surface mode was not reflected in the model when departure times were determined. USPS-T-1 at 29-30; Tr. 1/183.
The Postal Service mitigates operational issues such as those identified as site-specific constraints by using exceptional service transportation, which was not modeled in this proceeding due to its unpredictability.129

In FY 2020, 43 million mileages were traveled by extra trips in the inter-SCF network, with the average trip mileage of 259.3 miles. Tr. 1/212. Combined with the annual mileages in the actual network (as filtered by the Postal Service), these account for roughly 5 percent of total network mileages. As for late trips, the Postal Service describes some as routinely called, which could indicate it being a site-specific occurrence.130

The Postal Service avers that while the expanded transportation window will enable it to absorb origin delays by adjusting dispatch times, there would be a limit to such flexibility and anticipates that adjustments may be required to its implementation plan to help sites be successful. Tr. 1/187, 198, 246-47; Postal Service Brief at 22.

The Postal Service also points to opportunities for delays in the transportation network and emphasizes its ability to better mitigate delays occurring in the surface transportation network, which is projected to transport 43 percent of the First-Class Mail volume currently in the air transportation network, hence the expected improvement in

129 Tr. 1/211-12; Postal Service Brief at 24. Exceptional service is short-term transportation, scheduled on an as-needed basis. Exceptional transportation includes extra trips (trips scheduled to move volumes that failed to be loaded on planned transportation), late trips (these include expenses associated with delaying scheduled transportation, such as contracted driver’s time, overtime to work late arriving mail; these arise due to volumes not being processed timely or due to dock operations issues), and cancelled trips (costs to run trips not performed due to no mail available for transport). The current cost per mile for extra trip ranges from $2.70 to $7.49. Tr. 1/171. Regularly scheduled surface transportation costs in the transportation analysis we evaluated at $2.50 per mile. USPS-T-3 at 8 n.3. As for expenses associated with late and cancelled trips, the Postal Service states that no system tracks these. Tr. 1/173.

130 Id. In FY 2020, exceptional contracts’ costs accounted for approximately 4 percent, while regular contracts’ costs accounted for 96 percent of costs on regular, emergency, and exceptional HCR contracts. See Docket No. ACR2020, Library Reference USPS-FY20-32, Excel file “CS14-Public-FY20.xlsx.” Combining FY 2020 inter-SCF exceptional contracts’ costs with the estimated extra trips mileages provided by the Postal Service, the average cost per mile amounts to only $1.34. As such, it is unclear what costs are reported under exceptional service accounts and whether they include expenses associated with all extra trips, as well as expenses associated with late and cancelled trips.
on-time delivery. Postal Service Brief at 21-22; see n.116, supra. However, while the air transportation network delays might affect more volume per trip, surface delays might impact more trips. Postal Service Brief at 22. Mitigation efforts associated with mail traveling coast to coast would involve long distances.

During this proceeding, the Postal Service has clarified that while in air transportation, payment to the carrier is reduced for poor on-time performance, in surface transportation, it is the Postal Service that bears the cost associated with poor on-time performance (whether the mitigation effort involves late, cancelled, or extra trips). Tr. 1/173. As the Postal Service put it, surface transportation is less risky “from the standpoint of service failures.” Postal Service Brief at 21.

Costs associated with existing HCR contracts’ modifications. As discussed above, the Postal Service plans to restructure its existing surface transportation network. This effort will include increasing trips’ distances and eliminating redundant transportation by consolidating volumes.

While transportation lane assignments can be considered a “greenfield” issue in the long term, in the short term the Postal Service has existing contracts for surface transportation. The Postal Service explains that restructured trips covered by existing contracts would require contract modifications.131 The Postal Service adds that contract modifications may lead to an increased rate per mile. Id.

131 Tr. 1/212. The Postal Service explains that HCR contracts are typically in effect for 4 years. Id. at 170.
Surface transportation savings were calculated from FY 2020 surface transportation costs (i.e., assumed rate per mile that applied to contracted transportation in FY 2020) and represent cost avoidance associated solely with lower network mileages. Id. at 271-72. The actual savings may be diminished by the increases in rate per mile stemming from existing HCR contracts’ modifications.

Going forward, the Postal Service expects to see transportation costs increase with rate-per-mile increases (associated with contract modifications and with market trends), fuel cost increases (associated with added weight to the surface transportation network, longer distances traveled, and fuel price increases), and costs associated with the increased workload at STCs.\textsuperscript{132} Id. at 185, 205, 272.\textsuperscript{133}

3. Transportation Modeling Conclusion

The Postal Service states that with the implementation of its plan to change service standards it will improve the efficiency of its surface transportation operations. Evaluating the actual FY 2020 data (as filtered by the Postal Service) show that the average trip is 381 miles and the capacity utilization is 39 percent, both data that point to opportunities for improvements. When the Postal Service started the process of modeling and optimizing surface transportation, the baseline model that it developed, under current service standards, had an average trip length of 525 miles and capacity utilization of 66 percent.

\textsuperscript{132} The STC volume transfers will increase further if First-Class Package Service volumes’ proposed service standards, the subject of Docket No. N2021-2, are implemented.

\textsuperscript{133} More generally, coast-to-coast mail “travels longer distances, consumes more energy, and activates more nodes within the transportation network—in short, commands more resources.” Postal Service Brief at 50.
The Postal Service then iterated two versions of its optimized transportation model, one developed using just the volumes that currently travel by surface transportation and then an iteration that adds volumes shifted from air transportation. The first iteration, optimizing the volumes currently traveling by surface with the additional time from the service standard change, leads to meaningful gains in volume per trip, capacity utilization, and trip consolidation (a reduction of 12 percent of trips, per Table VII-18). The second iteration, which adds new volumes that need to travel farther distances, further increases capacity utilization but does require new trips with new miles.

The model developed by the Postal Service highlights that if the Postal Service is able to aggregate volumes and implement multi-stop routes, significant efficiencies can be gained. The core assumption in the Postal Service’s modeling efforts is that multi-stop trips with high-capacity utilization can be used to transport mail across the country. But the most notable increase in capacity utilization is not the change across model iterations from the “baseline” network to the final iteration of the model with the new service standards. As shown in the Figure VII-16 below, the largest decrease in the number of daily trips, and the largest increase in miles per trip, is from the actual FY 2020 data to the baseline network used in the model.
Because the Postal Service has not effectively shown that the baseline model meshes with the current operational reality, it is infeasible to compare the modeled routings with the current costs and inaccurate to develop a numerical estimate of the cost savings from the potential new surface transportation network. The Commission agrees that there is potential to increase surface transportation efficiency and capacity utilization. For this initiative to be a success, the Postal Service will need to reconfigure its surface transportation network to build efficient trips with multiple stops and hubs. However, the extent to which that will occur, and the amount of cost reductions that would be concurrently achieved, will be a function of implementation. The Postal Service has not provided a detailed plan for the actual surface transportation routes but
instead a directional model. The Commission recommends that the Postal Service closely monitor the implementation of its plan to address issues discussed above.

E. Customer Satisfaction Analysis

1. Overview

The Postal Service states that it does not expect that its proposal will “materially impact customer satisfaction.” USPS-T-4 at 20. Witness Monteith emphasizes the proposed changes will impact “only a portion of [First-Class Mail] [(39 percent)] and a small segment of Periodicals [(7 percent)] volume.” Id. He also suggests that the proposed changes will increase the reliability of service and the consistency of service, which witness Monteith claims are the top drivers of customer satisfaction, while unlikely materially affecting the third top driver of service, fast delivery. Id. at 18; see Tr. 1/103-04.

2. Commission Analysis

Using witness testimony and library references, the Commission evaluated whether market research demonstrates that postal customers in general value reliability over speed of service and whether this research sheds light upon the effects of the proposal on customers that are impacted. The Commission also considered whether customer expectations are already aligned with the newly proposed service standard. Finally, the Commission evaluated the Postal Service’s communication strategy and the manner in which it has received and responded to feedback from stakeholders and the general public.

Customer satisfaction market research. The Postal Service presents several pieces of market research to primarily support its conclusions regarding the nonmaterial (or positive) impact of the proposal on customer satisfaction. This research includes
quarterly-conducted BHT surveys and two United States Postal Service Office of Inspector General (OIG) audit reports, the Assessment of the U.S. Postal Service’s Service Performance and Costs Audit Report and the Peak Season Air Transportation Audit Report.

Witness Monteith only presents the findings for the most recent FY 2021 Quarter 1 BHT survey in the initial testimony but generalizes its findings. Witness Monteith concludes that the Postal Service’s “market research has consistently found that reliability, ‘keeps my mail safe,’ and ‘delivering the mail when expected’ are more important to customers than ‘fast’ delivery time.” USPS-T-4 at 13 (internal marks omitted); id. at 13 n.49. This conclusion may be supported by the Key Driver Index (KDI) scores, which are calculated in the FY 2021 Quarter 1 BHT survey, but not those of previous years. The following excerpt from the Postal Service’s later production relates to the interpretation of the BHT surveys’ calculation of KDI scores and includes a table of the Top Five Drivers of Customer Satisfaction as calculated by BHT surveys from Quarter 1 of FY 2017 to Quarter 1 of FY 2021:

Survey respondents each quarter are asked about their overall satisfaction with mail services and then are asked about their agreement with a series of attributes including “is reliable” and “provides fast mail delivery.” A full year’s data is used with the series of attributes to understand which attributes are most predictive of overall satisfaction. Attributes are ranked using an index score to show which of the attributes are most predictive of overall satisfaction. Essentially, if USPS could independently improve perceptions on the attribute with the largest [KDI score] it would be more likely to improve satisfaction than independently improving lower ranked scores.

Response to POIR No. 3, question 27.e.

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134 See USPS-T-4 at 13 n.49 for the Postal Service’s description of the BHT provider. The Commission also requested copies of BHT surveys for each quarter from Quarter 4 of FY 2017 to Quarter 1 of FY 2021. See redacted copies in Library Reference USPS-LR-N2021-1/10.
Please note the Postal Service repeated the FY 2017 KDI scores in FY 2018, thus both fiscal years have the same KDI scores. Please note that the Commission has not audited the calculation of KDI scores as a part of this docket and does not endorse these numbers as correct.

In the FY 2021 Quarter 1 BHT, the KDI score for “provides fast mail delivery” was 122, which is nominally lower than the KDI scores of other attributes, such as ‘is reliable,’ ‘keeps my mail safe,’ and ‘consistently delivers the mail when expected.’ However, the Commission takes issue with the Postal Service’s generalization of the FY 2021 Quarter 1 BHT survey results that customers consistently value these other attributes over ‘fast’ delivery time.” See USPS-T-4 at 13. The first issue is that the generalization has not consistently been true, especially for the attributes relating to delivery consistency and mail safety. The Postal Service recognizes this, stating, “[T]he relative importance of ‘fast’ delivery has changed over time. For example, ‘fast’ delivery dropped in ranking from #2 in FY 2019 to #4 in FY 2021.”¹³⁵ In particular, in Quarter 1 of FY 2019 and Quarter 1 of FY 2020, the KDI score of ‘keeps my mail safe’ was lower

¹³⁵ Tr. 1/66; see Responses of the United States Postal Service Witness Steven Monteith to Questions Posed During Hearings, June 14, 2021, at 6 (Monteith Response to Hearing Questions).
than 'provides fast mail delivery.' Similarly, in the FY 2019 Quarter 1 BHT, the KDI score for the delivery consistency attribute was less than the speed of service attribute. Tr. 1/67. It appears that the Postal Service has used the isolated results of the FY 2021 Quarter 1 BHT survey to downplay the importance of speed of service to customers.

While the Postal Service asserts that "[r]eliability has consistently been the most predictive driver in determining customer satisfaction[,]" the Commission finds that this generalization from the BHT surveys from Quarter 1 of FY 2017 through Quarter 1 of FY 2021 is not evident either.136 Witness Monteith admits the Postal Service suspected BHT survey respondents could be associating the "is reliable" attribute on the survey with other factors relating to the Postal Service's institutional reliability besides reliability of delivery. During the hearing, witness Monteith clarified that the Postal Service added the attribute 'consistently delivers the mail when expected' to the BHT survey in Quarter 1 of FY 2018 to distill the importance of delivery reliability to customers as opposed to the reliability of the Postal Service's website, telephone operations, etc. Id. at 90-91; see Library Reference USPS-LR-N2021-1/10 at 41. At the hearing, witness Monteith testified that:

So it's [reliability] -- you know, there’s clearly a service component in terms of delivery, but it also -- that factor also ties to potentially customers’ experiences at retail, through dot com and so forth, and that’s why we added the question around consistently is delivered when expected, and we think that gives us the delivery question, and we’ve seen that factor as well surpass the speed.

Tr. 1/90-91.

Witness Monteith also confirmed that how a question is formulated in a survey may affect a respondent’s answers. See id. at 105. Because the attribute ‘is reliable’ could encompass other factors besides reliability of service, it is improper for the Postal Service to generalize that reliability of delivery, as is implied in witness Monteith’s

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136 See id. at 66. It is true that "Is reliable" had the highest KDI scores in each of the surveys from Quarter 1 of FY 2017 through Quarter 1 of FY 2021.
testimony and as it relates to the proposal, is more important to customers than speed of service solely based on the BHT surveys.

Furthermore, in the FY 2019 Quarter 1 survey, ‘is reliable’ and ‘provides fast mail delivery’ have nearly identical KDI scores of 160 and 159, respectively. Id. at 67. The Postal Service states regarding this case, “In the example where there is a one-point difference in scores, the one attribute is nearly as important as the other.” Monteith Response to Hearing Questions at 5. However, the Postal Service has not provided any indication that there is a way to compare the KDI scores of different attributes in a statistically meaningful way. Id. Given the KDI scores are so close in some years and statistical testing is unavailable, the Commission finds that it is untenable and premature to proclaim that ‘is reliable’ is the “most predictive driver in determining customer satisfaction.” See Tr. 1/65-67.

For the reasons stated above, the Commission finds that the Postal Service has over-generalized the isolated results of the FY 2021 Quarter 1 BHT survey’s KDI scores to downplay the importance of speed of service to customers in general relative to the “reliability” of the Postal Service and “consistency” of delivery. The Commission also finds that the BHT surveys’ KDI scores are conceptually misapplied in the context of this proposal. The Postal Service notes that, “Essentially, if [the Postal Service] could independently improve perceptions on the attribute with the largest [KDI score] it would be more likely to improve satisfaction than independently improving lower ranked scores.” Id. at 75-76. However, the proposal discussed in this docket would not improve reliability and consistency of delivery independently; it is at the cost of lowering the service standards for certain portions of First-Class Mail and end-to-end Periodicals.

The Postal Service estimates the increase in average delivery time to be between approximately 18 and 19 percent for both First-Class Mail and end-to-end Periodicals. Id. at 77-78; see USPS-T-5 at 36. On the other end, the Postal Service states that it “expect[s] to set service performance targets at 95 percent once the new service standards are in place, and...expect[s] to meet or exceed them consistently
upon implementation of [its] proposed service standard changes during all times of the year.” USPS-T-1 at 11 n.8. The Postal Service expects to increase its reliability and consistency of delivery, and the Commission discusses its own evaluation of the Postal Service’s new service performance targets in Section VII.B. However, the Commission finds that there is no readily available way to compare the tradeoff of expected increase in delivery reliability with the reduction in speed of service in the context of the KDI scores. Therefore, the Commission believes that a simple ordering of attributes by KDI scores as the Postal Service has done is insufficient to conclude the proposal’s effect on customer satisfaction.

The Postal Service refers to two OIG reports in its attempt to provide context to the tradeoff between the increase in delivery reliability and the reduction in speed of service. Witness Monteith asserts that the proposal’s improvements to reliability and consistency of service is “unlikely to materially impact the third top driver of customer satisfaction: fast delivery,” despite increasing the service standards for a portion of First-Class Mail and end-to-end Periodicals. USPS-T-4 at 19. This claim draws mainly from an OIG report which found that “[w]hile existing service standards for [First-Class Mail] is three to five days...a nationally representative survey in 2019...demonstrated 71 percent of respondents expected their sent mail to arrive in seven days.”

Witness Monteith also notes the OIG’s findings that “80 percent of respondents to the Postal Service’s FY 2018 Delivery Survey are generally satisfied with their mail and package delivery even though the Postal Service has not met a majority of service performance targets in the last several years.”


“[t]his satisfaction rate is significant and may suggest that service performance targets are not always aligned with customer expectations.” OIG Report No. NO-AR-19-008 at 1. Witness Monteith may or may not correctly surmise from these OIG reports that, “some customers may not be impacted by the service standard changes as they have already expected longer delivery times than [the Postal Service's] current service standards.” USPS-T-4 at 20. However, the OIG reports imply that 29 percent of respondents expect their mail to arrive in a shorter period of time, probably within the service standard of 3 to 5 days, and that 20 percent of customers are not generally satisfied with their mail and package delivery. OIG Report No. 20-215-R21 at 12; OIG Report No. NO-AR-19-008 at 1. Therefore, using the Postal Service’s logic, one would expect that the proposal would lead to a downgrade in expected speed of service and, therefore, customer satisfaction for a substantial percentage of customers affected by the proposal.

The Postal Service’s last argument regarding the immateriality of the proposal on customer satisfaction is that the proposal will impact “only a portion of [First-Class Mail] [39 percent] and a small segment of Periodicals [7 percent of] volume.” USPS-T-4 at 20 (emphasis added). The Commission first notes that a change in the service standards for nearly 40 percent of First-Class Mail is a significant change for many Americans, especially considering that witness Monteith describes First-Class Mail as “41 percent of mail flow today and is a vital aspect of American life.” USPS-T-4 at 7. The Commission also considered the population of customers and mailers affected by the proposal. The Postal Service recognizes that there are especially affected populations of mailers, “such as remittance, election, and Periodicals mailers, have unique needs and will be impacted by the changes [of the proposal] differently than our other mailers.” Id. at 23 (emphasis added). Several parties explain that certain segments of individual customer populations may be affected in particular ways as well, including but not limited to rural customers, individuals who receive medication by mail, voters, incarcerated mailers,
The Postal Service responds to the assertion that individuals who receive medication by mail may be impacted more than other mailers by stating that it does not expect an impact to prescription fulfillment and medical supply mail due to this proposal, since most of those products are shipped as packages. Tr. 1/62-63. Instead, the Postal Service continues to “believe the impact identified by Thress’s model is the most representative of all mailers and did not find analyses on narrower segments of mailers to be necessary.” Id. at 63. The Commission finds the Postal Service’s broad strokes approach to be insufficient to make claims regarding the proposal’s effect on customer satisfaction. However, the Commission recognizes that determining which customer segments are most affected, and collecting data specific to those segments, may be a challenge. 140

For the most part, the market research presented by witness Monteith, including both the BHT surveys and the OIG reports, provide a general picture of consumer preferences but may not represent those who may be inordinately affected by the proposal. Given the substantial scope of the proposal and the possibility, as acknowledged by the Postal Service, that it may have outsized impacts on various segments of mailers and customers, the Commission believes that the BHT surveys and OIG reports presented by witness Monteith may not constitute a sufficient basis for the Postal Service to comment on the impact on customer satisfaction for those customers and mailers most affected by the proposal. The Commission commends the Postal Service’s dedication to maintaining customer satisfaction by “monitor[ing] the customers’ perspective through the [BHT] survey and other channels.” See id. at 24-25. For this reason, in order to be able to discern the impacts of the proposal and its implementation on customer satisfaction, the Commission recommends that the Postal

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139 See GCA Brief; NAACP Statement; PPI Statement; States and Cities Statement. The Postal Service states that it does not expect an impact to prescription fulfillment and medical supply mail due to this proposal, since most of those products are shipped as packages. See Tr. 1/355.

140 The Postal Service did not discuss, however, the specific difficulties it may have in evaluating the proposal’s effects on specific populations.
Service monitor customer satisfaction going forward beyond the scope of the BHT, specifically for customer and mailer segments that may be the most impacted by the change.

**Communication strategy.** As part of its communication strategy, the Postal Service solicited feedback from stakeholders by hosting webinars for business mailers, instructing its employees to receive feedback from the general public, and establishing a forum for public comment through the current proceeding, which included a pre-filing conference on April 6, 2021. USPS-T-4 at 24. Witness Monteith also provides other examples where the Postal Service solicited and received feedback from stakeholders, namely its presentations to MTAC and AIM members, meetings with NPPC, NAPM, and NNA, its briefing to PCC leadership in April 2021. *See id.* at 22; Tr. 1/57-61. According to witness Monteith, most of the concerns from stakeholders concerned the grant of additional pricing authority to the Postal Service, as well as other concerns relating to “whether and how the proposed changes impact [the customers’] businesses, both generally and from an operational perspective.” Tr. 1/59-60.

Despite its claims of collecting feedback and working with its customers to communicate the effects of the proposal on their businesses, the Postal Service has not provided any examples of specific negative or positive feedback it received from a customer or stakeholder and how it attempted to address said feedback. *See id.* at 56-59, 85-90. As with customer satisfaction, in order to be able to discern the impacts of the proposal and its implementation, the Commission recommends the Postal Service more actively seek and respond to feedback from those customer and mailer segments most affected by the proposal. This may relate to expanding data collection on consumer complaints for end–to-end Periodicals as well as other postal products affected by the proposal as suggested by NNA. The Postal Service notes that it received several comments from stakeholders and customers relating to its posting on the *Federal Register*. *Id.* at 122-24. The Commission urges the Postal Service to keep its proposal flexible to the needs of the general public, its stakeholders, and customers.
3. Customer Satisfaction Conclusion

The Postal Service has not demonstrated evidence to substantiate its claim that customer satisfaction will not be materially affected by the proposed changes. Even in concept, the supporting market research does not convincingly support the Postal Service’s claims regarding customer satisfaction, such as consistent customer preferences for reliable delivery over fast delivery. In application, the supporting market research ignores the difficult task of weighing the loss of speed of service due to the proposed changes and the purported increase in reliability and consistency of service. Therefore, these reports and their underlying data do not correspond with those populations that may be affected by the proposal and thus cannot be used to infer the impacts of the proposal on said customers.

As for communication, the Postal Service demonstrated that it is communicating to its customers and stakeholders that it plans to proceed with the proposed service standard changes and is helping these parties understand how the changes will affect them. However, the Postal Service has not shown that it is adapting its proposal based on the concerns or issues raised by its customers and stakeholders. The Commission supports the Postal Service’s declaration to continue to monitor the customers’ perspective through the BHT survey and other channels, but it advises that the Postal Service specifically monitor customer satisfaction going forward for the customers that are most impacted by the proposal and to be more transparent in the feedback it receives from stakeholders. See id. at 24-25.

F. Demand/Econometric Analysis

1. Overview

The Postal Service states that the proposed service standards are expected to reduce the volume of Single-Piece First-Class Mail by approximately 1.63 percent and reduce the volume of Periodicals mail by approximately 0.10 percent. USPS-T-5 at 37. The Postal Service’s analysis on the impact of the change on mail volume (and
ultimately, contribution) relies on an econometric model to estimate the causal relationship between delivery time and mail volume (or demand). *Id.* at 3.

2. Commission Analysis

In its analysis, the Commission reviewed the testimony of witness Thress (USPS-T-5) and Library Reference USPS-LR-N2021-1/5. These references include detailed output from the econometric models employed by witness Thress for First-Class Mail single-piece and workshare letters, cards, and Flats and for Regular Rate Periodicals, Nonprofit Periodicals, and In-County Periodicals. The Commission reviewed witness Thress’s econometric analysis, including the econometric output submitted as part of Library Reference USPS-LR-N2021-1/5. In particular, the Commission evaluated whether the model presented accurately measures a causal relationship between days to delivery and mail volumes.

Witness Thress provides the following formula to calculate the percentage change in mail volume, using \( d \) as the percentage change in average days to delivery and \( e \) as a coefficient on average days to delivery:

\[
v = (1 + d)^e - 1
\]

Using this equation, witness Thress states that the total number of pieces of volume lost could be calculated by multiplying that percentage by a baseline level of volume. USPS-T-5 at 36. He also states that multiplying lost volume by revenue per piece would provide the estimated loss in gross revenue due to changes in average days to delivery. *Id.* He further explains that multiplying lost volume by contribution per piece would generate the estimated net financial impact of changes in average days to delivery to the Postal Service. *Id.* at 36-37.

The model presented is a modified econometric demand analysis based on the set of demand equations included in Docket No. R2021-1. See *id.* at 4. The specific modification to the Docket No. R2021-1 econometric prediction models for First-Class Mail and Periodicals mail is an inclusion of historical delivery times among the set of
control variables used to forecast historical mail volume. *Id.* This econometric analysis is central to the Postal Service’s overall analysis of how the proposed service standard changes would impact consumer demand. If this analysis were to find that consumer demand was very sensitive to service standards, then a reduction in service standards could significantly undermine the Postal Service’s business model and its ability to satisfy the requirements of the USO.

The Commission finds that a determination of the causal relationship between days to delivery and mail volumes is distinct from measuring correlations or partial correlations between delivery times and mail volumes. The former question requires very different econometric techniques than the latter question.

At a high level, the model employed by the Postal Service is a forecasting model which trades off bias in the underlying estimates in order to minimize the variance of the error in the model’s predictions. Said differently, these forecasting models are designed to fit the historical data extremely well, but this trades away the model’s ability to provide statistical evidence about the true causal relationship between delivery times and mail volume.141

Generally, Least Squares regression models, like that employed by witness Thress, are ill-suited to identify causal parameters except in the case of a randomized controlled trial.142 In this specific case, a randomized controlled trial that can identify the causal relationship between delivery times and mail volume might, for example, randomly vary times and then compare mail volumes based on these randomized service standards. Any differences in mail volumes could then be attributed, causally, to the difference in delivery times. Said differently, the econometrician could make statistical statements about the likely true relationship between delivery times and mail

142 Technically, witness Thress uses a Generalized Least Squares model to account for autocorrelation in the error term of the model (time series technique). The statement here is not specific to Ordinary Least Squares. It is broadly true about all Least Squares models.
volumes (the population parameter of interest) based on the estimated relationship for the sample of data analyzed. In this case, the Least Squares regression model will recover an unbiased estimate of this causal relationship of interest.

Absent random variation in the relationship of interest, econometricians may turn to quasi-natural variation, which mimics random variation through policy variation or other circumstances. *Id.* at 433-61. For example, the Postal Service could exploit the increase in delivery time caused by the network service changes approved in Docket No. N2012-1 to estimate the causal relationship between delivery time and mail volume local to this service standard change. In fact, the Commission noted that the approved increase in delivery times provide a “unique opportunity to study the actual effects of reduced service on mailing behavior.”

In the Docket No. N2012-1 Advisory Opinion, the Commission highlighted the fact that the increased delivery times “could provide the Postal Service with the kind of historical data needed to undertake an econometric analysis of the relationship between speed of delivery and mailing behavior.” Docket No. N2012-1, Advisory Opinion at 70.

The exercise of estimating a causal relationship between two variables is distinct from a general forecasting exercise, which matches underlying trends in data series over time to predict future values of an outcome variable of interest—in this case, mail volumes. In the case of forecasting models, it is not necessary to understand why two or more variables move together for the model to generate meaningful predictions. These forecasting exercises work best when the historical conditions of the model are anticipated to be like future conditions.

Importantly, there is a classic bias-variance trade-off faced by the researcher when developing forecasting models. In general, the lower the variance of the model, the higher the bias of the model will be. Practically, this can be seen when examining

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the R-squared, or the “fit” of the models, which ranges between 0 and 1 and describes how much of the variation in the data is captured by the prediction of the model. Causal models need not have a high R-squared statistic—the goal of these models is to estimate how X causally impacts Y, regardless of how much of the overall variation in Y is caused by X. Forecasting models, however, typically are designed to have a high R-squared, trading off lower variance in the error of the model (improved fit) for a higher bias in the estimated relationship between X and Y. Importantly, these models do not require exogenous variation in the X variable in order to produce a tight fit. Without exogenous variation in X, these models will produce a biased estimate of the underlying population parameter. When models produce biased estimates, they cannot be used to identify the underlying causal relationship between two variables.

The models filed by witness Thress, both in this case and in annual rate cases such as Docket No. R2021-1, are forecasting models. In this way, they are not designed to recover causal estimates of the impact of price, delivery times, or any other explanatory variables on mail volumes. Instead, they are designed to make accurate predictions of historical mail volumes by linking historical trends in mail volumes to historical trends in explanatory variables. Consistent with this and for example, witness Thress’s updated model for First-Class Mail Single-Piece Letters has an R-squared of 0.999267. See Library Reference USPS-LR-N2021-1/5. In other words, the model explains 99.9 percent of the variation in mail volumes during the sample period using a very large number of explanatory variables, one of which is now delivery times. This model would likely produce fairly accurate forecasts of future mail volumes based on projected values of all explanatory variables, as long as future conditions were closely aligned to historical conditions.

Because the models filed as part of this proceeding are forecasting models and because witness Thress has not otherwise provided evidence that the submitted econometric models appropriately rely on random or quasi-random variation in delivery times, the Commission has determined that the resulting econometric estimates do not
identify the causal relationship between delivery times and mail volumes. It is, therefore, inappropriate to isolate the coefficient on delivery times within these models and use these estimates to calculate a change in mail volume that will be caused by a reduction in service standards.

Moreover, the calculations provided by witness Thress are based on an increase in delivery times that is very far outside the scope of any variation in delivery times that was seen during this period. With the exception of the implementation of the service standard changes proposed by the Postal Service in Docket No. N2012-1, which led to a sharp increase (14.6 percent) in delivery times for single-piece First-Class Mail, average delivery times were increased by an average of less than 1 percent between FY 2005 and FY 2020. USPS-T-5 at 24. In the case of witness Thress’s analysis, using this model to predict what would happen if delivery times were to increase by 19 percent far exceeds the typical historical conditions of the data that were used to fit the model. As previously stated, forecasting models make reasonable out-of-sample predictions only when the conditions in the external sample are similar to those used to fit the model. In the case of witness Thress’s analysis, the out-of-sample assumptions do not meet this standard.

3. Demand/Econometric Conclusion

The Commission finds that the Postal Service cannot conclude with any statistical confidence what will happen to First-Class Mail and Periodicals mail volume as a result of an increase in days to delivery. The econometric analysis submitted by witness Thress cannot speak to the causal relationship between delivery times and mail volume. Accordingly, the Commission recommends not using this model to estimate the impact of the proposed service changes on volume.
G. Review of Service Standard Objectives and Factors

The PAEA set forth objectives and factors to be considered when designing, establishing, or revising modern service standards. See 39 U.S.C. § 3691. The Commission reviews the applicable objectives and factors and brings attention to issues the Postal Service should be aware of as it further develops and implements the proposed changes. These objectives and factors work in conjunction with each other and can at times be in tension with one another.

39 U.S.C. § 3691(b)(1) requires service standards to be designed to achieve the following objectives:

(A) to enhance the value of postal services to both senders and recipients;
(B) to preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;
(C) to reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices; and
(D) to provide a system of objective external performance measurements for each Market Dominant product as a basis for measurement of Postal Service performance.

39 U.S.C. § 3691(c) requires service standards to take into account the following factors:

(1) the actual level of service that Postal Service customers receive under previous and current service standards;
(2) the degree of customer satisfaction with Postal Service performance in the acceptance, processing and delivery of mail;
(3) the needs of Postal Service customers, including those with physical impairments;
(4) mail volume and revenues projected for future years;
(5) the projected growth in the number of addresses the Postal Service will be required to serve in future years;

(6) the current and projected future cost of serving Postal Service customers;

(7) the effect of changes in technology, demographics, and population distribution on the efficient and reliable operation of the postal delivery system; and

(8) the policies of Title 39 generally and such other factors as the Postal Service determines appropriate.

The Postal Service states that its proposal is in accordance with and conforms to statutory policies. Postal Service Brief at 36. The Postal Service asserts that the proposed changes achieve the objectives of 39 U.S.C. § 3691(b)(1) better than the existing service standards. Request at 11. The Postal Service contends that it has taken into account the factors set forth in 39 U.S.C. § 3691(c), including the broader policies of Title 39, United States Code, as required by 39 U.S.C. § 3691(c)(8). Id. at 10-12. The Postal Service discusses how it will continue to satisfy the universal service provisions appearing in 39 U.S.C. §§ 101, 403, and 3661(a) under the proposed service standards. Id. at 12.

In particular, the Postal Service states that the proposed changes enable it to better align its service standards with operational capabilities. Id. at 10. It explains that current standards require operational practices that make it difficult to provide consistent and reliable service, which leads to high costs. Id. The Postal Service asserts that the proposed changes will provide more consistent reliable service for First-Class Mail and will allow it to be able to create a more efficient transportation network, while maintaining the same service standard for the majority of First-Class Mail and Periodicals mail. Id.

It contends that the adjusted standards would enhance the value of postal services for both senders and recipients by (1) improving service reliability while continuing to reasonably assure customers of delivery speed, (2) improving the reliability and efficiency of the network, consistent with best business practices and
preservation of reasonable rates, and (3) supporting its long-term sustainability. \textit{Id.} at 11; Postal Service Brief at 39. It states that the corresponding contribution loss in response to the changes would not outweigh the benefits of the changes. Postal Service Brief at 39-40.

The Postal Service states that it will continue to be effective in binding the nation together through correspondence, as prescribed by section 101(a). Request at at 11-12. It states that it would also continue to meet its obligation to provide expeditious delivery of important letter mail under section 101(e) because most First-Class Mail would continue to be delivered within 3 days, customers receiving mail with longer standards would have consistent and predictable delivery under those standards, and Priority Mail Express and Priority Mail would continue to be available for customers that require faster delivery. \textit{Id.} at 12; Postal Service Brief at 44-45.

The Postal Service states that access will continue to be effective and regular, within the meanings of sections 101(b) and 3691(b)(1)(B). Request at 12. It also states that the resulting service will be provided adequately and more efficiently, consistent with sections 403(a) and 3661(a), because the proposed changes will enable the use of more cost-effective modes of transportation and provide for a more efficient surface transportation network. \textit{Id.} at 12-13. Finally, the Postal Service asserts that, in selecting the modes of transportation, the proposed changes will allow it to continue to satisfy the requirements of section 101(f) by giving the highest consideration to the prompt and economical delivery of mail. \textit{Id.} at 13.

1. Section 3691 Objectives and Factors

The Postal Service states that because section 3691’s objectives and factors formulation mirrors the provision governing the Market Dominant ratemaking system, it is evident that the section 3691 objectives must similarly be balanced against each other. Postal Service Brief at 36-37. The Postal Service states that it has designed the proposed service standards to reasonably balance the relevant statutory objectives

GCA asserts that the proposal encompasses the requirements of 39 U.S.C. § 3691. GCA Brief at 5. However, multiple parties and commenters contend that the proposed changes fail to further the objectives and fail to consider the factors.144

In the discussion below, the Commission reviews the arguments and concludes that the proposed changes meet the applicable statutory requirements.

a. Objectives

Section 3691(b)(1) requires that the service standards be designed to achieve the enumerated objectives.145 Several parties contend that the proposed service standards do not enhance the value of the mail to either senders or recipients as required by Objective (A).146 PPI asserts that the proposed service standards substantially degrade the value of First-Class Mail for incarcerated customers. PPI Statement at 3.

The Postal Service responds that, overall, the new service standards would enhance value by improving reliability while maintaining current service standards and delivery times for the majority of First-Class Mail and Periodicals mail. Postal Service Brief at 39. It explains that the corresponding contribution loss in response to the changes would not outweigh the benefits of the change. Id. at 39-40.

APWU and PPI state that Objective (B) may not be met because certain mailers, such as incarcerated customers and individuals in rural communities, may lose out on

144 APWU Brief at 24-27; Carlson Brief at 23-25; Carlson Reply Brief at 6-7; Hutkins Brief at 6-7; NAACP Statement at 6-8; PostCom Statement at 2; PPI Statement at 3-9; States and Cities Statement at 10-11.

145 No party claims that section 3691(b)(1)(D) is implicated by the proposed changes, and thus, that objective will not be discussed in this Advisory Opinion.

146 APWU Brief at 26; States and Cities Statement at 11; PostCom Statement at 2.
regular and effective service under the proposed changes. APWU Brief at 26; PPI Statement at 7-8. States and Cities explain that the proposed standards would undermine “regular and effective service in all communities, including those in rural areas or where post offices are not self-sustaining.” States and Cities Statement at 11 (citing 36 U.S.C. § 3691(b)(1)(B)).

APWU states that Objective (C) may not be met as the historic reliability, speed, and frequency of First-Class Mail may be sacrificed for the proposed changes. APWU Brief at 26. It states that, given the proposed rate increases in Docket No. R2021-2, the requirement of reasonable rates is difficult to reconcile with the proposed service changes. Id. Similarly, PPI and States and Cities explain that the proposed standards would not reasonably assure customers of delivery reliability, speed, and frequency consistent with reasonable rates and best business practices. PPI Statement at 9; States and Cities Statement at 11. PPI states that the proposal ignores the air transportation network that has routinely been used to transport First-Class Mail, leaves incarcerated mailers unable to reliably estimate delivery times, and excludes incarcerated mailers from customer outreach campaigns. PPI Statement at 9.

The Postal Service states that it is reasonably balancing reliability, speed, and frequency, and such balancing is also consistent with reasonable rates and best business practices, both of which require efficient cost management. Postal Service Brief at 7.

b. Factors

APWU asserts that the proposed changes did not consider Factors 1, 2, and 3 in section 3691(c) because the Postal Service did not consider the needs of its customers, including those with physical impairments, and it assumed that customers are willing to trade quality for consistency when the public states that it wants both. APWU Brief at 26-27.
PPI states that reliance of court systems and litigants on previous service standards is legally relevant under Factor 1, which requires the Postal Service to consider the impact of previous service standards on future revisions. PPI Statement at 8. Regarding Factor 2, PPI contends that the Postal Service’s evidence regarding customer satisfaction with current service appears to exclude incarcerated people. *Id.* at 4. It explains that the Mail Moments survey was conducted online, the Household Diary study focused on households, and the BHT survey’s methodology is redacted. *Id.* The Postal Service responds that most Single-Piece First-Class Mail would retain its current service standard and the proposed changes would improve the probability that mail would be delivered on time. Postal Service Reply Brief at 34. It also states that PPI’s argument that the Postal Service’s customer satisfaction surveys do not include incarcerated people is speculative. *Id.*

NAACP states that the proposal fails to consider how slowing mail delivery would pose serious harm to people who rely on the delivery of important mail such as medication, ballots, and legal documents, as required by Factor 3. NAACP Statement at 7. Similarly, PPI states that incarcerated people need First-Class Mail to maintain personal relationships and complete certain transactions. PPI Statement at 5. It explains that delivery must be prompt for First-Class Mail to retain its value for incarcerated mailers. *Id.*

c. Other Statutory Provisions

APWU explains that the slower service standards may be insufficient to meet the mandate of 39 U.S.C. § 101(a), which requires the Postal Service to provide “prompt, reliable, and efficient services” in all areas and to provide postal services to all communities. APWU Brief at 24. NAACP also states that delaying mail delivery by 1 to 2 additional days undermines Congress’s mandate for the Postal Service to provide “prompt” service as required by 39 U.S.C. § 101(a). NAACP Statement at 6-7.
NAACP further states that, although the Postal Service may consider cost savings in revising service standards, Congress made clear in section 101(a) that cost savings is not an appropriate reason to undermine service. *Id.* at 7.

The States and Cities note that the Postal Service will continue to erode its obligation under section 101(a) if the response to future declines is to further degrade service for Market Dominant products in order to favor its Competitive products. State and Cities Statement at 11.

NAACP and States and Cities assert that certain communities, such as rural communities, are particularly impacted by lengthier mail delivery times, and the proposal fails to address this impact as required by section 101(b). NAACP Statement at 7; States and Cities Statement at 9. The Postal Service responds that the proposed standard would affect urban and rural communities similarly. Postal Service Reply Brief at 18.

APWU, PPI, and Carlson state that, by choosing ground transportation over air transportation, the proposal does not comply with section 101(e), which requires that the Postal Service give the highest consideration to providing the “expeditious collection, transportation, and delivery of important letter mail.”\(^\text{147}\)

NAACP states that the proposal puts costs above “expeditious” delivery. NAACP Statement at 7-8. States and Cities also assert that the proposal prioritizes Competitive packages above First-Class Mail. States and Cities Statement at 10. Similarly, Carlson provides that the proposed changes do not comply with section 101(e) because it chooses ground transportation over air transportation when air transportation is more expeditious. *Id.* at 23-25.

In response to the States and Cities, the Postal Service replies that it intends to improve reliability for both First-Class Mail and First-Class Package Service but not by

\(^{147}\) APWU Brief at 24; Carlson Brief at 23-25; PPI Statement at 6.
favoring the packages at the expense of First-Class Mail. Postal Service Reply Brief at 12-13.

APWU states that by moving First-Class Mail packages faster (as proposed in Docket No. N2021-2) than First-Class Mail letters, the Postal Service will not comply with section 101(f)’s demand that the primary goal of the Postal Service is to move letters overnight. APWU Brief at 25-26. Carlson also asserts that the proposed changes do not comply with section 101(f) because the Postal Service is choosing ground transportation over air transportation when ground transportation is less prompt. Carlson Brief at 23-25.

The Postal Service replies that section 101(f) requires both prompt and economical delivery in selecting modes of transportation, and that it cannot incur huge costs to ensure a narrower conception of speed. Postal Service Reply Brief at 16.

Finally, Carlson states that the proposed changes would not provide adequate service within the meaning of section 3661(a). Carlson Brief at 12.

2. Commission Analysis

Section 3691 includes four objectives and eight factors, a number of which have competing priorities. The statute does not provide that service standards must achieve certain objectives more than the others or that certain factors must be given greater consideration over the others. Sections 101(a), (e)-(f), 403(a), and 3661(a) provide additional policy proscriptions. In general, the Postal Service must consider speed, efficiency, economy, and reliability in all aspects of its operations. Therefore, the Postal Service must balance these often competing provisions when developing service standards.

The Postal Service contends that its principal purpose of the proposal is to provide greater reliability for customers and a more cost-effective network by shifting some volume from air to surface transportation. See Postal Service Reply Brief at 14. In evaluating the Postal Service’s proposal as a whole, the Commission finds that the
Postal Service’s proposed changes are not facially inconsistent with 39 U.S.C. § 3691’s objectives and factors discussed above, but to achieve the Postal Service’s purported balance of the various statutory provisions will require that its assumptions prove correct and that it delivers on its goals of reliability and efficiency.

The Postal Service has advocated that it designed its proposal to achieve the objectives while considering the factors and other statutory provisions. It states that the proposal will enhance the value of postal services by improving reliability and consistency, while minimizing the tradeoffs in terms of lengthened service standards. It explains that it has balanced reliability, speed, and frequency consistent with reasonable rates and best business practices, both of which require efficient cost management, and with other statutes that require a balance between efficiency and service. Whether these objectives can be readily achieved is not a question before the Commission. The statute requires that the standards be designed to achieve the objectives, and the Commission finds that should the Postal Service prove correct in its assumptions about consumer preferences, the proposed standards meet the requirement.

The Commission acknowledges the concerns of the parties and commenters regarding the proposal, most of which focus on the impact of the change in delivery time. The Postal Service states that its proposal maintains the current service standard for the majority of First-Class Mail and Periodicals mail and that it offers other alternatives to provide faster service. The Postal Service asserts that persons in vulnerable communities currently experiencing service failures would likely benefit from the proposed changes, which seek to provide reliable service.

Moreover, because the proposed changes have not been implemented, any impact of the proposal on customers is speculative at this time. Nonetheless, the Commission advises the Postal Service to take these concerns into consideration as it further develops and implements the proposed changes. In addition, the Postal Service should closely monitor the implementation of its plan to determine whether it actually
achieves the objectives and whether the impacts as outlined by the concerned parties are actually realized.

H. Section 403 Analysis

Several parties discuss whether the proposed changes are consistent with 39 U.S.C. § 403(c), in other words, whether the changes “make any undue or unreasonable discrimination among users of the mails….” See Section VI.A., supra. The Commission reviews these arguments and concludes, as discussed in this section, that while there are clear differences in the service expectations of users in the mail in different parts of the country, these differences are not demonstrably “undue.”

1. Standard Applicable to 39 U.S.C. § 403(c)

39 U.S.C. § 403(c) prohibits undue or unreasonable discrimination or preference among or to users of the mails:

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

The standard applicable to the Commission’s review of a potential violation of 39 U.S.C. § 403(c) is a three-part test: first, one mailer or mailers (non-preferred mailer) must be offered less favorable rates or terms and conditions than another mailer or mailers (preferred mailer); second, both the non-preferred mailer and the preferred mailer must be similarly situated; third, there must be no rational or legitimate basis for the Postal Service to deny the non-preferred mailer the more favorable rates or terms and conditions offered to the preferred mailer. Order No. 718 at 28. Carlson contends that the Commission’s three-part test articulated in Order No. 718 “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 country.” Carlson Brief at 22-23. Carlson’s brief also discusses the three-part test.  The Commission reiterates that the appropriate framework to evaluate section 403(c) is the three-part test articulated in Order No. 718.

2. Parties’ Positions

Two parties contend that the Postal Service’s proposed changes violate section 403(c). Carlson contends that: the Postal Service’s plan amounts to offering lesser service to customers in geographically distant parts of the country (part one); the Postal Service offers faster service to otherwise similar customers not living in geographically distant parts of the country (part two); and the Postal Service bases this lesser service solely on distance without taking into account the needs of its customers (part three). See Carlson Brief at 23. Hutkins similarly contends that: a higher proportion of

148 Carlson cites an appendix to the Postal Rate Commission docket filing, Docket No. C2001-3, Commission Report, Complaint on First-Class Mail Standards Service, April 17, 2006 (Docket No. C2001-3 Report). In that report, the Postal Rate Commission found that “many postal patrons in the western part of the Nation experienced a disproportionate number of service downgrades,” and concluded the result was “a degree of unfairness and undue discrimination under section 403(c) for these patrons.” Docket No. C2001-3 Report ¶ 1006. The Postal Rate Commission’s remedy was to suggest that the Postal Service “initiate procedures to identify...where more expeditious First-Class Mail service is consistent with efficient and economic practices,” and further suggested that “[p]articular attention should be given to areas where disproportionate effects have been experienced....” Id. ¶ 1008. The Postal Rate Commission, in assessing section 403(c), stated that it evaluated undue discrimination while bearing in mind “postal management’s service-related decisions...involve hard choices in deciding ‘where to draw the line[,]’” and “scrutinizing the appropriateness of the process used to accomplish this task, particularly in terms of whether it was arbitrary in the statutory sense.” Id. Appendix C ¶ 36. The Postal Rate Commission concluded that “the record support[ed] a finding that the Postal Service failed to take reasonable account of the needs of some mailers in California and in other parts of the [Postal] Service’s Western and Pacific areas.” Id. Appendix D ¶ 4. The Postal Rate Commission’s evaluation therefore did not draw upon any test, but rather comprised of an examination of whether the action was arbitrary. While that inquiry may resemble the third prong of the Order No. 718 three-part test (whether the Postal Service has a legitimate basis for the alleged preference), it is not indicative of how the Commission undertakes to review allegations of violations of section 403(c). The Commission in this instance evaluates the argument concerning section 403(c) utilizing the discrete test articulated in Order No. 718.

149 The Commission has also evaluated a single facet of the test when dispositive. See Docket No. R2019-1, Order Approving Price Adjustments for First-Class Mail, October 24, 2019 (Order No. 5285) (finding unpersuasive the argument that a larger increase for Stamped Letters discriminates against the general public and grants a preference to large mailers without a rational basis).
downgrades in service standards are present for the Pacific and western regions, including parts of Florida, Texas, and Maine, which results in more mail from those areas taking longer (part one); the mailers pay the same rates for First-Class Mail, and apart from their location are no different (part two); and the Postal Service’s use of ‘distance from a population center’ as the determinative factor cannot be a rational basis (part three). Hutkins Brief at 3-5, 9-10, 24-25.

While not referencing section 403(c) directly, the States and Cities aver that the Postal Service’s proposal disproportionately affects “large and heavily rural states—especially in the West” and notes the Postal Service’s alleged admission that it did not study any unintentional geographic discrimination. States and Cities Statement at 9. They also note the Postal Service denies the changes will have a discriminatory effect on residents of certain states or regions. Id. Overall, they contend that the Postal Service’s proposal would produce geographic disparities that are inconsistent with the Postal Service’s “universal service mandate…[and] should be rejected.” Id. at 10.

Likewise, APWU does not specifically refer to section 403(c) but contends that “[g]eographically, communities on the West Coast and in Texas and Florida will be disproportionately hurt as compared to communities in other parts of the country or even within the same state.” APWU Brief at 24. APWU notes that the Postal Service’s proposed changes conflict with the policy goals of section 101. Id. at 24-26.

The Postal Service contends that its changes are consistent with section 403(c). It contends that: the impact is based on geography and relative volume so the projected impact does not correlate to specific areas as much as intervenors allege, and the disparities based on distance are already inherent in the network (part one); all “similarly situated” mailers are treated the same based on objective drive time (part two); and the Postal Service’s actions are reasonable because they reduce disparities in levels of service received. Postal Service Brief at 46-51. The Postal Service also contends that the proposal, rather than discriminating, remedies in part an advantage in the current
system where end-to-end mail travels significantly faster than more locally entered mail. *Id.*

The Public Representative, on reply, contends that assuming the first two parts of the test are met, the Postal Service’s proposed service standard changes are premised on a rational or legitimate basis; therefore, the discrimination cannot be unreasonable under section 403(c). PR Reply Brief at 1. The Public Representative points to the Postal Service’s discussion of consumer preferences, financial analysis, and objective application of drive distance as evidence of the rational basis for the change. *Id.* at 2-3. The Public Representative avers that the disparate geographic impact must be considered as one factor among the broader rationale for the Postal Service’s proposed change and concludes that the Postal Service’s “bases for this decision outweigh the disparate impacts of these changes.” *Id.* at 4.

On reply, Carlson and Hutkins caution against a narrow view of “similarly situated” as presumed in the Postal Service’s argument that objective distance criteria create the lens through which “similarly situated” should be viewed.150 Carlson also indicates that contrary to the Postal Service’s assertion that the faster speed for end-to-end mail is a preference, such speed reflects the policies of Title 39 articulated in section 101.151 Carlson contends that the Postal Service cannot balance the overarching policy directives in section 101—for example, reliability and efficiency—but rather must meet them all. Carlson Reply Brief at 5-6. Hutkins also invokes section 101 among other historical context in arguing that the totality of the circumstances demonstrates the Postal Service’s proposal does not result in “reasonable” discrimination. Hutkins Reply Brief at 7-10.

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150 Carlson Reply Brief at 2; Hutkins Reply Brief at 6-7. Hutkins also asserts that the Postal Service’s contention that the impact of the proposal does not directly map to a discrete class of mailer misses his point that there is significantly different service based on location. Hutkins Reply Brief at 2-3.

151 Carlson Reply Brief at 4-5. Hutkins echoes Carlson’s point on this matter, identifying the policy of a uniform rate irrespective of distance and that the Postal Service’s point here is a tacit concession that it is slowing service based on distance. Hutkins Reply Brief at 5-6.
The Postal Service, on reply, maintains that its proposal does not violate section 403(c). The Postal Service contends that geographical disparities in service standards cannot in and of themselves, demonstrate preferential treatment or that mailers are similarly situated (parts one and two of the test). Postal Service Reply Brief at 21-22. The Postal Service contends that the relevant metric is not location, but how far the applicable mail must travel, and that the proposal does not “‘degrade’ service standards in selected states.” Id. at 21. Likewise, it argues that “similarly situated” should mean customers that convey mail between comparable distances/ZIP Code pairs. Id.

The Postal Service makes several points about the third part of the test (whether there is a reasonable basis for the alleged discrimination). The Postal Service notes its latitude in treating customers differently where it is rational to do so. Id. at 22. It avers that both Carlson and Hutkins make arguments that imply that any amount of discrimination based on location would be undue, and their positions must therefore be untenable. Id. at 18-19. The Postal Service disagrees with contentions that the proposal disproportionately impacts any specific demographic as APWU or the States and Cities argue.152

3. Commission Analysis

The Commission discusses each part of the test applicable to section 403(c) in the following analysis.

a. Less Favorable Terms

On the record in this case, the Postal Service admittedly proposes changing service standards based on surface transportation distance, where pairs of ZIP Codes (known as Origin-Destination, or OD, Pairs) that are further away from each other will

152 Id. at 20. The Postal Service contends, inter alia, that the data relied upon that purport to show such discrimination is “selective and incomplete, and as such provides a drastically truncated picture of the Standards’ broader impact,” and such data may be inconclusive. Id.
experience a longer expectation of delivery time than those that are closer. See USPS-T-1 at 16-17. While the Postal Service argues the distance-based criteria are objective and cannot possibly amount to discrimination—in part because any method of transportation will have limitations based on distance—the fact remains that service standards are proposed to be changed based on distance.\textsuperscript{153} Therefore, a mailer primarily sending a product that is intra-SCF will not experience a service change at all. A mailer sending the same product but that is inter-SCF with a drive time of more than 3 hours would experience a change in service.

It is enough, to satisfy this prong of the test that a mailer be able to show a different level of service received by two mailers. Based on the record in this case the Commission concludes that it is possible for certain mailers to demonstrate that the proposal would result in disparate service treatment compared to other mailers.

b. Similarly Situated

Whether one mailer is similarly situated to another is a more fact-driven, nuanced, and complex inquiry than whether or not a different level of rate or terms exists between two mailers or groups of mailers. The Commission considers “a comparison of the relevant characteristics of different mailers” in making that determination. Order No. 718 at 45 (emphasis omitted) (citation omitted). It likewise has acknowledged that “a determination of whether two mailers [or groups of mailers] are similarly situated is best determined on a case-by-case basis.” \textit{Id.} at 59.

In this case, while the Commission can envision two different groups of mailers that will be disparately impacted by the Postal Service’s proposal, it cannot, unequivocally conclude that those groups of mailers are necessarily similarly situated. In making such a determination, the Commission would consider the product used, \textsuperscript{153} The Postal Service’s arguments concerning the provision of service to two mailers appear to hinge upon the assumption that there cannot be two distinct mailers or groups if the distance-based criteria are uniform across the nation.
c. Rational or Legitimate Basis

The Postal Service has wide latitude in providing different levels of service to different groups of mail users so long as those distinctions are reasonable. In the instant docket, one contention is that because the Postal Service’s proposal does not comport with the policies of section 101, it cannot be said to have a rational basis for its proposed changes. Another contention is that using the distance criteria alone to determine the applicable standard cannot be reasonable in light of the Postal Rate Commission’s Docket No. C2001-3 Report. The Commission addresses each, in turn.

(1) Policies of Section 101

39 U.S.C. § 101 entitled “Postal Policy” provides policy directives for general postal policy applicable to the Postal Service. Section 101(a) provides, in pertinent part that the Postal Service shall provide “as its basic function…services to bind the Nation together through the personal, educational, literary, and business correspondence of the people[,]” and “prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” Likewise, section 101(e) provides, “[i]n 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.” Section 101(f) provides:

\[154\] Eggers v. U.S. Postal Serv., 436 F. Supp. 138, 142 (W.D. Va. 1977) (rejecting a claim that providing different levels of service to different users violated 39 U.S.C. § 403(c) because it is “obvious that the Postal Service may provide different levels of delivery service to different groups of mail users so long as the distinctions are reasonable”).
In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail.... Modern 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 shall be a primary goal of postal operations.

The policy directives clearly prioritize speed, efficiency, economy and reliability in all aspects of postal operations. Section VII.G., supra discusses the Postal Service’s proposal as it relates to these objectives. As discussed in that section, these policy directives, similar to the objectives and factors, are qualitative in nature, somewhat in competition with one another, and provide high level guidance to the Postal Service.

While parties argue that the Postal Service’s proposal is not reasonable because it decreases the service standards for a substantial portion of the mail, such a position in and of itself is untenable as a general proposition. It would require that any decrease in service standards would by default be inconsistent with the policies of section 101. The Postal Service makes the argument that the implementation of its proposal will result in increased reliability, efficiency, and economy, with customers valuing consistency and reliability above speed of service. However, that too, lacks general credibility because the Postal Service has not demonstrated that it can achieve such reliability, efficiency, and economy, nor has it demonstrated that customers rank the attributes of service as the Postal Service contends. See Section VII.A., supra. Implementation of the Postal Service’s proposal, and achievement of the articulated goals, impact the conclusion as to whether it is reasonable pursuant to section 403(c).

(2) Docket No. C2001-3 Report

Carlson refers extensively to a complaint he filed with the former Postal Rate Commission concerning service standard changes (in part based on drive time) that the
Postal Service implemented during CY 2000 and CY 2001. In that case, the Postal Rate Commission stated that it considered whether the Postal Service’s service standard changes violated section 403(c) by “scrutinizing the appropriateness of the process used to accomplish [the] task, particularly in terms of whether it was arbitrary in the statutory sense.” Id. Appendix C ¶ 36. The shortcomings the Postal Rate Commission identified in the Postal Service’s changes, including that section 403(c) was implicated, must be viewed in the context in which they were offered. The Postal Rate Commission concluded that:

The [Postal] Service’s approach and application of the new model, given its underlying assumptions, resulted in a degree of unfairness that was clearly unintended, but nevertheless real. Geography, network design, and distances all play legitimate roles in determining service standards, but the [Postal] Service’s starting point — which, among other things, proceeded without public involvement and eliminated air transportation from initial determinations — exhibits an inappropriate degree of arbitrariness with respect to delivery....

Id. ¶ 38. The Postal Rate Commission found, therefore, without in depth discussion that “the Postal Service failed to take reasonable account of the needs of some mailers in California and in other parts of the [Postal] Service’s Western and Pacific areas.” Id. Appendix D ¶ 4.

The context to the Postal Rate Commission’s finding is evidenced by the use of the words “approach and application of the new model” as well as “proceeded without public involvement.” The Postal Service at that time was proceeding with a plan that

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155 See Docket No. C2001-3 Report, Appendix A ¶ 11. The complaint followed the Postal Service’s implementation of a plan initially devised (and sought an advisory opinion from the Postal Rate Commission on) 11 years prior. The Postal Service at that time made similar contentions about consumer preferences (consistency of delivery over speed) and air transportation (unreliable and erratic compared to surface) in making its case for service standard changes. Id. Appendix B ¶¶ 2-3, 13. The Postal Rate Commission made a wide range of findings, raising the postal policy implications of the Postal Service’s failure to seek an advisory opinion prior to implementing these service standard changes. See generally id. Appendix C.
had changed substantially from its first iteration. More than a decade had passed since the Postal Service went through a public process (a nature of service case in Docket No. N89-1), and the Postal Service proceeded to make changes without further public input, and based on new modeling.156

The Postal Rate Commission’s finding therefore does not preclude the Postal Service from implementing service standard changes based “solely on distance,” but rather, represents that the Postal Service cannot use an arbitrary process lacking public input to arrive at that decision.

In this case, the Postal Service has engaged with the public, both prior to and in the course of the instant docket.

4. Conclusion

The Postal Service’s proposed plan does not facially violate 39 U.S.C. § 403(c). It is evident that some mailers will experience a disproportionate impact from the proposal. It is not, however, clear that those mailers are similarly situated to those that will be less impacted. The record likewise does not support a conclusion that the Postal Service is manifestly unreasonable or arbitrary in its proposal. The Commission is concerned, however, that the reasonableness of the proposal rests upon the Postal Service being correct in its assessments about consumer preferences,157 ability to achieve modeled efficiencies and reliability,158 and the modest decrease in demand.159 Should the Postal Service prove wrong in its predictions in the above areas, the rational basis for the proposal may prove illusory. The Commission’s advisory opinion process,

156 The Postal Rate Commission calls into question the Postal Service’s process specifically because it did not solicit a new nature of service case and therefore engage with the public prior to proceeding with the changes. See generally id. Appendix B.

157 See Section VII.E., supra.

158 See Sections VII.B. and VII.D., supra.

159 See Sections VII.C. and VII.F., supra.
in addition to the opportunity for the public to engage with the Postal Service on its proposal, is an opportunity for the Postal Service to re-test and reconsider the basis for its proposed changes in light of the issues raised by the commenters and the Commission.

VIII. CERTIFICATION

It is the opinion of each of the Commissioners listed below, pursuant to 39 U.S.C. § 3661(c), that this Advisory Opinion conforms to the policies established under Title 39, United States Code.

Michael Kubayanda, Chairman
Ashley E. Poling, Vice Chairwoman
Mark Acton, Commissioner
Ann C. Fisher, Commissioner
Robert G. Taub, Commissioner
SEPARATE VIEWS OF CHAIRMAN MICHAEL KUBAYANDA

The Postal Service has lost more than one-third of its mail volume since 2007 as digital communications and transactions have flourished and businesses have constricted postal spending in response to economic changes. While overall mail volume has gone down, the package delivery market has grown rapidly, driven by ecommerce. Given this situation, it is unsurprising and understandable that Postal Service management would consider realigning operations to confront the new realities, including difficult and unpopular choices. However, this proposal does not meet the needs of the moment and is not supported by the testimony the Postal Service has presented. The Postal Service is capable of top-notch planning and execution; it must do so in order to provide its core service six days a week. That expertise makes this underdeveloped proposal disappointing. The Postal Service should not adopt the changes without first addressing several issues, some of which have major policy implications.

The Commission’s Advisory Opinion recognizes problems such as the failure to test and measure temporary operational changes at a small scale before proposing long-term national changes; the failure to properly analyze the impact of changes on vulnerable population and customer segments; and the meager net savings of $169.5 million that the Postal Service proposes to achieve, relative to a cost base of $82.4 billion in FY 2020. Overall, the paltry savings, when measured against the damage to universal service, cast a shadow over the entire proposal.

The Commission’s Advisory Opinion, responding to the illuminating maps submitted by Steve Hutkins, also touches upon the disparate impact the proposed changes will have on certain geographic areas, including western states, Maine, Florida, and southern Texas. Advisory Opinion, Section V.C., supra. The Advisory Opinion

applies the Commission’s three-part test and finds that this disparate impact does not violate the 39 U.S.C. § 403(c) prohibition against undue or unreasonable discrimination. Advisory Opinion, Section VII.H.(3)-(4), supra. Hutkins and Douglas F. Carlson, however, do raise legitimate concerns about the Postal Service’s ability to meet the foundational policy goal established for it in the law, that it provide “prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” 39 U.S.C. § 101(a) (emphasis added).

In addition, some of the underlying premise of the transportation portions of the proposal remain something of a mystery to me. The Postal Service’s witnesses presented credible evidence that surface transportation is both cheaper and more reliable for certain purposes than air transportation, allowing it to better meet service standards by moving volume to surface transportation providers.\(^2\) It is unclear then, why the first step is not to simply make such an operational move while maintaining service standards and taking advantage of the greater ability of surface transportation to meet current standards, while also saving money.\(^3\) Additional concerns are discussed below.

I. THE POSTAL SERVICE ACKNOWLEDGED AN IMPACT ON REMITTANCE MAIL BUT HAS NOT EVALUATED HOW THIS WOULD AFFECT THE ELDERLY AND THE MAJOR BUSINESS CUSTOMERS THAT TRANSACT WITH IT IN A TWO-SIDED MARKET.

Evaluating the impact of service decisions on vulnerable customer segments is supported by statute, required by common sense, and, in my opinion, should be a minimum expectation of a utility-like operator (especially a governmental one) as well as an industry- or operator-specific regulator. The Commission’s Advisory Opinion

\(^2\) Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-3), April 21, 2021.

\(^3\) See Tr. 1/409-10, June 16, 2021.
addresses many of the policies of Title 39 that have implications for the evaluation of the impact of the service changes on customer segments, an issue that received scant attention in the Postal Service’s case. The Postal Service, however, does acknowledge that the reduction in service for First-Class Mail will have a notable impact on remittance mail.4

The first section of Title 39 states: “In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail…. Modern 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 shall be a primary goal of postal operations.” 39 U.S.C. § 101(f) (emphasis added).

Remittances must be at the core of any definition of “important letter mail.” The law also requires that in revising service standards, the Postal Service take into account “the effect of changes in…demographics, and population distribution on the efficient and reliable operation of the postal delivery system[.]” 39 U.S.C. § 3691(c)(7). Common sense and government statistics indicate that remittances are important to particular segments, most notably the elderly. Careful consideration of this issue is strangely absent from the Postal Service’s discussion in this docket given its importance to public policy and the centrality of First-Class Mail users in the postal system.

The United States has a large and growing elderly population and, in the postal world, older Americans are core customers.5 While the Postal Service argues that

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4 Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021, at 31; Responses of the United States Postal Service Witness Robert Cintron to Association for Postal Commerce’s First Interrogatories and Requests for Production of Documents (PostCom/USPS-T1-1-4), May 18, 2021, at 4 (PostCom/USPS-T1-1-4).

some commenters asserted claims about harm to the elderly without presenting evidence\(^6\), there are significant data, including data collected by the Postal Service, showing that the elderly rely disproportionately on the mail for remittances (and also to receive bills). A review of these data should start with the Postal Service’s insightful Household Diary Study (HDS), which is referenced by a few parties. As stated in the HDS, in 2019 “[o]lder heads of household…paid more than one third of their bills by mail (34 percent)[,]” essentially tied with the Internet (37%) for the most popular payment channel among that demographic group.\(^7\) Additional government data suggest the elderly would be impacted heavily by this proposal, as they rely disproportionately on check payments.\(^8\) While summarizing comments on the Postal Service’s Federal Register notice, APWU witness DeMatteo describes the vulnerable individuals concerned “about having no other means to pay bills, receive checks, or conduct business. Late fees, canceled policies and bounced checks would all mean additional financial cost born [sic] by the household mailer.”\(^9\)

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The impact on these important portions of the customer base has not received sufficient consideration in this docket. As the Postal Service acknowledged in response to questioning, "[t]he Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on elderly consumers of the mail."\(^\text{10}\) The Postal Service should perform a more thorough evaluation of this issue and make strong attempts to mitigate harm to elderly customers. Similar considerations apply to other vulnerable populations including low-income residents and individuals with disabilities.\(^\text{11}\)

The remittance issue and its impact on particular segments are not just matters of equity and fairness to vulnerable populations. There are also commercial implications that could affect the Postal Service’s ability to finance the provision of universal service. Remittances are an example of a two-sided market where a service provider creates and eventually captures value by permitting two separate participants to transact business on its platform.\(^\text{12}\)

In a two-sided market, a service provider cannot reduce the value of its service to one side of the market while ignoring how this diminution of value affects the other side of the market. A reduction in the speed of remittances can obviously have implications for many household customers. As the Postal Service itself details in the HDS discussion of bill presentment, one side of this two-sided market consists of household customers who receive bills from the financial institutions, retailers, and utilities that make up the other side of this market and receive payments from household customers.

\(^{10}\) Tr. 2/457, June 17, 2021.


2019 HDS at 32-33. When an initiative, such as the Postal Service’s proposal, leads these household customers to find the mail less valuable, these institutions will, in turn, also see less value in the mail. Indeed, the National Postal Policy Council, which represents several major institutions, ably takes up the issue for both sides of the market, detailing the concerns that “late fees and canceled policies impose costs directly on individuals, while creating operational headaches for the businesses, such as banks and insurance companies, that interact daily with individuals and families.”

The Association for Postal Commerce (PostCom), which also represents many major mailers, describes a situation where the Postal Service is taking a significant success story—in which remittances have often exceeded service standards—and putting this success at risk by intentionally reducing service for a significant portion of remittances to match the historically poor performance the postal system experienced from Fall 2020 through the beginning of 2021. PostCom also highlights the impact to both sides of the market, from vulnerable consumers to the large institutions that help to fund universal service. It states: “Consumers who receive and pay bills by mail may in many cases experience an additional two days delivery time for both the bill and the payment. It is inevitable that some consumers’ payments will be late, especially in the immediate wake of the planned changes. Consumers will suffer from the imposition of late fees. Their satisfaction with their bank or telecommunications supplier will suffer. Commercial First-Class Mail users will be forced to absorb the costs of customer dissatisfaction directly resulting from the Postal Service’s proposal in the form of higher call center costs and loss of customer goodwill.” PostCom Statement at 11.

The affected enterprises are among the Postal Service’s largest customers, and a reduction in the value of the mail for them, and their own household customers, could

13 Brief of the National Postal Policy Council, June 21, 2021, at 15.
have serious implications for the financial stability of the Postal Service’s traditional flagship product, First-Class Mail. As the Lexington Institute points out, “[l]ower mail service quality (i.e., longer delivery times) perpetuates and accelerates the loss of first-class mail from the USPS system. As first-class mail has consistently been USPS’s most profitable product, this erodes USPS’s financial standing.”

It is conceivable that there could be a robust plan to address these concerns, but, if so, it is unknown because these implications are scarcely remarked upon, let alone thoroughly evaluated, in the case presented by the Postal Service. Finally, it should be noted that the perilous remittance portion of the Postal Service’s proposal appears to offer a paltry savings of $8 million based on the move from air to surface transportation. PostCom/USPS-T1-1-4 at 4. This number, together with the concerns detailed above, calls into question whether the Postal Service has conducted a serious cost-benefit analysis with respect to the plan for remittance mail.

II. THE ADVISORY OPINION MAY BE MISMATCHED WITH STAKEHOLDER EXPECTATIONS.

During this proceeding and in the time leading up to it, stakeholders including household mailers, media, and elected officials have placed a lot of faith in the Nature of Service, or “N case” process. They have variously expressed hope that the Commission would deny, withhold approval, or otherwise use its authority to stop or correct the Postal Service’s proposal. The Commission of course has no such authority under the statutory provision establishing the Advisory Opinion process, 39 U.S.C. § 3661. The Commission’s mandate here is to produce just that—an opinion. While the Commission takes this job seriously, there is a gap between the expectations of stakeholders and what the law permits the Commission to do. If a more decisive role

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for the Commission is desired, Congress should consider changing the law to allow for such a role for the Commission.

In some prior N cases, the Commission took as long as one year to produce an Advisory Opinion. This length of time was unnecessary and unhelpful and resulted from the lack of a statutory deadline for the process. In response to these unacceptable lags, the Commission established a regulatory deadline for the Advisory Opinion of 90 days. The deadline helps to expedite the process compared to prior cases and provides some degree of certainty and finality for the Postal Service. The new process, however, might be too constrained for certain N cases and creates a new set of problems.

While 90 days may be sufficient for some cases, it is a challenging and perhaps inappropriate benchmark for more complex cases that require economic, legal, engineering, operational, and statistical analyses for the review of a single proposal. The case at hand included 808 documents, thousands of pages of testimony, briefs, comments, hearing transcripts, and library references, and millions of data points to consider. The timeline is also challenging when the Postal Service files multiple requests for advisory opinions, which must be considered simultaneously, as is the case at this time. Under the current N case process, separate portions of the proceeding overlap awkwardly, and there is a mandatory on-the-record hearing that, according to the Commission’s pro forma N case schedule, takes place between the 42- to 56-day mark. 39 C.F.R. Part 3020, Appendix A.

Counterintuitively, and rather unhelpfully, discovery in this docket continued after the hearing took place due to the compressed schedule, meaning that information produced in the latter part of discovery could not be used in the hearing. The hearing is followed by briefs, which must of course be taken into account along with consideration of the evidence presented during the hearing. The Advisory Opinion is being filed 16 business days after the final briefs were due. This would be an aggressive schedule for evaluating legal arguments and issuing a legal decision, but this Advisory Opinion
encompasses legal analysis together with multiple other disciplines, many of them highly technical.

The hearing and its aftermath is a helpful opportunity for the Postal Service to present its case and the Commission and stakeholders to question the Postal Service, but there is precious little time to consider the responses prior to issuing the Advisory Opinion. The Commission’s small, gifted staff is capable of elite analysis but cannot rush econometric evaluations or run multiple iterations of optimization models, review testimony, and receive input from a variety of stakeholders and evaluate this information against the technical data and the policies of Title 39, in the breathless sprint between the hearing and the production of an Advisory Opinion in this compressed schedule. The yeoman’s work put in by Commission experts leads inexorably to sound, highly professional results despite these constraints, but the process itself does not permit completion of the world-class analysis of which the Commission is capable with a slightly more generous timeline that permits it to review all of the evidence prior to drafting the Advisory Opinion.

The Advisory Opinion is the sole check on the Postal Service’s ability to unilaterally implement major changes to its services. I will work with my colleagues at the Commission to do everything within its authority that is necessary to make sure the only check is a meaningful and influential one. We should reconsider this timeline for future N cases, especially where there are complex or multiple overlapping cases. The Commission has the legal flexibility to establish a sensible and workable deadline and should do so when necessary.

Michael Kubayanda
SEPARATE VIEWS OF VICE CHAIRWOMAN ASHLEY E. POLING

I agree with the Commission’s analysis that the Postal Service’s proposal did not confidently demonstrate that it will likely be able to achieve cost savings, processing efficiencies, or actual service performance improvements to the extent that it suggests due to identified gaps in the Postal Service’s evidence and explanations. The Commission’s Advisory Opinion does an exceptional job of identifying the gaps in the Postal Service’s proposal, but I believe these findings could have warranted different recommendations.

In each phase of the Postal Service’s plan, the Commission found a lack of sufficient evidence. Although gaps in any one of these areas pose a significant problem and shake public confidence, issues with all of these areas together point to the need for the Postal Service to press pause and return to the drawing board. I do not believe that the Postal Service has proven its case for reducing service standards for all Americans, and the plan also fails to provide sufficient evidence to justify exceptionally limited cost savings projections,¹ use of a flawed demand model, and unfounded notions that the majority of American citizens and businesses will actually experience increased satisfaction with these sweeping service cuts. In addition, there are significant public policy implications of this nationwide slowdown of essential mail services that need to be considered. It is for these reasons that I do not believe the Postal Service should be proceeding with its proposal at this time.

¹ See Advisory Opinion, supra, at 109 (“The Postal Service’s projected net cost savings of $169 million represents 3.4 percent of total transportation costs for FY 2020 and less than a quarter of one percent of the total FY 2020 operating expenses of 82 billion.”).
I. THE POSTAL SERVICE’S PROPOSAL CONTINUES A HISTORICAL TREND OF SERVICE DEGRADATION.

It is important to remember that this particular service cutback is but one in a continuing trend of service reductions in recent postal history, and they are all interconnected in terms of their compounding effect on the level of service the American people have grown to expect over the years. This is the third time in the last decade that the Postal Service has reduced service standards for its Market Dominant products and the second time for First-Class Mail, the Postal Service’s flagship mail product. In 2012 when the Postal Service proposed consolidating processing facilities in its network and eliminating the overnight standard for Single-Piece First-Class Mail (and also slowed a portion of 2-day mail), it promised both cost savings and service improvements. What the American people actually received, however, was permanently reduced service and negligible cost savings. Now, the Postal Service comes before the American people again claiming that it needs to reduce service standards, in part due to an insufficient network to meet its existing service standards—standards it voluntarily established when it last chose to reduce the size of its

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3 See Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 1 (“The changes to service standards would ultimately eliminate all overnight delivery service for single-piece First-Class Mail, and delay much of current First-Class Mail 2-day delivery to 3-day delivery.”).

processing network.  

There is no doubt that mail use is in a long-term decline due to a wide variety of social and technological changes, and these trends challenge the Postal Service’s financial stability. Still, as first and foremost a government service, it remains critically important to consider what level of prompt and reliable mail service the American people need and want. Multiple sections of Title 39, including section 101(a), emphasize the need of the American people for mail service that is both prompt and reliable. Section 101(a) of Title 39 explicitly states that the Postal Service “shall provide prompt, reliable, and efficient services to patrons in all areas....”

In its proposal, the Postal Service presents speed and reliability as competing goals, but the law suggests that speed and reliability are complementary goals of the American postal system, not competing ones. If we accept the Postal Service’s premise, that declining volumes and increasing costs necessitate slower service, then this reduction of service standards will only be the next step in a relentless decline. History has shown us that once the Postal Service reduces service standards, it does not return them to previous levels, regardless of whether service performance continues to decline or cost savings prove illusory.

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5 See Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021, at 3 (USPS-T-1) ("...more realistically aligning 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[""); see also Tr. 1/150, June 16, 2021 ("Consolidations of outgoing volume are a factor in some processing facilities’ ability to meet the 2:00 dispatch time, but not the primary factor.").
II. THE POSTAL SERVICE’S PLAN IGNORES THE NEEDS OF RURAL AMERICA AND VULNERABLE GROUPS OF AMERICANS WHO RELY ON MAIL.

A. Impact of the Proposal on Rural America

While U.S. postal policy clearly recognizes that affordable postal services should be provided to all communities, it is important to note that Title 39 specifically recognizes the importance of rural communities. Section 3691(b)(1)(B) of this title states that the Postal Service should consider whether revising its service standards “preserve[s] regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining.” The Postal Service makes the case in its proposal that it “appl[ies] the same rules of time and distance uniformly across the entire contiguous United States[,]” but the Postal Service fails to consider the question of whether or not there is a uniform impact based on differences in people’s reliance on the mail.\(^6\) The words “effective access” in section 3691(b)(1)(B) seem to indicate that Congress intended to have postal officials consider how people actually use the mail, which is vital to thoroughly investigate and incorporate before moving forward with any sort of service standard reduction.

In response to a map created by intervener Steve Hutkins showing the percentage of total volumes per destination 3-digit ZIP Code that will be shifting to 4- or 5-day service across the country, the Postal Service confirmed that “the map appears to be a reasonably accurate representation of what will occur under the plan, e.g., recipients who live in the western part of the country (as well as portions of Florida and Maine) will see a much larger percentage of their mail volumes shifted to a 4- or 5-day service standard than those living in the eastern half.”\(^7\) While certainly not all places experiencing extended delivery times would qualify as rural, these western and other

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\(^6\) See Tr. 1/231.  
\(^7\) See Tr. 1/230.
large states encompass substantial numbers of rural and remote communities that will be disproportionately impacted.

While it may not be readily apparent why an extra day (or more) might make a difference in this age of technology, it is important to remember why that matters to rural America. It matters to the small business owner who is relying upon the Postal Service to deliver and receive invoices, to the family waiting to receive its health insurance cards so it can finally see the doctor at the rural hospital, and to the farmer who is waiting for Farm Service Agency election ballots to vote for county representatives. I understand firsthand how important the Postal Service is to these communities because I have spent a significant part of my career working on postal policy for Senators from the largely rural states of Montana and North Dakota and have seen for myself how rural Americans’ lives have been impacted by slowing down the mail.

Between 2012 and 2018, nearly 160 mail processing facilities nationwide were closed or consolidated as part of the Postal Service’s network rationalization initiative. In the states of Montana and North Dakota alone, 62 and 40 percent of facilities, respectively, were consolidated or partially consolidated. In its newest proposal, the only consideration given by the Postal Service to rural Americans was a comparison of the percentage of First-Class Mail volume in rural and urban areas that would see slowdowns. However, this analysis ignores the fact that rural residents might be more reliant on mail for essential activities, meaning that an equally applied policy might not have equal impacts on people’s lives. The specific dependence of rural residents on the mail is additionally shown by a 2017 Postal Service Office of Inspector General

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In its brief, the Postal Service suggests that by extending service times based on distance, it is fixing an advantage in the system where end-to-end mail travels faster than local mail. The “advantage” the Postal Service describes here strikes at the very heart of the Universal Service Obligation (USO). The USO provides that postal services should be both accessible and affordable to all customers across our country, and people who live in more remote or less densely populated areas should not be punished for where they choose to live. The Postal Service has not done the work needed to thoroughly understand the impacts this proposal will have on the lives of rural Americans who rely heavily on the mail.

B. Impact of the Proposal on Vulnerable Groups, including Low-Income Americans

In addition, the Postal Service’s proposal is likely to have a disproportionate effect on mailers that rely on certain categories of mail (transactional mail, remittance mail, election mail, legal mail) and certain demographic groups, in addition to rural residents, that are more reliant on mail overall (low income, elderly, disabled). While the reliance of these types of mailers and demographic groups have been well established by previous studies, comments in this proceeding, and statements of


Congressional members from both sides of the aisle, the Postal Service openly states that it did not attempt to collect information on how these populations use the mail and what impact this proposal would have on these groups. This represents a major gap in the Postal Service’s analysis.

The economically vulnerable are one of the demographic groups that rely more heavily on the mail to conduct regular business. Low-income and underbanked Americans are more likely to rely on the use of transactional mail to receive payments and send bills. This group consists of individuals and families who are already living paycheck to paycheck without significant economic or time flexibility. The Postal Service notes that if some Americans needed faster mail delivery, they could simply pay for one of the Postal Service’s faster Competitive products. For 55 cents, a 1-ounce


14 See Responses of the United States Postal Service to First Request for Admissions of American Postal Workers Union, AFL-CIO (APWU/USPS-1/1-13), May 26, 2021, questions 2, 3, and 9; Tr. 1/444-45.

15 See United States Postal Service, The Household Diary Study, Mail Use and Attitudes in FY 2019, at 27, available at https://www.prc.gov/docs/113/113300/2019%20Household%20Diary%20Study_Final.pdf. This study tracks use of transaction mail (bills, statements, etc.) by income. While the total number of bills and statements increases as income increases, the number of transaction mail pieces sent (i.e. bill payments) by a household is relatively stable across all income groups. Data for FY 2019 can be used to calculate use rates for different income groups (transaction mail sent per piece of transaction mail received). Use rate is higher for low-income groups and steadily declines as household income increases (<$35k [21%]; $35 - $65k [20%]; $65K - $100k [18%]; >$100k [17%]).

16 See USPS-T-1 at 36.
stamped letter can currently travel from Seattle, WA to Washington, DC via First-Class Mail with a 3-day service standard. That same mailpiece would cost $26.35 to travel via Priority Mail Express with a next-day guarantee and $7.95 via Priority Mail with a 2-day service standard, but no guarantee.\textsuperscript{17} This amounts to either a 4691 percent or 1345 percent price increase, respectively, a hefty cost for a group that is already struggling with financially insecurity.

Additionally, several interveners in this proceeding point out that the Postal Service gave most of its attention in this proposal to large mailers and mailer groups, which account for significant amounts of mail volume.\textsuperscript{18} However, they almost completely ignored the views of average citizens and small businesses that are the lifeblood of our nation’s economy.

Claims have been made in this proceeding that obtaining the views of and measuring impacts on rural Americans and vulnerable groups can be a challenge. The Postal Service’s unique resources include substantial revenue ($73 billion in FY 2020),\textsuperscript{19} an extensive nationwide delivery network, and regularly conducted quarterly and annual tracking surveys that give it a distinct advantage in overcoming these

\textsuperscript{17} Prices are calculated on www.usps.com using a 1-ounce letter traveling from ZIP Code 98101 in downtown Seattle, WA to ZIP Code 20002 in downtown Washington, DC. The prices selected for both Priority Mail Express and Priority Mail were for flat rate letter envelopes, as these were the lowest prices available.


challenges. Without accounting for the impact of this proposal on these groups, especially rural residents and low-income families, or a clear and effective plan to mitigate those impacts, I cannot, in good conscience, support this plan moving forward.

III. FUTURE POSTAL POLICY ADJUSTMENTS MAY BE NEEDED TO PROTECT AMERICAN PEOPLE AND BUSINESSES.

The Postal Accountability and Enhancement Act (PAEA) provided increased regulatory oversight of service issues because Congress worried that the Postal Service would degrade service in order to cut costs and comply with the price cap, but unfortunately, existing regulation has clearly not been enough. While there are a number of places where more regulatory oversight over service issues could benefit the American people, this proceeding makes it evident that one of the first places Congress should look legislatively is at the current Advisory Opinion process. This process was held over from the Postal Reorganization Act-era with little updating in the PAEA. It requires a tremendous amount of resources from the Commission to understand, analyze, and provide actionable feedback on a nationwide service change, and yet the Postal Service has no obligation to provide a thorough analysis or even respond to the Commission’s opinion.

20 Direct Testimony of Steven W. Monteith on Behalf of the United States Postal Service (USPS-T-4), April 21, 2021, Attachment 1. Additionally, three professional researchers provided a statement of position in this proceeding pointing out that mail is a useful tool for academic research and allows researchers to conduct survey research on marginalized groups that cannot be reached in other ways (“Many research participants do not have access to internet services for other types of communication which makes the mail essential.”). See Statement of Position from Professors Andrea DiMartini, Annette DeVito Dabbs, and Donna Posluszny, University of Pittsburgh School of Medicine, June 21, 2021.

Meanwhile, if the Postal Service wants to close a Post Office in a single community, Title 39 sets out clear criteria for the Postal Service’s decision and creates an appeal process where the Commission, short of halting the process, can at least determine where the Postal Service’s proposal is lacking and remand that decision to the Postal Service for reconsideration. Additionally, Congress codified in the statute that a Post Office cannot be closed exclusively to reduce costs. This creates a strange imbalance in the law where the closure of a Post Office serving hundreds of people requires more regulatory oversight than nationwide changes to service standards that affect hundreds of millions.

Although I am cognizant and respectful of the delineation between the Commission’s role as the regulator and the Postal Service’s role as the operator, the last 20 years of history have shown that if Congress values maintaining high-quality service and continues to see the Postal Service as the vital public service it was intended to be, some revisions to the Advisory Opinion process are desperately needed. It should concern every American that despite the significant gaps found by the Commission in this proposal, the Postal Service still has the power and authority to move forward without addressing a single one. More effective guardrails need to be built into the process to protect the American people from service reductions that will substantially impact mail service in our country for years to come—especially when the work has not been done to prove the Postal Service’s case, as in the instant proposal. Congress alone has the power to fix this imbalance in the current law.

Although the question above is one for Congress to consider, in the meantime, the Commission should be using its existing responsibility to provide an Advisory Opinion to the greatest extent possible. In my opinion, that responsibility includes providing reasonable, actionable alternatives or advice to improve the plan and mitigate

22 See 39 U.S.C. § 101(b), which states “No small post office shall be closed solely for operating at a deficit….”
harms to American citizens and businesses, if such guidance is warranted. I acknowledge that producing an opinion in a timely fashion is essential to making it as useful as possible for policymakers. But I am not convinced that this adherence to 90 days in this proceeding has struck the proper balance between thoroughness and timeliness.

IV. CONCLUSION

For the reasons outlined in these separate views, I cannot support the Postal Service’s proposal to move forward at this time. It is important to note that I believe the Commission’s Advisory Opinion, and our technical staff at the Commission, did an exceptional job in identifying the gaps in the Postal Service’s proposal—it just did not go far enough for me in terms of the recommendations that are ultimately provided. In addition to the many gaps identified throughout the proposal, it also gravely concerns me that the Postal Service did not spend the time or resources necessary to thoroughly consult or incorporate the views of its most important customer—the American people.

Ashley E. Poling
APPENDIX A
TECHNICAL APPENDIX

This Appendix is broken down into two sections. Section I. pertains to the impact of the proposed changes on varying service standard assignments. Section II. breaks down the econometric analysis of how the aforementioned changes to service standards impact mail volume.

I. IMPACT OF PROPOSED CHANGES IN SERVICE STANDARDS ON CURRENT 2- AND 3-DAY SERVICE STANDARD VOLUMES AND ORIGIN-DESTINATION FACILITY PAIRS

A. Background

As described in Section VII.D.ii.1. of the Advisory Opinion, the Postal Service proposes to change the service standard assignment rules for 2- and 3-day First-Class Mail volumes, as well as to assign 4- and 5-day service standards to certain volumes within the contiguous United States.

The Commission uses the outputs of the Postal Service’s transportation model, sponsored by witness Stephen B. Hagenstein, and presents an analysis of the impact of the proposed changes in service standards on First-Class Mail volumes, Origin-Destination (OD) Pairs, and the associated transportation modes that are subject to the current 2- and 3-day service standards. The Postal Service has not provided the Commission with detailed implementation plans, so this analysis could only be developed using the modeling data instead of actual, implementable plans. As such, the actual impact of the proposal, if implemented, may be different.

The Postal Service states that the current transportation environment includes low-capacity transportation lanes, that is, origin and destination facility pairs that have low daily volumes. The analysis in this section evaluates this claim and displays that the modeling provided by the Postal Service has identified opportunities to consolidate
transportation for low-volume OD Pairs for mail that is currently under both 2-day and 3-day service standards.

B. Current 2-Day Service Standard: Volume and Facility Impact

The Postal Service’s impact analysis provides that, of the total First-Class Mail within the contiguous United States subject to 1- and 2-day service standards, 81 percent would remain subject to the 2-day service standard, and 19 percent would be downgraded to the 3-day service standard. USPS-T-3 at 22. However, this high-level statement of the change in service standard does not capture an important nuance for the mail that is currently subject to 1- and 2-day service standards. A meaningful portion of 1- and 2-day service standard volume is processed at one postal facility and never enters the inter-SCF transportation network.¹

Figure A-1 below depicts the impact of the proposed changes on the First-Class Mail volume that is subject to the current 1- to 2-day service standard, disaggregated by whether the mail has to be transported from the origin to the destination processing facility.

¹ Based on the data provided by the Postal Service, the First-Class Mail volume which travels zero miles between the origin and destination processing facilities, represents about 45 percent of the First-Class Mail volume subject to the current 2-day service standard. See Library Reference USPS-LRN2021-1/3, Excel file “3_Zip3_OD_Pairs.xlsx.”
Figure A-1 shows that approximately 45 percent of the current 1- to 2-day First-Class Mail volume does not enter the transportation network, i.e., travels zero miles between processing facilities.

Of the volume which does travel between processing facilities, approximately 65 percent would remain subject to the 2-day service standard, and 35 percent would be downgraded to the 3-day service standard under the proposed service standard changes. This is in contrast with the Postal Service’s impact summary showing that 81 percent of the current 1- to 2-day volume would maintain its service standard and that only 19 percent of mail that is currently under a 1- to 2-day service standard would be downgraded to a 3-day standard.
Another way to evaluate the data provided by the Postal Service is to compare the number of origin-destination processing facility pairs (OD Pairs),\(^2\) to which the analyzed First-Class Mail volumes pertain, instead of looking at volumes only. The following figure details the impact of the proposed changes on the number of OD Pairs, which are subject to the current 1- to 2-day service standard and to which the First-Class Mail volumes, shown in the previous figure, pertain.

**Figure A-2**

**Impact of the Proposed Service Standard Changes on the Number of OD Pairs that are Subject to the Current 1- to 2-Day Service Standards**

Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11 - 3_Digit_Pair.xlsx.”

\(^2\) An OD Pair represents origin P&DC - destination ADC - destination SCF pair. USPS-T-3 at 6.
Figure A-2 shows that the First-Class Mail volume, which travels zero miles between processing facilities, pertains to approximately 125 OD Pairs. In other words, 45 percent of the current 1- to 2-day First-Class Mail volume, which does not enter the inter-SCF network, pertains to only approximately 7 percent of the current 1- to 2-day OD Pairs, and the vast majority of the current 1- to 2-day OD pairs’ (approximately 93 percent of them) corresponding volumes require inter-SCF transportation. From this perspective, the Postal Service is retaining the 2-day service standard for the minority of facility pairs, but as shown in Figure A-1, is able to retain this standard for the majority of the volume.

Figure A-3 below shows the number of destination SCFs to which origin P&DCs currently transport volumes within the 8 a.m. CET on Day 1, prior to delivery, as well as the number of destination SCFs to which origin P&DCs will need to transport volumes within this CET on Day 1 under the proposed changes.
The data in the above figure suggest that P&DCs are required to transport First-Class Mail volumes under the current 2-day service standard, i.e., within a 6-hour transit time from origin, to between 1 and 31 SCFs. With the reduced geographic reach, the number of destination SCFs served by origin P&DCs would be reduced to between 1 and 16 SCFs. This indicates a large potential for the reduction in dedicated 2-day transportation.
The Postal Service explains that the proposed reduction in geographic reach of 2-day OD Pairs is expected to either support the initiative to hub 2-day volumes within a 3-hour drive of origin, or to accommodate later dispatches and reduce dedicated, inefficient transportation. The Postal Service also provides a list of factors which currently prevent timely dispatches of 2-day volumes from origin.\(^3\)

Considering the existing difficulties of origin P&DCs to dispatch volumes in a timely fashion, the Commission analyzed the change in volume per OD Pair, as a proxy for the change in volume per scheduled trip. Figure A-4 below combines the information from Figures A-1 and A-2 and shows the impact of the proposed service standard changes on the average volume per OD Pairs that are subject to the current 1-to 2-day service standards, for both mail that travels between facilities and that which does not.

\(^3\) These include late mail arrival due to transportation delays, issues with equipment reliability, staff availability issues, mail preparation and readability issues, integrated dispatch and receipt throughput constraints, and delays in upstream operations impacting clearance of subsequent operations. Tr. 1/198.
Figure A-4 demonstrates that the Postal Service’s proposal retains the 2-day service standard for the higher volume OD Pairs and downgrades the standard for the lower-volume pairs. This shift allows for the potential consolidation of lower-density trips. Figure A-5 below presents similar information, aggregated by origin facility, rather than by OD Pair.
Currently, origin P&DCs are required to deliver between approximately 155 First-Class Mail pieces and 244,000 First-Class Mail pieces per destination SCF, on average, within the 8 a.m. CET on Day 1. Following the implementation of the proposed changes, the average number of pieces that will need to be transported to destination SCF by the same CET on Day 1 will increase to between 920 First-Class Mail pieces and 466,000 First-Class Mail pieces. In terms of the overall average First-Class Mail volume per destination SCF, the data provided by the Postal Service suggest a 111-
percent increase.\textsuperscript{4}

The Commission notes that the Postal Service’s anticipated ability to hub 2-day volumes will depend on sites’ capabilities for earlier dispatches. Similarly, the ability to reduce dedicated, inefficient 2-day transportation and the ability to reduce transportation scheduled to transport volumes processed outside the operating plan window, will also depend on the sites’ capabilities to dispatch all volumes on planned transportation timely. The ability for earlier dispatches may, however, be affected by the current operational capabilities and the increase in First-Class Mail volumes per scheduled 2-day transportation following the proposed changes.

Finally, Figure A-6 below details the impact of the service standard changes on the average distance for OD Pairs.\textsuperscript{5}

\textsuperscript{4} Under the existing service standards, an origin P&DC is required to transport about 23,000 First-Class Mail pieces per destination SCF by 8 a.m. CET on Day 1, on average. This number would increase to approximately 49,000 First-Class Mail pieces per destination SCF, following the implementation of the proposed service standard changes.

\textsuperscript{5} Zero-mile OD Pairs are not included in Figure A-6.
Figure A-6
Average OD Pair Distance (Miles) for Pairs Under the Current 2-Day Service Standard, OD Pairs Which Would Remain Subject to the 2-Day Service Standard, and Those Which Would be Downgraded to the 3-Day Service Standard, Following Implementation of the Proposed Service Standard Changes

Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11 - 3_Digit_Pair.xlsx.”

Figure A-6 demonstrates that the Postal Service will be retaining the 2-day service standard for the volumes destined for facilities that are located closer to origin and with higher volumes per OD pair, but extending the service standard for the volumes to destination facilities that are located further away from origin and OD Pairs that transport less volume per pair.
C. Current 3-Day Service Standard: Volume, Facility, and Transportation Mode Impact

The Postal Service estimates that, of the total First-Class Mail subject to the 3-day service standard, 47 percent would remain subject to the 3-day service standard, 36 percent would be downgraded to the 4-day service standard, and 17 percent would be downgraded to the 5-day standard. As the Commission evaluated the estimated changes provided by the Postal Service, a few areas of nuance deserve discussion. The following figure summarizes the change of service standards for volume that is currently subject to a 3-day standard.

![Figure A-7](attachment://Q11-3_Digit_Pair.xlsx)

**Figure A-7**
Impact of the Proposed Changes on the Current 3-Day Service Standard Volume

Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11-3_Digit_Pair.xlsx.”
The following is a description of the distinction between volumes and OD Pairs that are projected by the Postal Service to change transportation assignments from air transportation to surface transportation. This further evaluation details that, based on the modeling provided by the Postal Service, the proposal will retain a 3-day service standard for the volumes and OD Pairs that have higher density and retain air transportation for the OD Pairs that have the lowest density.

Currently, all volume subject to a 2-day standard is transported by surface, and as described in the previous section, the Postal Service projects that it will continue to transport that mail by surface after the service standard changes are implemented. The mail that is currently subject to a 3-day standard is currently transported by surface and by air, and with this proposal, the Postal Service aims to decrease the volume that is transported by air and increase the volume transported by surface. The following figure details the current distribution of First-Class Mail volume by transportation mode.
As detailed in this figure, roughly 37 percent of mail that is currently subject to a 3-day standard is transported by air.

The current 3-day mail that is currently transported by surface falls into two buckets: mail that will retain a 3-day standard and mail that will have an extended standard of 4 days. The modeling provided by the Postal Service projects that all mail that is currently transported by surface will continue to be transported by surface after the planned network changes.
The current 3-day mail that is currently transported by air falls into four buckets: mail that will have a 4-day standard and be diverted from air to surface transportation, mail that will have a 5-day standard and be diverted from air to surface transportation, mail that will have a 4-day standard and continue to be transported by air, and mail that will have a 5-day standard and continue to be transported by air.⁶

The following figure details how the Postal Service projects the combination of service standard assignment and transportation method will change for the mail that is currently subject to a 3-day service standard.

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⁶ A small amount of the current 3-day volume, which will remain subject to the 3-day service standard, is currently transported by air and will continue to be transported by air (0.1 percent). Similarly, a small amount of the current 3-day volume, which will remain subject to the proposed 3-day service standard, is currently transported by air and will be diverted from the air to the surface network (0.2 percent).
Figure A-9
Impact of the Proposed Service Standard Changes on the First-Class Mail
Volumes that are Subject to the Current 3-Day Service Standards, by
Transportation Mode

Source: USPS-LR-N2021-1/NP4, Excel file “Q11 - 3_Digit_Pair.xlsx.”

This figure shows that the majority of mail that is currently subject to a 3-day standard and transported by surface will retain both its current service standard and transportation mode after the proposed changes are implemented. This figure also shows that, in general, where the Postal Service projects it will be cost-effective to divert volumes from air transportation to surface transportation, those volumes will be subject to a 4-day standard. Figure A-9 also details that the majority of the mail that will continue to be transported by air will be subject to a 5-day standard.

The following figure details how the Postal Service projects the combination of service standard assignment and transportation method will change for the OD pairs that are currently subject to a 3-day service standard.
Figure A-10 shows that the Postal Service projects a much larger proportion of OD pairs will continue to use air transportation after the service standards are changed, as compared to the proportion of First-Class Mail volumes determined to remain in the air network (as shown in Figure A-9 above). Figure A-9 above suggests that 57 percent of the current 3-day volume which is transported by air will remain in the air network. This volume will be subject to the 4- and 5-day service standards. Figure A-10 immediately above suggests that the referenced air volumes pertain to 81 percent of current 3-day air OD Pairs.

Of the volume that is currently under a 3-day standard and will change to a 4-day standard, roughly 30 percent will be diverted to surface. However, less than 20 percent of the OD pairs meet this category. Similarly, roughly 20 percent of the volume that will
be subject to a 5-day standard is projected to be diverted to surface transportation, but this mail pertains to less than 10 percent of the OD pairs that will be subject to this new service standard.

Figure A-11 combines the information from the previous two figures and summarizes the changes in the average volume per OD pair for the current 3-day OD Pairs, by transportation mode, illustrating the impact on lane density.

Figure A-11
Impact of the Proposed Service Standard Changes on the First-Class Mail Volume per OD Pair, for Volume that is Subject to the Current 3-Day Service Standard, by Transportation Mode

Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11 - 3_Digit_Pair.xlsx.”
This figure demonstrates the volume density-driven aspect of the Postal Service’s proposal and modeling. For low-volume OD pairs, the Postal Service projects that air transportation will continue to be used after the service standards are changed, but for high-volume OD pairs, surface transportation will be used. The First-Class Mail volumes that were determined to remain in the air network have lower lane densities than the volumes determined to divert from the air to the surface network. This outcome is not surprising, since the determination to divert mail volumes was based on the estimated cost of the surface transportation, as compared to the air transportation, and since longer distance surface transportation requires higher utilization to be more cost-effective than air.

The following figure details the average distance for OD pairs by transportation mode and service standard.
Figure A-12

Average OD Pair Distance (miles) for Pairs Under the Current 3-Day Service Standard, OD Pairs Which Would Remain Subject to the 3-Day Service Standard, and Those Which Would be Downgraded to the 4- and 5-Day Service Standards, Following Implementation of the Proposed Service Standard Changes, by Transportation Mode

Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11-3_Digit_Pair.xlsx.”

Figure A-12 suggests that for each of the 4- and 5-day OD Pairs, the average distances for those pairs which would remain in the air network and those which are determined to divert to the surface network do not differ very much. This further confirms the importance of lane density when the Postal Service determines cost-effectiveness of the long-distance First-Class Mail volumes.

Similarly, Figures A-11 and A-12 illustrate that while the average distances for surface, air, and air-to-surface OD Pairs under the proposed 3-day service standard are not very different, average lane density of surface pairs is much greater than that of the air and air-to-surface OD Pairs under the proposed 3-day service standard.
II. ECONOMETRIC ANALYSIS

How will mail volume be impacted by a reduction in delivery times? This is the question that the Postal Service seeks to answer based on an econometric analysis supplied by witness Thomas E. Thress (USPS-T-5). The answer to this question is an unobservable, random variable that describes the causal relationship between delivery time (X) and mail volume (Y). In other words, how does a change in delivery time cause mail volumes to change? An econometric analysis that is designed to answer this question will estimate the relationship between X and Y based on a random sample of data and make a statistical statement about the likely values of the underlying, unobservable parameter of interest based on the relationship observed in the sample of data.

Statistical inferences about the likely value of a population parameter such as the impact of delivery times on mail volume rely on the concept of repeated sampling; said differently, what do we know about the causal relationship between delivery times and mail volumes based on the observed relationship between delivery times and mail volumes that is seen across many different samples of data? In order to be able to make precise statistical statements about the population parameter based on observed relationships, the estimator itself must be unbiased and consistent. An unbiased estimator is one for which the expected value is equal to the unobservable population parameter of interest. A consistent estimator is one for which the estimates become close to the population parameter of interest as the size of the sample drawn increases. Estimators that are unbiased and consistent are said to be identified, enabling inferences to be drawn about the population parameter of interest.

Finally, the Least Squares estimator—by far the most commonly employed econometric estimator and the estimator employed in witness Thress’s econometric analysis—requires random variation in X within the sample of data analyzed in order to produce an unbiased and consistent estimate of the population parameter. Absent experimentally random variation in X, econometricians must seek situations in which
variation in X is as-good-as-random. These techniques include multivariate regression, where the inclusion of control variables eliminates all omitted variable bias, difference-in-difference, panel data methods, regression discontinuity, and instrumental variables. Importantly, if variation in X remains non-random even after the implementation of one of these methods, the model will produce biased and inconsistent estimates. In this case, the econometrician will be unable to infer the likely values of the underlying population parameter.

The econometric analysis submitted by witness Thress is designed to answer the following question: “What will future mail volume be given the historical relationship observed between mail volume and a rich set of explanatory variables.” In other words, witness Thress estimates a forecasting model. Where the primary goal of a causal econometric model is to produce unbiased and consistent estimates of a population parameter, the primary goal of a forecasting model is to predict historical variation in the outcome data in order to improve the accuracy of the predicted outcome in future periods. Typically, the specific impact of any singular control variable is not the focus of these models. Moreover, these models do not require random variation in order to generate close predictions of the outcome variable of interest. Instead, these models tend to rely on the underlying institutional knowledge of the econometrician. To this end, witness Thress demonstrates a deep institutional knowledge of mail products and volumes in the design of these forecasting models – for example, the inclusion of Intervention variables that are uniquely suited to the historical conditions of mail volume. While the submitted model demonstrably fits the historical data well, based on Mean-Squared Error statistical summary measures, witness Thress bears the burden

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8 See, e.g., Direct Testimony of Thomas E. Thress on Behalf of the United States Postal Service (USPS-T5), April 21, 2021.
of proof in demonstrating whether and how the inclusion of macroeconomic variables, postal prices, time trends, non-linear intervention variables, and other explanatory variables detailed in the Postal Service Econometric Estimates, renders variation in delivery times to be as-good-as-random for the purposes of causal estimation. Multivariate analysis does not in and of itself guarantee that the estimator will be unbiased and consistent.

Witness Thress highlights the tight fit of the submitted econometric model in support of its ability to identify the relationship between delivery time and mail volume. See, e.g., USPS-T-5 at 10. However, the fit of a model is tangential to its ability to produce unbiased and consistent estimates of the underlying parameter of interest. Microeconometric models that produce unbiased and consistent estimates of the population parameter of interest can have a very poor overall fit—this is simply indicative of the fact that there are many other explanatory variables that help explain the outcome besides the variable of interest. In this case, delivery time is a dimension of product quality that unambiguously impacts the demand for mail theoretically. However, delivery time is not the only thing that impacts the demand for mail. A microeconometric model that identifies the causal relationship between delivery time and mail volumes might produce a very poor prediction of mail volume without the inclusion of many other explanatory variables. But this model need not include any other control variables in order to make statistical statements about the relationship between delivery time and mail volume. On the other hand, a model that produces a very good prediction of mail volumes based on historical relationships, as is the case of the model submitted by witness Thress, need not identify the causal relationship between mail volume and any single explanatory variable. The only way to ensure that

an econometric model captures this causal relationship is for the model to capture random or as-good-as random variation in delivery times.

Moreover, witness Thress highlights the sign and statistical significance of delivery time in some, but not all, of his econometric models in support of its ability to identify the relationship between delivery time and mail volume. See, e.g., USPS-T-5 at 10. However, when a model is biased and inconsistent, the standard error of the estimate is incorrect. In this case, the econometrician is unable to determine the likely sign or magnitude of the underlying population parameter of interest. In this way, witness Thress cannot rely on the statistical significance, which summarizes whether or not the likely value of the underlying parameter of interest is actually zero or the sign of the estimated impact of delivery days on mail volume in the submitted econometric model.

Ultimately, witness Thress has failed to demonstrate how the submitted multivariate analysis renders variation in delivery times to be as-good-as-random for the purposes of causal estimation. Without this analysis and without the addition of econometric techniques such as those previously described, which attempt to exploit policy variation in order to leverage as-good-as-random variation in delivery times, there is no evidence that the model supplied by witness Thress produces unbiased and consistent estimates of the relationship between delivery time and mail volume. For this reason, it is not possible to make inferences about the causal relationship between delivery times and mail volume based on the econometric analysis included in USPS-T-5.
## APPENDIX B
### PARTICIPANTS AND COUNSEL

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# APPENDIX C
## TESTIMONY/REBUTTAL TESTIMONY

### Direct Testimony—United States Postal Service (Postal Service)

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### Rebuttal Testimony

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## APPENDIX D
### BRIEFS/REPLY BRIEFS

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<td>June 25, 2021</td>
<td>Postal Service Reply Brief</td>
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### APPENDIX E
### COMMENTS

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<td>April 26, 2021</td>
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